Burnham Holdings, Inc.

2012
Annual Report

COMPANY PROFILE:

Burnham Holdings, Inc., is the parent company of fourteen subsidiaries that are leading domestic manufacturers of boilers, and related HVAC products and accessories (including furnaces, radiators, and air conditioning systems) for residential, commercial, and industrial applications. Subsidiaries of Burnham Holdings, Inc., provide high-value, high-quality products backed by superior service. Products are manufactured at plants in the East, South and Midwest. The largest subsidiaries of Burnham Holdings, Inc., market products under eight well established brand names that are differentiated by product line and markets served.

The U.S. Boiler, New Yorker, Governale, Thermo Products, and Crown product lines offer a full range of cast iron, stainless steel, aluminum, and steel boilers; cast iron and steel heat distribution products, warm air furnaces, and central air conditioning systems for the residential heating and cooling market. Typical applications of these products are for all styles and sizes of homes and small buildings.

The Burnham Commercial, Bryan Steam, and Thermal Solutions product lines offer a full range of cast iron, stainless steel, firetube, watertube, and copper tube boilers as well as boiler room accessories for the commercial and industrial markets. Typical uses of these products are for heating large buildings and high-pressure steam generation for process applications.

Casting Solutions produces gray and ductile iron castings for the affiliated manufacturing companies as well as outside customers. Norwood Manufacturing is a manufacturer of painted light-gauge metal parts.

Company subsidiaries also market many of their products internationally, working in conjunction with selected independent sales representatives worldwide.

Our commitment to product development and new market expansion drives the Company's industry leadership. Innovative vision and dedication to engineering excellence produces highly efficient, environmentally safe, state-of-the-art products. Burnham Holdings, Inc.'s affiliated companies offer a larger variety of types and models of boilers than any of their competitors. This variety and depth of market coverage, combined with superior product quality and extensive distribution channels, make Burnham Holdings, Inc., and its subsidiaries unique in the American boiler industry.

OUR PHILOSOPHY IS TO BE A GROUP OF COMPANIES:

Whose products are efficient, safe, reliable, and the best value in the industry.

Whose customers recommend us to others because we consistently exceed their expectations.

Where the best people want to work.

Whose success can be measured in the growth of its people, its market share and its earnings.

OUR GUIDING PRINCIPLES ARE:

Performance – Creating Shareholder value through strategic investment of capital.

Innovation – Providing customer solutions through application of advanced technologies; serving new markets and opportunities.

Relationships – Treating customers and suppliers with respect.

Integrity – We keep our promises.

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FINANCIAL HIGHLIGHTS

Burnham Holdings, Inc. 2012 Annual Report

Burnham Holdings, Inc., delivered a strong financial performance in 2012, with its highest earnings per share since the height of the housing boom. These results are particularly impressive in light of the challenges experienced in our markets, including an exceptionally mild winter, the devastation of a one-hundred year storm along the Eastern seaboard, volatile energy costs, and both political and geo-political factors that impacted the United States economy.

With a firm foundation based on its core principles and philosophy, Burnham Holdings, Inc., is financially and operationally strong and poised to take advantage of current market opportunities, while advancing its strategic initiatives for the longer term.

- Net sales were $204.8 million, a 3.0% increase from 2011, the third straight year of increased sales.

- Gross profit (sales less factory cost as shown on page 18), as a percentage of sales was 24.1%, the highest in five years.

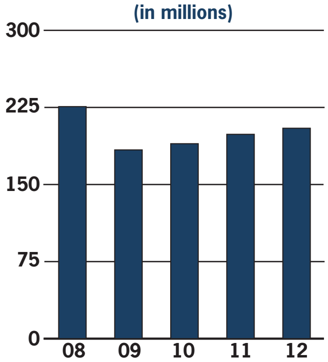
- Net income was $8.2 million or $1.83 per basic share; a 61.9% increase over 2011 results of $1.13 per share.

- Dividends of $0.72 per share were paid in 2012; a 5.9% increase from the $0.68 per share paid in 2011.

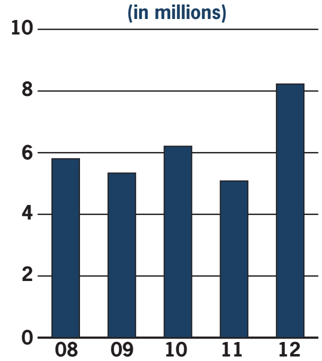
- Year-end debt has declined substantially for the last several years, with the 2012 level being the lowest in over fifteen years.

- Cash flow from subsidiary operations of $14.0 million was the second highest amount in the last ten years.

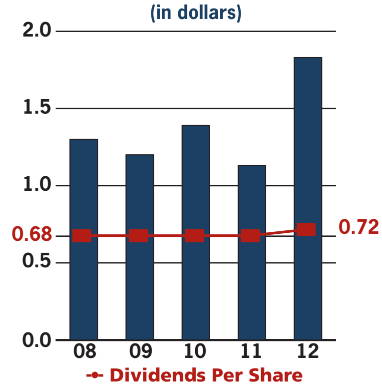
NET SALES
(in millions)



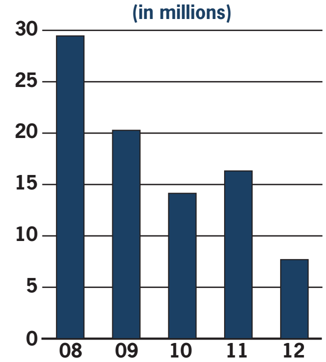
NET INCOME
(in millions)



BASIC EARNINGS PER SHARE
(in dollars)



TOTAL DEBT
(in millions)



				Percent Change	
(In millions, except per share data)	2012	2011	2010	2012/2011	2011/2010
Net Sales	$204.8	$198.8	$189.7	3.0%	4.8%
Net Income	8.2	5.1	6.2	60.8%	(17.7%)
Debt, Less Interest Rate Swap Instruments	5.3	13.7	12.4	(61.3%)	10.5%
Total Debt	7.7	16.3	14.1	(52.8%)	15.6%
Working Capital	40.7	43.6	40.5	(6.7%)	7.7%
Total Assets	149.1	146.8	140.1	1.6%	4.8%
Total Stockholders' Equity [1]	68.9	64.4	73.9	7.0%	(12.9%)
Net Cash Provided by Operating Activities	14.0	6.5	12.4	115.4%	(47.6%)
Per Share Data					
Cash Flow from Net Income	2.88	2.11	2.38	36.5%	(11.3%)
Basic Earnings from Net Income	1.83	1.13	1.39	61.9%	(18.7%)
Dividends Paid	0.72	0.68	0.68	5.9%	0.0%
Book Value [1]	15.29	14.34	16.52	6.6%	(13.2%)
Stock Price at Year-end	14.46	13.50	15.13	7.1%	(10.8%)
Market Capitalization at Year-end	64.9	60.3	67.4	7.6%	(10.5%)

[1] Please see the discussions titled Pension Matters as well as the Liquidity and Capital Resources section of the "Review of Operations" on page 9.

AT A GLANCE...

A PRESENTATION OF THE VARIOUS BRANDS OFFERED BY SUBSIDIARIES OF BURNHAM HOLDINGS, INC.

Burnham Holdings, Inc. 2012 Annual Report

RESIDENTIAL

BRANDS

Thermo Pride

U.S. Boiler Company

New Yorker

Governale

Crown Boiler

COMMERCIAL

BRANDS

Bryan Boilers

Thermal Solutions

Burnham Commercial Boilers

SUBSIDIARIES	MARKETS SERVED	BRAND POSITION
U.S. Boiler and New Yorker product lines feature residential cast iron, stainless steel, aluminum, and steel boilers. U.S. Boiler also includes cast iron and steel heat distribution products and indirect water heaters. The Governale line features cast iron radiators, baseboards, and convectors. The Thermo Products line includes warm air furnaces and central air conditioning systems. The Crown line features cast iron and aluminum boilers, indirect water heaters, and warm air furnaces. A full line of related accessories is included with each product line.	U.S. Boiler, New Yorker, Governale, and Crown products are sold through wholesale distributors who, in turn, market to builders, heating contractors, utilities, and fuel dealers for resale to residential customers. In addition, the products are marketed in partnership with distributors directly to the distributors' customers in order to develop brand loyalty. Thermo Products sells directly to installing contractors and fuel dealers.	U.S. Boiler brand products are recognized as the premium residential brand in the industry. U.S. Boiler is seen as the leader in bringing new and innovative products to the marketplace. The New Yorker, Governale, and Crown brands are known for their high quality and dependable performance, and are differentiated from the U.S. Boiler brand by the markets they serve. Thermo Pride is the premium brand in the oil furnace and central air conditioning market.

SUBSIDIARIES	MARKETS SERVED	BRAND POSITION
The Burnham Commercial product line features firetube boilers of scotch marine and firebox design as well as large modular and packaged cast iron and high-efficiency stainless steel boilers. The Bryan Steam line features a broad selection of flexible watertube and stainless steel boilers. Both product lines include a full range of boiler room accessories such as deaerators, feedwater systems, and water treatment equipment. The Thermal Solutions line features compact, high-efficiency copper tube boilers and water heaters.	Commercial products are used for heating applications in commercial, institutional and industrial facilities such as hospitals, hotels, and schools. The Burnham Commercial and Bryan Steam lines also include high-pressure steam units used for process applications in manufacturing, food processing, and the chemical industries. Commercial products are sold primarily through independent sales representatives directly to contractors or end users.	Burnham Commercial, Bryan Boilers, and Thermal Solutions brand products all have reputations for quality and performance at the forefront of technological and environmental design. Burnham Commercial offers products of a firetube design for long-lasting durability and efficiency. The Bryan name is associated with a flexible bent tube line of boilers, a design pioneered by Bryan Steam, LLC, and a top choice in the industry. The Thermal Solutions brand of copper boilers offers unparalleled durability and high efficiency.

ASSOCIATED BUSINESSES

CASTING SOLUTIONS, LLC, is a highly automated gray and ductile iron foundry business with broad experience in complex, thin-wall, iron pressure castings. NORWOOD MANUFACTURING, INC., is a state-of-the-art manufacturer of painted light-gauge metal parts. These subsidiaries are wholly owned by Burnham Holdings, Inc., and are respected as quality leaders in their markets.

Douglas S. Brossman
President and CEO

Albert Morrison, III
Chairman

We are pleased to report that 2012 was another year of increased sales and sound financial performance for Burnham Holdings, Inc. Despite uncertain economic conditions, we were able to increase sales to almost $205 million, our third straight year of sales growth. We also continued to increase our gross profit margin, which has increased every year since 2009. These gains in sales and margins translated to a 61% increase in earnings to $1.83 per share. We also increased the dividend by 6% to $0.72 per share. Finally, our strong cash flow has allowed us to end 2012 with our lowest debt level in over 15 years, with a debt-to-capital ratio of only 4.8%. Our exceptionally strong balance sheet provides us with significant flexibility to aggressively pursue future growth opportunities.

These impressive achievements are not the result of any single person or initiative, but reflect the collective efforts of a truly exceptional team of dedicated employees across our entire organization. Their creative and disciplined approach is unmatched in the industry. They did an outstanding job in 2012 of delivering improved productivity, reduced costs and focused product development while never losing sight of the "voice of our customer." We are extremely proud of these concentrated efforts by the entire organization. It's only through the hard work and dedication of our employees that the business can grow and prosper, and we are counting on them again in 2013.

"Our exceptionally strong balance sheet provides us significant flexibility to aggressively pursue growth opportunities…Our subsidiaries have continued to make significant investment in product development…and the results are astounding."

Our financial performance is directly related to market demand for our subsidiaries' commercial and residential boiler products. Boilers have been a popular product for heating in the northeast and across the northern tier of North America for decades, resulting in a large installed base that is also slowly increasing due to new construction and building additions. Replacement of these products due to age or operating costs, as well as new installations, create the demand for our products.

Generally, market demand for residential heating equipment tracks the economic cycle. Commercial markets follow a similar pattern, but lag residential to some degree. Markets for our commercial products showed improvement in the first half of 2012 but began to slow during the second half of the year. Our residential markets for most of 2012 remained at recent lows for most of the year as a result of the mild winter, high fuel oil prices and regional slowness in residential and commercial real estate markets.

Despite this general slowness in the industry, our businesses continued to perform well throughout the year. Further, demand for residential boiler products spiked in the latter part of the year when Super Storm Sandy damaged thousands of homes along the Eastern coastline. Recent investments we have made in our operational capabilities, as well as the dedication of our manufacturing, logistics and supply chain associates, gave us the ability to quickly respond to this demand. We are extremely proud of their accomplishments during this period of unprecedented business activity.

Our hearts go out to those who lost their homes and belongings from the storm, and we made it a priority to provide them with support. Just selling boilers, however, was not enough, as the character and compassion of our employees compelled them to do more to help the displaced residents. As a result, on January 26, 2013, a team of 20 employee volunteers devoted a frigid Saturday, traveling to Rockaway Beach, New York, to give back to the victims of Hurricane Sandy. Working closely with the New York Cares Organization, the volunteers cleaned out homes filled with debris. Thank you to all who participated! In addition, our U.S. Boiler subsidiary has also donated approximately 150 new high-efficiency residential boilers to Rebuilding Together NYC, a non-profit organization that repairs the homes of low-income and at-risk homeowners, particularly elderly, physically challenged, families with children and/or veterans free of charge in New York City.

It is also imperative that we invest in our businesses for the future. We have, and we will continue to invest in machinery and automation to enhance quality and drive cost reductions through productivity gains. The results of this effort are reflected in the improved margins discussed above.

Both our commercial and residential customers demand safe, reliable products that meet their operational and energy consumption needs. Further, market demand is increasing for newer, more sophisticated, more expensive energy-conserving products to reduce fuel consumption and operating cost. To meet this need, our subsidiaries have continued to make significant investments in product development to ensure that our product line-up meets our customers' needs. Our efforts to reduce costs have allowed us to continue to invest in research and development efforts to provide a continual flow of new products. Last year marked the third straight year that we increased spending on engineering, including increasing the number of product development engineers on staff, and we plan for this to continue into 2013.

The results of these investments are truly astounding. We have included in this Annual Report examples of new lines of products introduced by our various subsidiaries during the past five years. These are new product designs that utilize the latest technologies for energy conservation and control. Sales of these new products were up almost 20 percent over 2011, and represent 27 percent of total Company revenue!

