

SELECTED FINANCIAL DATA (unaudited)

Selected financial data for Mestek, Inc. and its subsidiaries, (the “Company”) for each of the last five years is shown in the following table, which is derived from and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this report.

SUMMARY OF FINANCIAL POSITION as of December 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(Dollars in thousands except per share data)				
Total Assets	\$ 407,993	\$ 385,849	\$ 326,003	\$ 279,320	\$ 265,811
Working Capital	214,605	242,487	196,543	167,127	144,365
Total Debt	8,767	10,163	10,163	10,163	10,163
Mestek Inc. Shareholders’ Equity	299,358	287,406	241,569	208,906	192,279
Shareholders’ Equity Per Common Share (1)	\$ 39.50	\$ 38.29	\$ 32.18	\$ 27.88	\$ 25.67

- (1) Shareholders’ Equity per common share amounts, a non-GAAP measure, are computed using the common shares outstanding as of December 31, 2021, 2020, 2019, 2018, and 2017.

SUMMARY OF OPERATIONS for the years ended December 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(Dollars in thousands except per share data)				
Revenues	<u>\$ 350,795</u>	<u>\$ 310,922</u>	<u>\$ 341,734</u>	<u>\$ 350,675</u>	<u>\$ 329,283</u>
Net Income Attributable to Mestek, Inc.	<u>\$ 12,408</u>	<u>\$ 44,983</u>	<u>\$ 31,968</u>	<u>\$ 18,525</u>	<u>\$ 15,026</u>
Earnings per Common Share:					
Basic Earnings per Common Share:					
Net Income	<u>\$ 1.65</u>	<u>\$ 5.99</u>	<u>\$ 4.26</u>	<u>\$ 2.47</u>	<u>\$ 2.01</u>
Diluted Earnings per Common Share:					
Net Income	<u>\$ 1.65</u>	<u>\$ 5.93</u>	<u>\$ 4.21</u>	<u>\$ 2.44</u>	<u>\$ 1.99</u>



Independent Accountant's Review Report

RSM US LLP

Board of Directors and Shareholders
Mestek, Inc.

We have reviewed the accompanying consolidated financial statements of Mestek, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2020 Financial Statements.

The 2020 financial statements of Mestek, Inc. and its subsidiaries were audited by us, and we expressed an unmodified opinion on them in our report, dated August 11, 2021. We have not performed any auditing procedures since that date.

RSM US LLP

Boston, Massachusetts
June 21, 2022

MESTEK, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
	(Dollars in thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 71,684	\$ 71,793
Short-Term Investments	-	24,994
Accounts Receivable - less allowances of \$1,690 and \$1,804, respectively	54,354	57,103
Inventories – net	79,254	58,813
Property Held for Sale	2,327	4,826
Commodity Investments	73,153	84,253
Other Current Assets	14,693	11,262
Total Current Assets	295,465	313,044
Property and Equipment – net	48,859	34,450
Right-of-use Assets – net	12,949	10,931
Deferred Tax Assets	-	1,431
Other Assets – net	8,342	4,053
Goodwill	42,378	21,940
Total Assets	\$ 407,993	\$ 385,849
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 14,226	\$ 13,577
Accrued Payroll and Related Expenses	19,635	20,001
Customer Deposits	28,145	15,558
Current Portion of Environmental Reserves	116	119
Current Portion of Operating Lease Obligations	4,187	3,917
Warranty Reserve	2,757	2,755
Other Accrued Liabilities	11,794	14,630
Total Current Liabilities	80,860	70,557
Environmental Reserves - long term	3,320	3,432
Operating Lease Obligations - long term	8,763	7,014
Deferred Tax Liabilities	1,276	-
Long-Term Debt	8,767	10,163
Other Liabilities	4,796	6,516
Total Liabilities	107,782	97,682
SHAREHOLDERS' EQUITY		
Common Stock, no par, stated value \$0.05 per share, 20,000,000 shares authorized, 8,473,288 and 8,384,726 shares issued, respectively	422	418
Paid in Capital	5,788	5,792
Retained Earnings	305,325	292,917
Treasury Shares, at cost (894,720 and 878,010 common shares, respectively)	(11,932)	(11,293)
Accumulated Other Comprehensive Loss	(245)	(428)
Total Mestek, Inc. Shareholders' Equity	299,358	287,406
Non-controlling Interests	853	761
Total Shareholders' Equity	300,211	288,167
Total Liabilities and Shareholders' Equity	\$ 407,993	\$ 385,849

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2021 and 2020

	2021	2020
	(Dollars and shares in thousands, except earnings per common share)	
Net Sales	\$ 350,795	\$ 310,922
Cost of Goods Sold	253,305	214,624
Gross Profit	97,490	96,298
Selling Expense	37,943	34,736
General and Administrative Expense	25,966	26,691
Engineering Expense	16,626	16,766
Hedging and Other Income - net	(737)	(43,253)
Operating Profit	17,692	61,358
Interest (Expense) Income - net	(120)	605
Other Expense - net	(273)	(197)
Income Before Income Taxes	17,299	61,766
Provision for Income Taxes	4,799	16,776
Net Income	12,500	44,990
Less: Net Income - Non-controlling Interests	92	7
Net Income Attributable to Mestek, Inc.	\$ 12,408	\$ 44,983
Basic Earnings Per Common Share	\$ 1.65	\$ 5.99
Basic Weighted Average Shares Outstanding	7,534	7,507
Diluted Earnings Per Common Share	\$ 1.65	\$ 5.93
Diluted Weighted Average Shares Outstanding	7,534	7,588

