ANNUAL REPORT 2016

MESTEK, INC.

Companies

HVAC

- bm Beacon/Morris®
- RBI®
- ATH ADVANCED THERMAL HYDRONICS
- KN SERIES
- AIRTHERM A Mestek Company
- HEATNET® 3.0
- SPACE PAK® CENTRAL AIR ANYWHERE
- Ei EMBASSY INDUSTRIES Inc.
- Turbonics INC.
- Argo BASEBOARD
- Vulcan RADIATOR
- BOYERTOWN FOUNDRY COMPANY
- STERLING®
- KOLDWAVE
- LJ WING®
- awv
- L&D
- DADANCO feel the difference™
- King
- AIRLINE™ LOUVERS
- ARROW UNITED INDUSTRIES
- TEMPRITE® INDUSTRIES
- AZTEC
- CESCO PRODUCTS
- abi
- Applied Air
- Sierra FRESH AIR SYSTEMS

Machinery

- Mestek Machinery LOCKFORMER • IOWA PRECISION • ENGEL • ISM BY LOCKFORMER
- FORMTEK More Productive Metalforming Solutions
- LOCKFORMER
- B&K
- YODER®
- ISM by LOCKFORMER
- ROTO-DIE, INC.
- TISHKEN®
- IOWA PRECISION COILED METAL PROCESSING SYSTEMS, WORLDWIDE
- HE HILL ENGINEERING
- LION
- Dahlstrom
- ENGEL
- cw® cooper-weymouth, peterson
- KK KRASNY-KAPLAN CORPORATION
- ROWE Machinery & Manufacturing
- WINPRO

Architectural

- MESTEK ARCHITECTURAL IntelligentEnvelopes™
- LINEL
- AWV

Mestek Board of Directors

Stewart B. Reed (E, N)	Chairman of the Board and Chief Executive Officer
J. Nicholas Filler (E, A)	Vice Chairman of the Board
Daniel P. Boyle (A, C)	President, Schwerin Boyle Capital Management, Inc.
Christopher Chivetta (N)	President, Hastings + Chivetta
Derek W. Glanvill (C, N)	Retired President and COO, McCarthy Holdings, Inc.
David M. Kelly (E, A, C)	Retired Chairman and CEO, Matthews International Corporation

E-Member Executive Committee; C-Member Compensation Committee; N-Member Nominating/Governance Committee; A-Member Audit Committee

Mestek Officers

Stewart B. Reed	Chairman of the Board and Chief Executive Officer
R. Bruce Dewey	President
Stephen M. Shea	Executive Vice President, Chief Financial Officer
Timothy D. Markel	Executive Vice President, President Distributor Products & Residential Comfort Groups
Mark C. Harrington	Executive Vice President, Engineering
William S. Rafferty	Executive Vice President
Joanne F. Berwald	Vice President, Human Resources
James J. Boland	Vice President, Commercial Hydronics
Emerson W. Hobgood	Vice President, Farmville Operations
Richard E. Kessler	Vice President and Chief Procurement Officer
James B. Monahan	Vice President, Manufacturing
Michael Nihill	Vice President, Distributor Products Group
Steven F. Olearcek	Vice President, General Counsel, Secretary
Charles L. Perry	Vice President, Sales, Sterling Gas Products
Kurt S. Shea	Vice President, Engineering, Distributor Products
John W. Wilson	Vice President, Mestek Technologies
Cindy T. Lacoste	Assistant Secretary

Principal Subsidiary Officers

Darby D. Benroth	President, AWV
Manny J. DaSilva	President, Mestek Canada, Inc.
George M. Kaler	President, Mestex
Darren E. Muchnicki	President, Formtek, Inc.
Donald S. Murray	President, AWV International, Ltd.
Richard L. Riggs	President, Boyertown Foundry Company
Robert B. Sloan	President, Linel
Kenneth D. Wahlers	President, Mestek Damper & Louver Group
Matthew T. Watson	President, Formtek Maine
Jack Pennuto, Jr	Senior Vice President, Sales, Formtek, Inc.
Max Li	Vice President & General Manager, Hebei Sterling Technology, Ltd.

State of the Corporation

Fellow Shareholders,

"Every smart guy is tempted by leverage, and some of them are broken by it. And it's somewhat capricious which ones of them are broken. Wouldn't you say so Charlie?" Warren Buffet and Charlie Munger interview 2017.

It's easy to disregard this pithy lesson from a most accomplished instructor. Interest rates are unusually low; and levering up has been handsomely rewarded in recent years. One difficult challenge for some people, especially a business leader or investor, is to closely watch these profitable festivities and not join in. And, there is no doubt, Mestek has left a substantial amount of money on the table by not being more aggressive.

For example, I'll never forgive myself for not buying a company we looked at several years ago. One of its two product lines was an ideal fit with Mestek; and the other product line was a straightforward business which we were capable of managing effectively. We were the preferred buyer in this non auction opportunity. Why did we not rapidly close on this potential acquisition, you might ask? Aside from general stupidity, a relatively small valuation difference and concern over a contingent liability clouded our thinking, assuming you allow me to use the word *thinking* so loosely. A painful lesson learned, the hard way as usual, Warren Buffet would not have made this mistake. Business is a fascinating blend of potential sins of both commission and omission. At Mestek, we don't discriminate; we have substantial experience committing both types.

There is one thing I do know; there will be a better time to make acquisitions than now. Valuations are very high, probably higher than at any time in history, with the possible exception of 1929 or the dot com boom in the late 1990's. This will not always be the case. On the other hand, this is not a valid excuse to stop trying; many baby boomers are retiring and want a good home for their life's work. In many cases, Mestek is the best home; and we can demonstrate this by our track record and management philosophy. We provide capital for growth, respect for local business cultures, collaboration with other Mestek businesses, genuine regard for our colleagues as part of a business family, stability and continuity, a non-political environment, and almost unlimited freedom for capable management teams. Our mission is to help the businesses we acquire, not to impose corporate governance. Past acquisitions attest to these facts.

2016 was a disappointing year for Mestek. Revenues declined 4.7% excluding non-core divestitures completed in 2015; and earnings declined almost 11% to $2.14 per share. I could easily cite excuses for this result; but shareholders would be better served if instead I looked in the mirror. One could reasonably conclude that Mestek's earnings have plateaued in the $2.00 to $2.40 range judging by your company's recent financial performance. This is partially true. Organic growth in many of our mature businesses and product lines is challenging, almost impossible in a few, for example residential baseboard and related products, a reasonably profitable business with adequate ROI and cash flow. The markets for some Mestek product lines are stable or declining, we have substantial market share, and endeavoring to increase share aggressively could be disruptive and counterproductive in no growth and declining industry segments. As some individual products decline or reach the end of their life-cycle, whether by government regulation or otherwise, they must be replaced by new products simply to stay even. For many years, one Mestek strategy is to be a big fish in a small pond in mature product lines, ultimately a last man standing strategy. A prime example is our Boyertown, Pennsylvania gray iron foundry. This approach has served us reasonably well, but obviously limits our growth potential.

However, this is not Mestek's only strategy. Organic growth is a cherished objective for our businesses when reasonably possible. Organic growth is usually a much less costly growth strategy compared to acquisitions. Several examples of potentially successful R&D, new product development, and new market development initiatives are well worth citing:

Dadanco Chilled Beams, we were an early mover and are an industry leader, a growth niche to heat and air condition commercial and institutional buildings in a highly efficient way. We continue to devote substantial resources to develop new products and provide the industry's best application engineering services. New state of the art laboratories in Westfield were a major capital expense, approximately $3 million invested over several years, laboratories to develop and test new products for Dadanco and other Mestek businesses.

RBI and ATH Commercial Boilers and Water Heaters, the introduction of the FlexCore stainless steel fire-tube product line during 2016, an elegant and competitive offering, the result of years of focused and expensive R&D. The addition of FlexCore gives Mestek a complete range of commercial boiler solutions, one of the broadest in the industry. This market segment is large compared to many other Mestek niches; gaining market share would have a substantial impact on Mestek earnings per share.

Mestex Mission Critical HVAC Equipment, highly engineered products serving the high growth data center market. We are gaining industry respect and orders from top tier data center owners. During 2016 there was a pause in construction among our customers which negatively affected our earnings. However 2017 is off to a good start; we are currently planning a building addition and new manufacturing machinery for our Dallas, Texas business to stay ahead of customer requirements.

Linel Architectural Panels, with the addition of state of the art machinery we are now positioned to provide the highest quality building panels at competitive prices. One major competitor has exited the industry, adding to the opportunity. Our team at Linel has the engineering and manufacturing know-how to well-serve this substantial market segment.

