

MESTEK INC  
Form 10-Q  
May 16, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**xx QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2005**

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **1-448**

**Mestek, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of incorporation or organization)

**25-0661650**  
(I.R.S. Employer Identification No.)

**260 North Elm Street, Westfield, MA**  
(Address of principal executive offices)

**01085**  
(Zip Code)

**413-568-9571**

Registrant's telephone number, including area code

None

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the registrant's common stock issued and outstanding as of May 10, 2005 was 8,600,103.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

**MESTEK, INC.**

## **QUARTERLY REPORT ON FORM 10-Q FOR THE THREE-MONTHS ENDED MARCH 31, 2005**

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**PART I FINANCIAL INFORMATION****Item 1 Financial Statements**

**MESTEK, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, <u>2005</u> (Unaudited) (dollars in thousands)	Dec. 31, <u>2004</u>
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$1,963	\$1,428
Accounts Receivable - less allowances of, \$2,978 and \$2,718 respectively	56,976	60,777
Inventories	73,590	64,963
Deferred Tax Asset	13,809	14,232
Income Tax Refund Receivable	1,152	1,152
Other Current Assets	<u>8,330</u>	<u>8,136</u>
Total Current Assets	155,820	150,688
Property and Equipment - net	52,717	53,846
Property Held for Sale	1,297	1,297
Deferred Tax Asset	5,972	6,675
Other Assets and Deferred Charges - net	4,140	4,313
Goodwill	<u>21,614</u>	<u>21,656</u>
Total Assets	<u>\$241,560</u>	<u>\$238,475</u>
See the Notes to Condensed Consolidated Financial Statements.		

Continued on next page

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

	March 31, <u>2005</u> (Unaudited) (dollars in thousands)	Dec. 31, <u>2004</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		

	March 31, <b>2005</b> (Unaudited)	Dec. 31, <b>2004</b>
Current Liabilities		
Short Term Notes Payable	\$24,700	\$20,000
Current Portion of Long-Term Debt	689	768
Accounts Payable	19,408	16,803
Accrued Compensation	6,360	9,194
Accrued Commissions	1,843	2,113
Reserve for Equity Investment Losses	4,000	4,000
Customer Deposits	11,426	8,007
Accrued Employee Benefits	9,121	8,376
Environmental Reserves	22,606	24,689
Other Accrued Liabilities	<u>14,618</u>	<u>19,503</u>
Total Current Liabilities	114,771	113,453
Long-Term Debt	7,109	7,212
Pension Obligations	1,208	1,208
Other Liabilities	<u>168</u>	<u>100</u>
Total Liabilities	<u>123,256</u>	<u>121,973</u>
Minority Interests	<u>761</u>	<u>778</u>
Shareholders' Equity		
Common Stock - no par, stated value \$0.05 per share, 9,610,135 shares issued	479	479
Paid in Capital	15,899	15,434
Retained Earnings	113,504	112,165
Treasury Shares, at cost, (1,010,032 common shares)	(12,103)	(12,103)
Accumulated Other Comprehensive Loss	<u>(236)</u>	<u>(251)</u>
Total Shareholders' Equity	<u>117,543</u>	<u>115,724</u>
Total Liabilities and Shareholders' Equity	<u>\$241,560</u>	<u>\$238,475</u>

See the Notes to Condensed Consolidated Financial Statements.

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

	Three-months Ended March 31, <b>2005</b> <b>2004</b> (dollars in thousands, except earnings per common share)	
Net Sales	\$98,132	\$93,603
Cost of Goods Sold	<u>70,012</u>	<u>66,344</u>
Gross Profit	28,120	27,259
Selling Expense	13,866	13,577

	<b>Three-months Ended March 31,</b>	
General and Administrative Expense	7,099	5,763
Engineering Expense	3,245	4,439
Environmental Litigation/Remediation	--	219
Plant Shutdown and Other Restructuring Charges	<u>489</u>	<u>336</u>
Operating Profit before Reorganization Items	3,421	2,925
Subsidiary Bankruptcy Professional Fees	<u>401</u>	<u>3,442</u>
Operating Profit (Loss)	3,020	(517)
Interest Income	80	--
Interest (Expense)	(353)	(134)
Other Income (Expense), Net	<u>(321)</u>	<u>237</u>
Income (Loss) Before Income Taxes	2,426	(414)
Income Tax Benefit (Expense)	<u>(1,087)</u>	<u>87</u>
Net Income (Loss)	<u>\$1,339</u>	<u>(\$327)</u>
Basic Earnings (Loss) per Common Share:		
Net Income (Loss)	<u>\$0.16</u>	<u>(\$0.04)</u>
Basic Weighted Average Shares Outstanding	<u>8,600</u>	<u>8,722</u>
Diluted Earnings (Loss) Per Common Share		
Net Income (Loss)	<u>\$0.15</u>	<u>(\$0.04)</u>
Diluted Weighted Average Shares Outstanding	<u>8,652</u>	<u>8,722</u>
See the Notes to Condensed Consolidated Financial Statements.		

**MESTEK, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Three-months Ended March 31,</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b>(dollars in thousands)</b>	
Cash Flows from Operating Activities:		
Net Income (Loss)	\$1,339	(\$327)
Adjustments to Reconcile Net Income (Loss) to		
Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	2,158	1,860
Provision for Losses on Accounts		
Receivable, Net Of Write-Offs And Recoveries	260	293
(Decrease) Increase in Minority Interest	<u>(17)</u>	<u>(64)</u>
Non Cash Stock-Based Compensation	693	183
Changes In Assets And Liabilities Net Of Effects Of Acquisitions And Dispositions:		
Accounts Receivable	3,541	885
Inventory	(8,627)	(3,538)
Accounts Payable	2,605	(670)
Other Liabilities	(5,970)	(7,257)

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	<b>Three-months Ended March 31,</b>	
Other Assets	<u>1,092</u>	<u>311</u>
Net Cash Provided By (Used In) Operating Activities	<u>(2,926)</u>	<u>(8,324)</u>
Cash Flows from Investing Activities:		
Capital Expenditures	<u>(974)</u>	<u>(873)</u>
Net Cash Provided By (Used in) Investing Activities	<u>(974)</u>	<u>(873)</u>
Cash Flows from Financing Activities:		
Net Borrowings (Payments) Under Revolving Credit Agreement	4,700	4,483
Principal Payments Under Long-Term Debt Obligations	(182)	(138)
Net Cash Provided by (Used In) Financing Activities	<u>4,518</u>	<u>4,345</u>
Net Increase (Decrease) in Cash and Cash Equivalents	618	(4,852)
Translation Effect on Cash	(83)	(36)
Cash and Cash Equivalents - Beginning of Period	<u>1,428</u>	<u>10,273</u>
Cash and Cash Equivalents - End of Period	<u>\$1,963</u>	<u>\$5,385</u>
See the Notes to Condensed Consolidated Financial Statements.		

## MESTEK, INC.

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### **Note 1 Significant Accounting Policies**

##### **Basis of Presentation**

The Condensed Consolidated Financial Statements include the accounts of Mestek, Inc. ( Mestek ) and its majority owned subsidiaries (collectively the Company ). The financial statements as reported in this Form 10-Q reflect all adjustments, including those of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation of results for the three-month periods ended March 31, 2005 and 2004.

These financial statements should be read in conjunction with the Annual Report on Form 10-K and in particular the audited financial statements for the fiscal year ended December 31, 2004. Accordingly, Note disclosures that would substantially duplicate the disclosures contained in the latest audited financial statements have been omitted from this filing.

##### **Earnings per Common Share**

Basic earnings per share have been computed using the weighted average number of common shares outstanding. Common stock options are considered in the computation of diluted earnings per share, except when such effect would be antidilutive.

**Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, ( FAS No. 123 ). As permitted by the statement, the Company has chosen to continue to account for stock-based compensations using the intrinsic value method as prescribed by Accounting Principles Board ( APB ) Opinion No. 25. Accordingly, no compensation expense has been recognized for its stock-based compensation plan except as explained below.

As of January 1, 2003, the Company adopted the disclosure requirements of FAS No 148, Accounting for Stock-Based Compensation Transition and Disclosure. The Company made no option grants, modifications of option grants, or settlement of option grants during the three-month period ended March 31, 2005 or March 31, 2004.

On October 27, 2004, the Company re-priced 25,000 options expiring in 2011 from \$23.25 per share to the then current market value of \$17.85 per share, and 70,000 additional options expiring in 2009 from \$20.00 per share to the then current market value of \$17.85 per share. The Company has accounted for these options subsequent to October 27, 2004 using variable accounting which resulted in a pre-tax charge to earnings of \$465,000 in the first quarter of 2005. For the purposes of the pro forma below, the effect of the above re-pricing was also included in the computation of compensation cost under the fair value method described below.

Had the fair value method of accounting been applied to the Company's stock option plan, with compensation cost for the Plan determined on the basis of the fair value of the options at the grant date, the Company's net income and earnings per share would have been as follows:

	<b>Three-months Ended March 31</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b>(dollars in thousands, except earnings per common share)</b>	
Net (loss) Income - as reported	\$1,339	(\$327)
Plus: Stock-based Compensation reflected in net income	430	113
Less: Compensation expense	<u>(16)</u>	<u>18</u>
Net (loss) Income - pro forma	<u>\$1,753</u>	<u>(\$345)</u>
Basic (Loss) Income per share - as reported	\$0.16	(\$0.04)
Plus: Stock-based Compensation reflected in net income	0.05	0.01
Less: Compensation expense	<u>---</u>	<u>---</u>
Basic (Loss) Income per share - - pro forma	<u>\$0.21</u>	<u>(\$0.04)</u>
Diluted (Loss) Income per share - as reported	<u>\$0.15</u>	<u>(\$0.04)</u>
Plus: Stock-based Compensation reflected in net income	0.05	0.01
Less: Compensation expense	<u>---</u>	<u>---</u>
Diluted (Loss) Income per share - - pro forma	<u>\$0.20</u>	<u>(\$0.04)</u>

**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 income in the period that includes the enactment date. Cash paid for income taxes was \$259,000 and \$470,000 during the three-month periods ended March 31, 2005 and 2004, respectively.