Last year also was a year of management transition in the Company. Doug assumed the role of President and CEO from Al, while Al continued on as Chairman of the Board

Another highlight of 2012 was the addition of Philmer Rohrbaugh to our Board of Directors. Mr. Rohrbaugh recently retired after a long career in public accounting with KPMG, LLP, and he brings a wealth of experience in accounting, compliance, strategic planning, and mergers and acquisitions. We also would like to express our appreciation and gratitude to Rufus Fulton Jr., who will be retiring from our Board, effective April 22, 2013. Rufus is a tremendous leader and businessman who helped guide us to our current success.

We resolved the class action litigation filed against two of the Company's subsidiaries. The matter was discontinued as a class action, and the suit has concluded. Total costs of the litigation are expected to be within current reserves previously established by the Company for this matter. We are very pleased with the resolution of this matter.

While market conditions remain challenging, we are optimistic about the business and our prospects for long term growth and financial success. Our subsidiaries have strong brands and customer relationships, and are well positioned from a distribution, manufacturing, and cost standpoint to take full advantage of their respective markets. Our broad line of residential and commercial products are second to none in the industry and meet today's demand for advanced, energy-efficient equipment and controls. The Company has a strong cash flow, a strong balance sheet, and is well positioned to pursue strategic growth opportunities. Most importantly we have a strong management team with a level of experience and commitment that is unmatched by competition.

We want to take this opportunity to thank the Company's employees, customers, vendors, and most importantly you, our stockholders for your continued support and loyalty.

Sincerely,

Albert Morrison, III
Chairman

Douglas S. Brossman
President and CEO

BURNHAM HOLDINGS AND ITS SUBSIDIARIES GIVE BACK TO SUPER STORM SANDY VICTIMS

- Employees Clean Out Damaged Rockaway Beach, NY Homes
- U.S. Boiler Company, Inc. Donates 150 Boilers to Rebuilding Together, NYC

Residential boiler sales increased in late 2012 as a result of damage caused by Super Storm Sandy. Selling boilers was not enough, however, for employees of Burnham Holdings and its subsidiaries. As a result, at 5 a.m. on a frigid Saturday in January, employees boarded a bus to travel to Rockaway Beach, NY to volunteer their time to help residents get back into their homes. Working closely with the New York Cares Organization, the volunteers cleaned out homes filled with debris.

"The clean-up was hard work and the weather was bitter cold, but we were happy to contribute our time. Giving back to a community is a humbling experience and knowing that we can make a difference in someone's life makes you feel good at the end of the day."
John Wettig, Commercial Credit Manager, Burnham Holdings, Inc.

Dan Cork, Vice President of Sales and Marketing for U.S. Boiler, Inc., presents donated boilers to Chelsea Muller, Executive Director of Rebuilding Together NYC

In addition, our U.S. Boiler subsidiary has also donated approximately 150 new high efficiency boilers to Rebuilding Together NYC, a nonprofit organization that repairs the homes of low-income and at-risk homeowners, particularly elderly, physically challenged, families with children and/or veterans free of charge in New York City.

OVERVIEW OF RESULTS

Burnham Holdings, Inc., delivered a strong financial performance in 2012, with its highest earnings since the height of the housing boom. These results are particularly impressive in light of the challenges experienced in our markets, including an exceptionally mild winter, the devastation of a one-hundred year storm along the Eastern seaboard, volatile energy costs, and both political and geo-political factors that impacted the United States economy.

We began the year with demand for our residential boiler products constrained by mild winter weather conditions in the Northeast. High fuel oil costs also negatively impacted demand for oil-fired residential boiler and furnace products. However, the gas-fired product offerings of our residential subsidiaries, both from new and core products, combined with their strong distribution channels, enabled them to maintain, and in some cases out perform, the sluggish market during this period.

This stable base of residential revenue was augmented by improved sales in our commercial subsidiaries during the first part of the year, leading to a strong first-half performance. Activity slowed in the third quarter, however, as we believe the United States political elections, fiscal cliff concerns, and economic uncertainty abroad led to a lowering of consumer confidence, which tends to delay replacements or upgrades to equipment for both commercial and residential consumers.

After this relatively slow third quarter, demand for residential boiler products significantly increased in the fourth quarter as a result of Super Storm Sandy, which devastated coastal areas of the mid-Atlantic States and Southern New England, a core geographic area for hydronic heating equipment. Our subsidiaries reacted immediately by providing increased volumes of replacement equipment to the region. The high level of demand caused by the hurricane temporarily increased lead times for boiler products. Our long-term policy of vertical integration for castings and light-metal parts, along with strong supplier relationships, allowed our subsidiaries to gear up rapidly to meet customer needs. The residential manufacturing locations and parts plants operated at high production levels not experienced in many years during November and December.

The ability of our subsidiaries to successfully work through the events of 2012 has enabled the Company to report a year of strong financial performance. Our results, shown beginning on page 18, include a net sales increase of 3.0% to $204.8 million and a basic earnings per share improvement of 61.9% to $1.83, up from $1.13 in 2011.

The Company paid common stock dividends in 2012 of $0.72 per share, an increase of 5.9% over 2011.

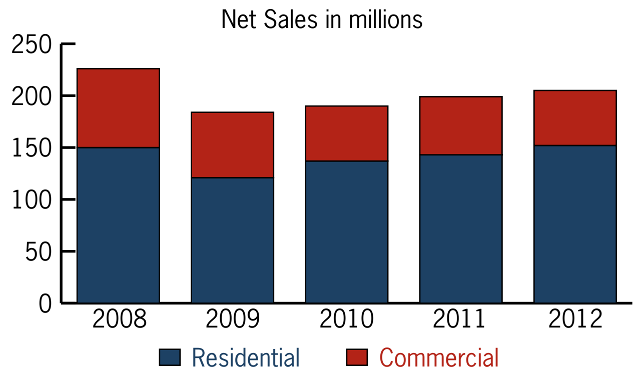
Details of results mentioned in this overview are discussed on the following pages.

SUBSIDIARY BRANDS, PRODUCT INFORMATION, AND MARKETS SERVED

Burnham Holdings presents subsidiary brand information in the "At A Glance" presentation on pages 2 and 3 to provide a general overview of the brands used, markets served, and associated supporting capabilities of our subsidiaries.

Overall, the Burnham Holdings strategies of product diversification, independent markets served, and continuous new product introductions have served us well over the years, resulting in what we believe is a more positive sales trend and profit performance over the last four post-recession years than that of the industry as a whole.

The chart below presents the Company's net sales for the last five years, for both the residential and commercial portions of our business.



The residential portion of the business experienced the third straight year of improvement after the market low in 2009. The decline

INTEGRITY

The foundation for our success has come from the trust our group has built with customers, vendors, and employees. Our commitment to produce high-value, high-quality products backed by superior service is something that customers and vendors expect. We recognize that our integrity is vital to the continued success of our business.

in the 2009 market was the result of an economic cycle that not only impacted Burnham Holdings but also the entire industry. The downturn was a result of a number of factors, including the sharp decline in the real estate market (impacting both new home construction and existing home sales), consumer confidence and spending behaviors, the deep recession in the general economy, and reduced credit availability. We feel our growth in the residential business over the last three years has been accomplished through our focus on satisfying the needs of the consumer through the continual introduction of new equipment and controls (including highly efficient, energy saving products), commitment to our long-term distribution channels, and the aggressive pursuit of new opportunities.

The commercial portion of our business provides heating applications for large commercial, institutional, and industrial facilities such as hospitals, factories, hotels, and schools. Commercial sales were strong leading up to the 2008 recession, which mitigated the downturn in the residential portion of the business during that time. However, in mid-2008, we began to feel the impact of constraints on spending in non-residential construction, which has continued and resulted in a downward trend in commercial sales. Commercial revenue experienced a modest improvement in 2011, and the trend in business activity through the first half of 2012, while still below 2008 levels, was encouraging for this portion of our business. However, as a result of the factors mentioned in the Overview, the second half and total year 2012 revenue for the commercial portion of the business has declined to near 2010 levels.

Rising and fluctuating fuel costs along with a variety of government and utility-sponsored incentives, have increased consumer awareness of the environmental benefits of energy–efficient products. In response to this consumer shift, the Company's subsidiaries have introduced more new high-efficiency products over the last several years than at any other time in our history, as we aim to be at the forefront of the industry in this effort.

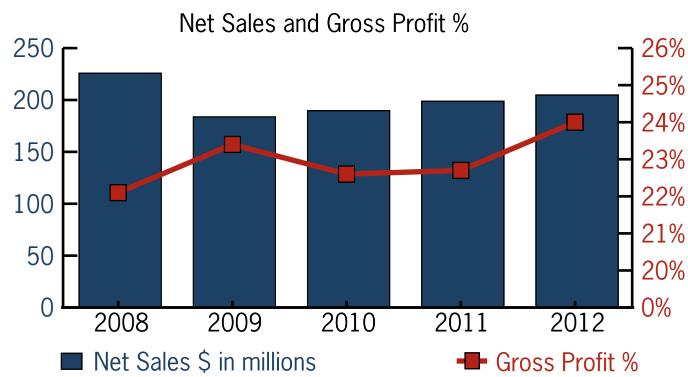
Although current business conditions remain challenging, we remain optimistic about the long-term prospects for the business. Existing boilers will continue to be replaced over time due to age or operating costs. Our powerful lineup of high-efficiency residential and commercial products sold by the subsidiary companies position us well in the market. These are top-quality, high-value products for virtually any application.

FINANCIAL PERFORMANCE

Net sales for 2012 were $204.8 million, up 3.0% from $198.8 million in 2011. The majority of Burnham Holdings, Inc.'s consolidated revenue is derived from sales in the United States. International sales, which include Canada and Mexico, were 1.7% of reported 2012 revenues.

Efforts by our subsidiaries over the past couple of years to consolidate and streamline operations have enabled them to improve quality and productivity, reduce material handling, and control inventory levels while providing a high level of customer service. Additionally, and most important, the Company and its subsidiaries strive to keep operating costs at a level that enables them to be highly competitive in their markets. The actions taken over the last several years have lowered our cost structure and increased our gross profit (profit after deducting cost of goods sold ("COGS")), thereby increasing our competitiveness.

The chart below presents the Company's net sales by year for 2008 through 2012 with the corresponding gross profit percentage (gross profit divided by net sales) for each year.



Actual COGS as a percentage of sales was 75.9% in 2012 versus 77.3% in 2011, the lowest level in over five years. Over the last several years, and primarily in 2011, we experienced increased material costs. Costs for commodity raw materials have fluctuated near all-time highs. Accordingly, we have steadily and systematically increased our product prices to recover the unfavorable cost increases. With the market relatively flat and the need to remain price-competitive, increased emphasis has been placed on cost control and resource optimization, both facility and manpower, in order to maintain gross profit margins. Through a combination of specific spending policies and flexibility with manufacturing capabilities, subsidiaries were successful in balancing the building of inventory and covering the costs of fixed overhead, while having the stock necessary to meet customer service expectations. As a result, manufacturing overhead expenses and production variances have continued to decline since the already low levels established in 2009 (the year of the sharp decline in the business cycle), when almost $10 million was removed from 2008 spending levels. Our focus on expenses, following the reductions accomplished in prior years, positions us with a gross profit percentage stronger than any year since the height of the housing boom. Within this overall decline of COGS, however, is a deliberate increase in engineering costs for the third straight year, as our subsidiaries are committed to being technology leaders in the industry.

Selling, administrative and general expenses ("SG&A"), shown on the Statements of Income on page 18, declined in both dollars and as a percentage of sales compared to 2011 (17.3% versus 18.2%). Even excluding the litigation defense costs from 2011 for ongoing matters explained on page 16, under "Certain Significant Estimates", 2012 SG&A costs were still lower than in 2011 despite the increase in sales volumes and the corresponding impact to marketing programs.

In addition, the "Other income (expense)" section of the Statements of Income shows 2012 with $1.0 million of expense compared to $1.2 million in 2011. The line item "Gain on sale of property" of $170 thousand and $162 thousand in 2012 and 2011, respectively, relates to the investment property sold in 2010 and described in Note 4. Otherwise, the Company's net other expense was lower than in the prior year because of earning more income on investments and paying less interest expense on lower borrowing rates and less overall debt.

In an effort to provide more transparent financial information, we are providing the following proforma table of information. Most of the line items have been mentioned in previous paragraphs and are more fully disclosed in other sections of this report. Excluding these unusual matters reflects the favorable trend of our core operating businesses on a FIFO (replacement cost) basis.

Dollars in thousands	December 2009	December 2010	December 2011	December 2012
Reported pre-tax income	$ 8,346	$ 9,733	$ 7,656	$ 12,796
LIFO (income) expense	(1,711)	801	1,778	102
Gain on sale of property	—	(4,685)	(162)	(170)
Legal defense costs (page16)	162	2,201	811	256
Proforma pre-tax FIFO income	$ 6,797	$ 8,050	$10,083	$ 12,984
Proforma % of reported Net Sales	3.7%	4.2%	5.1%	6.3%

Net income for 2012 was $8.2 million, or $1.83 per basic share. This compares to 2011 results of $5.1 million, or $1.13 per share.

PENSION MATTERS

Steps have been taken with the Company's pension plan (the "Plan") over the past years to protect benefits for retirees and eligible employees. Starting in 2003, the Plan was amended to state that newly hired, non-union employees would no longer be eligible for the benefit. In the ensuing years, the benefit accrual was eliminated for all new hires and active employees with the exception of a closed group of union production employees. While not 100% frozen, these actions have materially reduced the growth of the pension liability in future years. Additionally, the Plan prevents the Company from obtaining any surplus assets of the Plan during a three-year period immediately following a change in control.

The pension trust is managed by independent third-party administrators, under policies and guidelines established by the Employee Benefits Committee of the Board of Directors. It is a policy of the Employee Benefits Committee for the pension trust not to invest directly in Burnham Holdings, Inc., stock. Obligations and actuarial assumptions are presented in Note 10 of the financial statements. While the Company believes its assumptions are conservative in nature based on current knowledge, variables such as future market conditions, investment returns, and employee experience could affect results.