Sterling Commercial & Industrial Gas-fired Heating Equipment, our new Nexus ultra-high efficiency unit heater, another focused R&D project, has promise to be an industry leading solution. We are late to school in this market niche; but we believe that we will offer the best product in the industry.

Arrow and Air Balance Steel Airfoil Dampers, a high quality highly tooled new product soon to be introduced, an industry leading solution, the result of a multi-year R&D project. We expect this new product to generate substantial sales and enhanced commitment to our commercial damper and louver product lines from our manufacturers' representative partners.

AWV Tunnel Dampers, to date we have suffered substantial financial losses from our Asian initiative; but we have the right team in place, have passed the requisite fire and leakage tests, and are gaining the respect of important potential customers. We will continue to suffer losses in 2017. Subway projects have a relatively long planning and implementation timeline; and taking market share from our major competitor will be a battle. Nevertheless, I'm confident we will succeed if we simply stay the course and remain focused.

Lockformer and Iowa Precision Duct-making Machinery, we are the world leader with a complete product line, the best in the industry. We lost money in 2016 for multiple reasons including major orders for specialized machinery which we misquoted, international political and economic problems leading to depressed sales in foreign markets, staffing challenges at our new China manufacturing plant, bringing our new Libertyville, Illinois plant on stream, and operational inefficiencies. This is a fundamentally good business which is likely to regain adequate profitability, especially when foreign markets recover. We continue to invest substantial sums for new product development and market development.

These are many but not all of our attempts to grow organically. During 2016 Mestek spent $8.4 million on R&D, up from $7.65 million for 2015. Overall, I believe the money spent in 2016 will result in fully adequate future returns. I have conspicuously omitted several expensive and unproductive R&D projects in recent years, misjudgements by this management team, costly lessons learned. The most important lesson is careful vetting of future market preferences at the price point of the proposed new product. Naturally, it is critically important to understand why potential customers would enthusiastically buy a certain newly developed product at a price that provides acceptable returns to Mestek, and for us to be correct due to sufficient market research, not a gut feeling. You may understandably observe that we should have learned this in Economics 101 class. That said, I totally support Mestek business leaders taking reasonable risks, and will never chastise them for doing so. Some failure is integral to well-run businesses. Blaming individuals for taking reasonable risks is counterproductive; learning from them is imperative. Mistakes are the best learning opportunities. What I ask of our executives is to not take large risks without talking to me; that way I can take the blame if things go wrong.

State of the Corporation

I would be remiss not to discuss Mestek's platinum investment. I was either way too early expecting higher inflation, or perhaps just plain wrong. I believed, and still believe, that very tight employment conditions in America will lead to higher inflation. And, America has very low real inflation adjusted interest rates adding fuel to the fire. Europe and Japan have negative nominal interest rates. Cash is a wasting asset inflation adjusted, literally; I'm surprised there isn't more interest in platinum and other tangible liquid potential inflation hedges. Platinum is priced at a near record low compared to gold and silver (presumably for well-known fundamental supply and demand reasons), and market sentiment is close to an all-time low too. These conditions could set the stage for a brisk price recovery with so many market participants anticipating lower prices. Markets rarely reward such a wide-ranging consensus. Platinum is a liquid commodity traded on the CME, an alternative to cash in the bank. So far it hasn't been a good alternative; Mestek lost $765,000 during calendar 2016 including year-end marked to market positions. Our outside auditors have imposed an arcane accounting presentation in the cash flow statement. GAAP apparently requires very difficult to understand and misleading accounting treatment. I'm pretty good with numbers; but I don't understand the numbers in our auditor's presentation. The annual P&L is important; aggregating spread transactions, and segregating realized gains and losses from unrealized gains and losses throughout the year is not.

Our strong balance sheet continues to strengthen, and is as solid as the rock of Gibraltar. It would be delightful to make acquisitions in our industries, to acquire fundamentally good businesses at equitable prices which would be the best use of our cash, temporary investments, and our $60 million bank credit facility. Your management team needs to increase our efforts to do so despite the unfavorable valuation environment. I take full responsibility to lead the charge, recent disappointments aside. In addition, we need to be open to stock for stock mergers that preserve our commitment to our employees, a non-negotiable benchmark. Dividends are a tax inefficient use of cash (causing substantial immediate income tax liabilities for our shareholder partners), as opposed to internal compounding inside a C corporation. Payment of dividends represents either giving up on the effective deployment of after-tax cash flow, or a judgement that management is likely to waste the money on poorly conceived acquisitions or in some other manner. As a general principle, if one of these reasons is likely to be true, and you can't change the management, then selling your investment probably makes more sense. Nevertheless, Mestek shareholders deserve and business ethics require a reasonable path to liquidity for my equity partners in this enterprise. I believe Mestek should reinstate Dutch auction share repurchases for these reasons. In addition, it is Mestek management's duty to try to locate a buyer for shareholders who wish to sell more than a small holding, an amount which can't be readily sold on the open market at a reasonable price due to very low trading volume. I believe most or all of our shareholder partners are better served in this way, rather than taxable dividends. I think Warren Buffet would agree. Still, you are my partners; and I eagerly solicit your ideas and point of view.

This letter is always a good opportunity to personally thank Mestek's skilled, hard-working, and loyal employees whom I greatly respect. Our loyal wholesalers, distributors, contractors, and national account customers inspire us to reciprocate with more value-added solutions for their businesses. Our manufacturers' representative partners are key to our future prosperity; we pledge to always regard them as equal business partners. We owe a debt of gratitude to the many architects and consulting engineers who put their trust in Mestek products and solutions. A sincere and heartfelt Thank You.

With kind regards,

Stewart B. Reed

Stewart B. Reed
Chairman & CEO

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors and Shareholders
Mestek, Inc.
Westfield, Massachusetts

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Mestek Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mestek, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Boston, Massachusetts
April 21, 2017

SELECTED FINANCIAL DATA

Selected financial data for the Company for each of the last five years is shown in the following table, which is derived from and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this report. Selected financial data reflecting the operations of acquired businesses is shown only for periods following the related acquisition.

SUMMARY OF FINANCIAL POSITION as of December 31,

	2016	2015	2014	2013	2012
		(Dollars in thousands except per share data)			
Total Assets	$ 246,944	$ 238,669	$ 238,110	$ 213,717	$ 197,153
Working Capital	123,006	106,149	95,147	77,091	59,058
Total Debt	10,163	10,163	10,338	10,535	12,057
Mestek Inc. Shareholders' Equity	175,508	158,788	152,669	136,544	119,095
Shareholders' Equity Per Common Share (1)	$ 23.43	$ 21.20	$ 20.38	$ 18.23	$ 15.90

SUMMARY OF OPERATIONS for the years ended December 31,

	2016	2015	2014	2013	2012
		(Dollars in thousands except per share data)			
Revenues	$ 310,992	$ 347,106	$ 345,464	$ 331,851	$ 299,347
Net Income	$ 16,025	$ 17,954	$ 17,370	$ 16,593	$ 12,478
Earnings per Common Share	$ 2.14	$ 2.40	$ 2.32	$ 2.22	$ 1.67

(1) Equity per common share amounts are computed using the common shares outstanding as of December 31, 2016, 2015, 2014, 2013, and 2012.

MESTEK, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
	(Dollars in Thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 35,213	$ 64,570
Short-Term Investments	3,988	-
Accounts Receivable - less allowances of $2,843 and $3,928, respectively	44,952	45,523
Inventories – net	46,476	44,474
Other Current Assets	45,301	11,060
Total Current Assets	175,930	165,627
Property and Equipment – net	39,821	40,969
Property Held for Sale	2,327	2,327
Deferred Tax Assets	3,081	4,192
Other Assets – net	4,714	4,744
Goodwill	21,071	20,810
Total Assets	$ 246,944	$ 238,669
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 10,699	$ 12,553
Accrued Payroll and Related Expenses	13,062	14,768
Customer Deposits	18,385	15,837
Current Portion of Environmental Reserves	143	231
Warranty Reserve	2,890	2,981
Other Accrued Liabilities	7,745	13,108
Total Current Liabilities	52,924	59,478
Environmental Reserves - long term	3,821	5,222
Long-Term Debt	10,163	10,163
Other Liabilities	3,685	3,275
Total Liabilities	70,593	78,138
SHAREHOLDERS' EQUITY		
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	5,692	5,184
Retained Earnings	182,415	166,390
Treasury Shares, at cost (878,010 common shares)	(11,293)	(11,293)
Accumulated Other Comprehensive Loss	(1,723)	(1,910)
Total Mestek, Inc. Shareholders' Equity	175,508	158,788
Non-controlling Interest	843	1,743
Total Shareholders' Equity	176,351	160,531
Total Liabilities and Shareholders' Equity	$ 246,944	$ 238,669

