BURNHAM
HOLDINGS, INC.
2014 Annual Report

BURNHAM HOLDINGS
PERFORMANCE PROVEN · TECHNOLOGY FORWARD

LETTER TO OUR STOCKHOLDERS



"… both our residential and commercial businesses improved their performance. We are also beginning to realize the return on our increased investments in new product development and process improvement across our businesses."

Last year was another year of impressive financial results as both our residential and commercial businesses improved their performance. We are also beginning to realize the return on our increased investments in new product development and process improvement across our businesses. Sales for 2014 were $200 million, up over 5% from 2013, with gross profit as percent of sales continuing at its five-year high of 24%. Profits were up versus 2013, with 2014 Net Income at $8.6 million, or $1.90 per share, its highest level in ten years. We were also able to increase the dividend in 2014 to $0.84 per share, representing the third consecutive year of increased dividends. Finally, we have continued to strengthen our balance sheet, providing us significant flexibility to aggressively pursue strategic growth and investment opportunities.

While our financial performance is impressive, 2014 is best summed up by the following significant accomplishments by our businesses and colleagues:

- Our focus on meeting the ever-changing demands of our customers continued in 2014. Both our residential and commercial subsidiaries expanded their product development capabilities. Additionally, U.S. Boiler began work on a significant expansion to its engineering lab. These new facilities, located at its Lancaster, PA campus, will provide U.S. Boiler some of the most advanced product testing and development capabilities in the industry, supporting our continued growth well into the future.
- New, sophisticated high-efficiency products introduced last year, including the Thermal Solutions' ARCTIC,™ and APEX™ commercial condensing boilers, as well as the Crown Boiler PHANTOM,™ and U.S. Boiler K2™ residential condensing boilers, were well accepted into their respective commercial and residential markets. We are also developing new control technologies that boost overall system efficiencies while simplifying complex integration into building control systems. We will continue to build on these successes by expanding the size and functionality of these and other products in our broad product portfolio.
- We are continually pursuing operational excellence as exhibited by our investments in process improvements, facility upgrades and state-of-the-art manufacturing equipment. Combining our highly capable production talent with the latest manufacturing technologies continues to drive efficiency gains and cost reductions throughout our manufacturing facilities. Senior manufacturing executives at our facilities have received formal training in Lean and other process improvement techniques. The application of these Lean Manufacturing and other continuous improvement techniques, along with investments in manufacturing automation and cell alignment, has reduced costs and improved the productivity of our manufacturing associates.
- Numerous senior executive changes occurred in 2014 that continue the strength of our leadership teams at all levels of the organization:
  - Dale Bowman was appointed Chief Financial Officer in September. Dale has over 19 years of experience in numerous senior positions throughout the Company, most recently as President of our residential furnace subsidiary, Thermo Products, LLC. I am thrilled that Dale has joined our corporate team as his financial expertise and breadth of knowledge of the Company will allow him to thrive in his new role.
  - Allen Kuehl was promoted to President of Thermo Products, filling the positon vacated by Dale. Allen has 27 years of experience with Thermo Products, and I am impressed with how quickly he has adapted to his new

leadership role. Each of our operating subsidiaries has a strong leadership team committed to meeting the needs of their customers and driving shareholder value, and I continue to expect great things out of each of our subsidiary presidents.

– We said good-bye and best wishes to two longtime friends and colleagues as Doug Springer and Steve Amicone both announced their retirements in 2014. Doug served as our Chief Financial Officer, and retired after 16 years with the Company. Doug was most recently recognized as a finalist in the 2014 Central Pennsylvania Financial Executive of the Year Award. Steve served as our VP of Manufacturing, and retired after over 35 years of service with the Company. I wish both Doug and Steve the best of luck in their retirements, and I am deeply indebted to them both for their dedication and countless contributions to our success over their long and distinguished careers.

- Another highlight of 2014 was the addition of Don Stern and Chris Drew to our Board of Directors. Don recently retired after a distinguished legal career with Cleary Gottlieb, a major New York law firm. Chris is our Executive VP and Chief Marketing and Strategy Officer, and has held numerous senior positions with the Company and its subsidiaries since 1989. Both Don and Chris are terrific additions to our already talented Board. I also would like to express my appreciation and gratitude to Eleanor "Holly" Drew, who will be retiring from the Board effective April 27, 2015. Holly is a tremendous, thoughtful leader who made numerous contributions during her ten-year tenure on the Board.
- The success and well-being of our associates remains a priority. We continue to offer competitive medical, dental and vision plans in a challenging and ever-changing health care environment, providing numerous tools which enable employees and their families to make more informed and cost-effective health care decisions. We also offer incentives to those who forego tobacco use or participate in other health-related initiatives.

