

**Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines**

**MESTEK, INC.**

260 North Elm Street  
Westfield MA 01085

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413-568-9571

www.mestek.com

InvestorRelations@Mestek.com

SIC Code: 3434

**ANNUAL REPORT**

**For the period ending December 31, 2022 (the “Reporting Period”)**

**OUTSTANDING SHARES**

The number of shares outstanding of our Common Stock was:

7,571,084 as of December 31, 2022

7,578,568 as of December 31, 2021

**SHELL STATUS**

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes:  No:

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes:  No:

**Change in Control**

Indicate by check mark whether a Change in Control<sup>1</sup> of the company has occurred over this reporting period:

Yes:  No:

**1) Name and address(es) of the issuer and its predecessors (if any)**

In answering this item, provide the current name of the issuer any names used by predecessor entities, along with the dates of the name changes.

Mestek, Inc.  
260 North Elm Street  
Westfield MA 01085

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

PA--Active

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

The address(es) of the issuer's principal executive office:

260 North Elm St, Westfield MA 01085

The address(es) of the issuer's principal place of business:

*Principal executive office and principal place of business are the same address.*

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No:  Yes:  If Yes, provide additional details below:

## 2) Security Information

### Transfer Agent

Name: Computershare Investor Services  
Phone: 781-575-2000  
Email: [www.computershare.com/investor](http://www.computershare.com/investor)  
Street Address: 150 Royall St., Canton MA 02021  
Mailing Address: PO Box 43023 Providence RI 02940-3023

### Publicly Quoted or Traded Securities:

*The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.*

Trading symbol:	<u>MCKK</u>	
Exact title and class of securities outstanding:	<u>Common shares</u>	
CUSIP:	<u>590829305</u>	
Par or stated value:	<u>\$0.05</u>	
Total shares authorized:	<u>20,000,000</u>	as of date: <u>12/31/22</u>
Total shares outstanding:	<u>7,571,084</u>	as of date: <u>12/31/22</u>

Number of shares in the Public Float<sup>2</sup>: 1,470,810 as of date: 12/31/22  
Total number of shareholders of record: 182 as of date: 12/31/22

**Security Description:**

*The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:*

**1. For common equity, describe any dividend, voting and preemption rights.**

The Company has one class of common stock with one vote per share.

**2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

The Company has no preferred stock.

**3. Describe any other material rights of common or preferred stockholders.**

**4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.**

**3) Issuance History**

The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.**

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

**A. Changes to the Number of Outstanding Shares**

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No:  Yes:  (If yes, you must complete the table below)

Shares Outstanding as of Second Most Recent Fiscal Year End: <u>Opening Balance</u> Date <u>12-31-20</u> Common: <u>7,506,716</u> Preferred: <u>0</u>			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance?	Individual/Entity Shares were issued to.	Reason for share issuance (e.g. for cash or debt conversion) - OR - Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
<u>8/23/21</u>	<u>ISO Exercise</u>	<u>88,562</u>	<u>Common</u>	<u>\$32.00</u>	<u>Yes, ISO</u>	<u>Mgmt.</u>	<u>ISO Exercise</u>	<u>Unrestricted</u>	<u>Rule 144</u>
<u>8/23/21</u>	<u>Treasury share purchase</u>	<u>(8,355)</u>	<u>Common</u>	<u>\$32.00</u>	<u>Yes, ISO</u>	<u>Mgmt.</u>	<u>ISO Exercise</u>	<u>Unrestricted</u>	<u>Rule 144</u>
<u>10/24/21</u>	<u>Treasury share purchase</u>	<u>(8,355)</u>	<u>Common</u>	<u>\$32.00</u>	<u>Yes, ISO</u>	<u>Mgmt.</u>	<u>ISO Exercise</u>	<u>Unrestricted</u>	<u>Rule 144</u>
<u>10/25/22</u>	<u>Treasury share purchase</u>	<u>(7,484)</u>	<u>Common</u>	<u>\$39.50</u>	<u>Yes, ISO</u>	<u>Mgmt.</u>	<u>ISO Exercise</u>	<u>Unrestricted</u>	<u>Rule 144</u>
Shares Outstanding on Date of This Report: <u>Ending Balance:</u> Date <u>12/31/2022</u> Common: <u>7,571,084</u> Preferred: <u>0</u>									

**Example:** A company with a fiscal year end of December 31<sup>st</sup>, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2021 through December 31, 2022 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

N/A

## B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No:  Yes:  (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder.  *You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

Use the space below to provide any additional details, including footnotes to the table above:

N/A

### 4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. (Please ensure that these descriptions are updated on the Company's Profile on [www.otcm Markets.com](http://www.otcm Markets.com)).