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020

	2021	2020
	(Dollars in thousands)	
Net Income	\$ 12,500	\$ 44,990
Other Comprehensive Income		
Cumulative Translation Adjustments	183	854
Other Comprehensive Income	183	854
Comprehensive Income	12,683	45,844
Less: Comprehensive Income—Non-controlling Interests	92	7
Comprehensive Income Attributable to Mestek, Inc.	\$ 12,591	\$ 45,837

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2021 and 2020

(Dollars in thousands)	Common Stock	Paid In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total
Balance – January 1, 2020	\$ 418	\$ 5,792	\$ 247,934	\$ (11,293)	\$ (1,282)	\$ 754	\$ 242,323
Net Income	-	-	44,983	-	-	7	44,990
Cumulative Translation Adjustments	-	-	-	-	854	-	854
Balance – December 31, 2020	\$ 418	5,792	292,917	(11,293)	(428)	761	288,167
Net Income	-	-	12,408	-	-	92	12,500
Cumulative Translation Adjustments	-	-	-	-	183	-	183
Exercise of Stock Options	4	(4)	-	(639)	-	-	(639)
Balance – December 31, 2021	\$ 422	\$ 5,788	\$ 305,325	\$ (11,932)	\$ (245)	\$ 853	\$ 300,211

See Accompanying Notes to the Consolidated Financial Statements

MESTEK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020

	2021	2020
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net Income	\$ 12,500	\$ 44,990
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization of Intangibles	6,544	4,055
Operating Lease Amortization	4,272	4,362
Unrealized Loss (Gain) on Trading Securities	1,986	(1,735)
Provision (Benefit) for Deferred Taxes	2,709	(1,627)
Provision for Losses on Accounts Receivable, net of write offs and recoveries	(116)	(37)
(Gain) Loss on Sale of Property and Equipment	(1,718)	5
Change in Assets and Liabilities:		
Accounts Receivable	3,046	(13,520)
Inventories	(17,825)	(2,520)
Accounts Payable	529	1,756
Customer Deposits	12,586	612
Environmental Reserves	(114)	(88)
Operating Leases	(4,272)	(4,362)
Other Assets and Liabilities, net	(8,594)	10,328
Net Cash Provided by Operating Activities	11,533	42,219
Cash Flows from Investing Activities:		
Proceeds from Sale (Purchases) of Trading Securities, net	9,114	(54,140)
Maturities of Short-Term Investments	24,994	23,647
Acquisitions	(42,518)	-
Capital Expenditures	(4,309)	(3,756)
Proceeds from Sale of Fixed Assets	4,219	10
Net Cash Used in Investing Activities	(8,500)	(34,239)
Cash Flows from Financing Activities:		
Payments for Exercise of Incentive Stock Options	(639)	-
Cash Received from Acquisition	40	-
Payoff of Notes Payable	(2,425)	-
Net Cash Used in Financing Activities	(3,024)	-
Net Increase in Cash and Cash Equivalents	9	7,980
Exchange Rate Effect on Cash and Cash Equivalents	(118)	261
Cash and Cash Equivalents – Beginning of Period	71,793	63,552
Cash and Cash Equivalents – End of Period	\$ 71,684	\$ 71,793

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries and certain partially owned entities over which it has a controlling financial interest. All material inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) 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, post retirement obligations, valuation of short-term investments and commodities, valuation of property held for sale, accounting for income taxes and the realization of deferred tax assets. Actual amounts could differ significantly from these estimates.

Revenue Recognition

The Company recognizes revenue in accordance with “Financial Accounting Standards Board (“FASB”) Accounting Standards codification (“ASC”)” 606, “Revenue from Contracts with Customers”. Results for fiscal 2021 and 2020 are presented under ASC 606.

In 2021, approximately 94% of the Company’s revenue was recognized at a point in time for each performance obligation under the contract when the customer obtains control of the goods or service. The majority of the Company’s product sales, which relate to HVAC and metal forming equipment, are accounted for at a point in time. The Company has made a policy election to not treat the obligation to install and setup as a separate performance obligation under the contract as they are not significant and, as a result, the associated installation and setup costs are accrued when revenue is recognized.

The remaining 6% of the Company’s revenue in 2021 was recognized on an over time basis based on an input method that compares the costs incurred to date to the total expected costs required to satisfy the performance obligation. Contracts are accounted for on an over time basis when they include products which have no alternative use and an enforceable right to payment over time. The majority of the contracts recognized on an over time basis are for architectural skylight and other related projects within the Company’s Mestek Architectural Group. These projects are typically highly customized for the customer and, as a result, would include a significant cost to rework in the event of cancellation.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

The following table presents revenue by revenue recognition method:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Point in Time	\$ 328,143	\$ 286,795
Over Time	22,652	24,127
Total	\$ 350,795	\$ 310,922

The transaction price is typically based on the amount billed to the customer and includes estimated variable consideration where applicable. For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative stand-alone selling price. The Company's contracts covering the sale of its products generally include warranty provisions that provide assurance to its customers that the products will comply with agreed-upon specifications. In certain limited situations the Company negotiates the terms regarding extended warranty coverage and length of warranty depending on the products and applications.

The Company disaggregates its revenue from contracts with customers by market and geography as this best depicts how its revenue is affected by economic factors.