Current pension accounting standards require that the liability of the Plan be compared to the market value of the assets of the pension trust as of December 31 of each year, and that any excess or shortfall be recorded as a non-cash asset or a liability, as the case may be, on the balance sheet of the Company. While this gives a snapshot of the health of the Plan at a point in time, it does not consider that the pension liability is honored in the form of retiree benefit checks paid over a very long period of time, or that the value of financial investments in the pension trust can swing significantly with the economy, or that the liability can swing significantly with relatively small changes in interest rates.

At the end of 2010, the pension assets were $119.0 million compared to the 2010 liability of $137.8 million. This $18.8 million shortfall was recorded as a liability on the Company's balance sheet. In 2011, as a result of favorable improvements in the investments of the

STABILITY

Our brands are some of the best-known names in the business. Our commitment to new product enhancement and innovation, long-term customer and supplier relationships, and reliable financial performance and dividends have made Burnham Holdings a rock-solid, dependable company.

pension trust, pension assets increased to $124.5 million. This is compared to the 2011 liability of $158.5 million, which increased from the prior year because of plan assumption changes, primarily related to lowering the discount rate to 4.25% (which was considered the lowest rate in modern history) from the 2010 rate of 5.25% (discount rates are set based on matching the Plan's cash flow stream with a portfolio of similar bond maturities). This unprecedented low rate was mainly a result of the Federal Reserve monetary policy designed to kick-start the economy. This $34.0 million shortfall (higher than the 2010 shortfall) was recorded as a liability on the Company's balance sheet.

The year 2012 brought even more dramatic changes to the Plan. First, and as a positive change, pension assets increased by $13.0 million to $137.5 million as a result of further favorable improvements in the investments of the pension trust. However, the discount rate for 2012 was further reduced to 3.75%. This assumption change increased the 2012 liability by $12.4 million to $170.9 million. This $33.4 million shortfall (comparing the $170.9 million liability to the $137.5 million of assets) is an improvement in the shortfall reflected in 2011 and is recorded as a liability on the Company's balance sheet. While the Plan would appear to be under-funded from this limited, point-in-time accounting view, the Plan easily passes all ERISA funding targets (based on government defined rates and methods), and is close to being fully funded based on long-term discount rates recommended by our actuaries and investment consultants.

These entries are included in Stockholders' Equity in a subsection called Accumulated Other Comprehensive Income (Loss) ("AOCI") and have no direct bearing on the operation or financial strength of the Company. In addition to the pension, AOCI includes other non-cash items such as mark-to-market adjustments for interest rate hedge instruments, currency contracts, and adjustments for retiree health benefits.

Cash contributions to the pension trust are tax-deductible and do not impact the Company's earnings. Minimum mandatory contributions are determined by ERISA regulations as amended by the stringent Pension Protection Act of 2006. The Plan assets significantly exceeded minimum required levels at the start of 2012 and 2011. The Company made voluntary contributions of $3.35 million and $2.5 million during 2012 and 2011, respectively. The Company believes any minimum required contributions in 2013 would not be material.

LIQUIDITY AND CAPITAL RESOURCES

The seasonal nature of our business requires the Company to maintain a keen focus on the balance between working capital levels and the debt structure required to support the operating needs of the business. Cash flow generated from subsidiary operations provides the Company with a significant source of liquidity.

Net cash provided from operations in 2012 was $14.0 million (the second highest amount in the last ten years). This was compared to $6.5 million in 2011. The main reason for the higher cash flow in 2012 was the strong net income and a decrease in inventory levels versus an inventory increase in 2011 (which reduced that year's cash flow). The inventory build in 2011 was a result of three factors. First, as market activity began to improve in 2011 for both portions of our business, we made a conscious decision to begin to increase our inventory levels in order to satisfy customer needs. Second, high-efficiency products have a higher carrying cost than traditional units. Finally, we experienced higher raw material cost inflation in 2011 than from the 2010 levels. Inventory levels, as well as other asset balances, continue to be monitored closely, and are appropriate for the current business level.

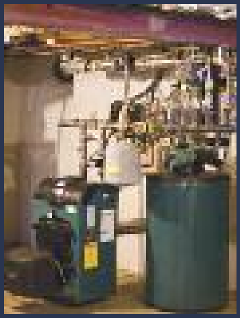
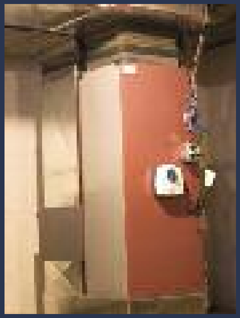
The cash provided by operations in 2012 and 2011 supported the group's ability to fund normal operating expenses while also providing the funds to develop new products, make necessary investments in capital assets, make debt repayments, make contributions to the Company's pension trust, and pay dividends to our stockholders.

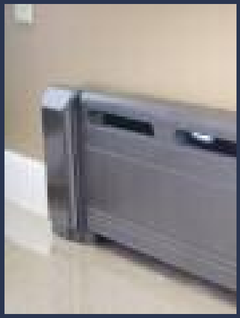
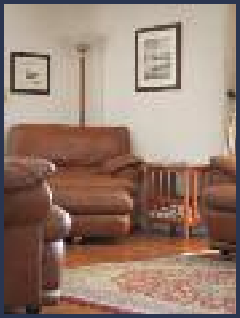
Excluding the debt related to interest rate swap instruments, "financed debt" decreased in 2012 to $5.3 million, the lowest year-end debt level in over 15 years. The outstanding $5.3 million of debt for the Company and its subsidiaries is composed of three Industrial Revenue Bonds used to finance specific equipment and facility expansions in both Pennsylvania and North Carolina. These loans have long-term, fixed repayment schedules. The debt related to interest rate instruments of $2.4 million (mark-to-market of four interest rate swaps that will reverse themselves over the terms of the agreements) decreased slightly from last year's level of $2.6 million as a result of interest rate assumptions.

During 2012, we repaid in their entirety (prior to term) a capital lease and a State assisted machinery loan, and we also paid all outstanding borrowings under our bank loan described in the following paragraph.

The Company has a loan agreement (the "Revolver") financed through a consortium of three banks totaling $72 million (primarily used for working capital needs) and three separate line of credit agreements (the "LOC") totaling $5.5 million for specific bank services. In 2012, these agreements were amended to extend the term of the agreements by a year to August 2014. Operating assets and certain other specific assets collateralize the Revolver and LOC. These agreements were obtained on the strength of the Company's balance sheet and our proven ability to monitor and control working capital levels. The agreements allow us to operate effectively, both through the economic cycles that

The Complete Package

When the Hainley family of Lancaster, PA bought their split level home they knew one of the first major projects to undertake was a complete overhaul of the home's 20 year old heating and cooling system. With the goal of maximizing comfort and energy efficiency, the owners turned to Jason Sweigart of J&G Heating and Cooling/Starr Plumbing. The resulting custom heating and cooling system utilizes an array of HVAC technologies primarily supplied by the portfolio companies of the Burnham Holdings group.

Natural gas is not available in the Hainley's development so Jason recommended a MPO-IQ® boiler as the heart of the system. Operating at AFUEs up to 87%, the oil-fired MPO-IQ can be further enhanced with US Boiler Company, Inc.'s unique IQ outdoor reset add-on cards. The addition of this technology, which lowers the water temperature of the boiler supplies to the heating system, has been shown to further improve system efficiency by up to 10%. The next step was to replace the old propane-fired hot water heater with an Alliance™ indirect hot water heater. With a warranty and efficiencies that are practically identical to those of the boiler, the Alliance can provide up to 225 gallons of hot water in the first hour, far superior to both stand-alone hot water heaters and tankless water heaters.

Having grown up in hydronically-heated homes, the Hainleys wanted the comfort of radiant floors and baseboard radiation. So Jason and his team installed radiant tubing with heat spreaders underneath the first floor hardwood floors, and added BaseRay™ cast iron baseboard to the lower level. Certain areas of the home were not suited for either the radiant or baseboard application, so a Thermo Products, LLC air handler with a hydronic heating coil was added to those rooms. The air handler is also equipped with a Thermo A/C coil and compressor for cooling in the summer. The home now has 5 zones of heating and can more efficiently distribute the heat to where it is needed, when it is needed. To complete the system, Jason added Honeywell programmable, internet-enabled thermostats to allow remote monitoring and temperature adjustments of the system and its multiple zones.

The completed system seamlessly blends heating, water heating, and air conditioning technologies, all from Burnham Holdings companies, into a reliable and comfortable high-efficiency system.

occur from time to time and the seasonal nature of our business. The Revolver and LOC have various financial covenants but no scheduled payments prior to maturity. As of December 31, 2012 and 2011, the Company was in compliance with all covenants as shown below:

Dollars in thousands	December 2011	December 2012	
Funded Debt [(1)]	$ 10,929	$ 1,476	
Stockholders' Equity on FIFO basis [(2)]	117,747	123,065	Minimum level: $102,000 for 2012 and $100,000 for 2011
Debt Coverage Ratio [(1)]	5.00	6.02	Minimum Ratio: 1.35
Funded Debt to EBITDA [(1)]	0.90	0.09	Maximum Ratio: 5.00

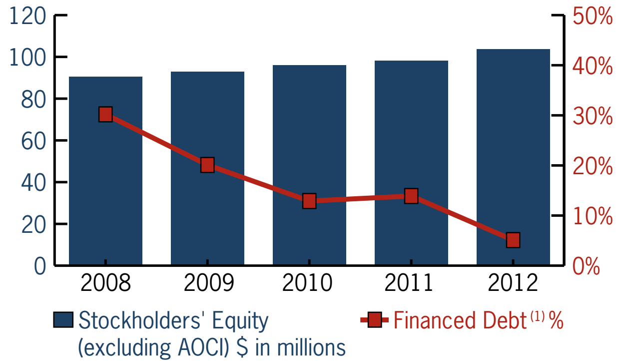
[(1)] As defined by Revolver and LOC Agreement.
[(2)] Stockholders' Equity excluding AOCI (shown below) plus LIFO inventory reserve (which can be found in "Inventories" Note 2 on page 23).

Key Liquidity Data and Other Measures:

Dollars in thousands	December 2010	December 2011	December 2012
Cash	$ 3,965	$ 4,489	$ 4,740
Working Capital	40,515	43,555	40,741
Total Debt	14,143	16,320	7,692
Financed Debt [(1)]	12,382	13,713	5,265
Financed Debt [(1)] to Capital [(2)]	11.4%	12.2%	4.8%
Stockholders' Equity	73,940	64,392	68,891
AOCI	(22,171)	(33,917)	(34,634)
Stockholders' Equity (excluding AOCI)	96,111	98,309	103,525
Common Stock Price	$ 15.13	$ 13.50	$ 14.46
Book Value per share as reported	16.52	14.34	15.29
Book Value per share (excluding AOCI)	21.50	21.93	23.01

[(1)] Financed Debt is defined as Total Debt less mark-to-market non-cash liability related to interest rate swap instruments.
[(2)] Capital is defined as Stockholders' Equity (excluding AOCI) plus Financed Debt.

The following chart presents the Company's Stockholders' Equity (excluding AOCI) and Financed Debt as a percentage of this Equity over the last five years at December of each year (typically near the lowest borrowing level for the year).



Throughout a typical year, our borrowing requirements fluctuate based on business activity and our need to support working capital levels. The normal cyclical high borrowing level occurs during the third quarter of each year and is provided for by the Revolver mentioned previously. Debt levels for the third quarter ending September 2012 and 2011 were $31.2 million and $40.0 million, respectively.

The Company believes at this time that its liquidity position, its capital structure, and its banking relationships are adequate to meet foreseeable future needs.

Burnham Holdings, Inc., is not a party to any financial derivative transaction or any hedging agreements, except for interest rate swap instruments and short-term currency contracts. The Company has entered into these arrangements to hedge its exposure to interest rate fluctuations on a portion of its variable rate debt and to lock in costs for a portion of its foreign-supplied materials.

CAPITAL INVESTMENTS

In late 2010, the Company moved forward with the long-term plan of owning, rather than leasing, its Centerville manufacturing facilities in Lancaster, PA. As part of this strategy, two investment properties in Lancaster were sold by subsidiaries for total net proceeds of $11.8 million, resulting in a net book gain on these properties of $4.7 million.

DIVERSIFICATION

From industrial scotch marine boilers to residential gas & oil heating units to high-efficiency air conditioners and water heaters, Burnham Holdings, Inc.'s, affiliated companies offer the widest array of products in the industry for our extensive customer base. Through a combination of eight major brands, our subsidiaries are able to service any geographic region, using various fuel alternatives, across all sectors of the market, including residential, commercial, and industrial applications.

These proceeds, along with additional cash, were reinvested by these subsidiaries into the Centerville properties at a net acquisition price of $12.7 million. These actions were handled as a 1031 Like Kind Exchange transaction for Federal and State tax matters, which enables the gains to be tax deferred into the future. A portion of this gain, $788 thousand, will be recognized over five years as required by accounting guidance related to sale/leaseback rules. In 2012 and 2011, $170 thousand and $162 thousand, respectively were recognized of this deferred gain.

Capital expenditures totaled $2.3 million and $4.4 million in 2012 and 2011, respectively, compared to a 2012 depreciation expense of $4.6 million. The practice has generally been to re-invest capital at a level that approximates the depreciation expense within the operating statements. The expenditures over the last two years were adequate and allowed us to provide funding for the following major items: continual upgrades and replacements of equipment at Casting Solutions, LLC (normally in the range of $1 million per year); almost $2.4 million for equipment and building modifications related to production optimization and quality-related equipment to ensure the standards of the products (including $1.2 million in 2011 for two new laser cutters, one each at our metal parts manufacturing subsidiaries); and nearly $400 thousand expended for machinery, tooling, and pattern costs related to new or redesigned products. Capital expenditures for 2013 are budgeted at approximately $3.6 million. This spending includes approximately $1.8 million for new machinery to enhance production effectiveness and quality assurance spread across most subsidiaries (including almost $400 thousand in additional laser enhancements). The remaining amount is targeted for continual upgrades and replacements, building improvements to reduce energy consumption, upgrading of engineering & testing facilities, and to meet the prospective capital needs of new products currently under development.

BOARD ACTIONS

On February 20, 2013, the Company announced a quarterly dividend of $0.20 per share. This would be an annual dividend rate of $0.80 per share, a 11.1% increase over the $0.72 per share that was paid in 2012 and the second straight year of increased dividends. The annual dividend rate for Preferred stock is $3.00 per share.