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no 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.

B. List any subsidiaries, parent company, or affiliated companies.

See Exhibit A at the End of this report.

C. Describe the issuers' principal products or services.

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.

## 5) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

See Exhibit A at the End of this report.

## 6) Officers, Directors, and Control Persons

Using the table below, please provide information, as of the period end date of this report, regarding any officers, or directors of the company, individuals or entities controlling more than 5% of any class of the issuers securities, or any person that performs a similar function, regardless of the number of shares they own. **If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity in the note section.**

Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

<b>Names of All Officers, Directors and Control Persons</b>	<b>Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)</b>	<b>Residential Address (City / State Only)</b>	<b>Number of shares owned</b>	<b>Share type/class</b>	<b>Ownership Percentage of Class Outstanding</b>	<b>Names of control person(s) if a corporate entity</b>
<u>Stewart B. Reed</u>	<u>Chairman of the Board and CEO</u>	<u>Westfield, MA</u>	<u>5,458,476</u>	<u>Com</u>	<u>71.95%</u>	
<u>J. Nicholas Filler</u>	<u>Vice Chairman of the Board</u>	<u>Isle Le Haut, ME</u>	<u>0</u>	<u>Com</u>		
<u>Daniel P. Boyle</u>	<u>Director</u>	<u>Longmeadow, MA</u>	<u>413,508</u>	<u>Com</u>	<u>5.45%</u>	

<u>Christopher Chivetta</u>	<u>Director</u>	<u>St Louis, MO</u>	<u>0</u>	<u>Com</u>		
<u>Derek W. Glanvill</u>	<u>Director</u>	<u>Ladue, MO</u>	<u>0</u>	<u>Com</u>		
<u>David M. Kelly</u>	<u>Director</u>	<u>Vero Beach, FL</u>	<u>16,676</u>	<u>Com</u>	<u>0.22%</u>	
<u>R B Dewey</u>	<u>President</u>	<u>Westfield, MA</u>	<u>14,532</u>	<u>Com</u>	<u>0.19%</u>	
<u>Stephen Shea</u>	<u>Executive Vice President and CFO</u>	<u>Northfield, MA</u>	<u>86,801</u>	<u>Com</u>	<u>1.14%</u>	
<u>Timothy Markel</u>	<u>Executive Vice President and President DPRCG</u>	<u>Southwick, MA</u>	<u>15,026</u>	<u>Com</u>	<u>0.20%</u>	
<u>Mark Harrington</u>	<u>Executive Vice President Engineering</u>	<u>Westfield, MA</u>	<u>10,026</u>	<u>Com</u>	<u>0.13%</u>	
<u>Joanne F. Berwald</u>	<u>Sr Vice President</u>	<u>West Springfield, MA</u>	<u>0</u>	<u>Com</u>		
<u>James Boland</u>	<u>Sr Vice President</u>	<u>Feeding Hills, MA</u>	<u>5,013</u>	<u>Com</u>	<u>0.07%</u>	
<u>Steven Olearcek</u>	<u>Sr Vice President</u>	<u>Somers, CT</u>	<u>5,013</u>	<u>Com</u>	<u>0.07%</u>	
<u>Brian Hannigan</u>	<u>Vice President</u>	<u>Blandford, MA</u>	<u>0</u>	<u>Com</u>		
<u>Emerson W. Hobgood</u>	<u>Vice President</u>	<u>Greenville, NC</u>	<u>0</u>	<u>Com</u>		
<u>Kenneth M. Longo</u>	<u>Vice President</u>	<u>Granby, MA</u>	<u>0</u>	<u>Com</u>		
<u>Michael Nihill</u>	<u>Vice President</u>	<u>Westfield, MA</u>	<u>0</u>	<u>Com</u>		
<u>Charles L. Perry, Jr</u>	<u>Vice President</u>	<u>Oklahoma City, OK</u>	<u>0</u>	<u>Com</u>		
<u>Kurt S. Shea</u>	<u>Vice President</u>	<u>Southwick, MA</u>	<u>0</u>	<u>Com</u>		

## 7) Legal/Disciplinary History

A. Identify whether any of the persons or entities listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

## 8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

### Securities Counsel

Firm: Troutman Pepper Law  
Address 1: 875 3<sup>rd</sup> St  
Address 2: New York NY  
Phone: 212-704-6052

### Accountant or Auditor

Firm: RSM US  
Address 1: 80 City Sq  
Address 2: Boston MA 02129  
Phone: 617-902-9000