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2016 and 2015

	Years Ended December 31, 2016	2015
	(Dollars and Shares in thousands, Except Earnings per common share)	
Net Sales	$ 310,992	$ 347,106
Cost of Goods Sold	205,399	228,544
Gross Profit	105,593	118,562
Selling Expense	41,014	43,503
General and Administrative Expense	24,583	26,027
Engineering Expense	16,751	14,706
Plant Shutdown and Other Charges	1,222	7,234
Operating Profit	22,023	27,092
Interest Income (Expense) - net	98	47
Other Income (Expense) - net	(29)	282
Income Before Income Taxes	22,092	27,421
Provision for Income Tax	5,997	9,463
Net Income	16,095	17,958
Less: Net Income - Non-controlling Interests	70	4
Net Income Attributable to Mestek, Inc.	$ 16,025	$ 17,954
Basic and Diluted Earnings Per Common Share	$ 2.14	$ 2.40
Basic and Diluted Weighted Average Shares Outstanding	7,491	7,491

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015

	2016	2015
	(Dollars in thousands)	
Net Income	$ 16,095	$ 17,958
Other Comprehensive Income (Loss)		
Foreign Currency Translation Adjustments	(281)	(2,471)
Defined Benefit Pension Plans:		
Net Gain (Loss) Arising During Period	(161)	209
Amortization of Net Loss	918	910
Defined Benefit Pension Plans Gain	757	1,119
Other Comprehensive Income (Loss) before tax	476	(1,352)
Income Tax Expense Related To Components of Other Comprehensive Income	(289)	(420)
Other Comprehensive Income (Loss)	187	(1,772)
Net Comprehensive Income	16,282	16,186
Less: Net Comprehensive Income—Non-controlling Interest	70	4
Net Comprehensive Income Attributable to Mestek, Inc.	$ 16,212	$ 16,182

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2016 and 2015

(Dollars in thousands)	Common Stock	Paid In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
Balance – December 31, 2014	$ 417	$ 5,054	$ 158,629	$ (11,293)	$ (138)	$ 1,739	$154,408
Net Income			17,954			4	17,958
Cumulative Translation Adjustment					(2,471)		(2,471)
Changes in Minimum Liability – Defined Benefit Plan – Net of Tax					699		699
Anemostat Spin-Off (see Note 12)			(10,193)				(10,193)
Stock Based Compensation		130					130
Balance – December 31, 2015	417	5,184	166,390	(11,293)	(1,910)	1,743	160,531
Net Income			16,025			70	16,095
Cumulative Translation Adjustment					(281)		(281)
Changes in Minimum Liability – Defined Benefit Plan – Net of Tax					468		468
Purchase of Subsidiary Shares from Non-Controlling Interest		412				(970)	(558)
Stock Based Compensation		96					96
Balance – December 31, 2016	$ 417	$ 5,692	$ 182,415	$ (11,293)	$ (1,723)	$ 843	$ 176,351

See Accompanying Notes to the Consolidated Financial Statements

MESTEK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015

	2016	2015
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net Income	$ 16,095	$ 17,958
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	4,625	4,995
Unrealized (Gain) Loss on Trading Securities	5,252	(265)
Provision for Deferred Taxes	1,120	2,060
Stock Compensation Expense	96	130
Provision for Losses on Accounts Receivable, net of write offs and recoveries	(1,100)	(681)
Provision for Environmental Reserve	(975)	(1,699)
(Gain) Loss on Sale of Property and Equipment	(7)	8
Change in Assets and Liabilities:		
Accounts Receivable	1,804	530
Inventory	(2,038)	(1,128)
Accounts Payable	(1,874)	229
Customer Deposits	2,556	1,049
Environmental Reserves	(514)	(644)
Other Assets and Liabilities, net	(6,047)	(3,118)
Net Cash Provided by Operating Activities	18,993	19,424
Cash Flows from Investing Activities:		
Proceeds from and (Purchases of) Trading Securities, net	(39,931)	(2,241)
Purchase of Short-Term Investments	(3,988)	-
Capital Expenditures	(3,775)	(5,083)
Purchase of Subsidiary Shares from Non-Controlling Interest	(558)	-
Proceeds from Sale of Fixed Assets	38	228
Net Cash Used in Investing Activities	(48,214)	(7,096)
Cash Flows from Financing Activities:		
Cash Included in Anemostat Spin-off	-	(2,043)
Principal Payments Under Long-Term Debt Obligations	-	(175)
Net Cash Used in Financing Activities	-	(2,218)
Net Increase (Decrease) in Cash and Cash Equivalents	(29,221)	10,110
Exchange Rate Effect on Cash and Cash Equivalents	(136)	52
Cash and Cash Equivalents - Beginning of Period	64,570	54,408
Cash and Cash Equivalents - End of Period	$ 35,213	$ 64,570
Non-Cash Events:		
Distribution of Anemostat Assets & Liabilities	$ -	$ 8,150

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mestek, Inc. and its subsidiaries (the "Company") operate primarily, in two manufacturing business segments: heating, ventilating and air conditioning equipment (HVAC) including architectural products, and metal forming equipment. The Company manufactures its HVAC equipment and metal forming equipment at twelve factory locations and sells through established distributor, dealer and manufacturer's representative channels, primarily in the United States and Canada.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries and certain partially owned entities over which it has a controlling financial interest. During 2016, one of the Company's subsidiaries acquired common shares from non-controlling interest at a cost of $558,000 as related in the Consolidated Statements of Shareholders' Equity. All material inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to revenue recognition, accounts receivable valuations, inventory valuations, goodwill valuation, intangible asset valuations, warranty costs, product liability costs, environmental reserves, workers compensation claims reserves, health care claims reserves, stock compensation, pension accrual, accounting for income taxes and the realization of deferred tax assets. Actual amounts could differ significantly from these estimates.

Revenue Recognition

The Company's revenue recognition activities relate almost entirely to the manufacture and sale of heating, ventilating and air conditioning ("HVAC") products and equipment and metal forming equipment. Under generally accepted accounting principles, revenues are considered to have been earned when the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. With respect to sales of the Company's HVAC or metal forming equipment, the following criteria represent preconditions to the recognition of revenue:

* persuasive evidence of an arrangement must exist;
* delivery has occurred or services rendered;
* the sales price to the customer is fixed or determinable; and
* collection is reasonably assured.

Revenues for certain long-term, custom-built engineering projects are recognized on a percentage of completion basis. The lengths of these contracts can exceed twelve months from order to delivery and acceptance. Percentages-of-completion are determined by relating the actual costs of work performed to date for each contract to its estimated final costs. Revisions in costs and profit estimates are reflected in the period in which the facts causing the revision become known. For all fixed price and long-term contracts, if a loss is anticipated on the contract, a provision is made in the period in which such losses are determined. Overbillings are included in customer deposits in the accompanying consolidated balance sheets.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Revenue Recognition…continued

In some cases, the Company's arrangements may contain multiple elements. In those situations, the arrangements are analyzed to determine whether the deliverables can be divided into separate units of accounting or treated as a single unit of accounting. For those deliverables that qualify as separate units of accounting, the Company must assign value based on each deliverable's vendor-specific objective evidence ("VSOE") of fair value, if available, third-party evidence ("TPE") of its value if VSOE is not available, or estimated selling price ("ESP") if neither VSOE or TPE is available. Arrangement consideration is then allocated to all deliverables using the relative selling price method. If management determines that the deliverables can be divided into separate units of accounting, the consideration received is allocated at inception of the arrangement to all deliverables based on their relative selling price.

Sales include shipping and handling costs billed to customers, and the related costs are included in the cost of sales. State sales taxes collected from customers are recorded in the accrued liabilities until paid. Accordingly sales taxes have no effect on revenues or operating expenses.

Cash Equivalents, Short-term Investment, and Trading Securities

The Company considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents include investments in an institutional money market fund, which invests in U.S. Treasury bills, notes and bonds, and/or repurchase agreements, backed by such obligations.

The Company classifies its investments depending on its intent and the nature of the investment. The Company's short-term investments consist of certificates of deposit, with original maturities of six to twelve months.

The Company maintains a brokerage account for speculative commodities purchases and related investments which is included in Cash and Cash Equivalents and Other Current Assets in the accompanying consolidated balance sheets. These investments carry market risk and are classified as trading and are recorded at their fair values using the specific identification method. The investments include actual physical quantities of precious metals maintained in the broker's name at financial institutions by an established commodities broker. The unrealized holding gains or losses on any investments are included in Plant Shutdown and Other Charges in the accompanying consolidated statements of income. The cumulative results for these activities in 2016 and 2015 were a pretax loss of $765,000, primarily related to long positions on various commodities and a pretax loss of $6.2 million, respectively. Since these investments do not qualify as effective hedges for accounting purposes, the unrealized holding gains or losses on any investments are included in Plant Shutdown and Other Charges in the accompanying consolidated statements of income.

