

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:)	Chapter 11
)	
MET-COIL SYSTEMS CORPORATION,)	Case No. 03-12676
)	
Debtor.)	
)	

**DECLARATION OF ROBERT B. STOBAUGH IN SUPPORT OF
CONFIRMATION OF THE FOURTH AMENDED CHAPTER 11 PLAN OF
REORGANIZATION PROPOSED BY MET-COIL SYSTEMS CORPORATION
AND MESTEK, INC.**

I, Robert B. Stobaugh, the undersigned, declare pursuant to 28 U.S.C. § 1746, under penalty of perjury under the laws of the United States of America, that the statements set forth herein are true and correct, and declare as follows:

1. I am the Charles E. Wilson Professor of Business Administration, Emeritus, at the Harvard University Graduate School of Business Administration (“Harvard Business School”). As part of my work at the Harvard Business School over a 29-year period, I have studied the operations of large corporate systems consisting of a number of subsidiaries owned by a parent company. I have taught about such systems in Harvard’s executive, MBA, and doctoral programs, and have testified on related matters. In addition, I have experience as a corporate director and consultant on these matters. I received a B.S. in chemical engineering from Louisiana State University and the degree of Doctor in Business Administration from Harvard University in 1968. A copy of my current curriculum vitae is attached hereto as Exhibit A.

2. I have been qualified as an expert and testified on a number of occasions in cases in state and federal courts in the United States. A list of my testimony in the

cases in which I have testified as an expert in the prior four years is attached hereto as Exhibit B.

3. Prior to joining Harvard, I worked for 18 years – first as an engineer and later as a manager – for three large U.S.-based firms that operated with a number of subsidiaries.

4. I have served as a director of eleven different companies, ranging in size from a start-up company to a firm with \$14 billion in annual sales operating internationally through a number of subsidiaries.

5. I am a member of the board of directors of the National Association of Corporate Directors (“NACD”). I have served on five NACD Blue Ribbon Commissions: as vice-chair of the one on Executive Compensation (2003), as vice-chair of the one on the Role of the Board in Risk Oversight (2002), as co-chair of the one on The Role of the Board in Corporate Strategy (2000), as a member of the one on Director Professionalism (1996), and as chair of the one on Director Compensation (1995). As a faculty member of the NACD, I teach directors how to improve the functioning of their boards.

6. I have assisted the United States government in a number of ways in increasing its understanding of the operation of large corporate systems. I was a member of a Presidential Advisory Commission and a consultant to a Presidential Task Force. I was a member of the Advisory Board of the U.S. Government’s Overseas Private Investors Corporation. I have testified a number of times before Senate and House committees and have served as a consultant to the U.S. Department of Commerce, U.S. Department of Energy, U.S. Department of Justice, U.S. Department of State, U.S. Department of the Treasury, and the National Science Foundation.

7. My publications include: *How to Build an Effective Small-Company Board* (a comparison of the activities of large-company boards with those of small companies), *Technology Crossing Borders*, *Money in the Multinational Enterprises*, *How to Use International Capital Markets*, *Nine Investments Abroad and Their Impact at Home*, and *Innovation and Competition*.

8. I received Harvard Business School's highest honor – its Distinguished Service Award – and am a member of the Hall of Distinction of Louisiana State University. I am listed in *Who's Who in America* and am a member of the Council on Foreign Relations. I am a Fellow and a former president of the Academy of International Business and have served as a member of the Editorial Board of *The Journal of International Business Studies*.

9. At the request of Mestek, Inc. ("Mestek"), I have analyzed the relationships between Mestek and its indirect subsidiary Met-Coil Systems Corporation ("Met-Coil") and Met-Coil's division The Lockformer Company ("Lockformer") to determine whether Mestek controlled the day-to-day operations of Lockformer and/or its environmental activities. I also have been asked to determine whether Mestek exerted undue control and domination over Met-Coil.