## 9) Financial Statements

A. The following financial statements were prepared in accordance with:

- IFRS  
 U.S. GAAP

B. The following financial statements were prepared by (name of individual)<sup>3</sup>:

Name: Stephen M. Shea  
Title: Executive Vice President-Finance, CFO  
Relationship to Issuer: Principal Financial Officer

Describe the qualifications of the person or persons who prepared the financial statements:

**Over 37 years of extensive experience in accounting auditing, finance and financial reporting in a variety of roles.**

Provide the following financial statements for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

- a. Audit letter, if audited;
- b. Balance Sheet;
- c. Statement of Income;
- d. Statement of Cash Flows;
- e. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- f. Financial Notes

## 10) Issuer Certification

### *Principal Executive Officer:*

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Stewart B. Reed, certify that:

1. I have reviewed this Disclosure Statement for Mestek, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

June 23, 2023

/s/STEWART B. REED

### *Principal Financial Officer:*

I, Stephen M. Shea certify that:

1. I have reviewed this Disclosure Statement for Mestek, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

June 23, 2023

/s/STEPHEN M. SHEA

Exhibit A - Mestek, Inc. Subsidiaries  
As of December 31, 2022

Name	Location	Jurisdiction of Formation
Mestek, Inc. <sup>(1)(2)(4)</sup>	Westfield, MA	Pennsylvania
Advanced Thermal Hydronics, Inc. <sup>(6)</sup>	New Berlinville, PA	Delaware
Airtherm, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Arrow Transport, LLC <sup>(6)</sup>	Westfield, MA	Pennsylvania
AWV, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Boyertown Foundry Company <sup>(1)(2)(3)</sup>	New Berlinville, PA	Pennsylvania
Ductshop Machinery, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Linel, LLC <sup>(1)(2)</sup>	Westfield, MA	Delaware
Linel Properties, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Linel Transport, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Mestek Architectural Group LLC <sup>(6)</sup>	Westfield, MA	Delaware
Mestek Canada, Inc <sup>(1)(2)(5)</sup>	Mississauga, Ontario	Canada
Transom Corporation <sup>(1)(2)(5)</sup>	Barrie, Ontario	Canada
Mestek Energy Park, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Mestek Europe, SA <sup>(1)(5)(6)</sup>	Villars Sur Glane, Switzerland	Switzerland
Mestek Machinery, Inc <sup>(1)(2)</sup>	Westfield, MA	Delaware
Formtek, Inc. <sup>(1)(2)</sup>	Westfield, MA	Ohio
Met-Coil Systems, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Mestek Securities Corporation <sup>(6)</sup>	Westfield, MA	Massachusetts
Newport Industrial Fabrication, LLC <sup>(1)(2)(4)</sup>	Westfield, MA	Delaware
North Elm, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Ohio Independent Laboratories, LLC <sup>(1)</sup>	Westfield, MA	Delaware
Radiant Advantage Designs, LLC <sup>(6)</sup>	Westfield, MA	Delaware
Westcast, Inc. <sup>(1)(3)</sup>	Westfield, MA	Massachusetts

All facilities are in good condition.

- (1) Office
- (2) Manufacturing
- (3) Owned
- (4) Leased by related party
- (5) Leased
- (6) These entities provide various support only to Mestek group and do not utilize physical offices.



### 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(Dollars in thousands except per share data)				
Total Assets	\$ 425,360	\$ 407,993	\$ 385,849	\$ 326,003	\$ 279,320
Working Capital	218,797	214,605	242,487	196,543	167,127
Total Debt	13,241	8,767	10,163	10,163	10,163
Mestek Inc. Shareholders' Equity	305,618	299,358	287,406	241,569	208,906
Shareholders' Equity Per Common Share (1)	\$ 40.37	\$ 39.50	\$ 38.29	\$ 32.18	\$ 27.88

- (1) Shareholders' Equity per common share amounts, a non-GAAP measure, are computed using the common shares outstanding as of December 31, 2022, 2021, 2020, 2019, and 2018.