**Other Comprehensive (Loss) Income**

For the three-month periods ended March 31, 2005, and 2004, respectively, the components of other comprehensive (loss) income consisted of foreign currency translation adjustments, and, valuation adjustments related to a hedge transaction interest rate swap entered into by the Company in February of 2004, as more fully explained in Note 3 to these Condensed Consolidated Financial Statements. Other comprehensive (loss) income was \$15,000 and (\$517,000) for the three-months ended March 31, 2005 and 2004, respectively.

**Reclassification**

Reclassifications are made periodically to previously issued financial statements to conform to the current year presentation.

**Note 2 Inventories**

	March 31, <u>2005</u> (unaudited) (dollars in thousands)	December 31, <u>2004</u>
Finished Goods	\$24,623	\$21,805
Work-in-progress	27,020	23,638
Raw materials	<u>33,957</u>	<u>30,851</u>
	85,600	76,294
Less provision for LIFO method of valuation	<u>(12,010)</u>	<u>(11,331)</u>
	<u>\$73,590</u>	<u>\$64,963</u>

The Company uses the last-in first-out (LIFO) method of valuing substantial portions of its inventory. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation.

**Note 3 Debt****Short-term Debt:**

Short-term debt consisted of the following:

	March 31, <u>2005</u> (unaudited) (dollars in thousands)	December 31, <u>2004</u>
Revolving Loan Agreement	\$24,700	\$20,000
<p><b><u>Revolving Loan Agreement</u></b> On October 19, 2004, the Company entered into a three year, \$70,000,000, committed, unsecured, multi-bank revolving loan and letter of credit facility (the Facility), led by Bank of America (successor to Fleet National Bank, the Company's long-term lender), refinancing the Company's existing \$50,000,000 credit facility which would have otherwise matured on October 29, 2004. As with the prior facility, 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 British Bankers Association (BBA) LIBOR rate. The Facility contains affirmative and negative covenants, typical of such financing transactions, and specific financial covenants which require the Company to maintain a minimum consolidated net worth, a minimum cash flow coverage ratio and a maximum cash flow leverage ratio. As of March 31, 2005 and December 31, 2004, 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 October 19, 2007. Most of the Company's operating subsidiaries guaranty the obligations of the Company under the Facility. 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 in excess of 50 percent (50%) of net income. The Company had outstanding at March 31, 2005, \$16,978,000 in standby letters of credit issued in connection with the Met-Coil bankruptcy reorganization plan, as more fully explained in Note 6, and \$8,577,000 issued principally in connection with its commercial insurance programs. The Facility was used to refinance balances outstanding under the Company's existing \$50 million revolving loan and letter of credit facility and to fund the Met-Coil bankruptcy reorganization plan. The balance outstanding under the facility was \$24,700,000 at March 31, 2005.</p>		

**Hedge Transaction** On February 6, 2004, the Company entered into a single interest rate swap transaction, to effectively fix the Company's 30 day-LIBOR-based, variable rate interest obligations on a principal amount of \$14,000,000 of debt at a rate of 2.87% for three years.



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The Company entered into this swap transaction to manage interest cost and cash flows associated with variable interest rates, primarily short-term changes in LIBOR, as changes in cash flows of the interest rate swap offsets changes in the interest payments on the covered portion of the Company's revolving credit facility, and based upon the Company's belief that short term rates will be rising over the next several years.

The Company is accounting for the interest rate swap as a cash flow hedge under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These statements require that all derivatives be recognized as either assets or liabilities on the balance sheet at fair value.

Changes in the fair value of the swap, designated as a cash flow hedge, are reflected as a component of Other Comprehensive Income (Loss) and reclassified into earnings (interest expense) in the same period or periods during which the hedged transaction affects earnings. The derivative instrument is carried at marked-to-market fair value on the Consolidated Balance Sheet in the applicable line item Other Assets or Other Liabilities.

In connection with this interest rate swap transaction, the Company recorded an after-tax credit of \$98,000 in Other Comprehensive Income (Loss) during the three-month ended March 31, 2005 and an after tax charge of \$154,000 during the three-month period ended March 31, 2004, reflecting interest rate fluctuations during these period. The Company's exposure to credit loss on its interest rate swap in the event of nonperformance by the counterparties is believed to be remote as the Company effected this swap through its principal bank, Bank of America, requiring that the counterparty have a strong credit rating.

### **Long-term Debt:**

Long-term debt consisted of the following:

	March 31, <b><u>2005</u></b> (unaudited)	December 31, <b><u>2004</u></b>
	(dollars in thousands)	
Industrial Development Bond	\$4,174	\$4,297
Notes Payable - Sovereign Bank	3,550	3,597
Other Notes Payable	<u>74</u>	<u>86</u>
	7,798	7,980
Less Current Maturities	<u>(689)</u>	<u>(768)</u>
Long Term Debt	<b><u>\$7,109</u></b>	<b><u>\$7,212</u></b>

**Note Payable-Sovereign Bank** On April 16, 2004, the Company's second tier subsidiary, Exton Ranch, Inc. (Exton Ranch), borrowed \$3,720,000 from Sovereign Bank, secured by the manufacturing facility owned by Exton Ranch and occupied, in part, by the Company's subsidiary, Omega Flex, Inc. (Omega) in Exton, PA. The loan bears interest at a LIBOR-based variable rate, payable monthly in arrears. Principal under the loan is amortized over a 20-year period with a ten-year maturity. The borrower also has the ability to prepay the loan during the term thereof without penalty. The loan is secured by a first priority mortgage on the property, and a collateral assignment of leases, and fixture filing. Exton Ranch is a wholly owned subsidiary of Omega, the primary tenant of the building, and Omega guaranteed the payment and performance of the obligations of Exton Ranch under the various loan agreements.

**Industrial Development Bond** On April 19, 2002, the Company's subsidiary, Boyertown Foundry Company, Inc. (BFC), borrowed \$5,512,490 under a note issued through the Berks County Industrial Development Authority in Berks County, PA in connection with a project to upgrade BFC's foundry equipment in Boyertown, PA. The note bearing interest at 4.93% per annum, matures on April 19, 2012, and is payable in equal monthly payments of principal and interest over the term of the loan. The note is secured by a Loan and Security Agreement under which the equipment purchased by BFC with the loan proceeds is pledged as security for the note. The note is expected to be a Qualified Small Issue Bond under Section 144 (a)(12) of the Internal Revenue Code, entitling the holder to tax exempt treatment on the interest. In the event the note is found to be not in compliance with Section 144 (a)(12), the interest rate on the note may be increased.

Cash paid for interest was \$433,000 and \$154,000 during the three-months ended March 31, 2005, and 2004, respectively.

### **Note 4 Segment Information**

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### **Description of the types of products and services from which each reportable Segment derives its revenues:**

The Company has two reportable Segments: the manufacture of heating, ventilating and air-conditioning equipment ( HVAC ) and the manufacture of metal handling and metal forming machinery ( Metal Forming ).

The Company's HVAC Segment manufactures and sells a variety of complementary residential, commercial and industrial heating, cooling and air control and distribution products. The HVAC Segment sells its products to independent wholesale supply distributors, mechanical, sheet metal and other contractors and, in some cases, to other HVAC manufacturers under original equipment manufacture ( OEM ) agreements and direct to certain retailers pursuant to national account agreements. The HVAC Segment is comprised of three interrelated HVAC product groups: Hydronics Products, Gas and Industrial Products, and Air Distribution and Cooling Products.

The Metal Forming Segment, operating under the umbrella name Formtek, is comprised of several subsidiaries and divisions, all manufacturers of equipment used in the metal forming industry (the uncoiling, straightening, leveling, feeding, forming, bending, notching, stamping, cutting, stacking, bundling or moving of metal in the production of metal products, such as steel sheets, office furniture, appliances, vehicles, buildings, and building components, among many others).

The HVAC and Metal Forming Segments are described in greater detail in Note 11 to the Company's 2004 Consolidated Financial Statements.

### **Measurement of Segment profit or loss and Segment assets:**

The Company evaluates performance and allocates resources based on profit or loss from operations before interest expense and income taxes (Operating Profit), not including non-operating gains and losses. The accounting policies of the reportable Segments are the same as those described in the summary of significant accounting policies. Inter-Segment sales and transfers are recorded at prices substantially equivalent to the Company's cost; inter-Company profits on such inter-Segment sales or transfers are not material.

### **Factors management used to identify the enterprise's reportable segments:**

The factors which identify the HVAC and Metal Forming Segments as reportable Segments are described in detail in Note 11 to the Company's 2004 Consolidated Financial Statements.

Information presented in the following tables relates to continuing operations only.

#### **Three-months ended March 31, 2005**

(dollars in thousands) (unaudited)	HVAC	Metal Forming	Totals
Revenues from External Customers	\$77,918	\$20,214	\$98,132
Segment Operating Profit (Loss)	\$5,210 *	(\$2,190) **	\$3,020
* includes \$297,000 in Plant Shutdown and Other Restructuring Charges (see Note 9).			

\*\* includes \$192,000 in Plant Shutdown charges (see Note 9) and \$401,000 in subsidiary bankruptcy professional Fees (see Note 7)

#### **Three-months ended March 31, 2004**

(dollars in thousands) (unaudited)	HVAC	Metal Forming	All Other	Totals
Revenues from External Customers	\$69,526	\$24,006	\$71	\$93,603
Segment Operating Profit (Loss)	\$3,193 *	(\$3,684) **	(\$26)	(\$517)
* includes \$336 in Plant Shutdown expenses in accordance with FAS 146, as more fully described in Note 9.				