At the February 2013 meeting, the Board of Directors authorized the repurchase of 60,000 shares of either class of common stock at market prices during 2013. The Board may authorize additional repurchases from time to time. Management also has authority to repurchase preferred stock. There were 290 shares of common stock repurchased in 2012. There were no shares repurchased in 2011.

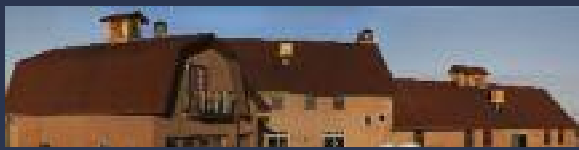
PERSONNEL

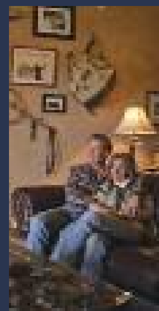
Several senior executive changes occurred in 2012. Albert Morrison III announced his retirement as CEO of the Company, effective April 23, 2012. He continues to serve as Chairman of the Board and as a Director of Burnham Holdings, Inc. Mr. Morrison has been with the Company for more than thirty-nine years, holding the position of CEO since 1988. Douglas S. Brossman became the Company's President and Director, effective January 1, 2012. He was also appointed CEO upon Mr. Morrison's retirement in April. Mr. Brossman previously held the position of Vice President and General Counsel of Burnham Holdings, Inc., since 2008. John A. Roda joined the company as Vice President and General Counsel in March 2012. Mr. Roda has over twenty-five years of experience as a practicing attorney, including over twenty years of corporate counsel experience with manufacturing organizations.

Concerning the Board of Directors, Mr. Philmer H. Rohrbaugh was appointed a Director effective October 1, 2012, and is standing for election at the annual meeting for a three-year term. In addition, Mr. Rufus A. Fulton, Jr., will retire as a Director at the annual meeting after serving on the Board for thirteen years. We want to thank Mr. Fulton for his leadership and guidance during this time and wish him well in his future endeavors.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Other reports, letters, and press releases distributed by the Company may also contain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates, and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, variations in weather, changes in the regulatory environment, litigation, customer preferences, general economic conditions, technology, product performance, raw material costs, and increased competition.





Rocky Mountain High Efficiency

Alpine™ boilers by U.S. Boiler Company, Inc.

This picturesque ranch in Southeast Colorado belongs to Mike O'Donnell and Susan Epply. Mike is an accomplished mountain climber who rose to fame by being the first man to guide a vision-impaired climber to the top of Mt. Everest. The home had an under-performing heating system. To replace it, Mike & Susan chose an Alpine™ condensing boiler. Now, in addition to heating bills which are roughly one-third of what they used to be, they are finally able to enjoy the comfortable home heating system they always wanted. This was not exactly an easy task, especially since Mike and Susan love the outdoors enough to keep their bedroom windows open all year long.

LEADING HVAC TECHNOLOGIES...

Burnham Holdings' portfolio of companies offers one of the broadest arrays of products in the hydronic heating industry. From the industry leading efficiency of Bryan Steam LLC.'s, Triple-Flex™ commercial condensing boiler to the longevity of the innovative ES2™ from US Boiler Company Inc., or one of the HVAC industry's first condensing oil furnaces from Thermo Products LLC., the Burnham Holdings' portfolio of companies bring leading technologies to their respective market segments.

Innovation:

In a competitive marketplace, having unique, high-quality products can provide a clear advantage. The Burnham Holdings' portfolio of companies are respective leaders in their various market segments, developing products that address practical applications with creative technological innovation. The commitment to investment in R&D across all businesses is driven by a constantly changing marketplace as our subsidiaries relentlessly focus on not only developing leading heating solutions but also manufacturing products that match the needs and desires of our customers. The final result is a clear synergy between market needs and the products ability to provide a superior solution. The Burnham Holdings group is uniquely capable of offering these forward thinking products to the market and is constantly looking for new and innovative applications to explore and develop.

Half the Space, Double the Savings

Bimini™ boilers by Crown Boiler Co.

When the heat and hot water system in this 154-unit, 11 building condominium complex started to show its age, the owners looked for an efficiency upgrade. They found it in the Bimini Commercial™ by Crown Boiler Co. The new boilers occupy far less space in the boiler room than the previous units. The property manager of the complex reports that once the final phase of installation is completed, they expect their energy bills to be cut in half.

School’s out, Boilers in

Apex™ boilers by Burnham Commercial

The HVAC contractor had only six days (the length of Spring Break) to replace the ailing boilers in this school in Garland, Colorado. Thanks to the ease of installation and integration between the boiler control system on the Apex™ and the building’s heating control system, the boilers were installed and the students returned to warm and comfortable classrooms. School administrators also got a lesson in savings, as the new boilers are set to save the school roughly two-thirds of their previous heating fuel costs.

Efficiency:

In an era of renewed awareness about energy costs, homeowners, contractors, building owners and engineers all are increasingly cognizant of the cost of heating. Multiple technologies have entered the market touting a variety of environmental benefits and cost savings – Clean Energy technologies like solar and wind, Renewables such as soy or corn based Bio Fuels, Hydrogen Fuel Cells, Combined Heat and Power units, and LEED certifications for buildings. Our companies have reacted to these challenges by developing products that operate more cleanly – significantly reducing CO and NOx emissions; operate more efficiently – steadily raising the AFUEs of our products; and by developing advanced control technologies that improve heating system efficiency, minimizing energy usage while maximizing comfort.

Diversity:

From the smallest home to the largest stadium, our portfolio of company’s products meet and exceed the needs of the North America market. From residential boilers to radiators, from furnaces to high-efficiency commercial boilers, from water heaters to high-capacity process steam boilers, our companies take pride in being able to deliver the widest array of products in the heating industry and effectively meet the challenges presented by a changing landscape of energy and environmental concerns. By coupling product innovation with a well-deserved reputation for superior product performance, reliability, and durability, our portfolio of companies continue to lead the industry.

…UNSURPASSED RELIABILITY

Egg-Celent Reliability & Efficiency

Evolution® boilers by Thermal Solutions Products, LLC

As one of America’s leading producers of eggs, Sauders Eggs knows a bit about efficiency. When they needed to find an answer for the hot water needs at their facilities, they turned to Thermal Solutions. A single Sauders plant produces over 14,500,000 eggs per week. They need abundant hot water to clean and sanitize their products, so reliability, efficiency, and ease of maintenance are of the utmost importance. Thermal Solutions boilers are the perfect fit for this purpose. Sauders reports a 30% reduction in fuel consumption in the facilities that have been converted thus far.

Certain estimates are determined using historical information along with assumptions about future events. Changes in assumptions for such items as warranties, medical cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Specific estimates are explained below in order to provide the basis for relevant expenses and reserves.

Medical Health Coverage: The Company and its subsidiaries are self-insured for most of the medical health insurance provided for its employees, limiting their maximum exposure to $200,000 per occurrence by purchasing third-party stop-loss coverage. The Company retains various third-party providers to support the effort required in the administration of its health coverage. The costs of these various plans and administrative charges are expensed monthly.

Retiree Health Benefits: For a number of years prior to 2006, the Company provided certain medical benefits to a closed group of Medicare-eligible retirees. Starting in 2006, the Company will pay a fixed annual amount that will assist this group in purchasing medical and/or prescription drug coverage from providers. Additionally, certain employees electing early retirement have the option of receiving access to an insured defined benefit plan at a yearly stipulated cost or receiving a fixed dollar amount to assist them in covering medical costs. With either option, the Company's yearly cost is capped based on the benefit elected. These obligations are accounted for within the financial statements.

Insurance: The Company and its subsidiaries maintain insurance to cover product liability, general liability, workers' compensation, and property damage. Well-known and reputable insurance carriers provide current coverage. For these policies, which cover periods ending mid-2013, the Company's retained liability is for the first $100,000 per occurrence of product liability and environmental claims, a total exposure of $750,000 per occurrence for workers' compensation in Ohio and Pennsylvania (fully insured for workers' compensation in all other states), and for the first $50,000 per occurrence of property claims. All policies and corresponding deductible levels are reviewed on an annual basis. Third-party administrators, approved by the Company and the insurance carriers, handle claims and attempt to resolve them to the benefit of both the Company and its insurance carriers. The Company reviews claims periodically in conjunction with the administrators and adjusts recorded reserves as required. At this time, reserves for product, general, workers' compensation, and property liabilities are reasonable based on the information currently available.

Warranty Litigation, Class Action: In 2010, two of the Company's subsidiaries were served with a class action lawsuit related generally to boiler products manufactured and sold by a predecessor to one of the Company's subsidiaries more than 10 years ago. This matter has now been discontinued as a class action and the litigation has been resolved. Total costs to resolve the litigation are expected to be within reserves previously established by the Company for this matter.

General Litigation, including Asbestos: In the normal course of business, certain subsidiaries of the Company have been named, and may in the future be named, as defendants in various legal actions including claims related to property damage and/or personal injury allegedly arising from products of the Company's subsidiaries or their predecessors. A number of these claims allege personal injury arising from exposure to asbestos-containing material allegedly contained in certain boilers manufactured many years ago, or through the installation of heating systems. The Company's subsidiaries, directly or through insurance providers, are vigorously defending all open asbestos cases, many of which involve multiple claimants and many defendants, which may not be resolved for several years. Asbestos litigation is a national issue with thousands of companies defending claims. The Company believes, based upon its understanding of the insurance policies available and discussions with legal counsel, that all pending legal actions and claims, including asbestos, should ultimately be resolved within existing insurance limits and reserves, or for amounts not material to the Company's financial position or results of operations. However, the resolution of litigation generally entails significant uncertainties, and no assurance can be given as to the ultimate outcome of litigation or its impact on the Company and its subsidiaries. Furthermore, the Company cannot predict the extent to which new claims will be filed in the future, although the Company currently believes that the great preponderance of future asbestos claims will be covered by existing insurance. There can be no assurance that insurers will be financially able to satisfy all pending and future claims in accordance with the applicable insurance policies, or that any disputes regarding policy provisions will be resolved in favor of the Company.

Litigation Expense, Settlements, and Defense: The cost of settlements in 2012, 2011 and 2010, for all uninsured litigation of every kind, was $219,000, $409,000 and $815,000, respectively. The 2010 amount included two self-insured asbestos claims, and the 2011 and 2012 amounts include one self-insured asbestos claim (while it is rare for an asbestos suit not to be covered by insurance, a few such claims exist, depending on the alleged time period of asbestos exposure). Expenses for legal counsel, consultants, etc., in defending these various actions and claims have historically not been material to current year earnings. Such expenses in 2012, 2011 and 2010 were $256,000, $811,000 and $2,201,000, respectively.

Permitting Activities (excluding environmental): The Company's subsidiaries are engaged in various matters with respect to obtaining, amending or renewing permits required under various laws and associated regulations in order to operate each of its manufacturing facilities. Based on the information presently available, management believes it has all necessary permits and expects that all permit applications currently pending will be routinely handled and approved.

Environmental Matters: The operations of the Company's subsidiaries are subject to a variety of Federal, State, and local environmental laws. Among other things, these laws require the Company's subsidiaries to obtain and comply with the terms of a number of Federal, State and local environmental regulations and permits, including permits governing air emissions, wastewater discharges, and waste disposal. The Company's subsidiaries periodically need to apply for new permits or to renew or amend existing permits in connection with ongoing or modified operations. In addition, the Company generally tracks and tries to anticipate any changes in environmental laws that might relate to its ongoing operations. The Company believes its subsidiaries are in material compliance with all environmental laws and permits.

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for response actions at disposal areas containing waste materials from their operations. In the past five years, the Company has not received any notice that it or its subsidiaries might be responsible for remedial clean-up actions under government supervision. However, a notice received in December 2007 pertained to an on-site sanitary sewage system at the formerly owned Wendland Manufacturing Corp. facility in San Angelo, Texas. The wastewater discharge matter was resolved in 2008, with final clearance from the local regulatory agency pending. A Company subsidiary (and its insurance carrier) remains responsible for any future costs. A second matter relates to an older, previous agreement for a formerly owned site in Elizabeth, New Jersey. In 2000, a Company subsidiary entered into an agreement with the New Jersey Department of Environmental Protection to clean up portions of this site. To date, all costs associated with the clean-up have been reimbursed by insurance proceeds. Most recently, our insurance carrier has established and funded a trust account to fund anticipated future site activities. While it is not possible to be certain whether or how any new or old matters will proceed, the Company does not presently have reason to anticipate incurring material costs in connection with any matters, and no reserves have been established.

MANAGEMENT'S REPORT

Management is responsible for the preparation as well as the integrity and objectivity of the Burnham Holdings, Inc., financial statements. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts which represent the best estimates and judgments of management.

Burnham Holdings, Inc., maintains an accounting system and related system of internal controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. Reasonable assurance recognizes that the cost of a system of internal controls should not exceed its benefits and that the evaluation of these factors requires estimates and judgments by management. The internal control system includes the selection and training of management and supervisory personnel; an organizational structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting control and business practices throughout the organization; business planning and review; and a program of internal audit.

ParenteBeard LLC, independent auditors, are engaged to audit and report on these financial statements. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The Audit Committee of the Board of Directors meets regularly with management, the internal audit manager, and the independent auditors to review matters relating to financial reporting, internal controls and auditing. Management, the internal audit manager, and the independent auditors each have direct and confidential access to this committee.