#### SUMMARY OF OPERATIONS for the years ended December 31,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(Dollars in thousands except per share data)				
Revenues	<u>\$ 414,336</u>	<u>\$ 350,795</u>	<u>\$ 310,922</u>	<u>\$ 341,734</u>	<u>\$ 350,675</u>
Net Income Attributable to Mestek, Inc.	<u>\$ 8,968</u>	<u>\$ 12,408</u>	<u>\$ 44,983</u>	<u>\$ 31,968</u>	<u>\$ 18,525</u>
Earnings per Common Share:					
Basic Earnings per Common Share:					
Net Income	<u>\$ 1.18</u>	<u>\$ 1.65</u>	<u>\$ 5.99</u>	<u>\$ 4.26</u>	<u>\$ 2.47</u>
Diluted Earnings per Common Share:					
Net Income	<u>\$ 1.18</u>	<u>\$ 1.65</u>	<u>\$ 5.93</u>	<u>\$ 4.21</u>	<u>\$ 2.44</u>



RSM US LLP

## Independent Auditor's Report

Board of Directors and Shareholders  
Mestek, Inc.

### Opinion

We have audited the accompanying consolidated financial statements of Mestek, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2022, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Report on 2021 Financial Statements

The financial statements of the Company, as of and for the year ended December 31, 2021, were reviewed by us and our report thereon, dated June 21, 2022, stated that, based on our procedures, we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. 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 did not express such an opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*RSM US LLP*

Boston, Massachusetts  
May 8, 2023

**MESTEK, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
As of December 31, 2022 and 2021

	<b>December 31, 2022</b>	<b>December 31, 2021 (unaudited)</b>
(Dollars in thousands)		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 17,913	\$ 71,684
Short-Term Investments	9,856	-
Accounts Receivable - less allowances of \$1,547 and \$1,690, respectively	72,304	54,354
Inventories – net	106,397	79,254
Property Held for Sale	2,327	2,327
Commodity Investments	83,120	73,153
Other Current Assets	12,626	14,693
<b>Total Current Assets</b>	<b>304,543</b>	<b>295,465</b>
Property and Equipment – net	45,187	48,859
Right-of-use Assets – net	17,191	12,949
Other Assets – net	15,309	8,342
Goodwill	43,130	42,378
<b>Total Assets</b>	<b>\$ 425,360</b>	<b>\$ 407,993</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Current Portion of Long-Term Debt	\$ 5,474	\$ -
Accounts Payable	21,838	14,226
Accrued Payroll and Related Expenses	11,906	19,635
Customer Deposits	28,714	28,145
Current Portion of Environmental Reserves	116	116
Current Portion of Operating Lease Obligations	5,406	4,187
Warranty Reserve	2,935	2,757
Other Accrued Liabilities	10,357	11,794
<b>Total Current Liabilities</b>	<b>86,746</b>	<b>80,860</b>
Environmental Reserves - long term	3,117	3,320
Operating Lease Obligations - long term	11,785	8,763
Deferred Tax Liabilities	5,081	1,276
Long-Term Debt, net of current portion	7,767	8,767
Other Liabilities	4,436	4,796
<b>Total Liabilities</b>	<b>118,932</b>	<b>107,782</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock, no par, stated value \$0.05 per share, 20,000,000 shares authorized, 8,473,288 and 8,473,288 shares issued, respectively	422	422
Paid in Capital	5,779	5,788
Retained Earnings	314,293	305,325
Treasury Shares, at cost (902,204 and 894,720 common shares, respectively)	(12,227)	(11,932)
Accumulated Other Comprehensive Loss	(2,649)	(245)
<b>Total Mestek, Inc. Shareholders' Equity</b>	<b>305,618</b>	<b>299,358</b>
Non-controlling Interests	810	853
<b>Total Shareholders' Equity</b>	<b>306,428</b>	<b>300,211</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 425,360</b>	<b>\$ 407,993</b>

See Accompanying Notes to the Consolidated Financial Statements.

**MESTEK, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the years ended December 31, 2022 and 2021**

	2022	2021 (unaudited)
	(Dollars and shares in thousands, except earnings per common share)	
Net Sales	\$ 414,336	\$ 350,795
Cost of Goods Sold	313,646	253,305
Gross Profit	100,690	97,490
Selling Expense	43,504	37,943
General and Administrative Expense	27,341	25,966
Engineering Expense	17,549	16,626
Hedging and Other Income - net	(1,104)	(737)
Operating Profit	13,400	17,692
Interest (Expense) Income - net	133	(120)
Other Income (Expense) - net	6	(273)
Income Before Income Taxes	13,539	17,299
Provision for Income Taxes	4,471	4,799
Net Income	9,068	12,500
Less: Net Income - Non-controlling Interests	100	92
Net Income Attributable to Mestek, Inc.	\$ 8,968	\$ 12,408
Basic Earnings Per Common Share	\$ 1.18	\$ 1.65
Basic Weighted Average Shares Outstanding	7,577	7,534
Diluted Earnings Per Common Share	\$ 1.18	\$ 1.65
Diluted Weighted Average Shares Outstanding	7,577	7,534

See Accompanying Notes to the Consolidated Financial Statements.