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\*\* includes \$219 in environmental litigation and remediation expenses and \$3,442 in subsidiary bankruptcy professional fees, as more fully explained in Note 7.

### **HVAC Segment Revenues by HVAC Product Group:**

	March 31 2005 (dollars in thousands) (unaudited)	2004
Hydronic Products	\$29,170	\$25,910
Air Distribution and Cooling Products	20,008	19,376
Gas and Industrial Products	28,740	24,240
Total HVAC Consolidated Revenues	\$77,918	\$69,526

### **Note 5 Stock Options and Employee Benefit Plans**

#### **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, locking in retirement benefits earned to that date and precluding any further benefits for future service. Due to recent adverse investment performance and reduced expectations of future investment earnings, the combined Met-Coil Plans administrator has determined that the Accumulated Benefit Obligation, the present value of future pension obligations to Met-Coil Plan participants, exceeds the fair market value of the Met-Coil Plan's assets as of December 31, 2004 and 2003. In accordance with the requirements of FAS 87, Employers Accounting for Pensions, the Company has recorded charges in 2004 and 2003 net of related tax benefit, to the Shareholders' Equity section of the consolidated Balance Sheet contained herein of \$8,000, and \$205,000 respectively, under the heading Additional Minimum Liability-Defined Benefit Plan. For the quarters ending March 31, 2005 and 2004, the Company recorded pension expense of \$13,799 and \$15,662, respectively, for the Met-Coil Plans.

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 LLC 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. In accordance with the requirements of FAS 87, Employers Accounting for Pensions, the Company recorded charges in 2004 and 2003, net of related tax benefits, to the Shareholders' Equity section of the Consolidated Balance Sheet contained herein of \$164,000 and \$42,000, respectively, relating to the Airtherm LLC Retirement Income Plan under the heading Additional Minimum Liability-Defined Benefit Plan. Pension expense (benefit) under the Airtherm LLC Retirement Income Plan was \$695 for the quarter ended March 31, 2005, and (488) for the quarter ended March 31, 2004.

The Company uses a December 31, 2003 measurement date for the Airtherm LLC Retirement Income Plan and September 30, 2003 for the Met-Coil Plan.

In accordance with Statement of Financial Accounting Standards No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Post-Retirement Benefits, the following interim period information is provided:

#### **Components of Net Periodic Benefit Cost:**

	Met-Coil Three-months ended <u>March 31, 2005</u>	Airtherm Three-months ended <u>March 31, 2005</u>
Service cost	\$0	\$0
Interest cost	66,201	51,806
Expected Return on Plan Assets	(67,944)	(51,111)
Amortization of Unrecognized Transition (Asset) Obligation	--	--

Components of Net Periodic Benefit Cost:

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	Met-Coil Three-months ended <u>March 31, 2005</u>	Airtherm Three-months ended <u>March 31, 2005</u>
Amortization of net (gain) Loss	14,461	--
Other	<u>1,081</u>	<u>---</u>
Net Periodic Benefit Cost	<u>\$13,799</u>	<u>\$695</u>

## **Note 6 Commitments, Contingencies and Warranties**

The Company is obligated under Indemnity Agreements ( Indemnity Agreements ) executed on behalf of 23 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.

The Company is obligated under the Indemnity and Guaranty Agreement with Airtherm Products, Inc. ( Airtherm ) to indemnify Airtherm against certain claims arising out of the acquisition of Airtherm in August 2001, including potential claims involving alleged violations of the Worker Adjustment and Retraining Notification Act ( WARN Act ). Certain former employees of Airtherm have filed suit alleging such WARN Act claims, and defense of the matter was tendered by Airtherm to the Company pursuant to the above indemnity agreement. The U.S. District Court in Arkansas subsequently awarded summary judgment to plaintiffs, and assessed liability of approximately \$520,000, plus interest and attorneys fees. The Company has appealed the summary judgment verdict on behalf of Airtherm to the Eighth Circuit Court of Appeals. The matter is being briefed and will be scheduled for oral argument later this year. The Company expects that the trial court judgment will be overturned as being inconsistent with the statute and prior judicial decisions.

The Company is contingently liable under standby letters of credit totaling \$25,555,000 issued principally in connection with its commercial insurance coverages and in connection with the funding of the Met-Coil TCE PI Trust discussed below. For losses occurring in the policy years ending October 1, 2004 and October 1, 2005, the Company retained 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 retained liability for the first \$250,000 per occurrence of workers compensation coverage, subject to an agreed aggregate.

The Company is obligated as a guarantor with respect to certain potential debt obligations of CareCentric, Inc. (formerly Simone Central Holdings, Inc.) to CareCentric s primary commercial bank, Wainwright Bank & Trust Company, in the amount of \$4 million. The \$4 million Wainwright credit line is secured by substantially all of CareCentric s assets and the Company s guarantee expires coincident with the credit line on August 31, 2005. The actual balance outstanding under CareCentric s credit line with Wainwright Bank & Trust Company as of March 31, 2005 was \$400,000. Under the Equity Method of Accounting, in December 2001, the Company accrued this guarantee (originally in the amount of \$6 million and now reduced to \$4 million) as a reserve for Equity Investment Losses. John E. Reed, the Company s Chairman and Chief Executive Officer, is a shareholder and director of Wainwright Bank & Trust Company.

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.

*Berry, et al. v. Titeflex Corp., et al.*

Case No. CV-2004-211, Circuit Court of Clark County, Arkansas, filed November 15, 2004.

Defendant: Omega Flex, Inc., a Pennsylvania Corporation

Four individual residents of Arkansas and an individual Texas resident have sued the top four manufacturers of corrugated stainless steel tubing ( CSST ), including the Company s subsidiary Omega Flex, Inc. ( Omega ), the manufacturer of TracPipe®-brand CSST. The complainants have proposed a national class action on behalf of all owners of installed CSST. Installed CSST is alleged to be defective because it is alleged to be more susceptible to failure from near-lightning strikes than traditional black iron pipe and because the manufacturers allegedly failed to warn of CSST s allegedly heightened susceptibility.

Omega has filed motions to dismiss the amended complaint and the cross-complaint of the individual Arkansas plumber defendant, who likewise proposed a class action cross-claim on behalf of installers of CSST. The parties have cross-motions pending for scheduling the discovery and the disposition of the class certification issue. Omega will oppose both class certification and any request for a national class. The Company believes Omega has valid defenses to the issues of both class certification and product liability and Omega will contest these claims vigorously. At this time the Company believes that no estimation of Omega s potential liability in the matter can be reasonably made. It is the nature of class action litigation in general, and, accordingly, this matter in particular, that if there should be an adverse decision on the issue of certification of a national class of CSST owners and an adverse decision on the issue of product liability, the financial position and results of operation of Omega could be materially adversely affected.

**Bankruptcy and Environmental Issues Involving Releases of Hazardous Materials**

As disclosed in previous filings, the Lockformer Company ( Lockformer ), a division of the Company's second tier subsidiary, Met-Coil Systems Corporation, now Met-Coil Systems, LLC ( Met-Coil ), and Mestek directly (under various legal theories) were defendants in various actions relating to the alleged release and presence of trichloroethylene ( TCE ) contamination on and in the vicinity of Lockformer's manufacturing facility in Lisle, IL. On August 26, 2003, Met-Coil filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code ) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court ) (Case No. 03-12676-MFW).

On August 17, 2004, the Bankruptcy Court confirmed the Fourth Amended Chapter 11 Plan of Reorganization (the Amended Plan ) proposed by Met-Coil and Mestek, as co-proponents, and recommended to the United States District Court (N. D. Del.) ( the District Court ) that it approve and enter the channeling injunction discussed below, and certain related third party releases in favor of, among others, Mestek and its affiliates. On September 14, 2004, the District Court entered and approved the recommended findings and conclusions and issued the channeling injunction . This Amended Plan, supported by all major parties in interest in the Met-Coil Chapter 11 case, became effective on October 19, 2004.

The Amended Plan settled the various legal actions which had been commenced against Met-Coil and Mestek with respect to an alleged release of TCE into the soils, groundwater or air in or around Met-Coil's Lockformer Company facility in Lisle, Illinois, including the class action captioned *Mejdrech, et al. v. The Lockformer Company, et al.* and all other personal injury and indemnification actions brought against the Company relating to the alleged release of TCE.

In addition, the Amended Plan established a trust (the TCE PI Trust ) for the holders of future claims or demands, who reside, resided or may reside in a certain geographic area in the vicinity of the facility in Lisle, Illinois, and who assert or may assert personal injury claims in the future. Pursuant to the channeling injunction the TCE PI Trust was established to assume all such future personal injury claims and demands and pay and administer verified claims for up to 45 years. Pursuant to the Amended Plan, the Company and Met-Coil are committed to fund up to \$26 million (on a present value basis) to the TCE PI trust over time and based on actual claims paid. Upon establishment of such TCE PI Trust, Mestek and its affiliates were released from any liabilities assumed by the TCE PI Trust for up to 45 years. Pursuant to the Amended Plan, all such future claims and demands will be channeled to the TCE PI Trust and be paid in accordance with the distribution procedures established for such trust. This TCE PI Trust is being administered by an independent trustee, with power to mediate, arbitrate and, if necessary, litigate claims.