Accounts and Notes Receivable

Accounts and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. The accounts receivable allowance for uncollectible amounts is based primarily on management's analyses of accounts in the receivable portfolio and historical write-off experience. Recoveries of receivables previously written off are recorded when cash is received.

Inventories

Inventories are valued at the lower of cost or market. Cost of inventories is principally determined by the last-in, first-out ("LIFO") method. Approximately 62% and 66% of inventory cost were determined using the LIFO method for the years ended December 31, 2016 and 2015, respectively, with the remaining inventories determined using the first-in, first-out method.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets or, for leasehold improvements, the life of the lease, if shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to operations as incurred; significant improvements are capitalized.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of a business acquired in a business combination over the fair value of the net assets acquired and liabilities assumed. The Company accounts for goodwill in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-20 "Goodwill and Other Intangible Assets" ("ASC 350-20"). The Company does not amortize goodwill and intangible assets with indefinite useful lives, rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company did not recognize any impairment charges related to goodwill or indefinite lived intangible assets during 2016 or 2015. The company established reporting units based on its current reporting structure. For purposes of testing goodwill for impairment, goodwill has been allocated to these reporting units to the extent it relates to each reporting unit. In 2016 and 2015, the Company's goodwill was allocated to the HVAC and Metal Forming reporting units.

Goodwill and Intangible Assets consisted of the following at:

	December 31, 2016	December 31, 2015
	(Dollars in thousands)	
Goodwill – net of prior amortization	$ 21,071	$ 20,810
Patents, Rights and Trademarks	$ 4,369	$ 4,301
Accumulated Amortization, Patents, Rights and Trademarks	(3,447)	(3,329)
Patents, Rights and Trademarks – net (included in other assets)	$ 922	$ 972

The increase in the carrying amount of goodwill in 2016 is primarily due to the Turbonics acquisition of $250,000. Amortization expense relating to the intangible assets for the years ending December 31, 2016 and 2015 was $115,000 and $82,000, respectively.

Impairment of Long-Lived Assets.

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Triggering events that could indicate the carrying value of long-lived assets is not fully recoverable may include the loss of significant customers, adverse changes to volumes and/or profitability in specific markets and changes in the Company's business strategy that result in a significant reduction in cash flows generated in a specific operation. Management also performs an annual assessment of the useful lives of the contract rights and accelerates amortization, if necessary. If it is determined that the carrying value of the assets is not recoverable, the Company would write down the long-lived assets by the amount by which the carrying value exceeds fair value. The Company determined there was no impairment of long-lived assets at December 31, 2016 or December 31, 2015.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Advertising Expense

Advertising costs are charged to operations as incurred. Such charges aggregated $3,361,000 and $3,239,000, for the years ended December 31, 2016 and 2015, respectively, and are included in Selling Expense in the accompanying consolidated statements of income.

Product Warranty

The Company provides warranties on certain products which range from one year to lifetime warranty. The estimated cost of product warranties are included in the accrued expenses, determined primarily from Historical information, at the time product revenue is recognized. Should actual product failure warranties differ from the Company's estimates, revisions to the estimated warrant liability would be required. Warranty expense for the years ended December 31, 2016 and 2015, was $1,805,000 and $1,555,000, respectively.

Research and Development Expense

Research and development expenses are charged to operations as incurred. Such charges aggregated $8,387,000 and $7,655,000, for the years ended December 31, 2016 and 2015, respectively, and are included in Engineering Expense in the accompanying consolidated statements of income.

Treasury Shares

Common stock held in the Company's treasury has been recorded at cost. If treasury stock is re-issued, proceeds in excess of cost are credited to paid-in-capital.

Earnings per Common Share

Basic earnings per share have been computed using the weighted average number of common shares outstanding. Common stock options of the Company, as more fully described in Note 10, were considered in the computation of diluted earnings per share, except when such effect would be anti-dilutive.

Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing on the balance sheet dates. The Statement of Income is translated at weighted-average exchange rates in effect during the year. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are recorded in Accumulated Other Comprehensive Income (Loss) as a separate component of Shareholders' Equity. Transaction gains and losses are included in other expense and were not material in either 2016 or 2015.

Other Comprehensive Income

In accordance with accounting standards, the Company is required to report in its financial statements, in addition to its net income, comprehensive income, which includes all changes in equity during a period from non-owner sources, including foreign currency items and pension plan adjustments.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Fair Value of Financial Instruments, Concentration of Credit and other Risk and Significant Customers

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company also maintains cash in accounts outside of the United States. These amounts are not insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

The carrying values of cash, cash equivalents, brokerage accounts, investments, accounts receivable, accounts payable, accrued expenses and short-term bank debt approximate fair market value due to the short-term nature of these financial instruments. The carrying value of long-term debt approximates fair market value, which is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities. Financial instruments that potentially subject the Company to concentrations of credit risk are principally accounts receivable. The Company's brokerage account, as noted above, subjects the Company to market risk.

The Company has no significant off-balance-sheet or concentration of credit risk exposure such as foreign exchange contracts or option contracts. The Company maintains its cash and cash equivalents with established financial institutions. Certain cash in foreign institutions may be subject to temporary withdrawal restrictions. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes substantial sales. To reduce its credit risk, the Company routinely assesses the financial strength of its customers. The Company maintains an allowance for potential credit losses but historically has not experienced any significant losses related to individual customers or groups of customers beyond what is provided for in the allowance. No individual customer accounted for more than 10% of revenues in 2016 or 2015. No individual customer accounted for more than 10% of the Company's accounts receivable at December 31, 2016 or 2015.

Fair Value Measurements

Accounting for *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the assets or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents the Company's assets that are measured at fair value and the related hierarchy levels as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
Position in open contracts	$ 22	$ -	$ -	$ 22
Investments in precious metals	36,899	-	-	36,899
Total assets carried at fair value	$ 36,921	$ -	$ -	$ 36,921

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Fair Value Measurements…continued

The following table presents the Company's assets and liabilities that are measured at fair value and the related hierarchy levels as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
Position in open contracts	$ 497	$ -	$ -	$ 497
Investments in precious metals	2,009	-	-	2,009
Total assets carried at fair value	$ 2,506	$ -	$ -	$ 2,506

The Company has investments in platinum that are Level 1 financial instruments and are recorded based upon listed or quoted platinum market prices. These are presented as Investments in precious metals and are recorded in other current assets in the accompanying consolidated balance sheets.

The Company has open trading contracts that are Level 1 financial instruments and are recorded based on the difference in market price of the underlying precious metal of the open trading contracts between the date when the contracts are entered and the balance sheet date. These are presented as position in open contracts and are recorded in other current assets in the accompanying consolidated balance sheet.

Labor Force

Certain of the Company's personnel are represented by labor unions. The Company has contracts with each union which are generally renewed for 3- to 4-year terms. The concentration of employees under union contracts represents approximately 29% and 30% of the Company's workforce as of December 31, 2016 and 2015, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation". FASB ASC 718 requires all share-based payments to employees, including grants of employee stock options and modifications to existing stock options to be recognized in the statement of income based on their fair values on the grant or modification date.

Under the fair-value method, stock-based compensation associated with stock awards is determined based on the estimated fair value of the award itself, measured using either current market data or an established option-pricing model. The Company utilizes the Black-Scholes option pricing model to determine the fair value of options granted and has elected the accrual method for recognizing compensation costs.

The determination of the fair value of stock-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected term, risk-free interest rate and expected dividend yield. The Company does not have a history of market prices of the common stock as it is not a public company, and as such volatility is estimated using historical volatilities of similar public entities. The expected term of the awards is estimated based on the simplified method. The risk-free interest rate assumption is based on observable interest rates appropriate for the terms of the awards. The dividend yield assumption is based on a history and expectation of paying no dividends (excluding special dividends). Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates: forfeitures represent only the unvested portion of a surrendered option.

No options were granted for the years ending December 31, 2016 or 2015.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Stock-Based Compensation…continued

In the years ended December 31, 2016 and 2015, the Company recorded stock-based compensation expense of $96,000 and $130,000, respectively in connection with share based payment awards granted in earlier years. As of December 31, 2016, there was no remaining unamortized compensation expense related to non-vested stock awards.

Defined Benefit Plans

The Company accounts for its terminated defined benefit pension plans in accordance with FASB ASC 715, "Compensation – Retirement Benefits," which requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "Benefit Plans") to recognize the funded status of their Benefit Plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end, and provide additional disclosures (see Note 7).

Reclassification

Reclassifications have been made to previously-issued financial statements to conform to the current year presentation. These reclassifications had no impact on net income.