The following table presents the disaggregation of revenues by market and geography for the years ended December 31, 2021 and 2020:

	2021	2020
	(Dollars in thousands)	
Revenues by Market:		
HVAC Equipment and Architectural Products	\$ 291,895	\$ 245,280
Metal Forming Equipment	58,900	65,642
Totals	\$ 350,795	\$ 310,922
Revenues by Geography:		
North America	\$ 340,153	\$ 300,352
Europe	3,057	1,517
Asia	4,485	7,063
Mexico	703	339
Rest of the World	2,397	1,651
Totals	\$ 350,795	\$ 310,922

The following tables presents contract balances from contracts with customers as of December 31, 2021 and 2020:

	2021	2020
	(Dollars in thousands)	
Accounts Receivable (less allowances)	\$ 54,354	\$ 57,103
Contract Assets	\$ 3,548	\$ 3,108
Contract Liabilities	\$ 28,145	\$ 15,558

Contract Assets represent unbilled revenues associated with revenue recognized on contracts accounted for

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

on an over time basis, which will be billed in future periods based on the contract terms. Contract Assets, which are reflected in Other Current Assets in the accompanying consolidated balance sheets, increased from \$3,108,000 at December 31, 2020 to \$3,548,000 at December 31, 2021 due to contractual limitations on billing which prevented the Company from billing all revenue earned in the period. Contract Liabilities consist of customer deposits on unshipped orders, which are separately reported on the accompanying consolidated balance sheets, together with contractually permitted billings in excess of revenue recognized. Contract Liabilities will be recognized as revenue in future periods once the revenue recognition criteria are met. The majority of the Contract Liabilities relate to advance payments on contracts accounted for at a point in time. These advance payments will be recognized as revenue when the Company's performance obligations have been satisfied, which typically occurs when the product has been shipped and control of the asset has transferred to the customer. The Company recognized revenue of \$15,558,000 in 2021 that was included in the Contract Liabilities balance as of December 31, 2020.

The Company includes in revenue amounts invoiced for shipping and handling with the corresponding costs reflected in cost of goods sold. Provisions for discounts, warranties, returns and other adjustments are provided for in the period in which the related sales are recorded. Sales taxes, value-added taxes and certain excise taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue.

Cash Equivalents, Short-term Investment, and Trading Securities

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

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

The Company maintains a brokerage account for speculative commodities purchases and related investments which is included in Commodity Investments in the accompanying consolidated balance sheets. These investments carry market risk and are classified as trading and are recorded at their fair values using the specific identification method. The investments include actual physical quantities of precious metals maintained in the broker's name at financial institutions by an established commodities broker. The cumulative results for these activities in 2021 and 2020 were a pretax gain of \$852,000 and \$43,858,000, respectively, primarily related to long positions on various commodities, respectively. Since these investments do not qualify as effective hedges for accounting purposes, the unrealized holding gains or losses on any investments are included in Hedging and Other Income - net in the accompanying consolidated statements of income.

Accounts and Notes Receivable

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

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of inventories is principally determined by the last-in, first-out ("LIFO") method. Approximately 79% and 77% of inventory cost were determined using the LIFO method for the years ended December 31, 2021 and 2020, respectively, with the remaining inventories determined using the first-in, first-out ("FIFO") method. The Company provides an allowance for excess, obsolete, and damaged inventory based on historical usage.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets or, for leasehold improvements, the life of the lease, if shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to operations as incurred; significant improvements are capitalized. Property is classified as held-for-sale when its carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Assets designated as held for sale are held at the lower of carrying amount or a designation of fair value less costs to sell. Depreciation is not charged against property held for sale.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of a business acquired in a business combination over the fair value of the net assets acquired and liabilities assumed. The Company accounts for goodwill in accordance with FASB ASC 350-20, “Goodwill and Other Intangible Assets” (“ASC 350-20”). The Company does not amortize goodwill and intangible assets with indefinite useful lives, rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company did not recognize any impairment charges related to goodwill or indefinite lived intangible assets during the years ended December 31, 2021 and 2020. The Company established reporting units based on its current reporting structure. For purposes of testing goodwill for impairment, goodwill has been designated to these reporting units to the extent it relates to each reporting unit. In 2021 and 2020, the Company’s goodwill was designated to the HVAC and Metal Forming reporting units.

Goodwill and Intangible Assets consisted of the following at:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Goodwill – net of prior amortization	\$ 42,378	\$ 21,940
Patents, Rights, Trademarks, and Other Intangibles	\$ 9,895	\$ 4,394
Accumulated Amortization, Patents, Rights and Other Assets	(4,961)	(3,867)
Patents, Rights and Trademarks – net (included in Other Assets)	\$ 4,934	\$ 527

The increase in goodwill in 2021 resulted primarily from the acquisitions described in Note 3 and in 2020 from foreign currency fluctuations of \$34,000. Amortization expense relating to the intangible assets for the years ending December 31, 2021 and 2020 was \$1,093,000 and \$89,000, respectively.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Triggering events that could indicate the carrying value of long-lived assets is not fully recoverable may include the loss of significant customers, adverse changes to volumes and/or profitability in specific markets and changes in the Company's business strategy that result in a significant reduction in cash flows generated in a specific operation. Management also performs an annual assessment of the useful lives of the contract rights and accelerates amortization, if necessary. If it is determined that the carrying value of the assets is not recoverable, the Company would write down the long-lived assets by the amount by which the carrying value exceeds fair value. The Company determined there were no triggering events to test for impairment of long-lived assets during the years ended December 31, 2021 or 2020.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

Advertising Expense

Advertising costs are charged to operations as incurred. Such charges aggregated \$1,483,000 and \$2,180,000, for the years ended December 31, 2021 and 2020, respectively, and are included in Selling Expense in the accompanying consolidated statements of income.