Douglas S. Brossman	Douglas B. Springer
President and CEO	Vice President and CFO

REPORT OF INDEPENDENT AUDITORS

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Burnham Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Burnham Holdings, Inc. and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

ParenteBeard LLC
Lancaster, Pennsylvania
February 27, 2013

CONSOLIDATED STATEMENTS OF INCOME

Burnham Holdings, Inc. 2012 Annual Report

	Years Ended December 31 (In thousands, except per share data)	
	2012	2011
Net sales	**$204,762**	$198,842
Cost of goods sold	**155,510**	153,751
Gross profit	**49,252**	45,091
Selling, administrative and general expenses	**35,478**	36,282
Operating income	**13,774**	8,809
Other income (expense):		
Gain on sale of property (Note 4)	**170**	162
Mark-to-market	**143**	207
Interest and investment income	**278**	70
Interest expense	**(1,569)**	(1,592)
Other income (expense)	**(978)**	(1,153)
Income before income taxes	**12,796**	7,656
Income tax expense	**4,569**	2,573
NET INCOME	**$ 8,227**	$ 5,083
BASIC EARNINGS PER SHARE	**$ 1.83**	$ 1.13
DILUTED EARNINGS PER SHARE	**$ 1.83**	$ 1.13

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31 (In thousands)	
	2012	2011
Components of comprehensive income (loss)		
Net income for the year	**$ 8,227**	$ 5,083
Other comprehensive income (loss)		
Change in fair value of derivatives, hedges, and investments	**126**	(761)
Pension liability and adjustment	**(1,058)**	(10,952)
Postretirement medical liability adjustment	**215**	(33)
Other comprehensive income (loss)	**(717)**	(11,746)
TOTAL COMPREHENSIVE INCOME (LOSS)	**$ 7,510**	$ (6,663)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Burnham Holdings, Inc. 2012 Annual Report

ASSETS

	December 31 (In thousands) 2012	2011
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,740**	$ 4,489
Trade accounts receivable, less allowances (2012 – $472 and 2011 – $361)	**25,966**	21,837
Inventories:		
Materials, in process and supplies	**33,446**	33,065
Finished goods	**7,251**	8,320
Total inventory	**40,697**	41,385
Prepaid expenses and other current assets	**865**	903
Current portion of deferred income taxes	**2,493**	2,437
TOTAL CURRENT ASSETS	**74,761**	71,051
PROPERTY, PLANT AND EQUIPMENT, net	**47,785**	50,122
DEFERRED INCOME TAXES	**3,663**	3,273
OTHER ASSETS, net	**22,865**	22,394
TOTAL ASSETS	**$149,074**	$146,840

LIABILITIES AND STOCKHOLDERS' EQUITY

	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 28,793**	$ 26,127
Income taxes payable	**4,948**	1,014
Current portion of other postretirement liabilities	**267**	239
Current portion of long-term debt	**12**	116
TOTAL CURRENT LIABILITIES	**34,020**	27,496
LONG-TERM DEBT	**7,680**	16,204
OTHER POSTRETIREMENT LIABILITIES	**38,483**	38,748
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
Preferred Stock	**530**	530
Class A Common Stock	**3,423**	3,403
Class B Convertible Common Stock	**1,521**	1,523
Additional paid-in capital	**14,727**	14,508
Retained earnings	**101,286**	96,303
Accumulated other comprehensive income (loss)	**(34,634)**	(33,917)
Treasury stock, at cost	**(17,962)**	(17,958)
TOTAL STOCKHOLDERS' EQUITY	**68,891**	64,392
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$149,074**	$146,840

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Burnham Holdings, Inc. 2012 Annual Report

Years Ended December 31, 2012 and 2011
(In thousands, except per share data)

	Preferred Stock	Class A Common Stock	Class B Convertible Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Stockholders' Equity
Balance at January 1, 2011	**$530**	**$3,323**	**$1,591**	**$14,350**	**$94,275**	**$(22,171)**	**$(17,958)**	**$73,940**
Exercise of stock options:								
12,272 shares of common stock	–	12	–	158	–	–	–	170
Conversion of common stock	–	68	(68)	–	–	–	–	–
Cash dividends declared:								
Preferred stock – 6%	–	–	–	–	(18)	–	–	(18)
Common stock – ($0.68 per share)	–	–	–	–	(3,037)	–	–	(3,037)
Net income for the year	–	–	–	–	5,083	–	–	5,083
Change in fair value of derivatives, hedges, and investments, net of $384 of tax	–	–	–	–	_	(761)	–	(761)
Pension liability adjustment, net of $6,161 of tax	–	–	–	–	–	(10,952)	–	(10,952)
Postretirement medical liability adjustment, net of $19 of tax	–	–	–	–	–	(33)	–	(33)
Balance at December 31, 2011	**$530**	**$3,403**	**$1,523**	**$14,508**	**$96,303**	**$(33,917)**	**$(17,958)**	**$64,392**
Exercise of stock options:								
18,199 shares of common stock	–	18	–	219	–	–	–	237
Cost of 290 shares of common stock acquired for treasury		–	–	–	–	–	(4)	(4)
Conversion of common stock	–	2	(2)	–	–	–	–	–
Cash dividends declared:								
Preferred stock – 6%	–	–	–	–	(18)	–	–	(18)
Common stock – ($0.72 per share)	–	–	–	–	(3,226)	–	–	(3,226)
Net income for the year	–	–	–	–	8,227	–	–	8,227
Change in fair value of derivatives, hedges, and investments, net of $(13) of tax	–	–	–	–	_	126	–	126
Pension liability adjustment, net of $595 of tax	–	–	–	–	–	(1,058)	–	(1,058)
Postretirement medical liability adjustment, net of ($121) of tax	–	–	–	–	–	215	–	215
Balance at December 31, 2012	**$530**	**$3,423**	**$1,521**	**$14,727**	**$101,286**	**$(34,634)**	**$(17,962)**	**$68,891**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 (In thousands)	
	2012	2011
OPERATING ACTIVITIES		
Net income	**$ 8,227**	$ 5,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of property	**(170)**	(162)
Depreciation and amortization	**4,659**	4,355
Deferred income taxes	**24**	1,982
Pension expense	**1,096**	618
Postretirement liabilities	**449**	615
Reserves and other allowances	**(307)**	(432)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	**(4,240)**	1,957
Decrease (increase) in inventories	**688**	(4,792)
Decrease (increase) in prepaid expenses and other current assets	**38**	(53)
Contributions to pension trust	**(3,350)**	(2,500)
Increase in accounts payable and accrued expenses	**2,951**	737
Increase (decrease) in income taxes payable	**3,934**	(910)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**13,999**	6,498
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,274)**	(4,412)
Purchase of other assets	**(15)**	(8)
NET CASH USED IN INVESTING ACTIVITIES	**(2,289)**	(4,420)
FINANCING ACTIVITIES		
Proceeds from borrowings	**–**	1,387
Proceeds from exercise of stock options	**237**	170
Principal payments on long-term debt and capital lease obligations	**(8,448)**	(56)
Purchase of treasury stock	**(4)**	–
Dividends paid	**(3,244)**	(3,055)
NET CASH USED IN FINANCING ACTIVITIES	**(11,459)**	(1,554)
INCREASE IN CASH AND CASH EQUIVALENTS	**251**	524
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,489**	3,965
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 4,740**	$ 4,489
Supplemental information regarding noncash activities:		
Equipment acquired under capital lease obligations	**$ –**	$ 87

The accompanying notes are an integral part of these consolidated financial statements.

dollars in thousands except per share data

1. NATURE OF OPERATIONS

Burnham Holdings, Inc., is the parent company of fourteen subsidiaries that are leading domestic manufacturers of boilers, and related HVAC products and accessories (including furnaces, radiators, and air conditioning systems) for residential, commercial and industrial applications. As defined by financial accounting standards related to the disclosures about segments of an enterprise, the Company services the Heating, Ventilating, and Air Conditioning ("HVAC") market segment. The majority of the Company's revenue is derived from sales in the United States with a concentration of these domestic sales located in the Northeast quadrant of the nation. Sales of residential products amounted to approximately 74% of the total year 2012 revenues. The majority of the sales are to wholesale distributors who, in turn, market to builders, heating contractors, utilities, and fuel dealers for resale to end-use customers. Commercial products are sold primarily through independent sales representatives directly to contractors or end users. The Company's subsidiaries also market many of their products internationally, working in conjunction with selected independent sales representatives worldwide. International sales, which include Canada and Mexico, for the year 2012, amounted to 1.7% of reported net revenues. Sales to the ten largest customers amounted to $79,400 and $68,100 in 2012 and 2011, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Burnham Holdings, Inc., and subsidiaries. All significant intercompany accounts are eliminated in consolidation. The Company does not have any unconsolidated legal entities, "special purpose" entities, or "off-balance-sheet" financial arrangements, nor is it a partner in any joint venture nor does it have a minority interest in any other entity.

Revenue Recognition: The Company recognizes revenue pursuant to applicable accounting standards, including the Securities and Exchange Commission Staff Accounting Bulletins on this topic, which summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry.

Net Sales are recognized upon the transfer of title and risk of ownership to customers and are recorded net of discounts, customer-based incentives, and returns. Transfer of title and risk of ownership is based upon shipment under FOB shipping point contract terms. Provisions for sales discounts earned and customer-based incentives are based on contractual obligations with customers. Returns are estimated at the time of sale based on historical experience.

Advertising: Costs are expensed as incurred.

Accounts Receivable: Accounts receivable are recorded at the invoice price, net of allowances for doubtful accounts, discounts and returns, and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in accounts receivable. The Company reviews the allowance for doubtful accounts monthly. Receivable balances are written off against the allowance when management believes it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

Allowance for doubtful accounts	2012	2011
Balance at January 1	$ 361	$ 489
Net (reversals) accruals for accounts	123	(119)
Credit losses	(12)	(9)
Balance at December 31	$ 472	$ 361

Shipping and Handling Costs: The subsidiaries charge certain customers' shipping and handling fees. These revenues are recorded in Net Sales. The costs associated with receiving material and shipping goods to customers are recorded as cost of goods sold. For the years ended December 31, 2012 and 2011, these gross receiving and shipping costs were $7,771 and $8,390, respectively.

Cash and Cash Equivalents: The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company's cash balances at times exceeded Federally insured limits ($871 and $2,208 at December 31, 2012 and 2011, respectively); however, the Company has not experienced any losses. Additionally, and reported as part of cash were investments in short-term, liquid assets whose balances are based on current market values. The total of these investments were $3,094 and $1,024 at December 31, 2012 and 2011, respectively.

A portion of the Company's cash may be restricted from time to time because of insurance regulatory requirements. For the years ended December 31, 2012 and 2011, this was not material to the Company's liquidity.

The Company utilizes various zero-balancing bank accounts with certain financial institutions to manage its cash disbursements. From time to time, checks disbursed from these accounts result in a negative cash balance or book overdraft positions until funds are transferred into the accounts as checks are subsequently presented for payment. The Company includes these negative balances as a component of accounts payable. Book overdrafts of $951 and $1,705 were included in accounts payable as of December 31, 2012 and 2011, respectively.

Marketable Securities: At December 31, 2012 and 2011, the Company did not have any marketable securities.

Fair Value of Financial Instruments: In September 2006, the Financial Accounting Standards Board ("FASB") issued a statement related to Fair Value Measurements ("FVM"). FVM defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. FVM also expands financial statement disclosures about fair value measurements. The Company has adopted FVM, and the financials conform to the statement.

Valuation Hierarchy: FVM establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company's specific Level 2 FVM for its interest rate swaps has been derived from proprietary models of a third-party financial institution holding these instruments. This analysis reflects the contractual terms of the swaps, including the period to maturity, and uses observable market-based inputs.

The following table presents interest rate swaps assets and liabilities carried at fair value as measured on a recurring basis as of December 31, 2012 and 2011:

	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2012				
Payable	$2,428	—	$2,428	—
December 31, 2011				
Payable	2,607	—	2,607	—

Valuation Techniques: FVM permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. The Company adopted FVM and has elected not to measure any additional financial instruments and other items at fair value.

The estimated fair values of accounts receivable and accounts payable approximates their carrying values at December 31, 2012 and 2011, due to their short-term nature. The fair value of debt approximates its carrying value based on the variable nature of interest rates and current market rates available to the Company and is classified as level 2 within the fair value hierarchy. The Company, from time to time, uses interest rate swaps to hedge its exposure to the impact of market interest rate fluctuations on its variable rate debt. The Company follows the provisions of financial accounting standards specific to accounting for derivative instruments and hedging activities for all interest rate swap transactions as detailed in Note 6.

Inventories: Inventories are valued at the lower of cost or market, and 82% of the inventories are valued using the last-in, first-out method. If the subsidiaries had used the first-in, first-out method of inventory accounting, inventories would have been $19,540 and $19,438 higher than reported at December 31, 2012 and 2011, respectively.

The subsidiaries periodically review their inventories and make provisions as necessary for estimated obsolescence. The amount of such markdown is equal to the difference between cost of inventory and the estimated market value based upon assumptions about future demands, selling prices, and market conditions.

During 2012 and 2011, inventory quantities were reduced either in total or at specific facilities. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2012 and 2011 purchases, the effect of which decreased cost of goods sold by approximately $325 and $93 at December 31, 2012 and 2011, respectively. These changes increased profits in 2012 by approximately $211 or $0.05 per share and in 2011 by approximately $62 or $0.01 per share.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets whenever events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, the Company reviews long-lived assets to assess recoverability from future operations. Impairments are recognized in earnings to the extent that the carrying value exceeds fair value. There was no such impairment as of December 31, 2012 or 2011, respectively.

Depreciation: Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of plant and equipment is computed principally using the straight-line method (certain machinery and equipment are being depreciated using the units of production method) at rates adequate to depreciate the cost of applicable assets over their expected useful lives. Maintenance and repairs are charged to operations as incurred, and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon is removed from the accounts, with any gain or loss realized upon sale or disposal charged or credited to operations. Depreciation expense for 2012 and 2011 was $4,611 and $4,291, respectively.

Other Assets: Other assets primarily include goodwill and other intangibles. Goodwill of $15,783 and other indefinite-lived intangible assets of $3,640 are reviewed annually for impairment in accordance with financial accounting standards specific to Goodwill and Other Intangible Assets. The Company has determined that no impairment exists as of and for the years ended December 31, 2012 and 2011. Other intangible assets (primarily customer lists, non-compete agreements, and patents and trademarks) within this line item amount to $132 and $172 in 2012 and 2011, respectively, net of accumulated amortization of $3,563 and $3,515 in 2012 and 2011, respectively, and are being amortized over 3 to 20 years using the straight-line method. Amortization expense was $48 and $64 for the years ending 2012 and 2011, respectively. Future amortization expense is expected to be: $47 – 2013, $17 – 2014, $14 – 2015, $14 – 2016, $14 – 2017, and $26 – 2018 and thereafter.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between (1) the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (2) operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are reduced by a valuation allowance if, in the judgment of the Company's management, it is more likely than not that such assets will not be realized.

