



**MESTEK, INC.**

**THIRD QUARTER REPORT  
TO SHAREHOLDERS**

**For the quarter ended  
September 30, 2013**



# MESTEK, INC.

260 North Elm Street, Westfield, MA 01085

(413) 568-568-9571 [www.mestek.com](http://www.mestek.com)

November 2013

Fellow Shareholders:

"A society cannot last without stable ideas; an individual or business cannot progress without flexible ones" Gustave LeBon. Your management believes that Mestek will continue its tradition of being a big small company, rather than a small big company. Our management structure is flat; and we make decisions quickly. We are rarely afraid to change course when we discover new facts or ideas. Sometimes the first loss is the best loss. We don't stand on ceremony, or worry about who authored the idea if it is the most sensible one available.

Concurrently, Mestek is a stable business, financially and otherwise. We believe in loyalty to our employees, independent manufacturers' representatives, customers, suppliers, shareholders, and the communities where we have facilities. Our relationships are long term; and we have extraordinarily low employee turnover. These relationships are our most important resource, are well-earned, and need regular cultivation. We are builders, not financial engineers; we build relationships based on trust, friendship, realism, and mutual understanding.

That said, I remember the words of Dominic Faits, Mestek's purchasing manager when I was a young boy. He told me "Little Stewart, if you can find a way to hold on, to somehow stay in business, sooner or later something very good will happen". His prophetic words are ringing true for Mestek this year; I am moderately amazed by our sales and earnings to date. I cannot and will not promise a repeat performance.

Third quarter revenues increased by 16% to \$88 million; year to date revenues are up 13.8% to \$242 million. Earnings increased markedly to \$.77 per share for the quarter, and \$1.57 per share for the nine month period. It seems that the stars aligned, low raw material costs (steel, copper, and aluminum), favorable product mix, several large one off big orders, and added sales due to rebuilding after Hurricane Sandy. Several new energy efficient HVAC products contributed modestly as well. We were in the right place at the right time. 2013 is a business year to remember, and a personal one to forget given the death of our founder, my father John Reed, and David Hunter, a long serving Mestek Director (27 years), friend, and especially wise counselor.

Mestek serves the highly competitive HVAC, architectural, and machinery industries. It is more likely that future gross margins will contract rather than expand, especially for most products we currently produce. Innovative new products are essential to avoid this unpleasant reality; a fact we take most seriously and work at every day. Eventually many existing products become commodities as competing manufacturers copy industry innovations. Furthermore, new and better products are necessary to maintain our treasured relationships with independent sales representatives and customers. Sometimes we will be right, sometimes wrong, but never deterred from trying to develop new products embraced by customers. Within reason, money is no object; the right people with the right priorities are the limiting factors. It is considerably easier said than done.

The balance sheet remains strong with inventories and accounts receivable under control and modest long term debt. We are well positioned to acquire synergistic businesses given the opportunity, and believe we can offer related businesses a good home. We are sensitive to an owner's concerns, work hard to structure a transaction favorable for an owner, and believe in a prompt no haggles closing. We seek a balanced approach to growth, part organic part synergistic acquisition. Pure organic growth is quite challenging in the mature industries we serve.

Our shareholders continue to be loyal and long term oriented; for that your management remains grateful. Rest assured we will continually endeavor to earn your trust and to produce tangible progress and results.

With kind regards,

Stewart B. Reed  
Chairman & Chief Executive Officer

**MESTEK, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(Dollars in Thousands)

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 20,154	\$ 7,856
Accounts Receivable - less allowances of \$5,161 and \$4,330, respectively	51,232	49,511
Inventories - net	43,885	45,731
Deferred Tax Assets	3,705	3,705
Other Current Assets	7,348	7,268
Total Current Assets	126,324	114,071
Property and Equipment - net	37,915	38,562
Property Held for Sale	4,456	4,456
Deferred Tax Assets	5,919	10,866
Other Assets - net	3,774	4,791
Goodwill and Other Intangible Assets	24,769	24,407
Total Assets	\$203,157	\$ 197,153
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Short Term Notes Payable		\$ 1,259
Current Portion of Long Term Debt	\$ 175	175
Accounts Payable	13,761	14,629
Accrued Payroll and Related Expenses	12,661	13,044
Customer Deposits	9,636	11,342
Environmental Reserves - current portion	420	420
Warranty Reserve	3,628	3,523
Other Accrued Liabilities	9,634	10,621
Total Current Liabilities	49,915	55,013
Environmental Reserves - long term	8,279	8,662
Long Term Debt	10,414	10,623
Other Liabilities	2,734	2,732
Total Liabilities	71,342	77,030
<b>SHAREHOLDERS' EQUITY</b>		
Controlling Interest:		
Common Stock, no par, stated value \$0.05 per share, 8,368,726 and 8,368,726 shares issued, respectively	417	417
Paid in Capital	4,794	4,794
Retained Earnings	136,495	124,666
Treasury Shares, at cost (878,010 common shares)	(11,293)	(11,293)
Accumulated Other Comprehensive Income	354	511
Total Mestek, Inc. Shareholders' Equity	130,767	119,095
Non-controlling Interest	1,048	1,028
Total Equity	131,815	120,123
Total Liabilities and Shareholders' Equity	\$ 203,157	\$ 197,153

**MESTEK, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Sales	\$88,039	\$ 75,903	\$ 242,486	\$ 213,130
Cost of Goods Sold	59,293	51,692	167,736	150,149
Gross Profit	28,746	24,211	74,750	62,981
Selling Expense	9,867	8,784	28,406	25,820
General and Administrative Expense	7,024	5,837	19,056	15,278
Engineering Expense	2,754	3,076	8,136	8,814
(Gain) Loss on Sale of Property and Equipment	18	-	9	(2)
Plant Shutdown and Other Restructuring Charges	-	87	-	298
Operating Profit	9,083	6,427	19,143	12,773
Interest Income (Expense) - net	(31)	14	(40)	(32)
Other Income (Expense) - net	267	77	171	135
Income (Loss) Before Income Taxes	9,319	6,518	19,274	12,876
Income Tax Expense	3,511	2,379	7,425	4,852
Net Income	5,808	4,139	11,849	8,024
Less : Net Income - Non-controlling Interests	7	11	20	31
Net Income Attributable to Mestek, Inc.	5,801	4,128	11,829	7,993
Basic and Diluted Earnings Per Common Share	\$ 0.77	\$ 0.55	\$ 1.57	\$ 1.07
Basic and Diluted Weighted Average Shares Outstanding	7,491	7,460	7,491	7,460