10. In connection with my analysis, I have reviewed various documents, including: court pleadings in the litigation styled *LeClercq, et al. v. The Lockformer Company, et al.*, No. 00-C-7164 (N.D. Ill.) ("*LeClercq*"); the depositions and accompanying exhibits of John Reed, Stephen M. Shea, James Heitt, Rian J. Scheel, Arthur Bourlard, Peter Strauss, David Sheetz, Richard Caldwell, Timothy Scanlan, J.R. Svehla, Davis Burdick, Ray Blakeman, and Randy Stodola in *LeClercq* and in the litigation styled *Mejdrech, et al. v. The Lockformer Company, et al.*, No. 01-C-6107

(N.D. Ill.) (“*Mejdrech*”); information concerning corporate governance issues made available as part of the discovery process in *LeClercq* and *Mejdrech*; the Mestek Annual Reports for 2000 and 2001; Mestek Form 10-K for 2000 and 2002; the March 27, 2001 Proxy Statement for Mestek; the Grant Thornton Audit Committee Discussions for Mestek for the second quarter of 2002; a 2004 Hoover’s Online Fact Sheet for Mestek, Inc.; meeting minutes of the Met-Coil board of directors for 2000 through 2003; unanimous written consents of the Met-Coil board of directors for 2000 through 2002; the August 27, 2003 Affidavit of Charles F. Kuoni III in Support of First Day Motions of Met-Coil Systems Corporation; and the Services Agreement entered into between Mestek and Met-Coil on August 27, 2003. I also have interviewed John Reed (Chairman and CEO of Mestek), R. Bruce Dewey (President and COO of Mestek), Stephen Shea (CFO of Mestek), Arthur Bouldard (Environmental, Health & Safety Coordinator at Lockformer), and Ann McClure. I conducted those interviews in part because I wanted to understand the method that Mestek was using to control its divisions and subsidiaries.

11. Based upon my training, education, background, research, and teaching about parent companies and corporate governance as well as my experience as a corporate director and consultant, it is my opinion that from June 2000, the time of the acquisition of Met-Coil by a subsidiary of Mestek, through December 2003 (the “relevant time period”) Mestek has not controlled the day-to-day operations of Lockformer nor its environmental activities. It also is my opinion that Mestek has not exercised undue control and domination over Met-Coil. The influence exercised by Mestek over Met-Coil has been entirely reasonable and appropriate, and clearly within the normal range of that exercised by parent companies functioning properly.

12. When a firm makes an investment in a business entity, for example by acquisition, the investing firm (or “parent”) often holds that entity as a separate corporation (a “subsidiary”). In some cases, the parent company not only owns subsidiaries but also has operations of its own.

13. The primary purpose of an investment by a parent company in a subsidiary, whether in the form of a loan or a contribution of equity, is to earn a return on the investment. This return may take the form of interest paid on the loan, dividends paid on the equity, or earnings reinvested in the subsidiary. It is a central goal of a parent company to maximize the return on its investment for its own shareholders, and over the long run this return typically involves payment by the subsidiary of interest on the loan, loan principal, and dividends.

14. It is appropriate and necessary for a parent company in its role as sole shareholder to exercise a certain degree of influence over its subsidiaries in order to increase the contribution of each subsidiary, thereby maximizing the parent company’s return on its investment.

15. In reasonably exercising such influence over its subsidiaries, the parent company typically has several goals:

(a) Transferring knowledge to the subsidiary or associate from the parent company, to the parent company from the subsidiary, and among sister subsidiaries. In this way, the total knowledge of the entire group of affiliated companies can be used by all to improve their operations.

(b) Reducing slack in the operations of a subsidiary or associate. Slack in this context is the difference between the actual efficiency of a subsidiary or associate and the maximum efficiency that it could achieve.

(c) Improving coordination among the different subsidiaries and associates. For example, activities that

benefit from economies of scale can be concentrated in a few companies rather than all subsidiaries and associates having such activities in their operations.

16. Such influence is normal and is not synonymous with day-to-day control or undue dominion over the operations of the subsidiary.

17. In my opinion, a parent company may use both direct influence and indirect influence over its subsidiaries without exercising undue control and domination, as long as the individual subsidiaries are responsible for their own day-to-day operations.

18. In using direct influence, a parent company directly intervenes in decisions involving the subsidiary. Direct influence is generally limited to significant input into decisions of considerable importance and, in certain of those circumstances, may properly include absolute control over decisions of the subsidiary.

19. Indirect influence is exercised through the implementation of policies and systems (such as the annual planning process) or through acculturation (that is, the process of teaching corporate values and methods).