Company Loans: Loans from the Company to any employee or director are prohibited as a matter of policy and by the Company's charter, unless approved by shareholders who are not directors. There are no loans outstanding as of December 31, 2012 and 2011.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Consolidated Earnings Per Share ("EPS"): For the years ended December 31, 2012 and 2011, basic and diluted earnings per share are computed as follows:

For the Year Ended 2012	Net Income	Weighted Average Shares*
Income	$8,227	
Less preferred stock dividends	(18)	
Income available to common stockholders	$8,209	4,477
Basic Earnings Per Share	$ 1.83	
Dilutive options		13
Diluted Earnings Per Share	$ 1.83	4,490

For the Year Ended 2011	Net Income	Weighted Average Shares*
Income	$5,083	
Less preferred stock dividends	(18)	
Income available to common stockholders	$5,065	4,464
Basic Earnings Per Share	$ 1.13	
Dilutive options		6
Diluted Earnings Per Share	$ 1.13	4,470

*Shares stated in thousands

In accordance with financial accounting standards related to EPS, basic earnings per share is computed by dividing the net income available to common stockholders for the period by the weighted average number of shares of Class A and Class B common stock outstanding during the year. In accordance with accounting guidance, Class B common stock has been included in the basic and diluted earnings per share as if the shares were converted into Class A common stock on a 1-for-1 basis. On a diluted basis, shares outstanding are adjusted to assume the conversion of outstanding rights into common stock. For 2012 and 2011, diluted earnings per share were determined on the assumption that rights outstanding under the Company's Incentive and Non-Qualified Stock Option and Stock Appreciation Rights Plans (see Note 9) will be settled in the form of stock, as settlement in stock is more dilutive. In 2012 and 2011, 368,700 and 334,185 options, respectively, were excluded from the dilutive earnings per share calculation because of being antidilutive.

Accumulated Other Comprehensive Income (Loss) ("AOCI"): This is a subsection of Stockholders' Equity that includes changes in fair value of interest rate swap instruments, currency contracts, and changes in post-retirement benefit obligations,net of income taxes. These changes have no direct bearing on the operation or financial strength of the Company. As of December 31, 2012, the account consisted of $31,663 related to pension liabilities, $1,480 related to post-retirement medical liabilities, $1,517 related to interest rate swap instruments and currency hedges, and a $(26) unrealized gain related to investments. As of December 31, 2011, the account consisted of $30,605 related to pension liabilities, $1,695 related to post-retirement medical liabilities, $1,630 related to interest rate swap instruments and currency hedges, and a $(13) unrealized gain related to investments. The primary factor impacting balances in AOCI are changes to interest rates and related impacts to the discount rates used for post-retirement benefit obligations.

3. CERTAIN SIGNIFICANT ACCRUALS AND RESERVES

The Company expenses, in the year incurred, those costs related to normal operating charges. Certain accruals and reserves are determined using historical information along with assumptions about future events. Changes in assumptions for such things as warranties, medical cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Certain significant accruals and reserves are described below:

Workers' Compensation: The Company and its subsidiaries use a combination of self-insurance and externally purchased insurance policies to provide coverage for their employees. In those states where the Company and its subsidiaries are self-insured, a state-approved third party is retained to oversee the administration of the plan. The Company maintains excess liability insurance to limit its total exposure to $750 per occurrence. The liability recorded on the financial statements represents an estimate of the ultimate cost of claims incurred as of the reporting date, after giving effect to anticipated insurance recoveries. The Company reviews these liabilities periodically in conjunction with the plan administrators, and adjusts recorded reserves as required. At this time, reserves for self-insured claims are based on the information currently available.

Warranty: The Company's subsidiaries manufacture high-value, high-quality products known for their reliability and longevity. However, some of the subsidiaries of the Company offer a variety of warranty coverages depending on the type of unit and its application. General warranty reserves are maintained by each legal entity based on that entity's warranty policy and historical experience. The Company and its subsidiaries are not insured for warranty claims.

	2012	2011
Balance at January 1	$1,744	$1,920
Accruals related to warranties	1,229	786
Settlements made (in cash or in kind)	(1,082)	(962)
Balance at December 31	$1,891	$1,744

4. SALE OF PROPERTY

On September 28 and December 13, 2010, subsidiaries of Burnham Holdings sold investment properties located in Lancaster, PA. The total sales price of these properties was $11.8 million. The book value of these properties plus expenses of sale was $6.3 million, resulting in total book gains of $5.5 million. A portion of this gain, $788 thousand, will be recognized over five years as required by accounting guidance related to sale/leaseback rules. In 2012 and 2011, $170 and $162, respectively was recognized of this deferred gain. These gains have been tax deferred as a 1031 Like Kind Exchange transaction for Federal and State tax matters because the proceeds were used in the purchase of other manufacturing property.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation, as follows:

Year Ended December 31	2012	2011
Land and land improvements	$ 5,712	$ 5,705
Buildings and improvements	33,369	32,868
Machinery and equipment	93,884	92,963
Total property, plant and equipment	132,965	131,536
Accumulated depreciation	(85,180)	(81,414)
Net property, plant and equipment	$ 47,785	$ 50,122

At December 31, 2011, leased office equipment under capital leases that was included in net property, plant and equipment totaled $348. This capital lease was paid off in 2012 and there is no equipment under capital lease at December 31, 2012.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases as of December 31, 2012, are: $1,629 – 2013; $1,089 – 2014; $503 – 2015; $83 – 2016; and $2 – 2017.

At December 31, 2012 and 2011, external rental expense for property (principally warehouse space) that was included in operating expenses totaled $1,479 and $1,428, respectively. A subsidiary has entered into a long-term lease with the owner (a past employee). Lease expense of $338 and $329 are included in operating expenses for 2012 and 2011, respectively.

6. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

Year Ended December 31	2012	2011
North Carolina Industrial Revenue Bond due November 9, 2019	$ 4,000	$ 4,000
Pennsylvania Industrial Revenue Bond due December 30, 2016	1,000	1,000
North Carolina Industrial Revenue Bond due November 9, 2016	264	264
Pennsylvania Machinery and Equipment Loan	–	73
Revolving line of credit thru August 1, 2014	–	8,000
Fair value of swaps	2,428	2,607
Capital lease obligations and other	–	376
Total long-term debt	7,692	16,320
Less current portion	12	116
Long-term debt	$ 7,680	$16,204

Long-term borrowings: The Company has a loan agreement (the "Revolver") financed through a consortium of three banks totaling $72 million (primarily used for working capital needs), and three separate line of credit agreements (the "LOC") totaling $5.5 million for specific bank services. Under these agreements, the Revolver and the LOC are due in full on May of each year, except that yearly extensions of this date are to be considered on the anniversary date of the agreements. In May of 2012, these agreements were extended until August 1, 2014. The Revolver and LOC are collateralized by operating assets and certain other specific assets of the Company. The Revolver and LOC, which were obtained from local lending institutions, have various financial covenants but no scheduled principal payments prior to maturity. Among other things, the covenants require that Stockholders' Equity on December 31, 2012, be at least $102,000 using the first-in, first-out ("FIFO") method of inventory valuation and excluding non-cash adjustments to Other Comprehensive Income (Loss). Stockholders' Equity on December 31, 2012, was $123,065 on this basis ($68,891 reported in the financial statements). The Revolver and LOC also require that certain ratios be maintained including a debt service ratio and a leverage ratio as defined in the agreements. As of December 31, 2012 and 2011, the Company was in compliance with all covenants. Interest rates as of December 31, 2012 and 2011 were 1.61% and 1.67%, respectively. The rates were equal to LIBOR plus a margin rate as determined by the ratio of funded debt to earnings before taxes, interest, depreciation and amortization, and the cash flow impacts of LIFO and other specific adjustments, less the payment of dividends. Interest on the Revolver is due monthly.

On October 17, 2011, a $387 capital lease was signed with a member of the bank consortium to assist in financing phone and data equipment to be used throughout the Company. In 2012, this lease was repaid in its entirety.

On July 31, 2006, a $300 Machinery and Equipment Loan with the State of Pennsylvania was signed to assist in financing equipment purchases in Lancaster, Pennsylvania. In 2012, this loan was repaid in its entirety.

On November 9, 2004, two Industrial Revenue Bonds, a $4 million fixed rate bond and a $264 thousand variable rate bond, were signed with a lending institution to finance the acquisition and subsequent renovations and equipment purchases at the Norwood, North Carolina, location. The fixed rate bond has a 15-year maturity with the principal due at maturity in 2019. The interest rate on this tax-exempt bond is fixed at 4.80% and is payable quarterly. The variable rate bond has a 12-year maturity with the principal due at maturity in 2016. The rate on the tax-exempt variable bond is a floating interest rate equal to LIBOR plus a margin based on a LIBOR rate schedule (0.81% and 1.02% at year-end December 31, 2012 and 2011, respectively) and is payable quarterly. The bonds are collateralized by a lien on the building and equipment purchased and cross-collateralized with the Pennsylvania Industrial Revenue Bond.

On December 31, 2001, a $1,000 Industrial Revenue Bond was signed with a lending institution to finance construction at the Lancaster, Pennsylvania, site. The bond has a 15-year maturity with the principal due at maturity in 2016. The rate on the tax-exempt bond is fixed at 6.05% and is payable quarterly. The bond is collateralized by a lien on the building constructed and cross-collateralized with the North Carolina Industrial Revenue Bonds.

Maturities of long-term debt are: $12 – 2013; $58 – 2014; $0 – 2015; $1,264 – 2016; $0 – 2017; and $6,358 – 2018 and thereafter.

Total interest incurred in 2012 and 2011 was $1,569 and $1,592, respectively. Interest paid during 2012 and 2011 was $1,559 and $1,586, respectively.

Interest Rate Swap Agreements: The Company uses interest rate swap agreements to exchange the interest rate stream on certain variable rate debt for payments indexed to a fixed interest rate.

On March 4 and March 19, 2009, with an effective beginning date of January 5, 2013 and a termination date of January 5, 2018, two interest rate swap agreements were entered into to hedge exposure to interest rate fluctuations on $15 million of its outstanding long-term debt. The notional amounts of the swaps are $10,000 and $5,000, respectively. Under these agreements, interest at a fixed rate of 4.11% and 3.52%, respectively, will be paid to the counterparty on the notional amount of the swaps. The counterparty will pay interest at a variable rate equal to the 30-day LIBOR rate. The obligation under the swaps has been collateralized as part of the Revolver discussed above under Long-term borrowings. The swaps are accounted for as cash flow hedges. Accordingly, the change in the fair value of the swaps has been included in other comprehensive income, a separate component of stockholders' equity. There was no expense incurred related to these swap agreements in 2012 or 2011.

On July 27, 2007, with an effective beginning date of January 7, 2008 and a termination date of January 7, 2013, an interest rate swap agreement was entered into to hedge exposure to interest rate fluctuations on $15 million of its outstanding long-term debt. The notional amount of this swap ($13,390 and $11,640 at December 31, 2012 and 2011, respectively) is equal to $15 million less the approximate notional amount of the two original swap agreements mentioned below. Under this agreement, the counterparty will be paid interest at a fixed rate of 5.46% on the notional amount of the swap. The counterparty will pay interest at a variable rate equal to the 30-day LIBOR rate (0.22% and 0.27% at December 31, 2012 and 2011, respectively). Under the terms of this agreement, the notional amount of the swap increases equal to the decreases in the original swaps. The obligation under the swap has been collateralized as part of the Revolver discussed above under Long-term borrowings. The swap is accounted for as a cash flow hedge. Accordingly, the change in the fair value of the swap has been included in other comprehensive income, a separate component of stockholders' equity. Additional expense incurred related to the swap agreement in 2012 and 2011 was $674 and $553, respectively.

On March 5, 2004 (agreement expires January 5, 2014), an interest rate swap agreement was entered into to hedge exposure to interest rate fluctuations on a $6,400 term line of credit. Under this agreement, the counterparty will be paid interest at a fixed rate of 5.88% on the notional amount of the swap. The counterparty will pay interest at a variable rate equal to the 90-day LIBOR rate (0.31% and 0.53% at December 31, 2012 and 2011, respectively). On March 28, 2002 (agreement expired on December 30, 2011), an interest rate swap agreement was entered into to hedge exposure to interest rate fluctuations on a $21,500 term line of credit. Under this agreement, the counterparty will be paid interest at a fixed rate of 5.20% on the notional amount of the swap. The counterparty will pay interest at a variable rate equal to the 90-day LIBOR rate (0.30% at December 31, 2010). Under the terms of these agreements, the notional amount of the swaps decreases quarterly ($1,610 and $2,650 at December 31, 2012 and 2011, respectively). The obligation under the swaps has been collateralized as part of the Revolver discussed above under Long-term borrowings. The 2012 and 2011 fair value was reflected in the balance sheet as a liability. The 2012 and 2011 statements of operations reflect the change in fair value as mark-to-market interest income. Interest income and expense related to the swaps is accrued as interest rates fluctuate, and is recognized in the statement of operations as the interest rate changes occur. Additional expense incurred related to the swap agreements in 2012 and 2011 was $126 and $244, respectively. Additional income recognized related to the change in fair value of the swap arrangement in 2012 and 2011 was $143 and $207, respectively.

dollars in thousands except per share data

The following table presents the interest rate swap agreements:

	Notional Amount	Asset (Liability)	Fair Value Change	Income (Expense) Impact to Other Comprehensive Income
December 31, 2012				
1)	$10,000	$(1,670)	$ (407)	$ (261)
1)	5,000	(688)	(201)	(128)
2)	13,390	(12)	644	412
1)	1,610	(58)	143	—
December 31, 2011				
1)	$10,000	$(1,263)	$(1,023)	$ (654)
1)	5,000	(487)	(503)	(322)
1)	11,640	(656)	457	292
1)	2,650	(201)	207	—

1) Reflected within long-term debt on the balance sheet

2) Reflected within current portion of long-term debt on the balance sheet

7. INCOME TAXES

The provision for income taxes consists of:

Year Ended December 31	2012	2011
Current:		
Federal	$3,431	$ 122
State	1,114	469
Total current	4,545	591
Deferred:		
Federal	22	2,017
State	2	(35)
Total deferred	24	1,982
Total income tax expense	$4,569	$2,573
Income taxes paid	$ 502	$1,636

The Company's effective tax rate for 2012 is higher than the federal statutory rate as the federal tax benefit of domestic manufacturing deductions and exempt income do not fully offset state income taxes. In previous years, federal research and development credits have been claimed to assist with offsetting state income taxes. In January of 2013, Congress approved new federal tax legislation including extending 2012 credits for research and development. As a result of the laws not being passed until 2013, tax filers cannot claim this deduction until they file their 2013 return, which will include credits for 2012 and 2013 development.