I am also constantly amazed by the caring and dedication of our associates to invest their time, talents and resources in the strength and success of the communities in which they live. Our associates, along with our support, have volunteered their time and contributed resources to a broad array of national and local organizations, including the United Way, the American Cancer Society, the Boy Scouts of America, Junior Achievement, Compass Mark and the Special Olympics. Additionally, a group of volunteers from our corporate office volunteered their time to teach an electromagnetic STEAM (Science, Technology, Engineering, Arts and Math) course to fifth graders attending a center city school.

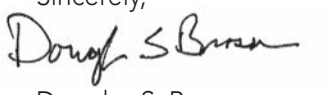
While I am very proud of these accomplishments, we have plenty left to do in the coming year to maintain our momentum. Market demand for our commercial and residential boiler products will continue to be driven by replacement of the large installed North American base, as well as new construction and building additions. While this demand remains strong, our customers continue to demand new, more sophisticated, more expensive, energy-efficient products to reduce fuel consumption and operating cost. Further, new competitors continue to enter our markets. We will continue to align our new product pipeline with the "voice of the customer", introducing new, high-value products ahead of our competition.

I am optimistic about our businesses and their prospects for long-term growth and financial success. Our subsidiaries' products are sold under a group of strong brands that are well recognized in the industry. Our distribution and sales network provides our products broad access to all market channels. Our product development and operational execution will continue to provide competitively priced, high-value products to our markets. Execution of our product, brand and sales strategies provides a strong foundation that will allow us to make strategic investments in our businesses to maintain and enhance our cost and product competitiveness.

None of our advances would be possible, however, without the collective efforts of our dedicated employees. They possess a level of experience and commitment that is unmatched in the industry. I am extremely proud of what they have accomplished, and they have my deepest thanks for all they do to drive our results.

Lastly, I want to take this opportunity to thank you, our shareholders, for your continued support and loyalty. I welcome your questions and comments at any time. Thank you!

Sincerely,



Douglas S. Brossman
President and CEO

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COMPANY PROFILE

Burnham Holdings, Inc. ("the Company") provides the Heating, Ventilating, and Air Conditioning ("HVAC") industry with thermal and interior comfort solutions used in a wide range of residential, commercial, and industrial applications.

Our subsidiaries are market leaders in the design, manufacture, and sale of boilers and related HVAC products and accessories, including advanced control systems, furnaces, radiators, and air conditioning systems. We offer a broad line of high-value, energy-efficient products sold under well-established brand names. Products are manufactured at company operated facilities in the East, South, and Midwestern United States.

Our residential subsidiaries drive customer value through highly efficient, innovative products providing interior comfort solutions for homes and small buildings. U.S. Boiler Company, Crown Boiler Co., New Yorker Boiler Company, Velocity Boiler Works, and Governale collectively offer a full range of residential hydronic heating products, including cast iron, stainless steel, aluminum, and steel boilers; as well as cast iron and steel heat distribution products. Thermo Products offers warm air furnaces and central air conditioning systems for the residential heating and cooling markets.

Commercial and industrial heating and process needs are addressed by our commercial subsidiaries, including Burnham Commercial, Bryan Steam, and Thermal Solutions. Commercial heating applications include health care, education, hospitality, military bases, and multi-unit residential buildings. Industrial applications can include any project where steam or hot water is needed. Product offerings encompass a full range of cast iron, stainless steel, firetube, watertube, and copper tube boilers, as well as boiler room accessories, for commercial and industrial markets.

Vertical integration of our operations is provided by subsidiaries that manufacture key product components. Every year, Casting Solutions converts tens of thousands of tons of scrap metal into boiler castings and other gray and ductile iron castings. Painted light-gauge metal parts are made by Norwood Manufacturing and Lancaster Metal Manufacturing. Collectively, our affiliated companies offer more types and models of products and accessory equipment than any of our competitors. Our commitment to shareholder value through innovation has provided the foundation for our history of proven performance. Continued investment in HVAC technologies, as well as operational and product excellence, will continue to drive that foundation forward.

OUR VISION

To be leaders in providing thermal solutions for residential, commercial, and industrial applications, through highly efficient, dependable products and services.

OUR PRINCIPLES

Performance — Create shareholder value through industry leadership and operational excellence.

Innovation — Create customer solutions by applying advanced technology to create superior products and services.

Engagement — Committed to the success of our customers, colleagues, and community.