20. Mestek is a Pennsylvania corporation headquartered in Westfield, Massachusetts. In 2000, it had sales of over \$350 million and net assets of over \$250 million. I have reviewed the structure and activities of this parent company that, during the relevant time period, has owned over 30 separate business units, some of which operate as divisions of Mestek and others as subsidiaries.

21. Throughout the relevant time period, Mestek's subsidiaries, including Met-Coil, have had responsibility for management of their own day-to-day affairs.

22. The size of the Mestek top management team relative to the size of the entire group of divisions and companies is a good indication of the inability of the parent company to exert undue control over its subsidiaries. Mestek's top management team

consists of the Chairman of the Board (who is also Chief Executive Officer), the President (who is also the Chief Operating Officer), the Chief Financial Officer, the Executive Vice President, and one of the Senior Vice Presidents.

23. In contrast to this small five-person top management team, the total employment of Mestek, including its divisions and subsidiaries, was 2,767 persons as of December 31, 2003. A five-person top management team cannot make day-to-day decisions for over 30 business units employing over 2,700 people and generating sales of over \$366 million.

24. Met-Coil is a wholly owned subsidiary of Formtek, which, in turn, is a wholly owned subsidiary of Mestek. Met-Coil has two divisions, Iowa Precision Industries and Lockformer. Since its acquisition by Formtek in June 2000, Met-Coil has continued to operate as a separate subsidiary and corporation. Met-Coil keeps separate books and records and has its own board of directors, which elects and oversees the officers of Met-Coil. In so doing, the Met-Coil board had at least six meetings in 2002 and signed one unanimous consent. Since August 2003, the Met-Coil board has had at least five meetings. It is well within the norms of corporate governance for a parent and subsidiary to have overlapping directors and officers. There has been only one person who served as a director and officer of both Mestek and Met-Coil. It is also within the norms of corporate governance for companies, including subsidiaries, to use unanimous consents.

25. Until June 2002, Met-Coil was run by the same President (James Heitt) who was in office at the time of the acquisition. He retired voluntarily in June 2002 as President and a director of Met-Coil. Since the time of Mr. Heitt's resignation as President of Met-Coil, Rian Scheel, a Senior Vice President and General Manager and a

director of Met-Coil, has continued to run the Lockformer division of Met-Coil. Similarly, another executive, Thomas Santacroce, also an officer and director of Met-Coil, has continued to run the Iowa Precision Industries division of Met-Coil. These two executives are in charge of all operations of their respective divisions and report to Met-Coil's board of directors. For matters which these two executives need to obtain approval but not board approval, the approval can be given by the Chairman and/or Vice Chairman of Met-Coil's board.

26. Bruce Dewey, the former Vice Chairman of Met-Coil's board of directors, informed the Met-Coil board at its November 22, 2002 meeting that the vacancy resulting from Mr. Heitt's retirement had had no operational effect on the corporation's business, but that the office could be of use to the company in handling issues external to the company thereby relieving the operational management from these duties. The board reached a consensus to launch a search for a candidate for the President's office, which would be for a limited term assignment of approximately 24 months. At this meeting, the board also discussed the possibility of forming an executive committee but decided that the board was of such a size and composition that this was not warranted. Since August 2003, Charles F. Kuoni III has served as President of Met-Coil.

27. The activities of the Met-Coil board in electing and overseeing the management of the company are well within generally accepted practices used by boards of directors in using their judgment in organizing the management of the corporation in the way that they think best for the corporation.

28. It is my opinion that throughout the relevant time period, Mestek's primary method of influencing its subsidiaries has been by indirect influence through

policies and systems, whereby Mestek issues policies to provide a framework for the decisions of its subsidiaries.

29. To achieve its goals as owner of the various divisions and subsidiaries, Mestek sets broad policies, such as the health and environmental compliance policy, within which the various businesses operate. Such policies evidence the view and ideals of Mestek as an owner.

30. As with many parent companies, the long-term planning process is an important component of the system by which the Mestek top management team appropriately influences its divisions and subsidiaries. My examination of this process reveals no evidence that Mestek exercised undue control and domination over its subsidiaries.

31. The Mestek top management team oversees a long-term planning process by which the financial objectives and business strategies of the parent are translated into guidelines for the divisions and subsidiaries.

