



**FIRST QUARTER REPORT  
TO SHAREHOLDERS**

**For the quarter ended  
March 31, 2014**



# MESTEK, INC.

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Fellow Shareholders,

The first quarter of 2014 was decidedly mixed; results were a tale of triumphs and disappointments. Overall, net sales increased 3.7% to \$76 million, and net income of \$3 million equaled \$0.40 per share. These aggregate amounts obscure wide variations among individual businesses and product lines, both positive and negative. Still, we seem to have a mild but perceptible tailwind going forward, an encouraging development after the challenges of recent years.

The balance sheet remains strong, offering us flexibility to provide a good home for synergistic businesses in our industries, which we want to do. Cash balances were reduced by seasonal inventory build, and by 2013 bonus payments, payable during March 2014, to deserving managers throughout the company.

As expected, mature residential and commercial hydronic product lines declined as rebuilding from Storm Sandy, which devastated the Northeast in late 2012, tapered from a robust pace last year. We benefited from this natural disaster during 2013, a one off event I sincerely hope. We take no delight profiting from the misery of others. Sales and profits also slipped in several other HVAC businesses, without the benefit of a handy excuse, in two cases rather dramatically. Perhaps you will be gracious, allowing me to blame the inclement winter weather, more gracious than I would be under the circumstances?

Revenues and profits also slipped in machinery; in fact we lost money. We shipped every possible order during the fourth quarter of 2013, working massive overtime, to allow our customers to benefit from bonus depreciation. Kitchen sinks at several locations are missing. We entered 2014 with depressed backlogs; yet now this has been reversed. I suspect a down year for machinery; yet I also expect a solid recovery of sales and profitability based on increasing backlogs and "pipeline" activity.

The harsh winter of 2014 also helped several mature product lines; replacement units and repair parts business increased. Mestek does not regard plunging temperatures as entirely negative; in fact, gas utilities and oil dealers sometimes celebrate. High efficiency commercial boilers were a standout. Mission critical HVAC units, with very little relationship to the weather, were also a standout, far exceeding expectations. Mestek is finally gaining some traction in this important market segment after years of trying, years in the wilderness. We have products that can serve this market well; our challenge is to prove this to prospective customers, to persuade them to give us an opportunity.

The architectural business, lead by our talented team at Linel, is proving its merits. We intend to try to build this new Mestek endeavor for Linel; we believe in the opportunities in the fragmented architectural building envelope specialties market, believe our skill sets are well placed to do so, and, most importantly, have faith and trust in the people involved. We recently completed an addition to the manufacturing building, and have authorized the purchase of new precision machinery for this promising business.

Dadanco, the industry leader in energy saving active chilled beams, moved into its new offices and laboratories January 1. It is a showcase LEED building with state of the art laboratories and demonstration facilities. Mestek is committed to maintaining its leadership position in this HVAC growth niche. Also, we are in production at our new Mestek owned plant in Hebei Province, China, producing automated duct making machinery for world markets. The successful move from Beijing was accomplished on schedule, thanks to a terrific leader and team managing the business. The backlog is building; and we now have capacity to provide for growth.

Your management has its oar in the water; yet sometimes the water is turbulent. We continue to try to grow and safeguard your capital, to the best of our limited abilities.

With kind regards,

Stewart B. Reed  
CEO

MESTEK, INC.  
CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

	(Dollars in Thousands)	
	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 31,590	\$ 36,108
Accounts Receivable - less allowances of \$4,853 and \$4,689, respectively	47,956	45,681
Inventories - net	43,445	40,008
Deferred Tax Assets	3,049	3,264
Other Current Assets	7,856	8,089
Total Current Assets	133,896	133,150
Property and Equipment - net	40,534	41,709
Property Held for Sale	2,707	2,707
Deferred Tax Assets	5,674	6,971
Other Assets - net	3,931	3,947
Goodwill	25,141	25,233
Total Assets	<u>\$ 211,883</u>	<u>\$ 213,717</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Short Term Notes Payable	\$ -	\$ -
Current Portion of Long Term Debt	175	175
Accounts Payable	12,934	12,335
Accrued Payroll and Related Expenses	9,383	15,583
Customer Deposits	10,553	8,472
Current Portion of Environmental Reserves	321	420
Warranty Reserve	3,285	3,299
Other Accrued Liabilities	15,062	15,775
Total Current Liabilities	51,713	56,059
Environmental Reserves - long term	8,033	8,046
Long-Term Debt	10,354	10,360
Other Liabilities	978	1,042
Total Liabilities	71,078	75,507
<b>SHAREHOLDERS' EQUITY</b>		
Controlling Interest:		
Common Stock, no par, stated value \$0.05 per share, 20,000,000 shares authorized 8,368,726 shares issued	417	417
Paid in Capital	4,924	4,924
Retained Earnings	144,219	141,259
Treasury Shares, at cost (878,010 common shares)	(11,294)	(11,293)
Accumulated Other Comprehensive Income	866	1,237
Total Mestek, Inc. Shareholders' Equity	139,132	136,544
Non-controlling Interest	1,673	1,666
Total Shareholders' Equity	140,805	138,210
Total Liabilities and Shareholders' Equity	<u>\$ 211,883</u>	<u>\$ 213,717</u>

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

	(Dollars in Thousands)	
	Three Months Ended	
	March 31,	
	2014	2013
Net Sales	\$ 76,045	\$ 73,336
Cost of Goods Sold	53,218	51,691
Gross Profit	22,827	21,645
Selling Expense	9,512	9,218
General and Administrative Expense	5,306	5,115
Engineering Expense	2,837	2,827
(Gain) Loss on Sale of Property and Equipment	27	-
Plant Shutdown and Other Restructuring Charges	-	-
Operating Profit	5,145	4,485
Interest Expense - net	(52)	(22)
Other Income - net	(129)	-
Income Before Income Taxes	4,964	4,463
Provision for Income Tax	1,999	1,795
Net Income from Continuing Operations	2,965	2,668
Less : Net Income - Non-controlling Interests	(5)	(3)
Net Income (Loss) Attributable to Mestek, Inc.	\$ 2,960	\$ 2,665
Basic and Diluted Earnings Per Common Share	\$ 0.40	\$ 0.36
Basic and Diluted Weighted Average Shares Outstanding	7,491	7,491