Integrity — We keep our promises.

COMPANY AFFILIATES & LOCATIONS

The consolidated financial statements include the accounts of the Company and its subsidiaries. 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. The Company and subsidiaries have approximately 800 employees nationwide, of which approximately half are union employees covered through separate collective bargaining agreements. Generally the agreements are for a three-year period and expire at different times. Major operating subsidiaries of the company and their locations are shown below.

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
Velocity Boiler Works, LLC	Philadelphia, PA

Burnham Holdings, Inc. is a holding company owning multiple, separate subsidiaries, each of which do business in the HVAC industry. All products, services, and related activities referred to herein are the products, services, and related activities of the applicable subsidiary, and not of Burnham Holdings, Inc.

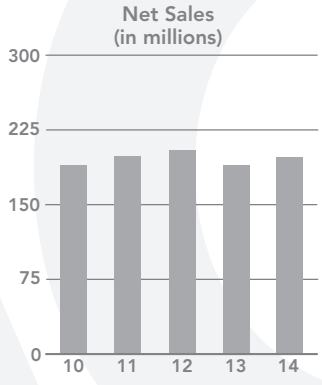
FINANCIAL HIGHLIGHTS

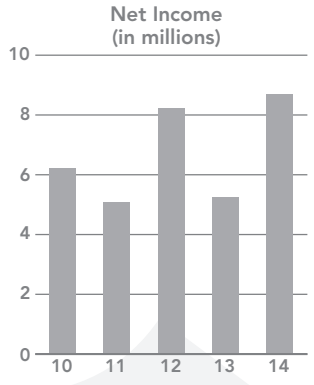
The Company experienced a year of solid financial performance in 2014. With a strong foundation built on proven long-term performance, the Company has the financial and operational strength to take advantage of current market opportunities. We continue to invest in strategic and technology-driven projects to enhance our future success.

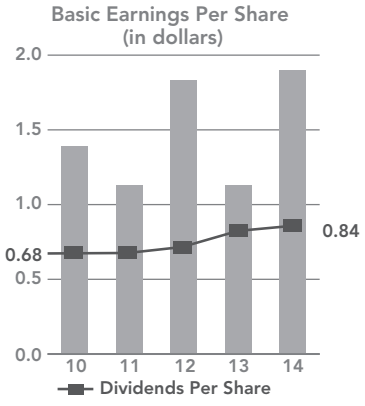
- Net sales increased $10.2 million, or 5%, to $200.4 million from $190.2 million in 2013.
- Gross profit (as shown on page 11) in 2014 was $47.7 million, or 24% of net sales. This matched last year's percent return on sales, which was the highest in the past five years.
- Net income was $8.6 million, or $1.90 per basic share. Basic earnings per share were at the highest level in the past ten years.
- Dividends of $0.84 per share were paid in 2014, a 5% increase from the $0.80 per share paid in 2013. This is the third consecutive year of increased dividends.
- Our year-end debt level of $10.5 million is well below the average of the last ten years and affords us the ability to invest, when appropriate, to grow our businesses.

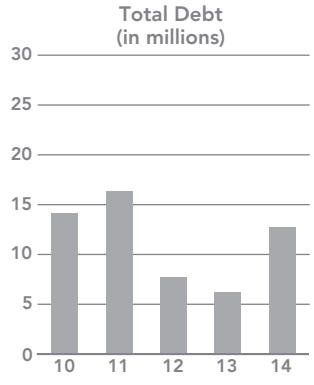
(in millions, except per share data)	2012	2013	2014	Percent Change 2012/2013	Percent Change 2013/2014
Net Sales	$ 204.8	$ 190.2	$ 200.4	(7.1%)	5.4%
Net Income	8.2	5.3	8.6	(35.4%)	62.3%
Debt, Less Interest Rate Swap Instruments	5.3	5.3	9.3	0.0%	75.5%
Total Debt	7.7	6.9	10.5	(10.4%)	52.2%
Working Capital	40.7	39.9	49.9	(2.0%)	25.1%
Total Assets	149.1	141.8	142.4	(4.9%)	0.4%
Total Stockholders' Equity[1]	68.9	81.6	78.0	18.4%	(4.4%)
Net Cash Provided by Operating Activities	14.0	6.5	2.8	(53.6%)	(56.9%)
Per Share Data					
Cash Flow from Net Income	2.88	2.21	2.92	(23.3%)	32.1%
Basic Earnings from Net Income	1.83	1.18	1.90	(35.5%)	61.0%
Dividends Paid	0.72	0.80	0.84	11.1%	5.0%
Book Value[1]	15.29	18.04	17.20	18.0%	(4.7%)
Stock Price at Year-end	14.46	19.00	20.10	31.4%	5.8%
Market Capitalization at Year-end	64.9	85.6	90.7	31.9%	6.0%

1) Please see the discussions titled Pension Matters as well as the Liquidity and Capital Resources section of the "Review of Operations" on pages 6 and 7.