32. This is an interactive process between the Mestek top management team and Mestek's divisions and subsidiaries. Guidelines set by the Mestek top management team for some important items (including sales, profits, and capital budgets) for the divisions and subsidiaries are compared with forecasts prepared by the divisions and subsidiaries and through negotiation, agreement is reached on the plan. The 2003 planning meetings, with more than 30 different planning unit presentations, were conducted over two months in the fall of 2002. The fact that the Lockformer presentation at the Met-Coil planning meeting was just one of more than 30 such presentations that between two and five of Mestek's top management team attended over the course of two

months is further evidence that Mestek cannot control the day-to-day operations of Lockformer.

33. With respect to annual budgets, members of Mestek's top management team meet with the heads of the individual subsidiaries and divisions, some 30 in total, and agree on a budget for the coming year. This process takes several months. After a budget is approved for each division or subsidiary, the executives of the individual subsidiaries are free to make their decisions about running their operations.

34. It is typical and appropriate for a parent company such as Mestek to maintain guidelines for authorization of capital expenditures by its divisions and subsidiaries. The responsibility for ultimate approval of capital expenditures is dependent on the transaction amount. Requiring approval on capital expenditures in excess of certain limits is a typical parent company practice and does not suggest any undue influence or control by Mestek.

35. Mestek encourages its various divisions and subsidiaries to cooperate on matters that concern them jointly. For example, in the summer of 2000 Formtek was given the responsibility for encouraging the divisions and subsidiaries in metal-forming machinery businesses to agree among themselves on a coordinated marketing approach at trade shows and certain advertising of related lines of products. Formtek now provides support on activities common across its subsidiaries, such as sales/marketing, manufacturing services, purchasing, and accounting. By encouraging this activity, Mestek is attempting to reduce the overall expenditure of the Mestek group of companies and increase the efficiency of these companies. Such activity is appropriate and desirable for a parent company.

36. It is also appropriate for a parent to achieve efficiencies by facilitating the sale of products from one division or subsidiary to another (“inter-company sales”). Mestek encourages inter-company sales by recording these sales at prices substantially equivalent to the Company’s cost. This encouragement of inter-company sales helps meet a Mestek goal of having its different business units offer their customers a full line of equipment that includes different company brand names in the same package.

37. The use of periodic meetings and communications among people from various entities of a company is a common tool by which these entities fulfill an important goal of a parent company: transferring knowledge to a division or a subsidiary from the parent company; transferring knowledge to the parent from a division or a subsidiary; and transferring knowledge among sister divisions and subsidiaries, thereby improving efficiency of various operations. Periodic meetings of plant managers from a variety of Mestek companies serve this goal and are appropriate activities for a parent company to sponsor.

38. The manner in which Mestek has performed its parent company functions throughout the relevant time period is well within the norms of parent company practice.

39. Under generally accepted accounting principles, it is customary, and often required, for a parent company to file consolidated financial statements that include the subsidiaries in which the parent company owns a substantial interest, as Mestek has done.

40. It is generally accepted practice that a parent can provide funds to subsidiaries, either directly or indirectly, because the centralization of borrowing often results in an overall lower cost of capital. Mestek used both direct and indirect methods to provide funds to Met-Coil. Mestek made direct loans to Met-Coil totaling \$7 million, through a combination of a secured term credit facility and a secured revolving line of

credit. Mestek also helped provide funds indirectly to Met-Coil through arrangements with Fleet Bank to issue a letter of credit to MB Financial Bank, which then loaned Met-Coil \$5.5 million. The book value of any company is not necessarily an indicator of its value or its financial viability; rather, a firm's value and financial viability are dependent on a complete financial picture including its earning power and its availability of funds from both internal and external sources. In this context, a parent-subsidary relationship, such as the one existing between Mestek and Met-Coil, provides additional financial support to the subsidiary that is not available to stand-alone companies.

41. At budget time, Mestek draws from a central pool of funds, which it makes available to the different divisions and subsidiaries. In doing so, however, Mestek acts more as a bank and not as an operating company in that it provides operating funds to its subsidiaries and divisions, through either loans or investments.