Product Warranty

The Company provides warranties on certain products which range from one year to longer term warranties. The estimated cost of product warranties are included in the Warranty Reserve, determined primarily from historical information, at the time product revenue is recognized. Should actual product failure warranties differ from the Company's estimates, revisions to the estimated warranty liability would be recorded. For the year ended December 31, 2021, the net provision for warranty expense was 2.0 million and the warranty utilization was \$2.0 million for total accrued warranties of \$2.8 million. For the year ended December 31, 2020, the net provision for warranty expense was \$3.1 million offset by warranty utilization of \$3.0 million for total accrued warranties of \$2.8 million.

Research and Development Expense

Research and development expenses are charged to operations as incurred. Such charges aggregated \$7,188,000, and \$7,348,000, for the years ended December 31, 2021 and 2020, respectively, and are included in Engineering Expense in the accompanying consolidated statements of income.

Treasury Shares

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

Earnings per Common Share

Basic earnings per share have been computed using the weighted average number of common shares outstanding. Common stock options of the Company, as more fully described in Note 11, were considered in the computation of diluted earnings per share, except when such effect would be anti-dilutive.

Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing on the balance sheet dates. The Statements of Income are translated at weighted-average exchange rates in effect during the year. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are recorded in Accumulated Other Comprehensive Loss as a separate component of Shareholders' Equity. Transaction gains and losses are included in other expense and were not material in either 2021 or 2020.

Other Comprehensive Income

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

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

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. Deferred tax assets and liabilities are recorded net as long term. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

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

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

The carrying values of cash, cash equivalents, brokerage accounts, investments, accounts receivable, accounts payable, accrued expenses and short-term bank debt approximate fair market value due to the short-term nature of these financial instruments. The carrying value of long-term debt approximates fair market value, which is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities. Financial instruments that potentially subject the Company to concentrations of credit risk are principally accounts receivable. The Company's brokerage account, as noted above, subjects the Company to market risk. The Company also invests in United States and Canadian government securities which are reflected in the accompanying financial statements under Short-Term Investments at December 31, 2020.

The Company has no significant off-balance-sheet or concentration of credit risk exposure such as foreign exchange contracts or option contracts. The Company maintains its cash and cash equivalents with established financial institutions. Certain cash in foreign institutions may be subject to temporary withdrawal restrictions. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes substantial sales. To reduce its credit risk, the Company routinely assesses the financial strength of its customers. The Company maintains an allowance for potential credit losses but historically has not experienced any significant losses related to individual customers or groups of customers beyond what is provided for in the allowance. No individual customer accounted for more than 10% of revenues in 2021 or 2020. No individual customer accounted for more than 10% of the Company's accounts receivable at December 31, 2021 or 2020.

Fair Value Measurements

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

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

Level 2 Inputs to the valuation methodology include:

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

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

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

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

The following table presents the Company's assets and liabilities that are measured at fair value and the related hierarchy levels as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(Dollars in thousands)			
Position in open contracts	\$ 1,519	\$ -	\$ -	\$ 1,519
Investments in precious metals	<u>71,634</u>	<u>-</u>	<u>-</u>	<u>71,634</u>
Total assets carried at fair value	<u>\$ 73,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,153</u>

The following table presents the Company's assets that are measured at fair value and the related hierarchy levels as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(Dollars in thousands)			
US Treasury Securities	\$ 24,994	\$ -	\$ -	\$ 24,994
Position in open contracts	(937)	-	-	(937)
Investments in precious metals	<u>85,191</u>	<u>-</u>	<u>-</u>	<u>85,191</u>
Total assets carried at fair value	<u>\$ 109,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,248</u>

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

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

The Company had investments in US Treasury securities as of December 31, 2020 that are Level 1 financial instruments, which are recorded based on quoted market prices, and were included in Short-term Investments in the accompanying consolidated balance sheets.

Labor Force

Certain of the Company's personnel are represented by labor unions. The Company has contracts with each union which are generally renewed for 3- to 4-year terms. The concentration of employees under union contracts represented approximately 27% and 28% of the Company's workforce as of December 31, 2021 and 2020, respectively.

Stock-Based Compensation

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

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

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

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

No options were granted for the years ending December 31, 2021 or 2020.

In the years ended December 31, 2021 or 2020, there was no stock-based compensation expense recorded. As of December 31, 2021 or 2020, there was no remaining unamortized compensation expense related to non-vested stock awards.

Recently Adopted Accounting Pronouncements

Reference Rate Reform (Topic 848)

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The amendments apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments are effective for all entities through December 31, 2024. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2024. Although the market transition away from LIBOR will require a modification to the Company's revolving credit facility, term loan, and delayed draw term loan as described in Note 5, the Company is still evaluating the impact ASU 2020-04 will have on the Company's consolidated financial statements, but does not expect it to be material.