REVIEW OF OPERATIONS

OVERVIEW OF RESULTS

The Company is reporting solid financial performance for 2014. Net sales in 2014 were $200 million, up over 5% from 2013, with gross profit as a percent of sales continuing at its five-year high of 24%. Profit was also up versus 2013, with 2014 Net Income at $8.6 million, or $1.90 per basic share, its highest level in ten years. The Company paid common stock dividends of $0.84 per share in 2014, an increase of 5% over 2013 and the third consecutive year of increased dividends per share.

Demand for our residential products began slowly in 2014 due to challenging weather conditions in our core Northeastern markets. As the year progressed, however, residential markets stabilized, with demand for our residential products being consistent with normal levels. Improving economic conditions leading to increases in non-residential construction and higher CAPEX spending lead to strengthening commercial product demand, continuing the trends beginning in the latter half of 2013.

Customer product preference across all categories is continuing to trend toward higher efficiency, higher value products, and we are continuing to meet this demand by our increased investment in new product development. These efforts resulted in the introduction of numerous new high efficiency, condensing products by our commercial and residential subsidiaries in 2014.

Residential sales accounted for 73% of our sales in 2014 (75% in 2013) compared to 66% in 2008.

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

PERFORMANCE PROVEN, TECHNOLOGY FORWARD

In providing interior comfort solutions to the Heating, Ventilating and Air Conditioning ("HVAC") industry for a multitude of residential, commercial, institutional, and industrial applications, the Company has the proven ability to grow value for stakeholders year after year. Demand for new thermal products and controls is constantly increasing and changing as the desire for higher efficiencies and cleaner emissions grows. This demand provides the basis for growth that augments the stable revenue stream resulting from a consistent replacement cycle. It also drives our investment in engineering and new product development to ensure new products are in the pipeline to meet future demand.

The key to our performance is a deep and clear vision for meeting our customers' current and future needs through innovative technologies, including more energy-efficient products, "green" products with lower emissions and smarter controls. This vision drives our product development and operational excellence. The diverse product lines of our subsidiaries include some of the most recognized brand names in the industry and serve defined residential, commercial and industrial market sectors.

For our stakeholders, our diverse product mix combined with an absolute need for hydronic solutions, provides the foundation for consistent financial performance through fluctuating economic cycles.

The Company's commitment to investment in new product development spans our businesses. It is driven by a constantly evolving marketplace, and guided by the needs and desires of end users, home owners, contractors, specifying engineers, sales representatives, and distributors. We are constantly seeking strategic opportunities in competitive and emerging technologies that benefit our stakeholders.

The end result is a forward-thinking product development strategy that meets exacting requirements today, while delivering new and innovative technologies that can meet the expectations of tomorrow.

In 2014, our subsidiary companies introduced a wide array of new commercial and residential products, as well as enhancements and improvements to our broad portfolio of existing products. In addition to extending the available sizes of the highly successful APEX™ product line, Thermal Solutions introduced the first of a new family of high-efficiency condensing boilers, the ARCTIC™. This highly innovative product is unique in the industry with an advanced set of features and performance. Residentially, U.S. Boiler Company and Crown Boiler executed their strategy of continued new product introductions. U.S. Boiler introduced three new conventional products for the OEM market, as well as a new line of condensing products, the K2™, to broaden its high-efficiency offerings. Crown Boiler introduced the PHANTOM™ and PHANTOM XL™ products, further broadening Crown's line of high-efficiency products.

Residential products made by our subsidiaries are typically sold through wholesale distributors who, in turn, market to builders, heating contractors, fuel dealers, and utilities for resale to residential customers.

Commercial products made by our subsidiaries are sold primarily through independent sales agencies to contractors or end users for heating and industrial applications in large commercial, institutional, and industrial facilities, such as hospitals, hotels, and schools.

FINANCIAL PERFORMANCE

Net sales were $200.4 million, an increase of 5.4% compared to 2013. Sales of residential products increased by 2.9%, while commercial product sales improved by 12.7%, as non-residential construction activity, a key driver of commercial boiler sales, continued to improve from the depressed levels of the past several years. The majority of our consolidated revenue is derived from sales within the United States. International sales, including those in Canada and Mexico, were 1.8% of sales in 2014 compared to 2.0% in 2013.