42. It is typical and appropriate for a parent company to provide services to its subsidiaries, such as the legal, environmental health and safety, finance, accounting, and cash management services provided by Mestek. The provision of centralized support services, which are common to the subsidiaries, is a way to utilize efficiently resources and is increasingly necessary for many companies in order to compete effectively. Support services provided by the parent or a designated subsidiary do not constitute undue control and domination of the subsidiaries. Rather, it is a generally accepted practice used to meet an important goal of parent companies mentioned earlier, that is, achieving efficiencies by concentrating activities that benefit from economies of scale. As further evidence of Mestek's treatment of subsidiaries as stand-alone entities, it charges a fee for these services. Mestek charges its fees for two types of services: the first type is the general and administrative costs of Mestek, which include the legal

department, finance department, and other general and administrative functions. These costs are aggregated and spread among the various subsidiaries in relation to their relative net sales. This general and administrative fee does not consider at all the degree to which any subsidiary uses Mestek services. This practice of charging a flat percentage of the subsidiary's sales for a bundle of general and administrative services is consistent with Mestek's taking a long-term view of its investments in its subsidiaries, since any given subsidiary is likely to be a greater user of these resources during one time period and a lesser user in another time period thereby averaging out over the long term. The second type of charge by Mestek to subsidiaries is a per diem for specialized help such as that provided by the manufacturing services department. Mestek's practices of charging fees to its subsidiaries are consistent with generally accepted practices used by parent companies. On August 27, 2003, in connection with Met-Coil's bankruptcy filing, Mestek and Met-Coil entered into a written Services Agreement. That Services Agreement reduced to writing the practices noted above that Mestek and Met-Coil had been following prior to Met-Coil's bankruptcy filing.

43. The provision of advice to subsidiaries by experts at Mestek, such as having David Scott available to provide advice to subsidiaries on health and safety issues or to conduct audits, is typical and appropriate. Such corporate resources do not undermine the autonomy of those responsible for day-to-day environmental, health, and safety issues at individual subsidiaries. For example, Lockformer is responsible for day-to-day implementation of the environmental, health, and safety programs at the Lockformer facility, not Mr. Scott or anyone else at Mestek.

44. With respect to environmental issues, although I did see evidence of discussions between Met-Coil and Mestek, the provision of advice to Met-Coil by Mestek, and approvals by Mestek of Met-Coil's environmental-related expenditures, there was no evidence that Mestek was controlling the day-to-day environmental activities of the environmental part of Lockformer and also no evidence that anything Mestek did was outside the role of generally accepted practices of parent companies acting appropriately in providing advice and approvals.

45. It is my opinion that the mechanisms and level of influence employed by Mestek with respect to Met-Coil during the relevant time period have been typical of the mechanisms and level of influence exercised by parent companies. Mestek does not control the day-to-day operations of Lockformer and its environmental activities nor does it exercise undue control and domination over Met-Coil. The influence exercised by Mestek over Met-Coil is entirely reasonable and appropriate, and clearly within the normal range of that exercised by parent companies functioning properly.


Robert B. Stobaugh

Dated: July 26, 2004

EXHIBIT A: CURRICULUM VITAE

ROBERT B. STOBAUGH
Charles E. Wilson Professor
of Business Administration, Emeritus

Harvard Business School
Soldiers Field; Boston, MA 02163
(617) 484-2488

Professor Stobaugh has written extensively on corporate governance, which includes the activities of a company's board of directors and its top officers as well as parent-subsidiary relationships. He also consults and provides expert testimony. A federal judge referred to him as " ... one of the nation's foremost experts in corporate governance."

A faculty member at Harvard Business School for 29 years, he taught in the executive, MBA, and doctoral programs and served as chairman of the doctoral programs. His teaching dealt with problems faced by corporate directors and executives. He has received the School's highest honor -- its Distinguished Service Award.

He is a director of the National Association of Corporate Directors (NACD), a non-profit organization that helps directors improve the functioning of their boards. As a member of the NACD Faculty, he teaches seminars for directors. Also, he has served on five NACD Blue Ribbon Commissions, which produce reports intended to help directors: Director Professionalism (member), Director Compensation (chair), Corporate Strategy (co-chair), and Risk Oversight (vice-chair) and Executive Compensation (vice-chair). He also is on the faculty of Rice University, where he teaches a course on corporate governance to executives.