The Company's Environmental and Litigation Reserve related to this matter as of the year ended December 31, 2004 was approximately \$24.7 million. The reserve as of the quarter ended March 31, 2005 was approximately \$22.6 million. The reduction in the reserve includes approximately \$583,000 for remediation related expenditures made during the three-months ended March 31, 2005. Based on recent estimates of ongoing remediation costs, and reflecting reductions in the reserve for expenditures incurred in the quarter ending March 31, 2005, the remediation portion of the reserve as of March 31, 2005 is \$6,435,000, which amount is included in the \$22.6 million reserve discussed above. The reserve balance at March 31, 2005 relates to future obligations under the Plan relating to soil and groundwater remediation, municipal water connections, the TCE PI Trust described above and other administrative expenses of the Met-Coil bankruptcy. Management believes that no additional reserves, beyond those set forth above, are required at this time. These reserves have been established in accordance with Financial Accounting Standard Board Statement No. 5 and Staff Accounting Bulletin No. 92. However, while these reserves represent management's best estimate of these liabilities, and are based upon known or anticipated claims analysis estimated by various legal, scientific and economic experts, there is no assurance that these reserves will be adequate to meet all potential claims arising from the environmental contamination at the Lisle, Illinois site. In addition, there can be no assurance that future claims for personal injury or property damage will not be asserted by other plaintiffs against Met-Coil and Mestek with respect to the Lockformer site and facility. See Remediation Lisle, IL section below.

**Remediation Lisle, IL:**

Met-Coil is continuing the hook-up of certain residences to public water supply and the remediation of the Lockformer facility in Lisle, IL, pursuant to a Work Plan for the site ( on-site remediation ) approved by the Environmental Protection Agency ( EPA ) and is awaiting approval of the remedial standards to be achieved by such Work Plan, as well as the methodology for groundwater remediation, from the IEPA. In the three-months ended March 31, 2005, Met-Coil paid \$2,083,000 in costs related to hook-up costs, on-site remediation, and other administrative costs and has a remaining reserve of \$6,435,000, as described above, for future remediation costs as of March 31, 2005. The Company has guaranteed to the IEPA up to \$3 million of remediation costs incurred by either Met-Coil or, if met-Coil fails to perform the remediation, the IEPA.

In light of the remaining uncertainties surrounding the effectiveness of the available remediation technologies and the future potential changes in methodology, remedial objectives and standards, still further reserves may be needed in the future with respect to the on-site remediation of the Lisle facility. The complexity of aforementioned factors makes it impossible at this time to further estimate any additional costs.

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The Company's Environmental Litigation and Remediation Reserve is comprised of the following:

	<b>March 31, 2005 (in thousands)</b>	<b>December 31, 2004</b>
Estimated Future Remediation costs	\$6,435	\$7,018
The Illinois Actions, The Honeywell Claims, The Attorney General Action and all matters related to pending Future personal Injury claims in the Lockformer area	---	1,500
Potential Future Obligations to the TCE PI Trust	<u>16,171</u>	<u>16,171</u>
Total Environmental Litigation and Remediation Reserve	\$22,606	\$24,689

The Company's Environmental Litigation Remediation Reserve is reflected as a current liability as of March 31, 2005 and December 31, 2004. The Company is presently studying the limited claim activity which has occurred to date in connection with the TCE PI Trust, which was established in October of 2004, and the pace of activity in the ongoing remediation of the Lockformer site. Based on these analyses, the Company expects to reclassify a portion of the Reserve as a long-term liability as of June 30, 2004.

### **Other Claims Alleging Releases of Hazardous Materials or Asbestos Related Liability**

The Company is currently a party to over 300 asbestos-related lawsuits, and in the past three-months has been named in approximately 12 new such lawsuits each month, primarily in one county in Illinois where numerous asbestos-related actions have been filed against numerous defendants.

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, however, the Company has had over 40 asbestos-related cases dismissed without any payment and it settled approximately twenty-five asbestos-related cases for a de minimis 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 to it, the Company does not believe that any of these matters will be material to the Company's financial position or results of operations.

### **Warranty Commitments**

Products sold by the Company are covered by various forms of express limited warranty with terms and conditions that vary depending upon the product. The express limited warranty typically covers the equipment, replacement parts and, in very limited circumstances, labor necessary to satisfy the warranty obligation for a period which is generally the earlier of 12 months from date of installation or 18 months from date of shipment from the Company factory, although some products or product components are warranted for periods ranging from eighteen months to ten years. The Company estimates the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and allowable costs per claim and recoveries from vendors. At least once a quarter the Company assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Costs to satisfy warranty claims are charged as incurred to the accrued warranty liability.

Following is a summary of changes in the Company's product warranty liability for the three-months ended March 31, 2005 and 2004.

### **Warranty Commitments**

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	Three-months ended March 31, <u>2005</u> (dollars in thousands)	<u>2004</u>
Balance at beginning of period	\$3,864	\$2,524
Provision for warranty claims	508	452
Warranty claims incurred	<u>(490)</u>	<u>(340)</u>
Balance at end of period	<u>\$3,882</u>	<u>\$2,636</u>

## **Note 7 Subsidiary Bankruptcy**

As a result of the environmental litigation described more fully in Note 6, on August 26, 2003, Met-Coil Systems Corporation ( Met-Coil or, the Debtor ), a second-tier subsidiary of Mestek, Inc. (the Company ) filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code ) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court ).

On August 17, 2004, the Bankruptcy Court confirmed, the Fourth Amended Chapter 11 Plan of Reorganization (the Amended Plan ) proposed by Met-Coil and Mestek, as co-proponents, and recommended to the United States District Court (N. D. Del.) ( the District Court ) that it approve and enter the channeling injunction discussed below, and certain related third party releases in favor of, among others, Mestek and its affiliates. On September 14, 2004, the District Court entered and approved the recommended findings and conclusions and issued the channeling injunction . The Amended Plan became effective on October 19, 2004 and Met-Coil is no longer a debtor-in-possession under bankruptcy protections laws.

As Met-Coil retained control of its operations as a debtor-in-possession during the period it was operating under the protection of the Bankruptcy Court, the Company did not deconsolidate the operations of Met-Coil for accounting purposes. In accordance with generally accepted accounting principles and the related technical literature, the Debtor has established reserves related to the Met-Coil environmental litigation and environmental remediation matters, as more fully described in Note 6.

The Company as a whole incurred \$401,000 and \$3,442,000 in legal costs during the three-months ended March 31, 2005 and 2004 relating to the administration of Met-Coil s Bankruptcy which amounts are reported in the accompanying financial statements under the heading Subsidiary Bankruptcy Professional Fees.

## **Note 8 Omega Flex Spin-Off/Mestek Going Private**

### **Omega Flex Spin-Off**

On January 19, 2005, the Company announced that John E. Reed, the Chairman and Chief Executive Officer of the Company, proposed to a Special Committee of independent directors appointed at the Company s December 14, 2004 regular Board meeting, (the Special Committee ), acting on behalf of the Board of Directors, that the Company s 86% equity interest in Omega Flex, Inc. be spun-off, *pro rata*, to all of the Company s public shareholders as of a record date to be established (the Spin-Off ). In conjunction with the planned Spin-Off, Omega Flex, Inc., on April 29, 2005, filed a preliminary registration statement on Form 10 with the Securities and Exchange Commission under the Securities Exchange Act of 1934. It is expected that Omega Flex, Inc will be a publicly traded, reporting company following the Spin-Off. It is not expected that the Spin-Off will require any vote of the Company s shareholders; however, the approval of its Board of Directors will be necessary.

### **Mestek Going Private**

On January 19, 2005, the Company also announced that John E. Reed further proposed to the Special Committee that, following the Spin-Off, the Company enter into a going private transaction. Specifically, it was proposed that the Company s Articles of Incorporation be amended by shareholder vote, whereby the existing 8,600,103 issued and outstanding shares of Company common stock, together with treasury shares, as of a record date to be established, be reclassified in a reverse stock split of 1 share for each 2,000 issued, with provisions in the amendment to the charter such that fractional shares of those owning less than one share will not be issued.

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It was further proposed that the Special Committee, with the advice of its independent financial adviser, determine a fair and equitable per share value for a pre-reverse stock split share of Company common stock, reflecting the value of the Company *following* the Spin-Off, which is proposed to occur before the going private transaction is consummated. This would then form the basis for the full Board of Directors determination of the per share value to be used to effect a cash redemption of those shareholders who, by reason of the reverse stock split become owners of less than one share.

It was further proposed that a vote on any required amendments to the Company's Articles of Incorporation be put before the shareholders at the Annual Meeting of Shareholders, currently scheduled for May 24, 2005 at the Company's headquarters in Westfield, Massachusetts. At this time it is likely that a special meeting of the shareholders will have to be called at sometime subsequent to the Annual Meeting for the purpose of considering and voting on any matters requiring a shareholder vote in connection with the Company's proposed going private transaction.

### **Special Committee**

Management's proposal of the Spin-Off as well as the terms, timing and structure of the going private transaction generally are to be reviewed and considered by the Special Committee which has been charged with making a recommendation regarding these matters to the full Board of Directors, which will ultimately make the determination of whether to go forward and propose the appropriate vote of the shareholders. There can be no assurances that either the Spin-Off or going private transaction will be consummated. See Note 9, Other Restructuring Charges.

### **Note 9 Plant Shutdowns and Other Restructuring Charges**

#### **Plant Shutdowns**

On March 9, 2004, the Company announced plans to close its Milford, OH, ( Air Clean Damper ) manufacturing operations. The Company sold the principal assets associated with this business and the transaction closed on March 31, 2004. A nominal gain was recorded in the three-month period ended March 31, 2004 and is reflected in Other Income (Expense) for that period. The Milford, OH facility is reflected in the accompanying Condensed Consolidated Financial Statements under the heading Property Held for Sale.