Our subsidiaries continually focus their efforts on the improvement of employee safety, product quality, productivity, and high-quality customer service. Additionally, the Company and its subsidiaries strive to keep operating costs at a level that enables them to be highly competitive in their markets. The process improvement actions taken over the last several years have lowered our cost structure, thereby increasing our gross profit (profit after deducting cost of goods sold ("COGS")).

Our focus on expenses, following the reductions accomplished in prior years, positions us with gross profit percentages stronger than any year since 2004, the height of the housing market boom. Actual COGS (which includes our increased investments in new product development) as a percent of sales was 76.2% in 2014 compared to 76.3% in 2013. The additional spending on new product development increased costs by 0.7%. Excluding this investment would result in the lowest value of COGS as a percent of sales in the last 10 years. Commodity raw materials remained stable in 2014 and did not have a significant impact on operating results. However, with the majority of the end markets for our residential products experiencing minimal growth in 2014, increased emphasis has been placed on overhead cost control and production optimization. These successes in lowering our operating costs have allowed us to increase our spending on engineering resources for the fifth year in a row.

Selling, general, and administrative expenses ("SG&A"), shown on the Consolidated Statements of Income on page 11, increased by $1.2 million vs. 2013, but declined as a percent of sales to 17.2% from 17.4% in 2013. At 17.2% of sales, SG&A expenses in 2014 were the lowest in the past six years.

Other income (expense) as reflected on the Consolidated Statements of Income shows a decrease in expense of $4.0 million in 2014 compared to 2013 ($0.3 million of expense in 2014 vs. $4.3 million of expense in 2013). The majority of this change is due to the line items "Gain on Sale of Property" that is explained in Note 4 and "Non-Recurring Pension Liability" that is explained in Note 10. The remaining increase in other expenses of approximately $0.3 million in 2014 was the result of lower earnings on investments in 2014. Interest expense on debt was basically equal between 2014 and 2013 at $1.2 million.

Also in 2014, net income was unfavorably impacted by a higher effective income tax rate compared to 2013. Our rate for 2014 was 34% compared to the 31% effective rate in 2013. The effective rate in 2013 was unusually low, due to the fact that Federal research and development tax credits for 2013 included both the year 2013 and 2012 (since Congress did not renew the 2012 credits until 2013 and did not make the change retroactive for 2012, we were then able to claim two years of credits in 2013).

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 2010	December 2011	December 2012	December 2013	December 2014
Reported Pre-tax Income	$ 9,733	$ 7,656	$ 12,796	$ 7,698	$ 12,987
LIFO (income) Expense	801	1,778	102	409	211
Gain on Sale of Property (Note 4)	(4,685)	(162)	(170)	(1,439)	(165)
Pension Withdrawal Liability (Note 10)	—	—	—	5,000	(451)
Legal Defense Costs (page 8)	2,201	811	256	(249)	140
Proforma Pre-tax FIFO Income	$ 8,050	$ 10,083	$ 12,984	$ 11,419	$ 12,722
Proforma % of Reported Net Sales	4.2%	5.1%	6.3%	6.0%	6.4%

Net income for 2014 was $8.6 million, or $1.90 per basic share. This compares to 2013 net income of $5.3 million, or $1.18 per basic share. The basic earnings per share of $1.90 in 2014 was the highest in the past ten years.

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, while reducing future uncertainty for the Company. 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 the Company 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.

REVIEW OF OPERATIONS

At the end of 2012, the pension assets were $137.5 million compared to the 2012 liability of $170.9 million. This $33.4 million shortfall was recorded as a liability on the Company's balance sheet. In 2013, as a result of favorable improvements in the investments of the pension trust, pension assets increased to $143.7 million. This is compared to the 2013 liability of $157.0 million, which decreased from the prior year primarily because of an increase in the discount rate to 4.5% from the 2012 rate of 3.75% (discount rates are set based on matching the Plan's cash flow stream with a portfolio of similar bond maturities). This $13.3 million shortfall (an improvement from the 2012 shortfall) was recorded as a liability on the Company's balance sheet.

The year 2014 brought even more dramatic changes to the Plan. First, and as a positive change, pension assets increased by $11.7 million to $155.4 million as a result of further favorable improvements in the investments of the pension trust. However, the discount rate for 2014 was decreased to the 2012 level of 3.75% (which is considered the lowest rate in modern history). This unprecedented low rate was mainly a result of the Federal Reserve monetary policy designed to kick-start the economy.