Credit Losses (Topic 326)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The amendments in this update require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this update eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which delayed the implementation for ASU 2016-13. This ASU will become applicable to the Company beginning in fiscal year 2023. The Company is evaluating the impact of the new standard on the consolidated financial statements, but does not expect it to be material.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

2. INVENTORIES

Inventories consisted of the following at December 31:

	2021	2020
	(Dollars in thousands)	
Raw materials	\$ 55,738	\$ 46,177
Work-in-progress	22,480	18,390
Finished goods	22,712	10,160
	100,930	74,727
Less reserve for LIFO method of valuation	(21,676)	(15,914)
	\$ 79,254	\$ 58,813

The Company uses the LIFO method of valuing substantial portions of its inventory. Approximately \$5,762,000 and \$105,000 of expense was recorded in Cost of Goods Sold in the periods ended December 31, 2021 and 2020, respectively, as a result of using the LIFO method rather than FIFO.

3. ACQUISITIONS

Acquisitions are recorded using the acquisition method of accounting in accordance with ASC 805, “Business Combinations” (ASC 805). As a result, the aggregate purchase price has been allocated to assets acquired and liabilities assumed based on the estimate of fair market value of such assets and liabilities at the date of acquisition. The valuation of intangible assets is determined using an income approach methodology.

On April 19, 2021, the Company acquired the operating assets of the hydronic baseboard business of Slant Fin Corporation. The aggregate cash paid totaled \$40.5 million and was financed through cash on hand. Intangible assets associated with the acquisition totaled \$5.5 million including customer relationship intangibles, trademarks, and the value of the customer order backlog at closing date. The excess purchase price over the estimated fair value of net assets acquired was recognized as goodwill and totaled \$17.3 million. The fair values of the customer relationship intangible assets were determined using the multi-period excess earnings method based on discounted projected net cash flows associated with the net earnings attributable to the acquired customer relationships. These projected cash flows were estimated over the remaining economic life of the intangible asset and were considered from a market participant perspective. Key assumptions used in estimating future cash flows included projected revenue growth rates and customer attrition rates. The projected future cash flows were discounted to present value using an appropriate discount rate. The customer relationships had a weighted-average useful life of 15 years.

The assets acquired were as follows:

	(Dollars in thousands)	
Inventory	\$	2,232
Machinery and Equipment		15,434
Intangible Assets		5,501
Goodwill		17,350
Total	\$	40,517

On December 22, 2021, the Company, through its subsidiary, Mestek Canada, Inc., acquired 100% of the common stock of Transom Corporation for a total consideration of \$3,000,000 including \$2,000,000 paid in cash at closing and \$1,000,000 payable on December 22, 2023. Transom Corporation specializes in commercial heat pump applications for heat pump technology. The Company believes that Transom’s product profile and product

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

development capabilities will allow the Company to leverage its existing distribution network to expand its footprint in commercial heat pump markets as the “electrification” movement continues to impact the HVAC industry.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2021	2020	Depreciation Est. Useful Lives
	(Dollars in thousands)		
Land	\$ 3,212	\$ 3,212	
Buildings	32,935	30,606	19-39 Years
Leasehold Improvements	8,637	8,359	15-39 Years
Equipment	133,883	117,468	3-10 Years
	178,667	159,645	
Accumulated Depreciation	(129,808)	(125,195)	
	\$ 48,859	\$ 34,450	

The above amounts include \$2,395,000 and \$1,204,000 at December 31, 2021 and 2020, respectively, in assets that had not yet been placed in service by the Company. No depreciation was recorded in the related periods for these assets. Assets classified as “Property Held for Sale” are excluded from the amounts listed above.

Depreciation and amortization of intangibles totals \$6,544,000, and \$4,055,000 for the years ended December 31, 2021 and 2020, respectively.

5. DEBT

Debt consisted of the following at December 31:

	2021	2020
	(Dollars in thousands)	
Industrial Development Bond – MO	\$ -	\$ 2,425
Notes Payable - Other	8,767	7,738
	8,767	10,163
Less Current Maturities	-	-
Long Term Debt	\$ 8,767	\$ 10,163

Industrial Development Bond - MO – On June 17, 2005, the Company acquired an 80,000 square foot manufacturing facility in Bridgeton, Missouri, for \$2,940,000, which was used to consolidate existing Formtek Metal Processing business units. On July 19, 2005, the Company refinanced this transaction as part of a 25-year-tax-exempt Industrial Development Bond secured by the property, totaling \$4,430,000. The note bears interest at a variable rate that considers prevailing market conditions and is set weekly by the remarketing agent, Bank of America Securities

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

LLC. At no time may the interest rate exceed the maximum annual rate of 12.00%. Interest is payable monthly until maturity at July 1, 2030. The effective rate of interest paid in 2021, including letter of credit costs, was approximately 2.20%. The note is secured by a letter of credit with Santander Bank NA. The Note was paid off on July 1, 2021 and the letter of credit was accordingly cancelled.

Notes Payable – Others – The Company is indebted under a series of non-interest bearing unsecured demand notes to an investor group, which includes a related party. The balance outstanding under the notes as of both December 31, 2021 and December 31, 2020 was \$7,738,000. The Company does not expect these obligations to mature in 2022, and therefore has classified them as long-term debt. The Company is also obligated in the amount of \$1,000,000, as more fully described in Note 3 in connection with the acquisition of Transom Corporation on December 23, 2021.