The Company's effective tax rate for 2011 approximates the federal statutory rate as the federal tax effect of research and development credits, domestic manufacturing deductions, and exempt income offset state income taxes.

The net deferred tax asset (liability) is composed of the following:

Year Ended December 31	2012	2011
Current deferred taxes:		
Gross assets	$ 3,319	$ 3,519
Gross liabilities	(826)	(1,082)
Net current deferred tax assets	2,493	2,437
Non-current deferred taxes:		
Gross assets	13,380	14,079
Gross liabilities	(9,256)	(10,401)
Valuation allowance	(461)	(405)
Net non-current deferred tax asset	3,663	3,273
Net deferred tax asset	$ 6,156	$ 5,710

The tax effect of significant temporary differences representing deferred tax assets and liabilities are as follows:

Year Ended December 31	2012	2011
Depreciation	$(10,000)	$(10,478)
Vacation	835	844
Employee benefits	864	1,107
Workers' compensation	208	212
Pension	10,816	11,032
Inventory	(71)	(437)
Warranty	872	722
Fair value of swap	874	938
Other	1,758	1,770
Net deferred tax asset	$ 6,156	$ 5,710

The Company adopted financial accounting standards related to accounting for uncertainty in income taxes on January 1, 2007. A reconcilement of the beginning and ending amount of unrecognized tax benefits is as follows:

Unrecognized tax benefits	2012	2011
Balance at January 1	$442	$ 390
Gross increases for current year tax positions	42	52
Lapse of statute of limitations	—	—
Balance at December 31	$484	$ 442

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2012 and 2011, we have approximately $302 and $282 of accrued interest and penalties related to uncertain tax positions, respectively.

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized is $484 and $442 as of December 31, 2012 and 2011, respectively. The tax years 2009 to 2012 remain open to examination by major taxing jurisdictions to which we are subject.

8. STOCKHOLDERS' EQUITY

The Company's Preferred Stock is 6% cumulative, voting, par value $50 a share; is redeemable at $52.50 a share; and is carried at its stated liquidation preference of $50 a share. There are 10,600 shares authorized and issued, including 4,573 shares in Treasury Stock at December 31, 2012 and 2011.

The Company's Class A common stock ("Class A") has a par value of $1.00 per share; there are 9 million shares authorized. The Company's Class B convertible common stock ("Class B") has a par value of $1.00 per share; there are 4 million shares authorized.

Common Stock outstanding was as follows:

Year Ended December 31	2012	2011
Class A stock issued	3,422,900	3,403,047
Treasury shares	(458,392)	(458,102)
Class A stock outstanding	2,964,508	2,944,945
Class B stock outstanding	1,521,311	1,522,965
Total stock outstanding	4,485,819	4,467,910

Class A and Class B have similar rights except for voting rights and transferability. Class A has one vote per share. Class B has eight votes per share. A majority approval by the holders of Class B is required for certain corporate actions.

Class B may be transferred only to Permitted Transferees, as defined in related documents, at the option of the holder of the Class B. Other transfers of Class B result in the automatic conversion of the transferred shares into an equal number of shares of Class A. Class B can be converted at any time into Class A at the option of the holder.

9. STOCK COMPENSATION PLAN

The Company maintains an Incentive and Non-Qualified Stock Option ("Option") Plan and a Stock Appreciation Rights ("Rights") Plan for key employees, including officers and directors. Under the Option plan, qualified or non-qualified options may be granted to purchase common shares at prices generally equal to the fair market value of the shares at the time the options are granted. Under the Rights plan, the holder of the rights, on exercise, receives the excess of the fair market value of the common stock over the exercise price in cash, common stock or a combination thereof at the election of the Board of Directors. Options and rights are exercisable in cumulative annual installments of 33 1/3%, commencing one year after the date of grant, and expire ten years after grant. Shares issued under these plans are new, previously un-issued shares and were authorized by stockholder vote in 2004.

Under the plans, the rights and options are issued in tandem, and the exercise of either serves to cancel the other. Effective January 1, 2006, the Company adopted the financial accounting provisions specific to Share-Based Payments ("SBP"). The fair value of each of the Company's stock option awards is re-measured at each reporting period using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's Options and Rights, which are subject to graded vesting, is expensed on a straight-line basis over the vesting life of the stock options. Expected volatility is based on an average of (1) historical volatility of the Company's stock and (2) implied volatility from traded options on the Company's stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted, with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected life of stock option awards granted is derived from historical exercise experience under the Company's share-based payment plans and represents the period of time that stock option awards granted are expected to be outstanding.

Compensation expense related to the Company's share-based awards recorded for the years ended December 31, 2012 and 2011 were $231 and $117, respectively.

The significant weighted average assumptions were as follows:

Year Ended December 31	2012	2011
Dividend yield	4.5%	4.5%
Volatility rate	19.0%	19.0%
Risk-free interest rate	3.9%	3.9%
Expected option life (years)	7.0	7.0

Transactions for 2012 and 2011 are as follows:

	2012		2011	
Options	Weighted Average Exercise Shares	Exercise Price	Weighted Average Exercise Shares	Exercise Price
Outstanding January 1	472,051	$17.53	445,562	$17.65
Granted	63,200	15.88	66,500	14.55
Exercised	(33,211)	10.46	(21,620)	9.05
Lapsed	(15,296)	18.27	(18,391)	19.53
Outstanding December 31	486,744	$17.78	472,051	$17.53
Exercisable December 31	381,380	$18.44	340,860	$19.05
Available for grant at December 31	200,884		248,788	

Plan options outstanding and options exercisable at December 31, 2012, have exercise prices between $27.78 and $8.20. The weighted-average remaining contractual life of options outstanding was 5.34 years and options exercisable was 4.38 years.

10. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFIT ARRANGEMENTS

Defined Benefit and Other Postretirement Benefit Programs: The Company maintains a non-contributory defined benefit pension plan covering substantially all employees. The Pension Plan ("the Plan") was amended in 2003 to eliminate this benefit for any non-union employee hired after June 5, 2003. The Plan was further amended on July 31, 2005, to stop benefit accruals for all non-union employees in seven years (July 31, 2012). Subsequently, on August 31, 2006, the Plan was amended to move the 2012 discontinuance date forward to November 30, 2006, for all non-union personnel, except for a limited group of employees who were 55 years of age and older and had a stated number of years of service. For this limited group of employees, benefit accruals stopped on June 30, 2009. During collective bargaining negotiations after 2004, the unions agreed that newly hired union employees would no longer have access to the Plan.

Normal retirement age is 65, but provision is made for earlier retirement. Benefits for salaried employees are based on salary and years of service, while hourly employee benefits are based on average monthly compensation and years of service with negotiated minimum benefits. The Company's funding policy is to make minimum annual contributions required by applicable regulations or to voluntarily make contributions based on the market fluctuations, impact on the plan assets, and on financial discount rates. Based on the funded position of the Plan at November 30, 2011, the Company did not have a minimum contribution required for 2012. However, in 2012, the Company made a pre-tax contribution of $3.35 million into the Plan. In 2011, the Company made non-required pre-tax contributions of $2.5 million. Minimum contributions for 2013 are undeterminable at this time, but will be based on actuarial certifications to be received by August 2013 that are governed by the Pension Protection Act of 2006 ("PPA"). The Company believes minimum required contributions, if any, will not be material.

dollars in thousands except per share data

Company subsidiaries also contribute to two separate union-sponsored multiemployer-defined benefit pension plans that cover all Bryan Steam, LLC, and Lancaster Metal Manufacturing, Inc., collective bargaining employees. These plans are not administered by the subsidiaries, and the provisions of the negotiated labor agreement determine contributions. The Company's contributions do not represent 5% of either of the plan's total contributions for either of the years 2012 or 2011. The risks of participating in these multiemployer plans are different from single-employer plans in that assets contributed by one employer are not specifically segregated to its covered employees, unfunded obligations of the plan may be borne by all participants, and the liability to withdraw from the plan may be determined based on the funded status of the plan. Participation in these plans is outlined as follows and is based on Company information or information received from the certified annual reports of the plans:

Pension Plan	EIN/Plan Number	Plan Funded Status[(1)] 2012	2011	Company Contributions 2012	2011
Steelworkers Pension Trust	23-6648508-499	84.5%	86.5%	$ 79	$ 84
Boilermaker-Blacksmith National Pension Trust	48-6168020	79.6%	79.5%	$620	$516

[(1)] both plans are valued as of January 1 of each year, with the 2011 information being the most recently available.

The Steelworkers Pension Trust was considered "Safe" for 2012 per the Pension Protection Act of 2006 because of the funded status being over 80%. The Boilermaker-Blacksmith National Pension Trust was considered "Endangered" for 2012 as a result of its funded status being less than 80%. This latter plan adopted a Funding Improvement Plan in 2010 that projected it would reach improved funding levels by the year 2022, the end of the improvement period. Changes in contribution levels are included in the Company contribution amounts disclosed above.

The Company also maintains a non-qualified deferred compensation plan available to certain executives. Under this plan, participants may elect to defer up to 16% of their compensation. The Company invests the deferrals in participant-selected marketable securities that are held in a Rabbi Trust. The net unrealized gains associated with holding these securities, $235 and $57 in 2012 and 2011, respectively, has been recognized in the Company's earnings as part of interest and investment income in accordance with financial accounting standards. The assets of the Company (within Other Assets) and the liability to employees (within Other PostRetirement Liabilities) under the plan were $2,940 and $2,434 at December 31, 2012 and 2011, respectively. Adjustments to this liability caused by changes in the value of the marketable securities, gains of $235 and $57 in 2012 and 2011, respectively, are recognized in accordance with financial accounting standards, and are classified within selling, administrative, and general expenses.

For a number of years prior to 2006, the Company provided certain medical benefits to a closed group of Medicare-eligible retirees. Starting in 2006, the Company pays a fixed annual amount that will assist this group in purchasing medical and/or prescription drug coverage from providers. Additionally, employees electing early retirement have the option of receiving access to an insured defined benefit plan at a yearly stipulated cost or receiving a fixed dollar amount to assist them in covering medical costs. With either option, the Company's yearly cost is capped based on the benefit elected. On December 31, 2006, the Company adopted the recognition and disclosure provisions of financial standards related to employers' accounting for Defined Benefit Pension and Other Postretirement Plans. Current standards require employers to recognize the funded status (i.e., the difference between the fair value of plan assets and benefit obligations) of all defined benefit postretirement plans in the statement of financial position, with corresponding adjustments to accumulated other comprehensive income (loss) ("AOCI"), net of tax, and intangible assets. For a pension plan, the pension liability is the projected benefit obligation; for any other postretirement plan, the liability is the accumulated postretirement benefit obligation.

At December 31, 2012, pension trust assets were $137,458 and the pension liability was $170,853, with the shortfall of $33,395 being recorded as a liability on the balance sheet. The pension liability increased in 2012 from the prior year because of assumption changes related to the discount rate (the rate was lowered to 3.75%, the lowest rate in modern history). Included in AOCI at December 31, 2012, are the following before-tax amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial loss of $49,313 and $1,992 for the Plan and postretirement medical benefits, respectively, and unrecognized prior service costs of $161 and $320 for the Plan and postretirement medical benefits, respectively.

At December 31, 2011, pension trust assets were $124,544 and the pension liability was $158,539, with the shortfall of $33,995 being recorded as a liability on the balance sheet. The pension liability increased in 2011 from the prior year because of assumption changes related to the discount rate (the rate was lowered to 4.25%). Included in AOCI at December 31, 2011, are the following before-tax amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial loss of $47,471 and $2,253 for the Plan and postretirement medical benefits, respectively, and unrecognized prior service costs of $349 and $396 for the Plan and postretirement medical benefits, respectively.

The following financial disclosures present the aggregate defined benefit plans and other postretirement medical benefits for qualified employees of the plans for the years ending December 31, 2012 and 2011:

	Pension Benefits 2012	2011	Other Postretirement Benefits 2012	2011
Projected benefit obligation	$(170,853)	$(158,539)	$(2,415)	$(2,559)
Fair value of plan assets	137,458	124,544	—	—
Funded status	$ (33,395)	$ (33,995)	$(2,415)	$(2,559)
Benefit liability recognized in the consolidated balance sheet at December 31	$ (33,395)	$ (33,995)	$(2,415)	$(2,559)
Accumulated benefit obligation	$ 168,565	$ 158,558		

The pension trust is managed by independent third-party administrators, under policies and guidelines established by the Employee Benefits Committee of the Burnham Holdings, Inc., Board of Directors. It is a policy of the Employee Benefits Committee for the pension trust not to invest directly in the Company's stock. While highly unlikely, it is possible that a "mutual fund" investment of the pension trust could invest in the Company's stock in a limited way. To the best of the Company's knowledge, there is no Burnham stock in the pension trust at December 31, 2012 and 2011. The Plan provides that the Company may not obtain surplus assets of the Plan during a three-year period immediately following a change in control of the Company. The allocation of assets between equities (or equity type investments) and bonds is rebalanced periodically on a moving scale based on the funded level of the Plan (51% bonds at 85% funded to 66% bonds at 100% funded). At December 31, 2012, the asset allocation was approximately 39% equity, 59% fixed income, and 2% alternative investments. The asset allocation strategy, as approved by the Employee Benefits Committee, is that the assets of the trust fund are to be allocated based upon an analysis of the funding adequacy, cash flow requirements, maturity level, and participant growth rate of the Plan. The investment alternatives available in each of the capital markets are to be analyzed based on the risk tolerance indicated by the Plan's unique characteristics.