Late in 2004, the Company's Metal Forming Segment (Formtek) began to plan a process of consolidation. Early in 2005, Formtek announced 1) the closing of its FMI facility in So. Elgin, Illinois, and 2) its reorganization into operating groups Formtek Metal Processing ( FMP ), made up of Lockformer, Iowa Precision, Engel, Iowa Rebuilders and Formtek Maine, Formtek Metal Forming ( FMF ) made up of Formtek Cleveland, Hill Engineering and Axon Electric and Formtek International ( FI ), made up of Formtek Beijing and the international sales force.

The Company is accounting for the costs related to these exit and disposal activities, employee severance and related costs of shutting down manufacturing operations, in accordance with FAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* ( FAS 146 ). In the three-month periods ended March 31, 2005 and 2004, the Company incurred \$249,000 and \$336,000, respectively, of such exit and disposal costs which are classified separately in the accompanying financial statements under the heading Plant Shutdown and Other Restructuring Charges in accordance with FAS 146.

#### **Other Restructuring Charges**

In the three-month period ended March 31, 2005, the Company's HVAC segment incurred professional fees and other costs totaling \$240,000 in connection with the planned spin-off of the Company's Omega Flex, Inc. subsidiary and subsequent going private transaction planned by the Company, as more fully described in Note 8. These costs are reflected in the accompanying financial statements under the heading Plant Shutdown and Other Restructuring Charges.

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### **Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operation**



**FORWARD LOOKING INFORMATION**

*This report contains forward-looking statements, which are subject to inherent uncertainties. These uncertainties include, but are not limited to, variations in weather, changes in the regulatory environment, customer preferences, general economic conditions, increased competition, and the outcome of the bankruptcy proceedings and related litigation for the Company's second-tier subsidiary, Met-Coil Systems Corporation. All of these are difficult to predict, and many are beyond the ability of the Company to control.*

*Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are not historical facts but rather reflect the Company's current expectations concerning future results and events. The words believes, expects, intends, plans, anticipates, hopes, likely, will, and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company (or entities in which the Company has interests), or industry results, to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements.*

*Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's view only as of the date of this Form 10-Q. The Company undertakes no obligation to update the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions or circumstances.*

**OVERVIEW**

The Company derives its revenues primarily from the sales of Company-manufactured products in its HVAC Segment and machinery and repair parts in its Metal Forming Segment. In both segments the sale of service generates a relatively small component of total net sales. Within the HVAC Segment most, but not all, of the products sold involve sheet metal fabrication, cast iron production, and machining or assembly or stainless steel fabrication.

The Company is not dependent on any one customer in either of its segments for more than 10% of its consolidated revenues, nor does it derive more than 10% of its consolidated revenues internationally.

The Company's HVAC Segment reflects the seasonal nature of a company engaged in heating products sales, although the broadening of its product offering over the past 11 years to include cooling products, air handling products and corrugated stainless steel tubing has dampened the seasonal curve of the Segment's revenue stream.

The Company's Metal Forming Segment operates within the highly cyclical capital goods marketplace and reflects the challenges not only with respect to cycling of demands but also the globalization of the customer bases as well as the competitor base, requiring it to seek a more international focus in supply, manufacturing sales and marketing. We operate principally within the North American marketplace. However, we do foresee the need for growth both in sales and production in both Europe and Asia.

Currently, the Company employs approximately 2,719 people primarily in the United States and Canada.

Fluctuations in the metal commodities market in particular can have and currently are having significant impacts on the Company's cost structure and may affect profitability with respect to revenues based on committed contracts or derived in markets where pricing to the Company's customers cannot be readily adjusted.

The Company operates in highly competitive markets. While many companies, both larger and smaller than we are, sell many of the same products and services, our competitive position is not easily determinable in either of our Segments since no one competitor or group of competitors offers the same product lines through the same channels. Competitors in both of our Segments compete primarily through product quality and performance, price, service (both pre- and post-sale) and technical innovation. The relative importance of these factors varies from product line to product line.

An important part of the Company's business strategy is to look for niche areas where larger competitors in the HVAC arena choose not to focus or, in our Metal Forming Segment, where strategic enhancement of product offering can result in a more competitive position in the marketplace, and, through acquisition or product and market development, address these opportunities. As a part of this process, we continually review our stable of companies and product lines, evaluating them with respect to allocation of resources for growth, revitalization or sale. Our history over the past twenty years has been growth often through acquisition and this process continues, as does the occasional divestiture or closing of a company or facility.

As will be more specifically discussed below, the strength or weakness in the construction markets directly affects our HVAC business, and aspects of the Metal Forming business, and strength or weakness in the capital goods markets directly affects our Metal Forming business. In 2004, residential construction was strong, institutional construction continued to be flat and industrial/commercial construction remained off from prior periods. In the capital goods sector, orders for machinery and machine tools continued to recover from the depressed levels of 2001 (but remained significantly below historical highs prior to 2000) resulting in significant revenue growth in 2004 for this Segment of the Company's business.

For 2005, the Company's HVAC Segment's budget is based upon an overall stability expected in the construction markets, though the mix of residential, commercial, industrial and institutional construction spending may change, and its Metal Forming Segment's budget reflects a continuation of the upturn in capital spending, driven in part by the pent-up demand resulting from deferred maintenance as well as increased manufacturing production utilizing the kind of machinery this Segment sells. However, rising commodity prices, especially copper and aluminum, are expected to contribute to upward inflationary pressure, which may also push interest rates higher. While the Company itself has not historically been highly leveraged and thus cost of capital has not been as significant a factor in the Company's cost structure as it may be in other companies, increases in interest rates could slow the domestic residential construction market or contribute to further declines in the commercial and industrial construction markets, as well as adversely affect the capital goods market recovery. Increased shipping costs and employee benefits expenses (primarily health care costs) also remain a threat to economic growth, which could have an adverse effect on the Company's operations. The Company's plans to go private subsequent to spinning off its Omega Flex subsidiary, as more fully explained in Note 8, will require additional borrowing which will result in the Company being more leveraged than at present.

### **CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

Financial Reporting Release No. 60, released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Condensed Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the Company's more significant accounting policies.

The preparation of financial statements in conformity with generally accepted accounting principles 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, investments, and accounting for income taxes and the realization of deferred tax assets. Actual amounts could differ significantly from these estimates.

Our critical accounting policies and significant estimates and assumptions are described in more detail as follows:

#### *Environmental Reserves*

As discussed more fully in Note 6 to the Consolidated Financial Statements, Mestek's subsidiary, Met-Coil Systems LLC (Met-Coil), established reserves to address the cost of administering a trust for the benefit of persons exposed to releases of pollutants by Met-Coil and reserves to address the remaining costs of remediation to its property in Lisle, Illinois. These matters require the Company to monitor estimates, which are inherently judgmental and subject to change on an ongoing basis, and make changes as appropriate.

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#### *Accounts Receivable*

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on specific analysis of accounts in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of the Company's customers were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required.

#### *Product Liability Reserves*

The Company has absorbed significantly higher levels of insurance risk subsequent to September 11, 2001 due to the effects of September 11, 2001 on pricing in the commercial insurance marketplace. As a result, the Company must establish estimates relative to the outcome of various

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product liability and general liability matters which are inherently judgmental and subject to ongoing change.

### *Inventory*

The Company values its inventory at the lower of cost to purchase and/or manufacture the inventory, principally determined on the last-in, first-out ( LIFO ) method, or the current estimated market value of the inventory. The Company periodically reviews inventory quantities on hand and records a provision for excess and/or obsolete inventory based primarily on its estimated forecast of product demand, as well as based on historical usage. A significant decrease in demand for the Company's products or technological changes in the industries in which the Company operates could result in an increase of excess or obsolete inventory quantities on hand, requiring adjustments to the value of the Company's inventories.

### *Revenue Recognition*

The Company's revenue recognition activities relate almost entirely to the manufacture and sale of heating, ventilating and air conditioning (HVAC) 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.

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### *Investments*

As discussed more fully in Note 5 to its 2004 Consolidated Financial Statements, the Company has certain investments in CareCentric, Inc. (CareCentric) which it had historically accounted for by the equity method. On March 29, 2002, the Company transferred certain voting rights to John E. Reed, its Chairman and CEO, in the context of a refinancing transaction under which both the Company and John E. Reed invested additional monies in CareCentric. As a result of the transfer of votes, the Company determined that it no longer had significant influence relative to CareCentric, as defined in APB 18 and EITF Issue 98-13, and, accordingly, adopted the cost method of accounting for its investments in CareCentric subsequent to that date. The Company has also concluded that it is not required to consolidate the financial statements of CareCentric under the requirements of FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), as more fully explained in Note 1 to the accompanying Financial Statements.

### *Warranty*

The Company provides for the estimated cost of product warranties at the time revenue is recognized based upon estimated costs, historical and industry experience, and anticipated in-warranty failure rates. While the Company engages in product quality programs and processes, and significant testing prior to shipment, the Company's warranty obligation is affected by product failure rates, including component failures, and repair or replacement costs incurred in correcting a product failure. Should actual product failure rates or repair or replacement costs differ from estimates based on historical experience, revisions to the estimated warranty liability may be required.

### *Health Care Claim Reserves*

The Company self-insures a substantial portion of the health benefits provided for its employees and maintains reserves in this regard. The Company relies upon a recognized actuarial consulting firm to help it set and maintain these reserves.

### *Workers Compensation Claims Reserves*

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The Company provides workers compensation coverage principally through commercial insurance carriers using high deductible programs, which require the Company to reserve for and pay a high proportion of its workers compensation claims payable. The Company relies upon the expertise of its insurance carriers and its own historical experience in setting the reserves related to these claims.