Also in 2014, a change was made to the applicable mortality tables used to calculate the future benefit obligations of the Plan. The change to the discount rate coupled with the change in the mortality tables increased the 2014 liability by $23.3 million to $180.3 million. This $24.9 million shortfall (comparing the $180.3 million liability to the $155.4 million of assets) is an increase in the shortfall reflected in 2013 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 the subsection called Accumulated Other Comprehensive Income (Loss) ("AOCI"). 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 2014 and 2013. The Company made voluntary contributions of $2.11 million and $5.51 million during 2014 and 2013, respectively. The Company believes any minimum required contributions in 2015 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 2014 was $2.8 million. This was compared to $6.5 million in 2013. The main item that influenced the reduced level of cash provided by operations in 2014 was the cash payment of $4.5 million to settle the withdrawal liability from a multiemployer pension plan at our Bryan Steam subsidiary. This item was expensed in 2013 and is more fully explained in Note 10 of the financial statements. There was also an unfavorable impact to cash of $3.0 million due to increased inventories to support the higher sales level in 2014 as well as preparations for the launch of several new products late in 2014. Inventory levels, as well as other asset balances, continue to be monitored closely, and are appropriate for the current business level.

Most important, the cash provided by operations in 2014 and 2013 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, maintain low debt levels, make contributions to the Company's pension trust, and pay dividends to our stockholders.

Excluding the debt related to interest rate swap instruments, year-end "financed debt" for 2014 was $9.3 million, an increase of $4.0 million from the 2013 level of $5.3 million, which was the lowest year-end debt level in over 15 years. The outstanding $9.3 million of debt for the Company and its subsidiaries is composed of $4 million on the Company's revolving loan agreement (the "Revolver") and three Industrial Revenue Bonds used to finance specific equipment and facility expansions in both Pennsylvania and North Carolina. These industrial bond loans have long-term, fixed repayment schedules. The debt related to interest rate instruments of $1.2 million (mark-to-market of two interest rate swaps that will reverse themselves over the terms of the agreements) decreased from last year's level of $1.6 million as a result of interest rate assumptions and the expiration of a third swap agreement.

The Revolver is financed through a consortium of three banks totaling $72.0 million (primarily used for working capital needs) and three additional agreements (the "LOC") totaling $5.5 million for specific bank services. For year-end 2014, the Revolver had a balance of $4.0 million, while for 2013 there were no borrowings against the Revolver at year-end. In 2014, these agreements were amended to extend the term of the agreements by a year to August 2016. 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 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, 2014 and 2013, the Company was in compliance with all covenants as shown below:

Dollars in Thousands	December 2013	December 2014	
Funded Debt[1]	$ 2,043	$ 4,939	
Stockholders' Equity on FIFO Basis[2]	125,514	130,619	Minimum Level: $109,000 for 2014 and $107,000 for 2013
Debt Coverage Ratio[1]	6.26	7.30	Minimum Ratio: 1.35
Funded Debt to EBITDA[1]	0.17	0.33	Maximum Ratio: 5.00

1) As defined by Revolver and LOC Agreement.
2) Stockholders' Equity excluding AOCI (shown next page) plus LIFO inventory reserve (which can be found in "Inventories" Note 2 on page 16).

KEY LIQUIDITY DATA AND OTHER MEASURES

Dollars in Thousands	December 2012	December 2013	December 2014
Cash	$ 4,740	$ 4,886	$ 4,885
Working Capital	40,741	39,884	49,942
Total Debt	7,692	6,865	10,514
Financed Debt [1]	5,264	5,264	9,264
Financed Debt [1] to Capital [2]	4.8%	4.7%	7.7%
Stockholders' Equity	68,891	81,599	77,956
AOCI	(34,634)	(23,966)	(32,503)
Stockholders' Equity (excluding AOCI)	103,525	105,565	110,459
Common Stock Price	$ 14.46	$ 19.00	$ 20.10
Book Value Per Share as Reported	15.29	18.04	17.20
Book Value Per Share (excluding AOCI)	23.01	23.35	24.40

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.

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 above. Debt levels for the third quarter ending September 2014 and 2013 were $32.6 million and $28.0 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.

The Company 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

Capital expenditures totaled $3.1 million in 2014 and $4.3 million in 2013, compared to depreciation expenses for the same two periods of $4.6 million. The levels of spending are in line with our general policy to invest in capital expenditures in amounts that are roughly equal to our annual depreciation expenses.