The following table presents pension plan assets carried at fair value (as discussed in Note 1 - Fair Value Measurements ["FVM"]) as measured on a recurring basis as of December 31, 2012 and 2011:

	Carrying Value	Level 1	Level 2	Level 3
December 31, 2012				
Mutual Funds:				
Fixed income	$37,437	$37,437	$ —	$ —
Domestic stock	16,914	16,914	—	—
Common Collective Trust Funds:				
U.S. equity	20,048	—	20,048	—
Interest rate management	42,932	—	42,932	—
Other	20,127	8,344	9,316	2,467
December 31, 2011				
Mutual Funds:				
Fixed income	$31,666	$31,666	$ —	$ —
Domestic stock	16,465	16,465	—	—
Common Collective Trust Funds:				
U.S. equity	20,850	—	20,850	—
Interest rate management	34,133	—	34,133	—
Other	21,430	10,296	8,814	2,320

The Company's specific Level 3 FVM for its Plan assets has been recorded at the fair value as determined by the Trustees of these funds with assistance from valuation consultants based on certain fund defined policies and procedures. Level 3 investments increased from $2,320 at December 31, 2011 to $2,467 at December 31, 2012 primarily caused by realized and unrealized gains related to instruments still held at the reporting date.

In 2012 and 2011 there were no Plan amendments. Weighted-average assumptions used to determine benefit obligations as of December 31 were:

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Discount rates	3.75%	4.25%	3.75%	4.25%

Weighted-average assumptions used to determine net periodic benefit cost as of December 31 were:

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Discount rates	4.25%	5.25%	4.25%	5.25%
Expected return on assets	8.50%	8.50%	—	—

The rate of compensation increase used to determine the pension benefit obligations and benefit cost was 2.5% for both 2012 and 2011.

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension trust.

The health care cost trend assumption does not have an effect on the amounts reported because the Company has adopted an aggregate cost cap for its retiree medical benefits.

The following financial disclosures present annual information about the costs of, contributions to, and benefit payments by the Company's Plan and postretirement medical benefits.

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Benefit cost	$1,096	$ 618	$ 449	$ 615
Employer contributions	3,350	2,500	256	348
Participant contributions	—	—	125	120
Benefits paid	7,200	6,785	381	468

The following pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid: $7,618 – 2013; $7,964 – 2014; $8,281 – 2015; $8,688 – 2016; $9,145 – 2017; and $50,451 – 2018 to 2022.

The following postretirement medical benefit payments, net of plan participants' contributions, are expected to be paid: $267 – 2013; $277 – 2014; $251 – 2015; $245 – 2016; $252 – 2017; and $1,045 – 2018 to 2022.

Employee Savings Plans: The Company has established two (2) Employee Savings Plans as an employee benefit to encourage and assist employees in adopting a regular savings program and to help provide additional security for retirement. One plan covers employees of the Company who are not covered by a collective bargaining agreement and are eligible to participate in the plan. The Company's contribution charged against income for this plan was $448 and $447 in 2012 and 2011, respectively.

The Company maintains a second Employee Savings Plan for all other employees. Certain hourly employees covered by collective bargaining agreements and plan-defined other production and shipping personnel are eligible to participate in this plan. Effective with the contracts negotiated at the two largest unions in 2005 and 2006, new union employees (who are not eligible for the defined benefit pension plan) are eligible to receive a contribution based on their personal savings percentage. For all other employees covered by collective bargaining agreements, the Company does not contribute to the plan. The contributions charged against income for this plan was $84 and $36 in 2012 and 2011, respectively.

11. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

The Company is contingently liable at any given time under standby letters of credit pertaining to workers' compensation self-insurance coverage, employee medical insurance, international product purchases, and other business guarantees. In the normal course of business, this amount is less than $2.5 million, and at December 31, 2012 and 2011, the amounts outstanding were $1,875 and $1,775, respectively.

The Company's subsidiaries are a party to legal actions as a result of various claims arising in the normal course of business. The Company believes that the disposition of these matters will not have a materially adverse effect on the financial condition, results of operations, or liquidity of the Company.

The Company has evaluated subsequent events (events that occur after December 31, 2012) through February 27, 2013, which represents the date the financial statements were available to be issued. All required events have been recorded or disclosed in the Company's financial statements.

TEN YEAR SUMMARY

dollars in thousands except per share data

Burnham Holdings, Inc. 2012 Annual Report

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Sales	$230,714	$251,747	$238,768	$218,127	$224,677	$225,805	$183,678	$189,707	$198,842	$204,762
Income (Loss) Before Income Taxes	15,872	15,409	5,208	(3,932)	8,629	9,068	8,346	9,733	7,656	12,796
Income Tax Expense (Benefit)	5,826	5,778	1,865	(1,599)	3,106	3,264	3,007	3,524	2,573	4,569
Net Income (Loss)	10,046	9,631	3,343	(2,333)	5,523	5,804	5,339	6,209	5,083	8,227
Basic Earnings (Loss) per Share of Common Stock	2.28	2.17	0.75	(0.53)	1.24	1.30	1.20	1.39	1.13	1.83
Cash Flow per Share of Common Stock	3.44	3.37	1.95	0.66	2.43	2.44	2.25	2.38	2.11	2.88
Net Cash Provided by Operating Activities	12,465	5,972	9,572	11,239	9,638	5,681	14,360	12,388	6,498	13,999
Total Dividends Paid	4,687	4,985	5,185	4,114	3,046	3,046	3,046	3,047	3,055	3,244
Dividends per Share of Common Stock	1.06	1.12	1.16	0.92	0.68	0.68	0.68	0.68	0.68	0.72
Net Book Value of Plant and Equipment	51,389	53,616	53,602	51,427	49,499	48,202	45,720	50,001	50,122	47,785
Purchases of Property, Plant and Equipment	5,010	7,277	5,079	2,823	3,047	3,552	2,056	15,666	4,412	2,274
Charges for Depreciation and Amortization	5,112	5,310	5,357	5,251	5,311	5,041	4,673	4,389	4,355	4,659
Current Assets	84,221	89,291	84,322	77,088	78,976	82,487	69,564	67,940	71,051	74,761
Current Liabilities	37,647	40,215	40,663	40,199	29,717	30,558	23,401	27,425	27,496	34,020
Working Capital	46,574	49,076	43,659	36,889	49,259	51,929	46,163	40,515	43,555	40,741
Total Debt	30,825	37,573	34,902	31,361	28,417	29,460	20,275	14,143	16,320	7,692
Net Worth	87,534	93,199	91,788	81,191	90,613	71,769	73,509	73,940	64,392	68,891
Book Value per Share of Common Stock	19.77	20.90	20.55	18.17	20.28	16.05	16.44	16.52	14.34	15.29
Proforma Book Value per Share of Common Stock*	19.77	20.90	20.61	19.16	19.66	20.28	20.80	21.50	21.93	23.01
Outstanding Shares of Common Stock**	4,412	4,444	4,451	4,452	4,452	4,452	4,452	4,456	4,468	4,486

Basic earnings per share is shown after reserving Preferred Stock dividends.

Book value per share is shown after reserving net worth equal to the redemption price of $52.50 per share of Preferred Stock outstanding at each date.

Cash flow per share is based on the net income plus charges for depreciation and amortization less pension income, divided by weighted average shares outstanding.

*Proforma Book Value per Share of Common Stock is based on adjusting Net Worth to exclude the impacts of Accumulated Other Comprehensive Income (Loss).

**Shares stated in thousands.

COMPANY AFFILIATES & LOCATIONS

The consolidated financial statements include the accounts of Burnham Holdings, Inc., and subsidiaries. Burnham Holdings, Inc., does not have any unconsolidated legal entities, "special purpose" entities, or "off-balance-sheet" financial arrangements, nor is it a partner in any joint venture nor does it have a minority interest in any other entity. Burnham Holdings, Inc., and subsidiaries have approximately 850 employees nationwide, of which approximately 50% are union employees covered through four separate bargaining agreements. Generally the agreements are for a three-year period and expire at different times.

Bryan Steam, LLC	Peru, IN
Burnham Casualty Insurance Co.	Burlington, VT
Burnham Commercial	Lancaster, PA
Burnham Financial, LLC	Wilmington, DE
Burnham Services, Inc.	Wilmington, DE
Casting Solutions, LLC	Zanesville, OH
Crown Boiler Co.	Philadelphia, PA
Governale Company, Inc.	Brooklyn, NY
Lancaster Metal Manufacturing, Inc.	Lancaster, PA
New Yorker Boiler Company, Inc.	Hatfield, PA
Norwood Manufacturing, Inc.	Norwood, NC
Thermal Solutions Products, LLC	Lancaster, PA
Thermo Products, LLC	North Judson, IN and Denton, NC
U.S. Boiler Company, Inc.	Lancaster, PA

BUSINESS STRATEGY

Subsidiaries of Burnham Holdings, Inc., provide high-value, high-quality products backed by superior service. Products are manufactured at plants in the East, South, and Midwest. The largest subsidiaries market products under eight well established brand names that are differentiated by product line and market served.

The Company's strategy is to focus its time, energy, and financial resources on what it knows best—the HVAC market segment. The Company's subsidiaries create sales growth through developing new products, entering new market niches, and increasing customer preferences for their products. Burnham Holdings, Inc., has also grown and will continue to grow through acquisitions. The Company is continually looking for appropriate acquisitions at appropriate prices.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Burnham Holdings, Inc., is comprised of eleven members, ten of whom who are considered "independent" directors (not an employee, not affiliated with the Company's auditors, and not part of an interlocking directorate). The remaining member of the Board is the Company's President and CEO. Directors are selected based on their individual qualifications and experience, the overall balance of the Board's background and experience, and each individual's willingness to fulfill their obligations and to contribute appropriately. Four directors are members of families, the extended members of which hold in the aggregate significant ownership interests in the Company. Board members have complete access to Company information and personnel through meetings, reports, on-site operational reviews, and direct contact.

The total Board meets six times per year with various Board committee meetings and special meetings held in addition throughout the year. Board committees concentrate on important areas of responsibility. Standing committees of Burnham Holdings, Inc., consist of the Employee Benefits Committee, the Nominating Committee, the Audit Committee, and the Compensation Committee. These committees, which have existed for over 25 years (long before the current emphasis on committees), have defined charters that address the committees' purpose, goals, and responsibilities. All committees meet on a scheduled basis. Please refer to the proxy for more information on corporate governance, executive compensation, and security holders.

REPORTING REQUIREMENTS

Burnham Holdings, Inc., is the parent company of fourteen subsidiaries that are leading domestic manufacturers of boilers, and related HVAC products and accessories (including furnaces, radiators, and air conditioning systems) for residential, commercial, and industrial applications.

The Company is not currently required to register with the SEC (Securities and Exchange Commission) and therefore is not subject to the reporting requirements of a public company. Individuals, trusts, and investment organizations hold shares of the Company. To the best of the Company's knowledge, no one person owns more than 10% of the outstanding shares, irrespective of class or combination of classes (shares held by family relatives have not been combined in computing this percentage). While Burnham Holdings, Inc., has chosen not to voluntarily register and become subject to the costly reporting requirements of the SEC, the Company has always been committed to providing timely, complete and accurate financial information consistent with generally accepted accounting principles, legal, and regulatory requirements. The Company issues periodic News Releases, quarterly unaudited statements, a yearly Annual Report with audited financial statements, and a Proxy Statement.

Interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2012. The results for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in audited financial statements have been omitted. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by Independent Auditors as prescribed by the SEC.

This Annual Report contains forward-looking statements. Other reports, letters, and press releases distributed by the Company may also contain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates, and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, variations in weather; changes in the regulatory environment, litigation, customer preferences, general economic conditions, technology, and product performance; and increased competition.

INVESTOR AND STOCKHOLDER INFORMATION

Stockholder Inquiries

Questions concerning your account, dividend payments, address changes, consolidation of duplicate accounts, lost certificates and related matters should be addressed to Burnham Holdings, Inc.'s transfer agent:

Fulton Financial Advisors, N.A.
One Penn Square
Lancaster, PA 17602
(717) 291-2562

Stock Exchange Listing

The Common Stock of Burnham Holdings, Inc., is traded under the symbol "BURCA" on the electronic Pink Sheets and is listed by the OTC Markets Group, Inc., reporting service for over-the-counter stocks. Stock quotation information is available through stock reporting services on the Internet. Two services that report on Burnham Holdings, Inc., are www.bloomberg.com and www.otcmarkets.com.

Annual Meeting

The Company's Annual Meeting is scheduled for 11:30 a.m. on Monday, April 22, 2013, to be held at the Eden Resort and Suites in Lancaster, PA.

Corporate Data

Burnham Holdings, Inc., 1241 Harrisburg Avenue, Post Office Box 3245, Lancaster, PA 17604-3245.

For further information, contact Elisa Ranck, Financial Services Administrator, or Douglas B. Springer, Vice President and Chief Financial Officer.

Telephone: (717) 390-7800, Fax: (717) 390-7852

You can access Company information including press releases, earnings announcements, history, and other information through the Internet by visiting the Burnham Holdings, Inc., website at www.burnhamholdings.com.

BOARD OF DIRECTORS

(pictured left to right): Douglas S. Brossman; Robert P. Newcomer; Philmer H. Rohrbaugh; Rufus A. Fulton, Jr.; Thomas C. Kile; Eleanor B. Drew; John W. Lyman; Elizabeth H. McMullan; William F. Dodge, II; Albert Morrison, III (Chairman); George W. Hodges

Audit Committee
Eleanor B. Drew
George W. Hodges
Thomas C. Kile
John W. Lyman
Albert Morrison, III
Philmer H. Rohrbaugh

Compensation Committee
Rufus A. Fulton, Jr.
John W. Lyman
Elizabeth H. McMullan
Albert Morrison, III
Robert P. Newcomer

Employee Benefits Committee
Douglas S. Brossman
William F. Dodge, II
Elizabeth H. McMullan
Albert Morrison, III
Robert P. Newcomer

Nominating Committee
William F. Dodge, II
Eleanor B. Drew
George W. Hodges
Elizabeth H. McMullan
Albert Morrison, III

OFFICERS

(pictured left to right): Douglas B. Springer; Stephan P. Amicone; John A. Roda; Christopher R. Drew; Douglas S. Brossman; Bradley C. Ehlert

Officers of Burnham Holdings, Inc.

Douglas S. Brossman	President and CEO
Stephan P. Amicone	Executive Vice President – Manufacturing & Supply Chain Management
Christopher R. Drew	Vice President – Chief Marketing & Strategy Officer
John A. Roda	Vice President – General Counsel and Secretary
Douglas B. Springer	Vice President & Chief Financial Officer, Assistant Secretary
Bradley C. Ehlert	Controller