### *Accounting for Income Taxes*

The preparation of the Company's Consolidated Financial Statements requires it to estimate its income taxes in each of the jurisdictions in which it operates, including those outside the United States which may be subject to certain risks that ordinarily would not be expected in the United States. The income tax accounting process involves estimating its actual current exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and equity method gains and losses, for tax and accounting purposes. These differences result in the recognition of deferred tax assets and liabilities. The Company must then record a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Significant management judgment is required in determining the Company's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, it may need to adjust its valuation allowance which could materially impact its financial position and results of operations.

## **RESULTS OF OPERATIONS**

### *Three-months ended March 31, 2005 vs. March 31, 2004*

#### Consolidated Operations:

The Company's consolidated revenues were up 4.8%, from \$93,603,000 in the quarter ended March 31, 2004 to \$98,132,000 in the quarter ended March 31, 2005, reflecting generally improved HVAC sales and reduced sales from the Metal Forming Segment, as explained in more detail below. For the Company as a whole, reflecting the growth in revenues, Sales, General and Administrative, and Engineering costs, taken together as a percentage of Total Revenues, were reduced from 25.4% of sales in the three-month period ended March 31, 2004 to 24.7% in the three-month period ended March 31, 2005.

Core Operating income for the first quarter of 2005 for the Company as a whole increased 12.4%, from \$3,480,000 in the first quarter of 2004 to \$3,910,000 in the first quarter of 2005, reflecting the effect of the various factors described below. The foregoing core operating income figures, by virtue of the exclusion of the items mentioned, constitute Non-GAAP Financial Measures which management believes are useful to investors focused upon ascertaining ongoing operating earnings trends. This should not be construed as an alternative to operating income or net income (as determined in accordance with generally accepted accounting principles), as an indicator of the Company's operating performance, as an alternative to cash flows provided by operating activities (as determined by GAAP), or as a measure of liquidity. The foregoing core operating income figures excluding the anomalous items mentioned are presented solely as a supplemental disclosure because management believes they enhance the understanding of the financial performance of a company with substantial anomalous expense items.

The core operating profits (losses) are reconciled with operating profits (loss) determined in accordance with GAAP as follows:

	<b>Three-months ended March 31, 2005</b>	<b>2004</b>
Core Operating Profits (Loss)	\$3,910,000	\$3,480,000
Less Subsidiary Bankruptcy Professional Fees	401,000	3,442,000
Less Environmental Litigation and Remediation	--	219,000
Less Plant Shutdown and Other Restructuring Charges	<u>489,000</u>	<u>336,000</u>
Operating Profits (Losses) per GAAP	<u>\$3,020,000</u>	<u>(\$517,000)</u>

Income Tax Benefit, as a percentage of pretax loss, was 44.8% in the three-months ended March 31, 2005 reflecting the effects of minimum taxes in certain states which offsets the utilization of tax losses and diminishes the effective rate associated with the income tax benefits recorded in relation to the tax losses recorded in the quarter. Income taxes as a percentage of pretax income for the three-months ended March 31, 2004 were 21.0%.

HVAC Segment Operations:

Total Revenues in the Company's HVAC Segment increased 12.1% during the first quarter of 2005 relative to the first quarter of 2004 reflecting improvements in Hydronic Product sales, which were up 12.7% from \$25.9 million to \$29.2 million, and increased sales from the Segment's Gas and Industrial Products Group, which were up 18.6% from \$24.2 million to \$28.7 million. The Gas and Industrial Products Group's sales were impacted principally by increased sales from the Segment's Omega Flex unit, which has continued to enjoy solid growth in its Trac-Pipe® gas piping product sales, and by increased sales of gas-fired commercial heating equipment. The Company believes these top line improvements are partially, but not principally, reflective of sales price increases implemented to pass on raw material cost increases which have been substantial in the last fifteen months for the HVAC industry. More significantly, low interest rates and a relatively healthy economy have helped sustain residential, and to a lesser extent commercial, construction and positively impacted sales of these HVAC product groups. Revenues in the Air Distribution and Cooling Products Group were up only 3.1%, from \$19.4 million to \$20.0 million, reflecting competitive pressures the Segment faces in this product group.

The HVAC Segment's gross profit margins overall were relatively flat, from 29.9% in the first quarter of 2004 to 30.0% in the first quarter of 2005. This resulted principally from the effect of higher revenues which allowed unit costs to decrease thereby compensating to some extent for material cost increases not able to be fully passed on in product prices. The Segment expects, however, that its gross profit margins will be under continual pressure in future periods as it copes with inflationary pressures presently effecting copper, steel, aluminum and other commodities used in its products, although the Company has taken actions to raise prices where possible to off set such cost increases.

Operating profits for the HVAC segment for the three-months ended March 31, 2005 were up 62.5% relative to the three-months ended March 31, 2004 from \$3.2 million to \$5.2 million, reflecting the effects of the top line growth described above and the segment's success at holding its gross profit margins overall during a period of significant material cost increases. The Company continues to focus its efforts on overhead reduction in all areas in order to adapt to present conditions in the HVAC industry.

Metal Forming Segment Operations:

Total Revenues in the Company's Metal Forming Segment decreased by 19.2% during the first quarter of 2005 relative to the first quarter of 2004, from \$25.0 million to \$20.2 million, owing principally to an approximately \$2.5 million smaller pool of orders to ship in the backlog compared to the prior year, a failure to complete approximately 36% of the orders scheduled in March, and significant decreases in revenues at Formtek Cleveland and a significant decrease in revenues and gross margins at Engel. The Metal Forming Segment's business is characterized at times by relatively large orders such that the timing of revenue recognition, which is generally coincident with shipment, can be significant to the Segment's results in any one quarter. As of March 31, 2005, the Segment was holding, at the request of customers, finished goods otherwise ready to be shipped totaling \$1,469,000 in revenues. These orders were shipped and billed in April, 2005. The Segment's sales backlog was \$28.7 million at March 31, 2005, up from approximately \$25.3 million at December 31, 2004, and the current backlog at April 30, 2005 has increased to approximately \$31.8 million. Bookings for the first quarter of 2005 were \$23.6 million, down 11% from the \$26.6 million booked in the three-months ended March 31, 2004. Sales strength continues to be primarily in metal construction products and other segments remain weak. Significant increases have also been seen in European and Asian order levels, especially in April. Overall sales closure rates remains inconsistent.

Gross profit margins for the Segment during the quarter ended March 31, 2005 were 23.9%, down from 27.8% in the March 2004 quarter, due to continuing price competition in the marketplace, the completion of significant orders quoted and accepted by Formtek Maine before the 2004 significant increases in the costs of metals, additional and unexpected warranty costs at Hill and Formtek Cleveland, and a product mix with overall lower gross margins at Lockformer, Formtek Maine, Hill Engineering and Iowa Rebuilders. Reflecting the factors described above, the Metal Forming Segment's core operating results for the quarter fell from (\$23,000) in the 2004 period to (\$1,597,000) in the 2005 period. The 2005 core operating loss figure includes approximately (\$359,000) in start-up losses in the rebuilding (\$150,000), China-based assembly (\$6,000), Flexible Fabrication (\$105,000) and B&K CMP (\$98,000) operations. The results of operations of the electrical distribution start up turned positive \$28,000, in the first quarter. The Company expects that the results of operations of the rebuilding and China-based assembly will be slightly positive in 2005, and the other start ups, other than B & K CMP, will not suffer significant losses in 2005. Core Operating results included product development expense of \$322,000 for the quarter ended March 31, 2005 and \$125,000 for the quarter ended March 31, 2004.

The foregoing core operating income and loss figures, by virtue of the exclusion of the items mentioned, constitute Non-GAAP Financial Measures which management believes are useful to investors focused upon ascertaining underlying operating earnings trends. This should not be construed as an alternative to operating income (loss) or net income (loss) (as determined in accordance with generally accepted accounting principles or GAAP), as an indicator of the Company's operating performance, as an alternative to cash flows provided by operating activities (as determined by GAAP), or as a measure of liquidity. The foregoing core operating income and loss figures excluding the anomalous items mentioned are presented solely as a supplemental disclosure because management believes they enhance the understanding of the financial performance of a company with substantial anomalous expense items.

The Core operating profits (losses) are reconciled with operating profits (losses) determined in accordance with GAAP as follows:

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	Three-months ended March 31, <u>2005</u>	<u>2004</u>
Core operating profits in		
entities included in the Segment at 12/31/03	(\$ 581,000)	\$ 611,000
Start-up losses discussed above	(359,000)	(415,000)
Product development costs discussed above	(322,000)	(125,000)
All other	<u>(335,000)</u>	<u>(94,000)</u>
Core Operating Profits (Loss) for the Segment	(1,597,000)	(23,000)
Less Subsidiary Bankruptcy Professional Fees	401,000	3,442,000
Less Plant Shutdown Expenses	192,000	--
Less Environmental Litigation and Remediation	<u>---</u>	<u>219,000</u>
Operating Losses per GAAP	<u>(\$2,190,000)</u>	<u>(\$3,684,000)</u>

The Company believes that the mutually reinforcing franchises it has acquired under the Formtek name, including Cooper-Weymouth Peterson, Rowe, CoilMate/Dickerman, Yoder, Krasny-Kaplan, Mentor AGVS, Lockformer, Iowa Precision, Hill Engineering, B&K, and Dahlstrom, as well as the recently acquired Engel Industries, Inc. and the start-ups of a rebuilding operation, Iowa Rebuilders, an electrical distributor, Axon Electric, a Beijing-based assembly facility, Formtek Machinery (Beijing), a flexible fabrication capability in Cedar Rapids and a metal processing facility, B&K CMP, will allow it to maintain and expand its core competencies, positioning this Segment very well for the rigors of the cyclical machine tool industry. The Company expects to continue to spend on sales, marketing and product development initiatives at current rates for the foreseeable future and to continue the program of cooperation and consolidation.