**MESTEK, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended December 31, 2022 and 2021**

	2022	2021 <b>(unaudited)</b>
	(Dollars in thousands)	
Net Income	\$ 9,068	\$ 12,500
Other Comprehensive Income		
Cumulative Translation Adjustments	(2,404)	183
Other Comprehensive Income	(2,404)	183
Comprehensive Income	6,664	12,683
Less: Comprehensive Income—Non-controlling Interests	100	92
Comprehensive Income Attributable to Mestek, Inc.	\$ 6,564	\$ 12,591

See Accompanying Notes to the Consolidated Financial Statements.

**MESTEK, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2022 and 2021**

(Dollars in thousands)	Common Stock	Paid In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total
Balance – January 1, 2021	\$ 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
Net Income	-	-	8,968	-	-	100	9,068
Cumulative Translation Adjustments	-	-	-	-	(2,404)	-	(2,404)
Purchase of Treasury Shares	-	-	-	(295)	-	-	(295)
Non-Controlling Interests Purchased	-	(9)	-	-	-	(143)	(152)
Balance – December 31, 2022	\$ 422	\$ 5,779	\$ 314,293	\$ (12,227)	\$ (2,649)	\$ 810	\$ 306,428

See Accompanying Notes to the Consolidated Financial Statements

**MESTEK, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2022 and 2021**

	2022	2021
		(unaudited)
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net Income	\$ 9,068	\$ 12,500
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities:		
Depreciation and Amortization of Intangible Assets	6,530	6,544
Operating Lease Amortization	5,003	4,272
Unrealized (Gain) Loss on Trading Securities	(10,533)	1,986
Provision for Deferred Taxes	3,805	2,709
Provision for Losses on Accounts Receivable, net of write offs and recoveries	(127)	(116)
Loss (Gain) on Sale of Property and Equipment	329	(1,718)
Change in Assets and Liabilities:		
Accounts Receivable	(18,432)	3,046
Inventories	(28,388)	(17,825)
Accounts Payable	7,713	529
Customer Deposits	604	12,586
Environmental Reserves	(204)	(114)
Operating Leases	(5,003)	(4,272)
Other Assets and Liabilities, net	(8,642)	(8,594)
Net Cash (Used in) Provided by Operating Activities	<u>(38,277)</u>	<u>11,533</u>
Cash Flows from Investing Activities:		
Proceeds from Sale of Trading Securities, net	566	9,114
(Purchases)Maturities of Short-Term Investments	(9,856)	24,994
Acquisitions	-	(42,518)
Investment in Marketable Securities	(7,000)	-
Capital Expenditures	(3,494)	(4,309)
Proceeds from Sale of Fixed Assets	205	4,219
Net Cash Used in Investing Activities	<u>(19,579)</u>	<u>(8,500)</u>
Cash Flows from Financing Activities:		
Payments for Exercise of Incentive Stock Options	(295)	(639)
Cash Received from Acquisition	-	40
Payoff of Notes Payable	-	(2,425)
Minority Interests Purchased	(153)	-
Net Borrowings under Revolving Credit Agreements	4,474	-
Net Cash Provided by (Used in) Investing Activities	<u>4,026</u>	<u>(3,024)</u>
Net (Decreases) Increase in Cash and Cash Equivalents	(53,830)	9
Exchange Rate Effect on Cash and Cash Equivalents	59	(118)
Cash and Cash Equivalents – Beginning of Period	<u>71,684</u>	<u>71,793</u>
Cash and Cash Equivalents – End of Period	<u>\$ 17,913</u>	<u>\$ 71,684</u>

See Accompanying Notes to the Consolidated Financial Statements.

**MESTEK, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 and 2021**

**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 2022 and 2021 are presented under ASC 606.

In 2022, 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 2022 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, 2022 and 2021**

The following table presents revenue by revenue recognition method:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
Point in Time	\$ 390,388	\$ 328,143
Over Time	23,948	22,652
<b>Total</b>	<b><u>\$ 414,336</u></b>	<b><u>\$ 350,795</u></b>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
<b>Revenues by Market:</b>		
HVAC Equipment and Architectural Products	\$ 351,304	\$ 291,895
Metal Forming Equipment	63,032	58,900
<b>Totals</b>	<b><u>\$ 414,336</u></b>	<b><u>\$ 350,795</u></b>
 <b>Revenues by Geography:</b>		
North America	\$ 407,480	\$ 340,153
Europe	3,070	3,057
Asia	1,225	4,485
Mexico	962	703
Rest of the World	1,599	2,397
<b>Totals</b>	<b><u>\$ 414,336</u></b>	<b><u>\$ 350,795</u></b>