Recently Adopted Accounting Pronouncements

In April 2014, the FASB Accounting Standards Update 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* The update provides that an entity, a group of components of an entity, or a business is required to be reported in discontinued operations once it meets the held for sale criteria, is disposed of by sale, or is disposed of other than by sale only if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The update also requires that additional disclosures about discontinued operations be made. This guidance is effective prospectively for annual reporting periods, and interim reporting periods within those reporting periods, beginning after December 15, 2014. The Company adopted this guidance effective January 1, 2015 with no significant impact on our consolidated financial position or results of operations**.** As explained in Note 12, in accordance with the update, the spinoff of Anemostat Inc. on December 31, 2015 was not accounted for as a discontinued operation.

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost.* This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the new guidance. This guidance is effective for fiscal years beginning after December 15, 2015. Early application is permitted for financial statements that have not been previously issued, and the guidance should be adopted on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, to address concerns about the complexity of its guidance on measuring inventory. Generally accepted accounting principles historically have required reporting organizations to measure inventory at the lower of cost or market. When measuring inventory, "market" could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 does not apply to inventory measured using the last-in, first-out method or the retail inventory method. The ASU applies to all other inventory, which includes inventory measured using the first-in, first-out method or the average cost method. Inventory within the scope of ASU 2015-11 now is required to be measured at the lower of cost and net realizable value. Net realizable value is defined as "the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." This ASU is effective for fiscal years beginning after December 15, 2016, and should be applied prospectively with earlier application permitted as of the beginning annual reporting period. The Company is currently evaluating the impact of this standard on it consolidated financial position and results of operations.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

1. SIGNIFICANT ACCOUNTING POLICIES…continued

Recently Adopted Accounting Pronouncements

In August 2015, the FASB issued Accounting Standards Update (ASU) 2015-14, *Revenue from Contracts with Customers (Topic 606)*: Deferral of the Effective Date. This ASU: (a) defers the effective date of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, by one year for both public and nonpublic entities and (b) allows early adoption of the ASU by all entities as of the original effective date for public entities. ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This ASU is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted in any of the following periods: (a) an annual reporting period beginning after December 15, 2016 or (b) an annual reporting period beginning after December 15, 2016 and the interim periods within annual reporting periods beginning one year after the annual reporting period in which the new guidance is first applied. The Company is currently evaluating the impact of this standard on it consolidated financial position and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for fiscal years beginning after December 15, 2016 with early adoption permitted. ASU 2015-17 may be either applied prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company has elected to early adopt ASU 2015-17 retrospectively in 2015. As a result, all deferred tax assets and liabilities have been presented as noncurrent on the balance sheets as of December 31, 2016 and 2015. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: i) a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity). Early application is permitted for all business entities upon issuance. The Company is currently evaluating the impact of this standard on its consolidated financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company for fiscal years beginning after December 15, 2018. The Company does not believe the adoption of the new financial instruments standard will have a material impact on its consolidated financial statements. The Company elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

2. INVENTORIES

Inventories consisted of the following at December 31:

	2016	2015
	(Dollars in thousands)	
Raw materials	$ 29,843	$ 29,036
Work-in-progress	19,596	17,973
Finished Goods	8,952	9,279
	58,391	56,288
Less reserve for LIFO method of valuation	(11,915)	(11,814)
	$ 46,476	$ 44,474

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

2. INVENTORIES…continued

The Company uses the last-in first-out (LIFO) method of valuing substantial portions of its inventory. Approximately $101,000 of expense and $425,000 of income was recorded in the periods ended December 31, 2016 and 2015, respectively, as a result of a reduction in inventory using the LIFO method rather than FIFO.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2016	2015	Depreciation and Amortization Est. Useful Lives
	(Dollars in thousands)		
Land	$ 3,614	$ 3,614	
Buildings	34,366	33,207	**19-39 Years**
Leasehold Improvements	7,977	7,971	**15-39 Years**
Equipment	103,882	103,275	**3-10 Years**
	149,839	148,067	
Accumulated Depreciation	(110,018)	(107,098)	
	$ 39,821	$ 40,969	

The above amounts include $1,914,000 and $452,000 at December 31, 2016 and 2015, respectively, in assets that had not yet been placed in service by the Company. No depreciation was recorded in the related periods for these assets. Assets classified as "Property Held for Sale" are excluded from the amounts listed above.

Depreciation and amortization expense was $4,625,000 and $4,995,000 for the years ended December 31, 2016 and 2015, respectively.

4. DEBT

Debt consisted of the following at December 31:

	2016	2015
	(Dollars in thousands)	
Industrial Development Bond – MO	$ 2,425	$ 2,425
Notes Payable-Other	7,738	7,738
	10,163	10,163
Less Current Maturities	-	-
Long Term Debt	$ 10,163	$ 10,163

<u>Industrial Development Bond - MO</u> – On June 17, 2005, the Company acquired an 80,000 square foot manufacturing facility in Bridgeton, Missouri, for $2,940,000, which was used to consolidate existing Formtek Metal Processing business units. On July 19, 2005, the Company refinanced this transaction as part of a 25-year-tax-exempt Industrial Development Bond totaling $4,430,000. The note bears interest at a variable rate that considers prevailing market conditions and is set weekly by the remarketing agent, Banc of America Securities LLC. At no time may the interest rate exceed the maximum annual rate of 12.00%. Interest is payable monthly with a minimum optional redemption of principal due on July 1 of each year until maturity at July 1, 2030. The effective rate of interest paid in 2016, including letter of credit costs, was approximately 1.67%. The note is secured by a letter of credit with Bank of America, N.A.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

4. DEBT…continued

Notes Payable – Others – The Company is indebted under a series of non-interest bearing demand notes to an investor group. The balance outstanding under the notes as of both December 31, 2016 and December 31, 2015 was $7,738,000. The Company does not expect these obligations to mature in 2016, and therefore has classified them as long-term debt.

Revolving Loan Agreement – On December 30, 2014, the Company entered into a five year, $60,000,000, committed, secured, multi-bank revolving loan and letter of credit facility (the "Facility"), led by Santander N.A. Borrowings under the Facility bear interest, at the Company's election, at a floating rate based on the lenders' prime or base rate or, for short term borrowings, at a rate based upon the daily LIBOR rate. There were no borrowings outstanding under the Facility as of December 31, 2016. The Facility contains affirmative and negative covenants typical of such financing transactions, and specific financial covenants which require the Company to maintain a minimum cash flow coverage ratio and a maximum cash flow leverage ratio. As of December 31, 2016, the Company was in compliance with all of the financial covenants required under the Facility. Revolving borrowings under the Facility are due and payable in full on the maturity date of the Facility, which is December 30, 2019. The credit agreement relating to the Facility also contains restrictions regarding the creation of indebtedness, the occurrence of mergers or consolidations, the sale of subsidiary stock and the payment of dividends. The availability of borrowings under the loan agreement is reduced by outstanding letters of credit. The credit agreement relating to the Facility also contains restrictions regarding the creation of indebtedness, the occurrence of mergers or consolidations, the sale of subsidiary stock and the payment of dividends.

Maturities of debt in each of the next five years and thereafter are as follows in thousands:

	Total Debt
2017	$ ---
2018	---
2019	---
2020	---
2021	---
Thereafter	10,163
Total Debt Maturities:	$ 10,163

Cash paid for interest was $208,000 and $144,000, during the years ended December 31, 2016 and 2015, respectively. Interest expense totaled $213,000 and $200,000 for the years ended December 31, 2016 and 2015, respectively.

5. INCOME TAXES

The provision for income taxes consisted of the following:

	2016	2015
	(Dollars in thousands)	
Federal Income Tax:		
Current	$ 1,226	$ 5,536
Deferred	894	1,279
State Income Tax:		
Current	561	955
Deferred	185	(153)
Foreign Income Tax:		
Current	3,099	1,835
Deferred	32	11
Provision for Income Taxes	$ 5,997	$ 9,463

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

5. INCOME TAXES…continued

Income before income taxes included foreign income of $12,082,000 and $6,257,000 in 2016 and 2015, respectively.