Revolving Loan Agreement – On May 25, 2018, the Company entered into a new five year, \$60,000,000, committed, secured, multi-bank revolving loan and letter of credit facility (the “Facility”), led by Santander N.A, replacing a prior five-year credit agreement entered into on December 30, 2014. 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 London Inter-Bank Offered Rate (“LIBOR”) rate, or such successor rate as may be established during the five-year term of the Facility. There were no borrowings outstanding under the Facility as of December 31, 2021 or 2020. The Facility contains affirmative and negative covenants typical of such financing transactions, and specific financial covenants which require the Company to maintain a minimum cash flow coverage ratio and a maximum cash flow leverage ratio. As of December 31, 2021, the Company was in compliance with all of the financial covenants required under the Facility, except for the timely delivery of financial statements, which was waived by the bank and had no effect on the consolidated financial statements. Revolving borrowings under the Facility are due and payable in full on the maturity date of the Facility, which is May 25, 2023. The credit agreement relating to the Facility also contains restrictions regarding the creation of indebtedness, the occurrence of mergers or consolidations, the sale of subsidiary stock and the payment of dividends. The availability of borrowings under the loan agreement is reduced by outstanding letters of credit. Borrowing availability under the Facility was \$51,594,000 as of December 31, 2021.

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

	Total Debt
2022	\$ -
2023	1,000
2024	-
2025	-
2026	-
Thereafter	7,767
Total Debt Maturities:	\$ 8,767

Cash paid for interest was \$181,000 and \$338,000, during the years ended December 31, 2021 and 2020, respectively. Interest expense totaled \$191,000 and \$340,000 for the years ended December 31, 2021 and 2020, respectively.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

6. INCOME TAXES

The provision for income taxes consisted of the following:

	2021	2020
	(Dollars in thousands)	
Federal Income Tax:		
Current	\$ -	\$ 12,372
Deferred	2,832	(1,133)
State Income Tax:		
Current	901	5,239
Deferred	30	(540)
Foreign Income Tax:		
Current	804	812
Deferred	232	26
	<u>\$ 4,799</u>	<u>\$ 16,776</u>
Provision for Income Taxes	<u>\$ 4,799</u>	<u>\$ 16,776</u>

Income Before Income Taxes included foreign income of \$4,191,000 and \$3,219,000 in 2021 and 2020, respectively.

Total Provision for Income Tax expense differed from statutory income tax expense computed by applying the U.S. federal income tax rate of 21% to earnings before income tax, as follows:

	2021	2020
	(Dollars in thousands)	
Computed "Expected" Income Tax Expense	\$ 3,633	\$ 12,971
Permanent Difference, Other	323	171
State Income Tax, Net of Federal Tax Expense	735	3,712
Tax Credits	(47)	(252)
Other	155	174
	<u>\$ 4,799</u>	<u>\$ 16,776</u>
Provision for Income Tax	<u>\$ 4,799</u>	<u>\$ 16,776</u>

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

Deferred income tax expense results from temporary differences in the recognition of income and expense for income tax and financial reporting purposes. The components of and changes in the net deferred tax assets (liabilities) which give rise to this deferred income tax expense for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
	(Dollars in thousands)	
<u>Deferred Tax Assets:</u>		
Remediation Reserve	\$ 926	\$ 984
Accrued Expenses	2,731	-
Net Operating Loss Carry Forward	-	229
Accounts Receivable Valuation	445	493
Product Liability Reserve	734	755
Deferred Benefits Plan	852	877
Compensated Absences	594	3,724
Inventory Valuation	898	553
Workers Compensation Reserve	261	215
Right-of Use Assets	3,434	-
Current Lease Obligations	-	1,070
Long-term Lease Obligations	-	1,916
Other	144	302
Total Deferred Tax Assets	11,019	11,118
<u>Deferred Tax Liabilities:</u>		
Depreciation and Amortization	(8,089)	(5,149)
Prepaid Expenses	(771)	(1,074)
Unrealized Gain	-	(478)
Right-of-Use Assets	-	(2,986)
Current Lease Obligations	(1,111)	-
Long-Term Lease Obligations	(2,324)	-
Total Deferred Tax Liabilities	(12,295)	(9,687)
Net Deferred Tax (Liabilities) Assets	\$ (1,276)	\$ 1,431

The Company paid a total of \$6,772,000 and \$12,789,000 in income taxes to federal, state, and foreign tax jurisdictions for the years ended 2021 and 2020, respectively.

The Company accounts for uncertainty in income taxes under the provisions of ASC 740-10, "Income Taxes". These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. The Company recognizes interest and penalties related to uncertain tax provisions, if any, as a component of the provision for income taxes in the accompanying consolidated statements of income. At December 31, 2021 and 2020, the potential interest and penalties attributable to any uncertainties were *de minimus*.

The Company and its subsidiaries file income tax returns in the United States and various state, local and foreign jurisdictions. The Company is subject to audit by U.S. federal authorities for years after 2017, and for years after 2017 in its other major jurisdictions.

The Company has not recorded deferred income taxes on the undistributed earnings of its international subsidiaries because it is the Company's intent to reinvest such earnings indefinitely. The Company does not believe there would be any significant deferred taxes related to undistributed earnings.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

7. LEASES AND RELATED PARTY TRANSACTIONS

In February, 2016, the FASB issued ASU 2016-02, which requires a lessee to recognize a right-of-use (ROU) asset and a corresponding lease liability for operating leases on its balance sheet. This ASU also requires a lessee to recognize a single lease cost calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. The company adopted this ASU as of the beginning of 2019. Leases are recorded under ASC 842, Leases, where the Company determines if an arrangement is a lease obligation at the inception of the contract. The Company enters into operating lease commitments primarily for its manufacturing and office space that expire on various dates over the next 5 years, some of which include one or more options to extend the lease for up to 5 years.