Management believes that the continuing effects of globalization on manufacturing costs continue to present the Company with significant opportunities. The Company is pursuing in this regard, for all of its businesses, initiatives in Asia and Europe aimed at sourcing machined parts and components for use in its North American factories, and in Asia, assembling discrete stand-alone equipment and sub-assemblies on a limited basis, with ultimate plans to sell select machinery in Asian, Australian and Middle East markets and throughout the world. The Company expects to continue investing to provide infrastructure and support for these initiatives. Formtek's wholly owned foreign enterprise, Formtek Machinery (Beijing) Co., Ltd, was registered in September of 2003 and began assembly operations of roll forming and metal cutting equipment in a 2800 square meter facility in the Changping District of Beijing in the first quarter of 2004. The Company has also expanded its direct sales and service force at its office in Fribourg, Switzerland.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's total debt (long-term debt plus current portion of long-term debt) increased in the first quarter of 2005 from \$27,980,000 at December 31, 2004 to \$32,498,000 at March 31, 2005, reflecting principally the effect of increased investments in inventory balances. Increased inventory balances reflect normal seasonal growth as well as the effect of revenue and backlog growth described above and also the effect of material cost inflation which has effected copper, steel, aluminum, scrap steel and other commodities the Company uses over the last 15 months.

The Company has not paid dividends on its common stock since 1979.

The Company remains relatively modestly leveraged with a debt (short-term debt plus long-term debt) to equity ratio of approximately 27.6% as of March 31, 2005. The Company believes its liquidity position at December 31, 2004 is adequate to meet foreseeable future needs. As more fully explained in Note 6 to the Company's 2004 Consolidated Financial Statements, on October 19, 2004, the Company entered into a multi-bank, \$70 million three-year committed, unsecured revolving loan and letter of credit agreement. As more fully explained in Note 8 to the condensed consolidated financial statements, the Company has announced plans to spin-off its Omega Flex, Inc. subsidiary and subsequently Go Private which will require additional borrowings and will result in the Company being more leveraged than at present.

## **UNUSUAL EVENTS    **Subsidiary Bankruptcy and Environmental Matters****

### **Bankruptcy    Met-Coil Systems Corporation**

As disclosed in previous filings, the Lockformer Company ( Lockformer ), a division of the Company's second tier subsidiary, Met-Coil Systems Corporation, now Met-Coil Systems, LLC ( Met-Coil ), and Mestek directly (under various legal theories) were defendants in various actions relating to the alleged release and presence of trichloroethylene ( TCE ) contamination on and in the vicinity of Lockformer's manufacturing facility in Lisle, IL. On August 26, 2003, Met-Coil filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code ) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court ) (Case No.

03-12676-MFW).

On August 17, 2004, the Bankruptcy Court confirmed the Fourth Amended Chapter 11 Plan of Reorganization (the Amended Plan ) proposed by Met-Coil and Mestek, as co-proponents, and recommended to the United States District Court (N. D. Del.) ( the District Court ) that it approve and enter the channeling injunction discussed below, and certain related third party releases in favor of, among others, Mestek and its affiliates. On September 14, 2004, the District Court entered and approved the recommended findings and conclusions and issued the channeling injunction . This Amended Plan, supported by all major parties in interest in the Met-Coil Chapter 11 case, became effective on October 19, 2004.

The Amended Plan settled the various legal actions which had been commenced against Met-Coil and Mestek with respect to an alleged release of TCE into the soils, groundwater or air in or around Met-Coil s Lockformer Company facility in Lisle, Illinois, including the class action captioned *Mejdrech, et al. v. The Lockformer Company, et al.* and all other personal injury and indemnification actions brought against the Company relating to the alleged release of TCE.

In addition, the Amended Plan established a trust (the TCE PI Trust ) for the holders of future claims or demands, who reside, resided or may reside in a certain geographic area in the vicinity of the facility in Lisle, Illinois, and who assert or may assert personal injury claims in the future. Pursuant to the channeling injunction the TCE PI Trust was established to assume all such future personal injury claims and demands and pay and administer verified claims for up to 45 years. Pursuant to the Amended Plan, the Company and Met-Coil are committed to fund up to \$26 million (on a present value basis) to the TCE PI trust over time and based on actual claims paid. Upon establishment of such TCE PI Trust, Mestek and its affiliates were released from any liabilities assumed by the TCE PI Trust for up to 45 years. Pursuant to the Amended Plan, all such future claims and demands will be channeled to the TCE PI Trust and be paid in accordance with the distribution procedures established for such trust. This TCE PI Trust is being administered by an independent trustee, with power to mediate, arbitrate and, if necessary, litigate claims.

The Company s Environmental and Litigation Reserve related to this matter as of the year ended December 31, 2004 was approximately \$24.7 million. The reserve as of the quarter ended March 31, 2005 was approximately \$22.6 million. The reduction in the reserve includes approximately \$583,000 for remediation expenditures made during the three-months ended March 31, 2005. Based on recent estimates of ongoing remediation costs, and reflecting reductions in the reserve for expenditures incurred in the quarter ending March 31, 2005, the remediation portion of the reserve as of March 31, 2005 is \$6,435,000, which amount is included in the \$22.6 million reserve discussed above. The reserve balance at March 31, 2005 relates to future obligations under the Plan relating to soil and groundwater remediation, municipal water connections, the TCE PI Trust described above and other administrative expenses of the Met-Coil bankruptcy. Management believes that no additional reserves, beyond those set forth above, are required to be taken at this time. These reserves have been established in accordance with Financial Accounting Standard Board Statement No. 5 and Staff Accounting Bulletin No. 92. However, while these reserves represent management s best estimate of these liabilities, and are based upon known or anticipated claims analysis estimated by various legal, scientific and economic experts, there is no assurance that these reserves will be adequate to meet all potentials claims arising from the environmental contamination at the Lisle, Illinois site. In addition, there can be no assurance that future claims for personal injury or property damage will not be asserted by other plaintiffs against Met-Coil and Mestek with respect to the Lockformer site and facility. See Remediation Lisle, IL section below.

#### Remediation Lisle, IL:

Met-Coil is continuing the hook-up of certain residences to public water supply and the remediation of the Lockformer facility in Lisle, IL, pursuant to a Work Plan for the site ( on-site remediation ) approved by the Environmental Protection Agency ( EPA ) and is awaiting approval of the remedial standards to be achieved by such Work Plan, as well as the methodology for groundwater remediation, from the IEPA. In the three-months ended March 31, 2005, Met-Coil paid \$2,083,000 in costs related to hook-up costs, on-site remediation, and other administrative costs and has a remaining reserve of \$6,435,000, as described above, for future remediation costs as of March 31, 2005. The Company has guaranteed to the IEPA up to \$3 million of remediation costs incurred by either Met-Coil or, if met-Coil fails to perform the remediation, the IEPA.

In light of the remaining uncertainties surrounding the effectiveness of the available remediation technologies and the future potential changes in methodology, remedial objectives and standards, still further reserves may be needed in the future with respect to the on-site remediation of the Lisle facility. The complexity of aforementioned factors makes it impossible at this time to further estimate any additional costs.

The Company s Environmental Litigation and Remediation Reserve is comprised of the following:

March 31, 2005 (in thousands)	December 31, 2004
\$6,435	\$7,018

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	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Estimated Future Remediation costs		
The Illinois Actions, The Honeywell Claims, The Attorney General Action and all matters related to pending Future personal Injury claims in the Lockformer area	---	1,500
Potential Future Obligations to the TCE PI Trust	<u>16,171</u>	<u>16,171</u>
Total Environmental Litigation and Remediation Reserve	<u>\$22,606</u>	<u>\$24,689</u>

The Company's Environmental Litigation Remediation Reserve is reflected as a current liability as of March 31, 2005 and December 31, 2004. The Company is presently studying the limited claim activity which has occurred to date in connection with the TCE PI Trust, which was established in October of 2004, and the pace of activity in the ongoing remediation of the Lockformer site. Based on these analyses, the Company expects to reclassify a portion of the Reserve as a long-term liability as of June 30, 2004.

## Other Claims Alleging Releases of Hazardous Materials or Asbestos Related Liability

The Company is currently a party to over 300 asbestos-related lawsuits, and in the past three-months has been named in approximately 12 new such lawsuits each month, primarily in one county in Illinois where numerous asbestos-related actions have been filed against numerous defendants.

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, however, the Company has had over 40 asbestos-related cases dismissed without any payment and it settled approximately twenty-five asbestos-related cases for a de minimis 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 to it, the Company does not believe that any of these matters will be material to the Company's financial position or results of operations.

## Warranty Commitments

Products sold by the Company are covered by various forms of express limited warranty with terms and conditions that vary depending upon the product. The express limited warranty typically covers the equipment, replacement parts and, in very limited circumstances, labor necessary to satisfy the warranty obligation for a period which is generally the earlier of 12 months from date of installation or 18 months from date of shipment from the Company factory, although some products or product components are warranted for periods ranging from eighteen months to ten years. The Company estimates the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and allowable costs per claim and recoveries from vendors. At least once a quarter the Company assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Costs to satisfy warranty claims are charged as incurred to the accrued warranty liability.

Following is a summary of changes in the Company's product warranty liability for the three-months ended March 31, 2005 and 2004.

**Three-months ended  
March 31,**



	Three-months ended March 31, 2005 (dollars in thousands)	2004
Balance at beginning of period	\$3,864	\$2,524
Provision for warranty claims	508	452
Warranty claims incurred	(490)	(340)
Balance at end of period	<u>\$ 3.882</u>	<u>\$2.636</u>

#### **FUTURE IMPACT OF KNOWN TRENDS OR UNCERTAINTIES**

The Company's operations are sensitive to a number of market factors, any one of which could materially adversely affect its results of operations in any given year:

**Construction Activity** The Company's largest Segment, its Heating, Ventilating, and Air Conditioning (HVAC) Segment, is directly affected and its other Segment, Metal Forming, is indirectly affected by commercial construction projects and residential housing starts. Relatively lower interest rates in 2004 and 2005 to date have sustained relatively strong sales of residential and commercial HVAC products. Significant increases in interest rates or reductions in construction activity in future periods, however, can be expected to adversely affect the Company's revenues, possibly materially.