Total income tax expense differed from statutory income tax expense computed by applying the U.S. federal income tax rate of 35% to earnings before income tax, as follows:

	2016	2015
	(Dollars in thousands)	
Computed "Expected" Income Tax Expense	$ 7,511	$ 9,597
Permanent Differences	(521)	(222)
State Income Tax, Net Of Federal Tax Expense	485	286
Foreign Source Income	(1,062)	(794)
Write-off Excess NOL Asset	-	676
Foreign Loss Not Benefitted	96	450
Effect of Anemostat Spin-off	-	(524)
Tax Credits	(559)	-
Other	47	(6)
Income Tax Expense	$ 5,997	$ 9,463

Deferred income tax expense results from temporary differences in the recognition of income and expense for income tax and financial reporting purposes. The components of and changes in the net deferred tax assets (liabilities) which give rise to this deferred income tax expense for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(Dollars in thousands)	
Deferred Tax Assets:		
Remediation Reserve	$ 1,571	$ 2,454
Capital Loss Carry Forward	2,374	2,176
Accounts Receivable Valuation	1,022	1,694
Product Liability Reserve	1,076	1,149
Deferred Benefits Plan	1,220	1,052
Compensated Absences	880	807
Inventory Valuation	456	453
Workers Compensation Reserve	193	305
Other	404	462
Total Deferred Tax Assets	9,196	10,552
Deferred Tax Liabilities:		
Depreciation and Amortization	(5,042)	(5,102)
Prepaid Expenses	(1,073)	(1,258)
Total Deferred Tax Liabilities	(6,115)	(6,360)
Net Deferred Tax Assets	$ 3,081	$ 4,192

At December 31, 2016 and 2015 the Company had capital loss carry forwards of approximately $6,983,000 and $6,218,000 which are available to reduce future income taxes payable, subject to applicable Federal rules and limitations. These losses are scheduled to expire between 2020 and 2021.

Management believes it is more likely than not that the Company will have sufficient taxable income when these temporary differences are reversed and that the deferred tax asset will be realized and accordingly no valuation allowance is deemed necessary.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

5. INCOME TAXES…continued

The Company paid a total of $9,326,000 and $8,253,000 in income taxes to federal, state, and foreign tax jurisdictions for the years ended 2016 and 2015, respectively.

The Company accounts for uncertainty in income taxes under the provisions of ASC 740-10, "Income Taxes". These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. The Company recognizes interest and penalties related to uncertain tax provisions, if any, as a component of the provision for income taxes in the accompanying consolidated statements of income. At December 31, 2016 and 2015, the potential interest and penalties attributable to any uncertainties were *de minimus*.

The Company and its subsidiaries file income tax returns in the United States and various state, local and foreign jurisdictions. The Company is subject to audit by U.S. federal authorities for 2015, and for years after 2012 in its other major jurisdictions.

The Company has not recorded deferred income taxes on the undistributed earnings of its international subsidiaries because it is the Company's intent to reinvest such earnings indefinitely. Determination of the amount of unrecognized deferred taxes related to this investment is not practicable.

6. LEASES AND RELATED PARTY TRANSACTIONS

Related Party Leases

The Company leases various manufacturing facilities and equipment from companies owned by certain officers and directors of the Company, either directly or indirectly, or through affiliates. The leases generally provide that the Company will bear the cost of property taxes and insurance.

Details of the principal operating leases with related parties as of December 31, 2016, including the effect of renewals and amendments executed subsequent to December 31, 2016, are as follows:

	Date of Lease	Term	Basic Annual Rent	Minimum Future Rentals
			(Dollars in thousands)	
Sterling Realty Trust:				
Land and Building-Main	07/01/14	5 years	$ 623	$1,649
Land and Building Beacon Morris	07/01/14	5 years	$ 204	$541
Land and Building-South Complex	07/01/14	5 years	$ 679	$1795
Land and Building Torrington	07/01/14	5 years	$ 349	$922
Rudbeek Realty Corp.:				
Farmville Location	04/01/14	5 years	$ 871	$2,070
Beaver Lake Realty, LLC:				
Land and Building- 47 Westfield Industrial Park Road	11/1/10	Month to Month	$ 143	$ -

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

6. LEASES AND RELATED PARTY TRANSACTIONS…continued

All Leases

Rent expense for operating leases, including those with related parties, was $3,808,000 and $3,511,000, for the years ended December 31, 2016 and 2015, respectively. Rents to related parties, including the aforementioned leases, were approximately $2,868,000 and $2,741,000 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments under all non-cancelable leases as of December 31, 2016 are as follows:

Years Ending December 31,	Operating Leases (Dollars in thousands)	
2017	$	3,525
2018		3,188
2019		1,344
2020		54
Total Minimum Lease payments	$	8,111

Other Related Party Transactions

On October 13, 2006, the Company loaned $611,000 to Stephen Shea, its Chief Financial Officer, in connection with his exercise in 2005, of incentive stock options. The loan bore interest at 4.5%, originally matured on October 13, 2009, and is secured by a pledge of 40,000 common shares of the Company's Stock.

Other Related Party Transactions

On October 13, 2009, the Company amended and restated the $611,000 loan to extend the maturity to October 13, 2010, and added additional security in the form of a pledge of the proceeds from a term life insurance policy in the name of Stephen Shea to the Company by Mr. Shea and his named beneficiary. The loan automatically renews for a period of one year at each anniversary date. The Company does not expect payment to be made in 2017 and therefore has classified this loan as a long-term asset.

7. EMPLOYEE BENEFIT PLANS

The Company maintains a qualified non-contributory profit-sharing plan ("Profit-Sharing Plan") covering all eligible employees. Contributions to the Profit-Sharing Plan were approximately $1,681,000 and $1,445,000 for the years ended December 31, 2016 and 2015, respectively. Contributions to the Profit Sharing Plan are defined as a minimum of $600,000 plus 5% of the excess operating profits of the Company exceeding $12,000,000, subject to the maximum allowed under the Employee Retirement Income Security Act of 1974, ("ERISA"). Contributions to the Profit-Sharing Plan are allocated to participants based upon the profit sharing formula contribution: three percent (3%) of gross wages up to the current Old Age, Survivors, and Disability ("OASDI") limit and six percent (6%) of the excess over the OASDI limit, as a percentage of the total contribution under the profit sharing formula The Profit-Sharing Plan's vesting terms for contributions are, twenty percent (20%) vesting after 2 years of service, forty percent (40%) after 3 years, sixty percent (60%) after 4 years, eighty percent (80%) after 5 years, and one hundred percent (100%) vesting after 6 years.

The Company maintains a retirement savings plan ("Retirement Savings Plan") qualified under Internal Revenue Code Section 401(k) for employees covered under certain collective bargaining agreements. Service eligibility requirements differ by division and collective bargaining agreements. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. Participants may also elect to make after tax voluntary contributions up to an additional ten percent (10%) of their gross earnings each year within the legal limits. The Company contributes differing amounts depending upon each division's collective bargaining agreement. Contributions are funded on a current basis. Company contributions to the Retirement Savings Plan were $260,000, for each the years ended December 31, 2016 and 2015, respectively.

7. EMPLOYEE BENEFIT PLANS…continued

The Company maintains a separate qualified 401(k) plan (“401(k) Plan”) for salaried employees not covered by a collective bargaining agreement who choose to participate. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. Participants may also elect to make after tax voluntary contributions up to an additional ten percent (10%) of their gross earnings each year within the legal limits. Effective January 1, 2010. The Company contributes $0.333 of each $1.00 deferred by participants, deposited in to the 401(k) Plan not to exceed two percent (2.0%) of an employee’s compensation. The Company does not match any amounts for withholding from participants in excess of six percent (6%) of their compensation or for any after tax voluntary contributions. Contributions are funded on a current basis. Company contributions to the Plan were $811,000 and $763,000, for the years ended December 31, 2016 and 2015, respectively.

Defined Benefit Plans

The Company’s second-tier subsidiary, Met-Coil, maintained, prior to its acquisition by the Company’s subsidiary, Formtek, Inc. on June 3, 2000, several defined benefit pension plans (the “Met-Coil Plans”) covering certain of its employees. The Met-Coil Plans were “frozen” and merged prior to the acquisition, effectively locking in retirement benefits earned to that date and precluding any further benefits for future service. The Met-Coil Plans were terminated during 2015 and 2016 and all benefits were funded and all obligations paid prior to December 31, 2016. Pension expense under the Met-Coil Plans was $565,000 and $681,000, for the years ended December 31, 2016 and 2015, respectively, with the $565,000 for the year ended December 31, 2016 comprised of $23,000 net periodic pension cost and $542,000 one-time settlement expense.

In connection with the acquisition of the assets of Airtherm Manufacturing Company and Airtherm Products, Inc. in 2000, the Company assumed certain obligations related to the defined benefit plan maintained by Airtherm (the Airtherm Retirement Income Plan) prior to the acquisition date. The Airtherm LLC Retirement Income Plan was “frozen” prior to acquisition in a manner similar to the Met-Coil Plans described above. The Airtherm Plan was terminated during 2015 and 2016 and all benefits were funded and all obligations paid prior to December 31, 2016. Pension expense under the Airtherm LLC Retirement Income Plan was $1,010,000 and $273,000, for the years ended December 31, 2016 and 2015, respectively, with the $1,010,000 for the year ended December 31, 2016 comprised of $21,000 net periodic pension cost and $989,000 one-time settlement expense.