The following tables presents contract balances from contracts with customers as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
Accounts Receivable (less allowances)	\$ 72,304	\$ 54,354
Contract Assets	\$ 2,898	\$ 3,548
Contract Liabilities	\$ 28,714	\$ 28,145

**MESTEK, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 and 2021**

Contract Assets represent unbilled revenues associated with revenue recognized on contracts accounted for 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 \$3,548,000 at December 31, 2021 to \$2,898,000 at December 31, 2022 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 \$23,959,000 in 2022 that was included in the Contract Liabilities balance as of December 31, 2021.

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 near term maturities of twelve months or less.

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 2022 and 2021 were a pretax gain of \$3,550,000 and \$852,000, 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 80% and 79% of inventory cost were determined using the LIFO method for the years ended December 31, 2022 and 2021, 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.

**MESTEK, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Property and Equipment**

Property and equipment are carried at cost. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets or, for leasehold improvements, the life of the lease, if shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to operations as incurred; significant improvements are capitalized. 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. If the carrying amount of a reporting unit is less than its fair value, no impairment exists and no further action is required. If the carrying amount of a reporting unit exceeds its fair value, the Company will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The fair value of a reporting unit is determined using a guideline comparable company market approach. The Company did not recognize any impairment charges related to goodwill or indefinite lived intangible assets during the years ended December 31, 2022 and 2021. 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 2022 and 2021, the Company's goodwill was designated to the HVAC and Metal Forming reporting units.

Goodwill and Intangible Assets consisted of the following at:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(Dollars in thousands)</b>	
Goodwill – net of prior amortization	\$ 43,130	\$ 42,378
Patents, Rights, Trademarks, and Other Intangibles	\$ 10,043	\$ 9,895
Accumulated Amortization, Patents, Rights and Other Assets	(5,252)	(4,961)
Patents, Rights and Trademarks – net (included in Other Assets)	\$ 4,791	\$ 4,934

The increase in goodwill in 2022 resulted primarily from purchase price adjustments relating to the acquisitions in 2021 and from foreign currency fluctuations of \$268,000. Amortization expense relating to the intangible assets for the years ending December 31, 2022 and 2021 was \$290,000 and \$1,093,000, respectively.

**MESTEK, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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. As explained more fully in Note 12, the Covid Pandemic adversely affected the Company's operations including its operations in Hebei Province, China which include approximately \$4 million in net book value of property and equipment. After internal review of future business operations in China, the Company determined that no impairment of its long-lived assets in China is indicated as of December 31, 2022. With respect to all other long lived assets, the Company determined there were no triggering events to test for impairment of long-lived assets during the years ended December 31, 2022 or 2021.

**Advertising Expense**

Advertising costs are charged to operations as incurred. Such charges aggregated \$3,020,000 and \$1,483,000, for the years ended December 31, 2022 and 2021, 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, 2022, the net provision for warranty expense was \$2.4 million offset by warranty utilization of \$2.3 million for total accrued warranties of \$2.9 million. 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.

**Research and Development Expense**

Research and development expenses are charged to operations as incurred. Such charges aggregated \$8,035,000, and \$7,188,000, for the years ended December 31, 2022 and 2021, 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.

**MESTEK, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 2022 or 2021.

**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.

**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 most of its cash in bank deposits, nearly all of which are not insured by the Federal Deposit Insurance Company. However, the Company does not believe it is exposed as of the date of this report to any material risk of loss with respect to its cash deposits given the financial condition of its banking partners.

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, 2022.

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 2022 or 2021. No individual customer accounted for more than 10% of the Company's accounts receivable at December 31, 2022 or 2021.

**MESTEK, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Fair Value Measurements**

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The following table presents the Company's assets that are measured at fair value and the related hierarchy levels as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(Dollars in thousands)			
US Treasury Securities	\$ 9,856	\$ -	\$ -	\$ 9,856
Position in open contracts	11,983	-	-	11,983
Investments in precious metals	<u>71,137</u>	<u>-</u>	<u>-</u>	<u>71,137</u>
Total assets carried at fair value	<u>\$ 92,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,976</u>

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 Company has investments in gold, and other precious metals that are Level 1 financial instruments and are recorded based upon listed gold and other precious metals 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 positions 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, 2022 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.

**MESTEK, INC.**  
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**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 20% and 27% of the Company's workforce as of December 31, 2022 and 2021, 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.