An analysis of the Company's lease population indicates that they qualify as operating leases. The Company's operating lease ROU assets and corresponding lease liabilities with contract terms greater than 12 months are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. In determining the present value of future lease payments, the Company utilizes the Company's expected long-term secured borrowing rate of 4%. In addition, the calculation may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company recognizes its operating lease expense for lease payments on a straight-line basis over the lease term which is included in General and Administrative Expense in the accompanying consolidated statements of income. Variable lease costs are not included in fixed lease payments and as a result, are excluded from the measurement of the ROU assets and lease liabilities. The Company expenses all variable lease costs as incurred, which were not material for 2021.

Related Party Leases

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

Details of the principal operating leases with related parties as of December 31, 2021, including the effect of renewals and amendments executed subsequent to December 31, 2021, are as follows:

	Date of Lease	Term	Basic Annual Rent	Minimum Future Rentals
(Dollars in thousands)				
Sterling Realty Trust:				
Land and Building-Main	01/01/22	3 years	\$ 675	\$ 2,026
Land and Building Beacon Morris	01/01/22	3 years	\$ 222	\$ 665
Land and Building-South Complex	01/01/22	3 years	\$ 736	\$ 2,207
Land and Building Torrington	01/01/22	3 years	\$ 379	\$ 1,138
Rudbeek Realty Corp.:				
Farmville Location	01/01/22	3 years	\$ 942	\$ 2,826
Beaver Lake Realty, LLC:				
Land and Building- 47 Westfield Industrial Park Road	11/1/20	5 years	\$ 144	\$ 551

All Leases

Rent expense for operating leases, including those with related parties, was \$4,179,000 and \$4,191,000 for the years ended December 31, 2021 and 2020, respectively. Rents to related parties, including the aforementioned leases, were approximately \$3,098,000 and \$3,098,000 for the years ended December 31, 2021 and 2020, respectively. The Right to Use Asset for all existing lease agreements is \$12,949,000 as of December 31, 2021.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

Future minimum lease payments under all non-cancelable leases as of December 31, 2021 are as follows:

<u>Years Ending December 31,</u>	<u>Operating Leases</u>
	(Dollars in thousands)
2022	\$ 4,709
2023	4,131
2024	3,952
2025	825
2026	609
Thereafter	1,210
Total Minimum Lease payments	\$ 15,436

Other Related Party Transactions

On October 13, 2006, the Company loaned \$611,000 to Stephen Shea, its Chief Financial Officer, in connection with his exercise in 2005, of incentive stock options. The loan bore interest at 4.5%, originally matured on October 13, 2009, and is secured by a pledge of 40,000 common shares of the Company's stock. On October 13, 2009, the Company amended and restated the \$611,000 loan to extend the maturity to October 13, 2010 and added additional security in the form of a pledge of the proceeds from a term life insurance policy in the name of Stephen Shea to the Company by Mr. Shea and his named beneficiary. The loan automatically renews for a period of one year at each anniversary date. The Company does not expect payment to be made in 2021 and therefore has classified this loan as a long-term asset in Other Assets - net in the Company's consolidated balance sheets as of December 31, 2021 and 2020.

8. EMPLOYEE BENEFIT PLANS

The Company maintains a qualified non-contributory profit-sharing plan ("Profit-Sharing Plan") covering all eligible employees. Contributions to the Profit-Sharing Plan were approximately \$895,000 and \$1,084,000 for the years ended December 31, 2021 and 2020, respectively. Contributions to the Profit-Sharing Plan are defined as a minimum of \$600,000 plus 5% of the excess operating profits of the Company exceeding \$12,000,000, subject to the maximum allowed under the Employee Retirement Income Security Act of 1974, ("ERISA"). Contributions to the Profit-Sharing Plan are allocated to participants based upon the profit-sharing formula contribution: three percent (3%) of gross wages up to the current Old Age, Survivors, and Disability ("OASDI") limit and six percent (6%) of the excess over the OASDI limit, as a percentage of the total contribution under the profit sharing formula. The Profit-Sharing Plan's vesting terms for contributions are, twenty percent (20%) vesting after 2 years of service, forty percent (40%) after 3 years, sixty percent (60%) after 4 years, eighty percent (80%) after 5 years, and one hundred percent (100%) vesting after 6 years.

The Company maintains a retirement savings plan ("Retirement Savings Plan") qualified under Internal Revenue Code Section 401(k) for employees covered under certain collective bargaining agreements. Service eligibility requirements differ by division and collective bargaining agreements. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. The Company contributes differing amounts depending upon each division's collective bargaining agreement. Contributions are funded on a current basis. Company contributions to the Retirement Savings Plan were approximately \$225,000 and \$241,000 for the years ended December 31, 2021 and 2020, respectively.

The Company maintains a separate qualified 401(k) plan ("401(k) Plan") for salaried employees not covered by a collective bargaining agreement who choose to participate. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. The Company contributes \$0.33 of each \$1.00 deferred by participants, deposited into the 401(k) Plan not to exceed two percent (2%) of an employee's compensation. The Company does not match any amounts for withholding from participants in excess of six percent (6%) of their compensation. Contributions are funded on a current basis. Company

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

contributions to the Plan were approximately \$854,000 and \$860,000, for the years ended December 31, 2021 and 2020, respectively.