The Company uses a December 31 measurement date for both the Airtherm LLC Retirement Income Plan and the Met-Coil Plans.

In accordance with FASB ASC 715, net unrecognized actuarial losses included in Accumulated Other Comprehensive Income are recognized as net periodic pension cost pursuant to the Company’s accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods that are not recognized as net periodic pension cost in the same periods are recognized as a component of other comprehensive income.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

7. EMPLOYEE BENEFIT PLANS…continued

Defined Benefit Plans…continued

Those amounts are recognized as a component of net periodic pension cost on the same basis as the amounts recognized in Accumulated Other Comprehensive Income.

Benefit Obligation and Funded Status	Met-Coil 2016	Met-Coil 2015	Airtherm 2016	Airtherm 2015
	(Dollars in thousands)			
Accumulated Benefit Obligation at the End of the Year	$ -	$ 1,900	$ -	$ 3,743
Change in Projected Benefit Obligation on a Measurement Year Basis				
Projected Benefit Obligation at the Beginning of the Period	$ 1,900	$ 4,668	$ 3,743	$ 4,530
Service Cost	-	-	-	-
Interest Cost	25	113	29	139
Actuarial (Gain) Loss	114	(214)	75	(138)
Benefits Paid	(2,039)	(2,667)	(3,847)	(788)
Projected Benefit Obligation at the End of the Period	-	1,900	-	3,743
Change in Plan Assets on a Measurement Year Basis				
Fair Value of Plan Assets at the Beginning of the Period	1,225	3,836	3,359	3,541
Actual Return on Plan Assets	78	37	(37)	28
Benefits Paid	(2,039)	(2,667)	(3,847)	(788)
Employer Contributions	736	19	525	578
Fair Value of Assets at the End of the Period	-	1,225	-	3,359
Funded Status at the End of the Measurement Year	$ -	$ (675)	$ -	$ (384)
Weighted Average Assumptions at the End of the Year				
Discount Rate	N/A	2.65%	N/A	3.07%
Rate of Compensation Increase				

Net Periodic Pension Cost	Met-Coil 2016	Met-Coil 2015	Airtherm 2016	Airtherm 2015
	(Dollars in thousands)			
Service Cost	$ -	$ -	$ -	$ -
Interest Cost	25	113	29	139
Expected Return on Plan Assets	(41)	(117)	(26)	(90)
Amortization of Net Loss	581	685	1,007	224
Total Net Periodic Pension Cost	565	681	1,010	273
Net (Gain)/Loss Incurred in Year	77	(134)	137	(75)
Amortization of Net Loss	(581)	(685)	(1,007)	(225)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income	(504)	(819)	(870)	(300)
Total Recognized in Net Periodic Pension Cost and other Comprehensive Income	61	(138)	140	(27)
Expected Return on Plan Assets	N/A	6.75%	N/A	3.75%

Expected Amortizations	Met-Coil 2016	Met-Coil 2015	Airtherm 2016	Airtherm 2015
	(Dollars in thousands)			
	$ -	$ 504	$ -	$ 870

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

7. EMPLOYEE BENEFIT PLANS…continued

Defined Benefit Plans…continued

Plan Assets	**Met-Coil Percentage of Plan Assets at December 31**		**Airtherm Percentage of Plan Assets at December 31**	
	2016	**2015**	**2016**	**2015**
	(Dollars in thousands)			
Plan Assets				
Equity Securities*	0%	95%	0%	0%
Debt Securities	0%	0%	0%	6%
Cash & Equivalents	0%	0%	0%	0%
Insurance Contracts	0%	5%	0%	94%
Total	0%	100%	0%	100%

* Includes no Mestek common stock at either December 31, 2016 or 2015.

Long-Term Rate of Return Assumption – Met-Coil

The approach used to determine the expected long-term rate of return on plan assets assumption is based on weighting historical market index returns for various asset classes in proportion to the plan assets. Weighting 10-year compounded trailing returns on equity and fixed income indices in proportion to the above asset mix, and netting expected expenses yields an expected long-term return of 6.75%.

Long-Term Rate of Return Assumption – Airtherm

The approach used to determine the expected long-term rate of return on plan assets assumption is based on weighting historical market index returns for various assets classes in proportion to the plan assets. The assets of the Plan are invested in the general account of Prudential Retirement, which, net of expenses is expected to have a long-term return of 3.75%.

Fair Value Measurements

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Insurance contract in a guaranteed deposit fund: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Pooled separate accounts: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Mutual funds: Mutual funds are valued at the quoted market prices. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

7. EMPLOYEE BENEFIT PLANS…continued

Fair Value Measurements…continued

The following table sets forth by level, within the fair value hierarchy, the Airtherm Retirement Income Pension Plan assets at fair value as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
Insurance contract	$ -	$ 3,178	$ -	$ 3,178
Pooled separate accounts	-	181	-	181
Total assets at fair value	$ -	$ 3,359	$ -	$ 3,359

The following table sets forth by level, within the fair value hierarchy, the Met-Coil Systems Corporation Pension Plan assets at fair value as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
Insurance contract	$ -	$ 59	$ -	$ 59
Pooled Separate Accounts	-	-	-	-
Mutual funds	1,166	-	-	1,166
Total assets at fair value	$ 1,166	$ 59	$ -	$ 1,225

8. COMMITMENTS AND CONTINGENCIES

Indemnifications

The Company is obligated under Indemnity Agreements ("Indemnity Agreements") executed on behalf of 18 of the Company's officers and directors. Under the terms of the Indemnity Agreements, the Company is contingently liable for costs which may be incurred by the officers and directors in connection with claims arising by reason of these individuals' roles as officers and directors of the Company.

Contingencies

Letters of Credit

The Company had outstanding at December 31, 2016, $6,890,000 in standby letters of credit issued in connection with the TCE PI Trust and $2,274,000 issued principally in connection with its commercial insurance programs. In addition, a letter of credit was issued on July 19, 2005 in the amount of $4,481,000 in connection with the $4,430,000 Industrial Development Authority Bond (see Note 4) for the City of Bridgeton, MO, the balance of which is reduced to reflect principal payments made on the note. The balance on the Bridgeton Industrial Development Authority letter of credit was $2,453,000 as of December 31, 2016.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

8. COMMITMENTS AND CONTINGENCIES…continued

Contingencies…continued

Insurance

The Company retains significant obligations under its commercial general liability insurance policies for product liability and other losses. For losses occurring in the policy years ending October 1, 2004 through 2016, the Company maintains commercial general liability insurance, retaining liability for the first $2,000,000 per occurrence of commercial general liability claims (including products liability claims), subject to an agreed aggregate. For losses occurring in the policy year ended October 31, 2003, the Company retained liability for the first $500,000 per occurrence of commercial general liability claims (including product liability), subject to an agreed aggregate. In addition, the Company retains liability for the first $250,000 per occurrence of workers compensation coverage, subject to an agreed aggregate. Included in other accrued liabilities in the accompanying consolidated balance sheets are self-insurance reserves totaling approximately $341,000 and $689,000 at December 31, 2016 and 2015, respectively.

Litigation

The Company is subject to several legal actions and proceedings in which various monetary claims are asserted. Management, after consultation with its corporate legal department and outside counsel, does not anticipate that any ultimate liability arising out of all such litigation and proceedings will have a material adverse effect on the financial condition of the Company except as set forth below.

Environmental Litigation and Remediation Reserves

The Company maintains an environmental reserve related to the settlement of litigation in 2004 connected with the Company's Lisle, IL manufacturing facility. The environmental reserve covers the Company's obligations to perform certain soil and ground water remediation procedures at the Lisle facility and the Company's related obligation to fund a trust (the "TCE PI Trust") established in connection with the settlement for the purpose of administering future personal injury claims relating to the Lisle facility.

The Company maintains an environmental reserve related to the settlement of litigation in 2004 connected with the Company's Lisle, IL manufacturing facility. The environmental reserve covers the Company's obligations to perform certain soil and ground water remediation procedures at the Lisle facility and the Company's related obligation to fund a trust (the "TCE PI Trust") established in connection with the settlement for the purpose of administering future personal injury claims relating to the Lisle facility.

Activity related to the environmental reserve in 2016 and 2015 was as follows:

	2016	2015
	(Dollars in thousands)	
Balance Beginning of the Year	$ 5,453	$ 7,796
Less Remediation Related Expenditures	(408)	(420)
Less TCE PI Trust Fund Payments	(106)	(224)
Less Changes to Reserves	(975)	(1,699)
Balance End of the Year	$ 3,964	$ 5,453

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

8. COMMITMENTS AND CONTINGENCIES…continued

These reserves have been established in accordance with ASC 450 “Contingencies”. They represent management’s best estimate of these liabilities, and are based upon known or anticipated claims estimated by various legal, scientific and economic experts. There is no assurance that these reserves will be adequate to meet all potential personal and property claims arising from the environmental contamination at the Lisle, IL site, however, claim activity has been lower to date than originally forecasted.