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, 2022 or 2021.

In the years ended December 31, 2022 or 2021, there was no stock-based compensation expense recorded. As of December 31, 2022 or 2021, 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.

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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.

**2. INVENTORIES**

Inventories consisted of the following at December 31:

	<b>2022</b>	<b>2021</b>
	(Dollars in thousands)	
Raw materials	\$ 81,931	\$ 55,738
Work-in-progress	26,698	22,480
Finished goods	24,003	22,712
	132,632	100,930
Less reserve for LIFO method of valuation	(26,235)	(21,676)
	\$ 106,397	\$ 79,254

The Company uses the LIFO method of valuing substantial portions of its inventory. Approximately \$4,560,000 and \$5,762,000 of expense was recorded in Cost of Goods Sold in the periods ended December 31, 2022 and 2021, 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.

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The assets acquired were as follows:

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

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 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:

	2022	2021	Depreciation Est. Useful Lives
	(Dollars in thousands)		
Land	\$ 3,279	\$ 3,212	
Buildings	32,641	32,935	19-39 Years
Leasehold Improvements	8,626	8,637	15-39 Years
Equipment	135,539	133,883	3-10 Years
	<hr/>	<hr/>	
	180,085	178,667	
Accumulated Depreciation	(134,898)	(129,808)	
	<hr/>	<hr/>	
	\$ 45,187	\$ 48,859	

The above amounts include \$650,000 and \$2,395,000 at December 31, 2022 and 2021, 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 \$6,530,000, and \$6,544,000 for the years ended December 31, 2022 and 2021, respectively.

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**5. DEBT**

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. Borrowings outstanding under the Facility were \$4,474,000 and \$0, respectively as of December 31, 2022 or 2021. 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, 2022, the Company followed all of the financial covenants required under the Facility, except for the timely delivery of financial statements, which 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 \$47,206,000 as of December 31, 2022. The Company is currently in negotiations relative to renewing or extending the Facility.

Notes Payable-Others consisted of the following at December 31:

	2022	2021
	(Dollars in thousands)	
Notes Payable - Other	8,767	8,767
Less Current Maturities	(1,000)	-
Notes Payable - Other Long Term	7,767	\$ 8,767

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, 2022 and December 31, 2021 was \$7,767,000. 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 in connection with the acquisition of Transom Corporation on December 23, 2021.

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

	Total Debt
2023	\$ 5,474
2024	-
2025	-
2026	-
2027	-
Thereafter	7,767
Total Debt Maturities:	\$ 13,241

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Cash paid for interest was \$177,000 and \$181,000, during the years ended December 31, 2022 and 2021, respectively. Interest expense totaled \$177,000 and \$191,000 for the years ended December 31, 2022 and 2021, respectively.

**6. INCOME TAXES**

The provision for income taxes consisted of the following:

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
Federal Income Tax:		
Current	\$ (1,467)	\$ -
Deferred	3,142	2,832
State Income Tax:		
Current	-	901
Deferred	673	30
Foreign Income Tax:		
Current	2,133	804
Deferred	<u>(10)</u>	<u>232</u>
Provision for Income Taxes	<u>\$ 4,471</u>	<u>\$ 4,799</u>

Income Before Income Taxes included foreign income of \$6,011,000 and \$4,191,000 in 2022 and 2021, 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:

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
Computed "Expected" Income Tax Expense	\$ 2,843	\$ 3,633
Permanent Difference, Other	429	323
State Income Tax, Net of Federal Tax Expense	532	735
Tax Credits	-	(47)
Other	<u>667</u>	<u>155</u>
Provision for Income Tax	<u>\$ 4,471</u>	<u>\$ 4,799</u>

Deferred income tax expense results from temporary differences in the recognition of income and expense for income tax and financial reporting purposes.

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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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
<b>Deferred Tax Assets:</b>		
Remediation Reserve	\$ 912	\$ 926
Accrued Expenses	1,102	2,731
Accounts Receivable Valuation	410	445
Product Liability Reserve	790	734
Deferred Benefits Plan	845	852
Compensated Absences	593	594
Inventory Valuation	956	898
Workers Compensation Reserve	59	261
Right-of Use Assets	3,434	3,434
Other	392	144
Total Deferred Tax Assets	9,493	11,019
<b>Deferred Tax Liabilities:</b>		
Depreciation and Amortization	(9,423)	(8,089)
Prepaid Expenses	(837)	(771)
Unrealized Gain	(879)	-
Current Lease Obligations	(1,111)	(1,111)
Long-Term Lease Obligations	(2,324)	(2,324)
Total Deferred Tax Liabilities	(14,574)	(12,295)
Net Deferred Tax (Liabilities) Assets	\$ (5,081)	\$ (1,276)

The Company paid a total of \$4,182,000 and \$6,772,000 in income taxes to federal, state, and foreign tax jurisdictions for the years ended 2022 and 2021, 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, 2022 and 2021, 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 2018, and for years after 2018 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.