Stobaugh has served as a director of eleven different companies in a variety of industries-- software, consulting, radio, cable television, retailing, high-technology materials, construction, plastics, chemicals, oil and gas, coal, housewares, and writing instruments. The companies have ranged in size from a start-up company to a \$14-billion firm. He has served more than 100 cumulative years as a board member. He also chaired the Advisory Board of a large European firm that operated in several industries, including pharmaceuticals and financial.

In his extensive experience in Washington, he has met with a President of the United States and has worked with a Presidential Task Force and a Presidential Advisory Committee. Stobaugh has consulted with the Departments of Commerce, Energy, Justice, State, and Treasury. He has testified nineteen times before Congressional committees, including testimony on governance of the Internal Revenue Service.

He is a member of the Council on Foreign Relations and a Fellow and past-president of the Academy of International Business. He is listed in *Who's Who in America* and is a member of the Hall of Distinction of Louisiana State University.

He has authored, co-authored, or edited fifteen books and monographs. His publications have been reported on the front page of the *Wall Street Journal* and *The New York Times*.

Prior to joining Harvard, Professor Stobaugh worked as a manager for three companies that operated worldwide--Exxon, Caltex, and Monsanto. He resided in Louisiana, Venezuela, New York, Bahrain, London, and Texas.

Professor Stobaugh received a B.S. from Louisiana State University and a Doctor of Business Administration from the Harvard Business School. (7-04)

EXHIBIT B
ROBERT B. STOBAUGH
TESTIMONY DURING PRIOR FOUR YEARS

By deposition (2003) in Ronald A. Rittenmeyer, in his Capacity as Plan Administrator of the AFD Fund v. Donaldson, Lufkin & Jenrette, Inc., et al., County Court at Law No. 2, Dallas County, Texas.

By deposition (2003) in Laidlaw Stockholder Litigation, Safety-Kleen Corp. Bondholders Litigation, Safety-Kleen Corp. Stockholders Litigation, and Safety-Kleen Rollins Shareholders Litigation, U.S. District Court, District of South Carolina, Columbia Division.

By deposition (2003) in Tracinda Corporation v. DaimlerChrysler AG, et al., U.S. District Court, District of Delaware.

By deposition (2002) in Dick Corporation v. Gordon H. Geiger, et al., Superior Court of the State of Indiana for the County of Hamilton.

By deposition (2002) in Bridgestone/Firestone, Inc. Tire Products Liability Litigation, U.S. District Court, Southern District of Indiana, Indianapolis Division.

By deposition (2002) and at trial (2003) in Consolidated Industries Corp., et al. v. Enodis Corporation, et al., U.S. Bankruptcy Court, Northern District of Indiana, Hammond Division at Lafayette.

By deposition (2002) in Richard A. Lippe, et al. v. Bairnco Corporation, et al., U.S. District Court, Southern District of New York.

By deposition (2002) in Leland Stenovich, et al. v. Spencer F. Eccles, et al., Third Judicial District Court, in and for Salt Lake County, State of Utah.

By deposition (2002) in Theresa LeClercq, et al. v. The Lockformer Company, et al., U.S. District Court, Northern District of Illinois, Eastern Division.

By deposition (2002) in Credit Suisse First Boston Corporation, et al. v. ARM Financial Group, Inc., et al., U.S. District Court, Southern District of New York; and Mercury Insurance Company, et al. v. Martin H. Ruby, et al., U.S. District Court, Central District of California, Western Division.

By deposition (2000) and at trial (2000) in Harry Lewis, et al. v. Donald R. Beall, et al. and Rockwell International Corporation, Superior Court of the State of California for the County of Orange.

By deposition (2000) in Anthem Insurance Companies, Inc. v. Dennis H. Nystrom, et al., Superior Court of the State of Indiana for the County of Marion.

By deposition (2000) in The Estate of Clara Brown, Deceased, by and through Kenneth Brown as Personal Representative v. Beverly Health & Rehabilitation Services, Inc., et al., Circuit Court of the Thirteenth Judicial Circuit of the State of Florida, in and for Hillsborough County Civil Division.

By deposition (2000) in Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., U.S. District Court, Eastern District of New York.