The Company has substantially completed the remediation of the Lisle, IL facility, pursuant to a work plan for the site and has received approval from the IEPA of the ground water remedial standards to be achieved by the work plan, as well as the methodology for ground water remediation. Accordingly, the Company believes that future remediation costs at the site will be diminimis and has reduced its environmental reserves as noted above.

Based on claim experience through December 31, 2016, the Company has classified $143,000 of the above reserve as current as of December 31, 2016. Annually the Company reviews the existing third party claim and remediation cost estimates, and determines based on actual claim data whether an updated analysis is necessary. Given the level of expenses to date the Company believes that the existing analysis remains appropriate as of December 31, 2016 and will revise its reserves in future periods as a result of actual activity.

Other Claims Alleging Releases of Hazardous Materials or Asbestos Related Liability

As of December 31, 2016, the Company is a party to approximately 80 asbestos-related lawsuits, many in Texas where numerous asbestos-related actions have been filed against numerous defendants. The lawsuits previously pending against the Company in Illinois have all been resolved by plaintiffs’ dismissals without payment.

Almost all of these suits seek to establish liability against the Company as successor to companies that may have manufactured, sold or distributed asbestos-related products, and who are currently in existence and defending thousands of asbestos related cases, or because the Company currently sells and distributes boilers, an industry that has been historically associated with asbestos-related products. The Company believes it has valid defenses to all of the pending claims and vigorously contests that it is a successor to companies that may have manufactured, sold or distributed any product containing asbestos materials. However, the results of asbestos litigation have been unpredictable, and accordingly, an adverse decision or adverse decisions in these cases, individually or in the aggregate, could materially adversely affect the financial position and results of operation of the Company and could expose the Company to substantial additional asbestos related litigation and the defense costs thereof, which defense costs, because of the sheer number of asbestos claimants and the historical course of the litigation process in this area has the potential to become substantial, though these costs are not capable of estimation at this time. The total requested damages of these cases are over $3 billion.

To date the Company has had approximately 500 asbestos- related cases dismissed without any payment and it settled approximately 26 asbestos-related cases for a *de minimus* value. However, there can be no assurance the Company will be able to successfully defend or settle any pending litigation.

In addition to the Lisle, IL site, the Company has been named or contacted by state authorities and/or the EPA regarding the Company’s asserted liability or has otherwise determined it may be required to expend funds for the remediation of certain other sites in North Carolina, Connecticut and Pennsylvania.

The Company continues to investigate all of these matters. Given the information presently known, no estimation can be made of any liability which the Company may have with respect to these matters. There can be no assurance, but based on the information presently available the Company does not believe that any of these matters will be material to the Company’s financial position or results of operations.

The Company considers whether any additional exposure exists as it relates to ASC 410 “Asset Retirement and Environmental Obligations” which requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. At December 31, 2016 and 2015, the Company is unable to estimate the ranges or probabilities of any potential asset retirement obligations that have not previously been identified.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

9. SHAREHOLDERS' EQUITY

Mestek has authorized common stock of 20,000,000 shares with no par value, and a stated value of $0.05 per share. As of December 31, 2016, the Estate of John E. Reed, and Stewart B. Reed, Chairman and CEO of Mestek, together beneficially own a majority of the outstanding shares of Mestek's common stock.

10. STOCK OPTION PLANS

In 2011, the Company adopted a stock option plan (the Plan) that provides for the granting of qualified (also known as incentive stock options) and nonqualified stock options to Company directors, officers, employees, and consultants. A total of 300,000 shares of the Company's common stock were issuable under the Plan. The qualified options vest after a five-year period.

Employee and Director stock option activity for the year ended December 31, 2016 and 2015 was as follows:

	Number of Options	Exercise Price Range	Weighted-Average Exercise Price
Outstanding at December 31, 2014	138,000	$ 9.30	$ 9.30
Granted – 2015	-	-	-
Exercised (Directors non-qualified options)	-	-	-
Forfeited/cancelled	-	-	-
Outstanding at December 31, 2015	138,000	$ 9.30	$ 9.30
Granted – 2016	-	-	-
Exercised	-	-	-
Forfeited/cancelled	-	-	-
Outstanding at December 31, 2016	138,000	$ 9.30	$ 9.30
Exercisable at December 31, 2016	138,000	$ 9.30	$ 9.30

The following table summarizes information about stock options outstanding at December 31, 2016:

	Options Vested and Expected to Vest			Options Vested		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$9.30	138,000	4.75	$9.30	138,000	5.25	$9.30

At December 31, 2016, 127,000 shares remain available for future grant.

11. PLANT SHUTDOWNS, IMPAIRMENT LOSSES, AND ASSET SALES

The Company continues to incur costs related to "exit and disposal" activities for manufacturing plants shut down prior to 2011 which are accounted for, in accordance with ASC 420 *Exit or Disposal Cost Obligations*. In the years ended December 31, 2016 and 2015, the Company incurred $129,000 and $975,000 (including $475,000 related to the Company's Anemostat subsidiary, as further explained in Note 12), respectively, of such "exit and disposal" costs which are classified separately in the accompanying financial statements in accordance with ASC 420.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

12. ANEMOSTAT SPIN-OFF

On December 11, 2015, Mestek announced its intention to distribute on December 31, 2015, 100% of the common stock of its subsidiaries, Anemostat, Inc. and Anemostat Door Products, Inc., to the shareholders of record of Mestek on December 30, 2015, on a pro rata basis. On December 31, 2015, the distribution of common shares of Anemostat, Inc. and Anemostat Door Products, Inc. was completed.

In accordance with the accounting guidance, Mestek was determined to be the *Spinnor* and Anemostat (collectively) was determined to be the *Spinnee*. Accordingly, the spin-off was recorded at the carrying amount of net assets, after reduction for indicated impairment value, with the offset charged to retained earnings. All costs incurred to effect the spin-off were expensed during 2015.

Accordingly, the assets and liabilities of these subsidiaries are not included in the accompanying consolidated balance sheet at December 31, 2015, although consolidated results of operations for 2015 do include the results of operations for both subsidiaries through December 30, 2015, the date of distribution. Effective January 1, 2016, Anemostat Inc. and Anemostat Door Products, Inc. became stand-alone private companies operating independently of the Company.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 21, 2017, the date on which the financial statements were available to be issued and no additional disclosures or adjustments were required.

Web Sites and Corporate Data

mestek.com
airbalance.com
airthermhvac.com
awv.com
anemostat.com
appliedair.com
argobaseboard.com
arrowunited.com
axonelectric.com
beacon-morris.com
bklevelers.com
cescoproducts.com
coilmate-dickerman.com
cwpcoil.com
dadanco.com
dahlstromusa.com
designlineonline.com
embassyind.com
englind.com
formtek.eu
formtekgroup.com
formtekinc.com
formtek.com.cn
formtekmaine.com
formtekmetalforming.com
heatingcoolinghomes.com
hillengr.com
hvacware.com
ismmachinery.com
iowaprecision.com
iowaprecisionservice.com
knseries.com
koldwave.com
krasnykaplan.com
linel.co
lionmachinery.com
ljwing.com
lockformer.com
lockformercustom.com
louvers-dampers.com
mestekmachinery.com
mestex.com
rbiwaterheaters.com
rollforming-equipment.com
rolltooling.com
rotarypunch.com
roto-die.com
runwithrowe.com
salesassistant.com
sierra-fas.com
spacepak.com
sterlingheat.com
sterlinghvac.com
tempriteheating.com
thereedinstitute.com
tishken.com
turbonicsinc.com
vulcanrad.com
winproformtek.com
yodermfg.com
xcelonhvac.com

General Offices

260 North Elm Street
Westfield, MA 01085
Telephone: (413) 568-9571
Website: www.mestek.com

Transfer Agent and Registrar

Computershare Investor Services
P.O. Box 43023
Providence, RI 02940-3023
Investor Relations Number: (781) 575-2000

Annual Report

Stockholders may obtain, free of charge, a copy of the Company's Annual Report by writing to the Secretary, Mestek, Inc., 260 North Elm Street, Westfield, MA 01085

Accountants

RSM US LLP
80 City Square
Boston, MA 02129
Telephone: (617) 912-9000
Facsimile: (617) 912-9001

MESTEK, INC.

260 North Elm Street
Westfield, MA 01085
Telephone: (413) 568-9571
www.mestek.com