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**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 5%. 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 2022.

**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, 2022, including the effect of renewals and amendments executed subsequent to December 31, 2022, are as follows:

	<b>Date of Lease</b>	<b>Term</b>	<b>Basic Annual Rent</b>	<b>Minimum Future Rentals</b>
(Dollars in thousands)				
<b>Sterling Realty Trust:</b>				
Land and Building-Main	01/01/23	3 years	\$ 675	\$ 2,026
Land and Building Beacon Morris	01/01/23	3 years	\$ 222	\$ 665
Land and Building-South Complex	01/01/23	3 years	\$ 736	\$ 2,207
Land and Building Torrington	01/01/23	3 years	\$ 379	\$ 1,138
<b>Rudbeek Realty Corp.:</b>				
Farmville Location	01/01/23	3 years	\$ 942	\$ 2,826
<b>Beaver Lake Realty, L.L.C.:</b>				
Land and Building- 47 Westfield Industrial Park Road	11/01/20	5 years	\$ 144	\$ 431

**All Leases**

Rent expense for operating leases, including those with related parties, was \$4,763,000 and \$4,179,000 for the years ended December 31, 2022 and 2021, respectively. Rents to related parties, including the aforementioned leases, were approximately \$3,098,000 and \$3,098,000 for the years ended December 31, 2022 and 2021, respectively.

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The Right to Use Asset for all existing lease agreements is \$17,097,000 as of December 31, 2022.

Future minimum lease payments under all non-cancelable leases as of December 31, 2022 are as follows:

<u>Years Ending December 31,</u>	<u>Operating Leases</u>
	(Dollars in thousands)
2023	\$ 4,542
2024	4,260
2025	4,160
2026	731
2027	549
Thereafter	564
Total Minimum Lease payments	\$ 14,806

**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 of incentive stock options in 2005. 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 2022 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, 2022 and 2021.

**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 \$868,000 and \$895,000 for the years ended December 31, 2022 and 2021, 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 \$197,000 and \$225,000 for the years ended December 31, 2022 and 2021, 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 contributions to the Plan were approximately \$878,000 and \$854,000, for the years ended December 31, 2022 and 2021, respectively.

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**9. COMMITMENTS AND CONTINGENCIES**

**Indemnifications**

The Company is obligated under Indemnity Agreements (“Indemnity Agreements”) executed on behalf of 15 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, 2022, \$5,846,000 in standby letters of credit issued in connection with the TCE PI Trust and \$2,275,000 issued principally in connection with its commercial insurance programs.

**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 2022, 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 \$224,000 and \$150,000 at December 31, 2022 and 2021, 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.

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Activity related to the environmental reserve in 2022 and 2021 was as follows:

	<b>2022</b>	<b>2021</b>
	(Dollars in thousands)	
Balance Beginning of the Year	\$ 3,436	\$ 3,551
Less Remediation Related Expenditures	(101)	(3)
Less TCE PI Trust Fund Payments	(103)	(112)
Balance End of the Year	\$ 3,232	\$ 3,436

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, 2022, the Company has classified \$116,000 of the above reserve as current as of December 31, 2022. 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, 2022 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, 2022, the Company is a party to approximately 61 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 44 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.

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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, 2022 and 2021, 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, 2022, 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, 2021 and 2022 was as follows:

	<u>Number of Options</u>	<u>Exercise Price Range</u>	<u>Weighted- Average Exercise Price</u>
Outstanding at January 1, 2021	<u>106,000</u>	<u>\$ 6.30</u>	<u>\$ 6.30</u>
Granted	-	-	-
Exercised	(106,000)	6.30	6.30
Forfeited/cancelled	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding at December 31, 2021	<u>-</u>	<u>-</u>	<u>-</u>
Granted	-	-	-
Exercised	-	-	-
Forfeited/cancelled	<u>-</u>	<u>-</u>	<u>-</u>
Exercisable at December 31, 2022	<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, 2022, there were no stock options outstanding and 127,000 shares remain available for future grants and/or the Plan.

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**DECEMBER 31, 2022 and 2021**

**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 and 2022 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 May 8, 2023, the date on which the financial statements issued and no additional disclosures or adjustments were required.