A major capital project included in 2014 spending was the installation of a state-of-the-art, highly automated manufacturing cell at our U.S. Boiler subsidiary for the manufacture of the newly introduced K2™ and PHANTOM™ high-efficiency residential boilers. The balance of capital spending over the past two years included continual upgrades and replacements of equipment at Casting Solutions, LLC (normally in the range of $800,000 to $1.0 million per year); equipment related to production efficiency and quality improvement; and expenditures for machinery and tooling related to new and/or redesigned products.

Capital expenditures for 2015 are budgeted at approximately $8.7 million. This higher than normal plan for capital spending includes a $4.0 to $5.0 million investment in a new product development and engineering test lab at U.S. Boiler's Lancaster manufacturing facility. The new development lab will greatly expand the ability to design, test, and release new products. The 2015 capital spending plan also includes various projects that will enhance productivity, improve product quality, reduce energy consumption, develop and introduce new products, as well as maintain our existing machinery, equipment, and facilities.

BOARD ACTIONS

On February 19, 2015, the Company announced a quarterly dividend of $0.22 per common share. This would be an annual dividend rate of $0.88 per share, a 5% increase over the $0.84 per share that was paid in 2014 and the fourth straight year of increased dividends. The annual dividend rate for Preferred stock is $3.00 per share. At the February 2015 meeting, the Board of Directors authorized the repurchase of 60,000 shares of either class of common stock at market prices during 2015. The Board may authorize additional repurchases from time to time. Management also has authority to repurchase preferred stock. There were 25 shares of preferred stock repurchased in 2014. There were no shares repurchased in 2013.

PERSONNEL

Several senior executive changes occurred in 2014. We are pleased to announce that Dale R. Bowman was appointed Vice President and Chief Financial Officer of the Company, effective September 1, 2014. Mr. Bowman was President of our Thermo Products, LLC subsidiary, and has over 19 years of experience with the Company. He holds a BS from West Liberty University, an MBA from West Virginia University, and both the CPA and CMA certifications. He replaced Douglas B. Springer, who retired after 16 years of service to the Company. Also retiring in 2014 was Stephan P. Amicone, who retired with over 35 years of service to the Company. We wish Doug and Steve the best of luck in their retirement, and thank them for their many valuable contributions to the Company.

Additionally, we announced the appointment of Donald A. Stern, Esq., and Christopher R. Drew to the Company's Board of Directors, effective October 1, 2014. The newly appointed directors' initial terms will run until the Annual Meeting in 2015, at which time they will be on the proxy for election by the Shareholders. Mr. Stern recently retired as a partner from the New York City law firm of Cleary, Gottlieb, Steen & Hamilton after a distinguished 34-year career with the firm. He is currently employed as Managing Director at Mount Kellett Capital Management, LP. Mr. Stern holds an AB degree in physics from Harvard University and a JD degree from Harvard Law School. Mr. Drew has held senior positions with numerous subsidiaries of the Company since 1989, and is currently Executive VP & Chief Marketing and Strategy Officer of the Company. He holds a BA degree from Dartmouth College and an MBA degree from New York University.

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.

CERTAIN SIGNIFICANT ESTIMATES

Certain estimates are determined using historical information along with assumptions about future events. Changes in assumptions for such items as warranties, medical costs, 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 offered to 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 began to pay a fixed annual amount that assists 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-2015, 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, the Company believes that its insurance policies and associated reserves for product, general, workers' compensation, and property liabilities are reasonable based on the information currently available.

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. While the large majority of claims have historically been resolved prior to the completion of trial, from time to time some claims may be expected to proceed to a potentially substantial verdict against subsidiaries of the Company. Any such verdict would be subject to appeal, any set-off rights and/or issues involving allocation of liability among various defendants. For example, on July 23, 2013 and December 12, 2014, New York City State Court juries found numerous defendant companies, including a subsidiary of the Company, responsible for asbestos-related damages. The subsidiary, whose share of the verdicts amounted to $42 million and $6 million, respectively, before offsets, has filed and will file post-trial motions and appeals seeking to reduce and/or overturn the verdicts, and granting of new trials. Most recently, on February 9, 2015, the trial court significantly reduced the 2013 verdicts, reducing the subsidiary's liability from $42 million to less than $7 million. The subsidiary will continue its appeals under the New York State Appellate Court System.

The Company believes, based upon its understanding of its available insurance policies and discussions with legal counsel, that all pending legal actions and claims, including asbestos, should ultimately be resolved (whether through settlements or verdicts) 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 for settlements in 2014, 2013, and 2012, for all uninsured litigation of every kind, was $143,000, $244,000, and $219,000, respectively. Each of these years include a 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 (credits) in 2014, 2013, and 2012 were $140,000, $(249,000), and $256,000, respectively. The credit in 2013 is a reduction in estimated required reserves for actions or claims established in previous years.