9. COMMITMENTS AND CONTINGENCIES

Indemnifications

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

Contingencies

Letters of Credit

The Company had outstanding at December 31, 2021, \$6,008,000 in standby letters of credit issued in connection with the TCE PI Trust and \$2,274,000 issued principally in connection with its commercial insurance programs. In addition, a letter of credit was issued on July 19, 2005 in the amount of \$4,481,000 in connection with the \$4,430,000 Industrial Development Authority Bond (see Note 5) for the City of Bridgeton, MO, the balance of which is reduced to reflect principal payments made on the note. The balance on the Bridgeton Industrial Development Authority letter of credit was \$2,453,000 as of December 31, 2020. The letter of credit was cancelled in 2021 in connection with the payoff of the Bond in July 2021.

Insurance

The Company retains significant obligations under its commercial general liability insurance policies for product liability and other losses. For losses occurring in the policy years ending October 1, 2014 through 2021, the Company maintains commercial general liability insurance, retaining liability for the first \$2,000,000 per occurrence of commercial general liability claims (including products liability claims), subject to an agreed aggregate. In addition, the Company retains liability for the first \$250,000 per occurrence of workers compensation coverage, subject to an agreed aggregate. The Company records an accrual for estimated incurred but not recorded claims based on an analysis of claim history, claim lag periods and any current known claims. Included in other accrued liabilities in the accompanying consolidated balance sheets are self-insurance reserves totaling approximately \$150,000 and \$396,000 at December 31, 2021 and 2020, respectively.

Litigation

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

Environmental Litigation and Remediation Reserves

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

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

Activity related to the environmental reserve in 2021 and 2020 was as follows:

	2021	2020
	(Dollars in thousands)	
Balance Beginning of the Year	\$ 3,551	\$ 3,638
Less Remediation Related Expenditures	(3)	(9)
Less TCE PI Trust Fund Payments	(112)	(78)
Balance End of the Year	\$ 3,436	\$ 3,551

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

The Company has substantially completed the remediation of the Lisle, IL facility, pursuant to a work plan for the site and has received approval from the Illinois Environmental Protection Agency (“IEPA”) of the ground water remedial standards to be achieved by the work plan, as well as the methodology for ground water remediation. Accordingly, the Company believes that future remediation costs at the site will be *de minimus*.

Based on claim experience through December 31, 2021, the Company has classified \$116,000 of the above reserve as current as of December 31, 2021. Annually the Company reviews the existing third-party claim and remediation cost estimates and determines based on actual claim data whether an updated analysis is necessary. Given the level of expenses to date the Company believes that the existing analysis remains appropriate as of December 31, 2021 and will revise its reserves in future periods as a result of actual activity.

Other Claims Alleging Releases of Hazardous Materials or Asbestos Related Liability

As of December 31, 2021, the Company is a party to approximately 82 asbestos-related lawsuits, many in Texas where numerous asbestos-related actions have been filed against numerous defendants. The lawsuits previously pending against the Company in Illinois have all been resolved by plaintiffs’ dismissals without payment.

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

To date the Company has had approximately 529 asbestos- related cases dismissed without any payment and it settled approximately 28 asbestos-related cases for a *de minimus* value. However, there can be no assurance the Company will be able to successfully defend or settle any pending litigation.

In addition to the Lisle, IL site, the Company has been named or contacted by state authorities and/or the IEPA 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.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

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

The Company considers whether any additional exposure exists as it relates to FASB ASC 410, "Asset Retirement and Environmental Obligations" which requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. At December 31, 2021 and 2020, the Company is unable to estimate the ranges or probabilities of any potential asset retirement obligations that have not previously been identified.

10. SHAREHOLDERS' EQUITY

Mestek has authorized common stock of 20,000,000 shares with no par value, and a stated value of \$0.05 per share. As of December 31, 2021, the Estate of John E. Reed, and Stewart B. Reed, Chairman and CEO of Mestek, together beneficially own a majority of the outstanding shares of Mestek's common stock.

11. STOCK OPTION PLAN

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

Employee and Director stock option activity for the years ended December 31, 2020 and 2021 was as follows:

	<u>Number of Options</u>	<u>Exercise Price Range</u>	<u>Weighted- Average Exercise Price</u>
Outstanding at January 1, 2020	<u>106,000</u>	<u>\$ 6.30</u>	<u>\$ 6.30</u>
Granted	-	-	-
Exercised	-	-	-
Forfeited/cancelled	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding at December 31, 2020	<u>106,000</u>	<u>\$ 6.30</u>	<u>\$ 6.30</u>
Granted	-	-	-
Exercised	(106,000)	-	-
Forfeited/cancelled	<u>-</u>	<u>-</u>	<u>-</u>
Exercisable at December 31, 2021	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>

The 106,000 share options were exercised under the "cashless" exercise provision of the Plan resulting in a net issuance of 88,562 common shares in August of 2021 of which 16,710 were acquired by the Company in 2021 as Treasury shares under the book value put provision of the Plan.

As of December 31, 2021, there were no stock options outstanding and 127,000 shares remain available for future grants and/or the Plan.

MESTEK, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

12. COVID

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 negatively affected the Company’s operations in 2020, but not materially so, as reduced expenses largely offset reduced revenues. The Company’s operations in 2021 were materially affected however as world-wide inflation for industrial commodities and components created by pandemic related labor shortages reduced margins for the Company’s products. Internal labor shortages also impacted and continues to impact the Company’s lead times.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through June 21, 2022, the date on which the financial statements issued and no additional disclosures or adjustments were required.