**Manufacturing Activity** The Company's Metal Forming Segment, as a manufacturer of capital goods used in other manufacturing processes, is subject to significant cyclicality based upon factory utilization. The Company's Metal Forming Segment provides equipment used to hold, uncoil, straighten, form, bend, cut, and otherwise handle metal used in manufacturing operations, all activities likely to be adversely affected in recessionary periods. The level of manufacturing activity in North America in the automotive, steel processing, metal furniture, and stamping industries, is particularly relevant to this Segment since its products are typically purchased to upgrade or expand existing equipment or facilities. Expectations of future business activity are also particularly relevant. Activity in this Segment has been affected in the recent past by the events of September 11, 2001, and may be affected significantly in the future by the effects of globalization which impact both the markets for its products, the competitors it faces in such markets and potentially the cost and availability of its key components.

**Credit Availability** Although interest rates trended lower in the beginning of 2004, interest rates began to increase in the last two quarters of 2004 and in 2005 to date and credit availability continues to be critical to the Company's customers and suppliers. As the Company's customer base includes many small to medium size businesses a contraction in credit availability could significantly impact the Company's operations.

**Technological Changes** Although the HVAC industry has historically been impacted by technology changes in a relatively incremental manner, it cannot be discounted that radical changes such as might be suggested by fuel cell technology, burner technology and/or other developing technologies could materially adversely affect the Company's results of operations and/or financial position in the future.

**Environmental Laws Affecting Operations and Product Design** The Company is subject to numerous laws and regulations that govern the discharge and disposal of materials into the environment. The Company's operations and its HVAC products that involve combustion, refrigeration, air conditioning and related technologies as currently designed and applied entail the risk of future noncompliance with the evolving landscape of environmental laws regulations and industry standards. The cost of complying with the various environmental laws, regulations and industry standards is likely to increase over time, and there can be no assurance that the cost of compliance, including changes to manufacturing processes and design changes to current HVAC product offerings that involve the creation of carbon dioxide or other currently unregulated compounds emitted in atmospheric combustion, or efficiency standards, will not over the long-term and in the future have a material adverse affect on the Company's results of operations. In addition, a growing trend of governmental units and business entities to mandate or favor compliance with environmentally-based rating systems in the construction of buildings (such as LEED standards) may change the nature of HVAC products accepted in the marketplace and may have a materially adverse affect on the Company's results of operations.

**Weather Conditions** The Company's core HVAC Segment manufactures heating, ventilating and air conditioning equipment with heating products representing the bulk of the Segment's revenues. As such, the demand for its products depends upon colder weather and benefits from extreme cold. Severe climatic changes, such as those suggested by the global warming phenomenon, could over time adversely affect the Company's results of operation and financial position.

**Purchasing Practices** It has been the Company's policy in recent years for high value commodities to aggregate purchase volumes with fewer vendors to achieve maximum cost reductions while maintaining quality and service. This policy has been effective in reducing costs but has introduced additional risk which could potentially result in short-term supply disruptions or cost increases from time to time in the future.

**Supply Disruptions and Commodity Risks** The Company uses a wide variety of materials in the manufacture of its products, such as copper, aluminum and steel, as well as electrical and mechanical components, controls, motors and other products. In connection with the purchase of

major commodities, principally copper, stainless steel and aluminum for manufacturing requirements, the Company enters into commodity forward agreements to effectively hedge the cost of the commodity. This forward approach is done for a portion of the Company's requirements, while the balance of the transactions required for these commodities are conducted in the cash or spot market. The forward agreements require the Company to accept delivery of the commodity in the quantities committed, at the agreed upon forward price, and within the timeframe specified. The cash or spot market transactions are executed at the Company's discretion and at the current market prices. In addition to the raw material cost strategy described above, the Company enters into fixed pricing agreements for the fabrication charges necessary to convert these commodities into useable product. Management believes at present that it has adequate sources of supply for its raw materials and components (subject to the risks described above under Purchasing Practices) and has historically not had significant difficulty in obtaining the raw materials, component parts or finished goods from its suppliers. No industry Segment of the Company is dependent on a single supplier, the loss of which would have a material adverse effect on its business.

**Interest Rate Sensitivity** The Company's borrowings are largely Libor or Prime Rate based. The Company believes that a 100 basis-point increase in its cost of funds would not have a material effect on the Company's financial statements taken as a whole. Interest rates are nonetheless significant to the Company as a participant in the construction and capital goods industries. (See Construction Activity, Manufacturing Activity and Credit Availability above.)

**Acquisition and Consolidation/Integration** The Company has historically grown through acquisition. Acquisitions often involve risks of integration with the parent company or consolidation between and among operating units or functional departments and may present managerial and operational challenges, which can have adverse effects on results of operations, typically when charges result from impairment of goodwill or indefinite lived intangibles or cessation of business operations from consolidations or otherwise. Acquisition integration also often requires considerable diversion of management attention, difficulty in integrating management resource planning and financial control systems, increased risk of contingent or unknown liabilities and potential disputes with sellers of the acquired companies. Expected cost savings from strategic acquisitions may not be realized or achieved within the timeframe initially expected.

**Retention of Qualified Personnel** The Company does not operate with multiple levels of management. It is relatively flat organizationally and while we perceive this as a strength overall, it does subject the Company to the risks associated with the separation from the Company of critical managers for whatever reason. From time to time, there may be a shortage of skilled labor, which may make it more difficult and expensive for the Company to attract and retain qualified employees.

### **Item 3. Quantitative and Qualitative Information about Market Risks**

The Company does not engage in the purchase or trading of market risk sensitive instruments other than with respect to a single interest rate swap transaction entered into on February 6, 2004 whereby the Company has obtained fixed interest rate protection for approximately \$14,000,000 of its bank debt. The Company does not presently have any positions with respect to hedge transactions such as forward contracts relating to currency fluctuations. No market risk sensitive instruments are held for speculative or trading purposes.

### **Item 4A Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures.**

At the end of the fiscal first quarter of 2005, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that the Company records, processes, summarizes and reports in a timely manner the information the Company management, including the chief executive officer and chief financial officer, have conducted an evaluation of the effectiveness of the design and operation of the Company's Disclosure Controls and Procedures as defined in the Rule 13a-15(e) of Securities Exchange Act of 1934. Based on that evaluation, the chief executive officer and chief financial officer have concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance of achieving the purposes described in Rule 13a-15(e), and no changes are required at this time.

#### **(b) Changes in Internal Controls.**

There was no change in the Company's internal control over financial reporting (as defined in rule 13a-15(f) of the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(d) of the Securities Exchange Act of 1934 that occurred during the three-month period covered by this Report on Form 10-Q that has materially affected or is reasonable likely to materially affect the Company's internal control over financial reporting subsequent to the date the chief executive officer and chief financial officer completed their evaluation. The Company has, however, conducted remedial training in certain locations during the three-month period ended March 31, 2005 relative to its policies on revenue recognition in response

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to certain lapses in procedure which were noted during the 2004 audit of the Company's financial statements and which were disclosed in this Item 4 (b) in the Company's Report on Form 10-K for 2004.

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### **PART II OTHER INFORMATION**

#### **Item 1 Legal Proceedings**

The Company is not presently involved in any litigation that it believes could materially and adversely affect its financial condition or results of operations except as described in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations-above and in Note 6 to the Company's Condensed Consolidated Financial Statements, which are a part of this Quarterly Report on Form 10-Q. No material legal proceedings were instituted or terminated in the quarter ended on March 31, 2005, nor is the Company aware of any governmental agency investigations or proceedings other than as discussed in Note 6 of the Company's Condensed Consolidated Financial Statements, and Management's Discussion and Analysis of Financial Condition and Results of Operations which are a part of this Quarterly Report on Form 10-Q

#### **Item 6 Exhibits**

<b><u>Exhibit</u></b>	<b><u>Description</u></b>
<b><u>No.</u></b>	
11.0	Statement re Computation of Per Share Earnings.
31.1	Certification of Chief Executive Officer of Mestek, Inc. pursuant to Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of Mestek, Inc. pursuant to 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.0	Certification of Chief Executive Officer and Chief Financial Officer of Mestek, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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### **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MESTEK, INC.**  
(Registrant)

Date: May 16, 2005

BY: /S/ STEPHEN M. SHEA

Stephen M. Shea  
Senior Vice President Finance and CFO (Chief Financial Officer)

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EXHIBIT 31.1

I, John E. Reed, Chief Executive Officer, Mestek, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005, of Mestek, Inc.(the registrant );

SIGNATURES

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2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

BY: /S/ JOHN E. REED

John E. Reed  
Chief Executive Officer)

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EXHIBIT 31.2

I, Stephen M. Shea, Chief Financial Officer of Mestek, Inc., certify that:

- 1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005, of Mestek, Inc. (the registrant);
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

BY: /S/ STEPHEN M. SHEA

Stephen M. Shea  
Chief Financial Officer

EXHIBIT 32

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, for the purposes of 18 U.S.C. Section 1350, in his capacity as an officer of Mestek, Inc. (the Company), that, to his knowledge:

- (a) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2005, as filed with the Securities and Exchange Commission (the Report), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 16, 2005

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE

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/s/ John E. Reed

John E. Reed

Chief Executive Officer

/s/ Stephen M. Shea

Stephen M. Shea

Chief Financial Officer

This certification is not deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification is not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.