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 material 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 are required to apply for new permits, or 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 remedial 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 new or additional 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 & REPORT OF INDEPENDENT AUDITORS

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.

The Company 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.

Baker Tilly Virchow Krause, LLP, 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
President and CEO

Dale R. Bowman
Vice President and CFO

To the Board of Directors of Burnham Holdings, Inc.

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, 2014 and 2013, and the related consolidated statements of income, comprehensive income, 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 auditor's 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, 2014 and 2013, 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.



Baker Tilly Virchow Krause, LLP
Lancaster, Pennsylvania
March 4, 2015

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31 (In thousands, except per share data)	
	2014	2013
Net sales	**$ 200,360**	$ 190,181
Cost of goods sold	**152,660**	145,024
Gross profit	**47,700**	45,157
Selling, general, and administrative expenses	**34,364**	33,170
Operating income	**13,336**	11,987
Other income (expense):		
Gain on sale of property (Note 4)	**165**	1,439
Non-recurring pension withdrawal liability (Note 10)	**451**	(5,000)
Mark-to-market	**—**	57
Interest and investment income	**268**	459
Interest expense	**(1,233)**	(1,244)
Other income (expense):	**(349)**	(4,289)
Income before income taxes	**12,987**	7,698
Income tax expense	**4,416**	2,384
NET INCOME	**$ 8,571**	$ 5,314
BASIC EARNINGS PER SHARE	**$ 1.90**	$ 1.18
DILUTED EARNINGS PER SHARE	**$ 1.89**	$ 1.18

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31 (In thousands)	
	2014	2013
Components of comprehensive income:		
Net income for the year	**$ 8,571**	$ 5,314
Other comprehensive income (loss):		
Change in fair value of derivatives, hedges, and investments	**248**	390
Pension liability adjustment	**(8,821)**	9,991
Postretirement medical liability adjustment	**36**	287
Other comprehensive income (loss)	**(8,537)**	10,668
TOTAL COMPREHENSIVE INCOME	**$ 34**	$ 15,982

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

	December 31 (In thousands)	
ASSETS	**2014**	2013
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,885**	$ 4,886
Trade accounts receivable, less allowances (2014 — $290 and 2013 — $294)	**22,195**	21,323
Inventories:		
Materials, in process and supplies	**37,093**	33,857
Finished goods	**7,219**	7,459
Total inventory	**44,312**	41,316
Prepaid expenses and other current assets	**1,132**	976
Current portion of deferred income taxes	**1,303**	3,451
TOTAL CURRENT ASSETS	**73,827**	71,952
PROPERTY, PLANT AND EQUIPMENT, net	**45,681**	47,529
DEFERRED INCOME TAXES	**156**	—
OTHER ASSETS, net	**22,778**	22,319
TOTAL ASSETS	**$ 142,442**	$ 141,800

LIABILITIES AND STOCKHOLDERS' EQUITY	**2014**	2013
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 23,273**	$ 29,811
Income taxes payable	**380**	2,002
Current portion of other postretirement liabilities	**232**	255
TOTAL CURRENT LIABILITIES	**23,885**	32,068
LONG-TERM DEBT	**10,514**	6,865
OTHER POSTRETIREMENT LIABILITIES	**30,087**	17,786
DEFERRED INCOME TAXES	**—**	3,482
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
Preferred Stock	**530**	530
Class A Common Stock	**3,466**	3,459
Class B Convertible Common Stock	**1,478**	1,485
Additional paid-in capital	**15,182**	15,050
Retained earnings	**107,738**	102,982
Accumulated other comprehensive income (loss)	**(32,503)**	(23,966)
Treasury stock, at cost	**(17,935)**	(17,941)
TOTAL STOCKHOLDERS' EQUITY	**77,956**	81,599
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 142,442**	$ 141,800

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31, 2014 and 2013 (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, 2013	**$ 530**	**$ 3,423**	**$ 1,521**	**$ 14,727**	**$ 101,286**	**$ (34,634)**	**$ (17,962)**	**$ 68,891**
Exercise of stock options:								
20,999 shares of common stock	—	—	—	323	—	—	21	344
Conversion of common stock	—	36	(36)	—	—	—	—	—
Cash dividends declared:								
Preferred stock—6%	—	—	—	—	(18)	—	—	(18)
Common stock—($0.80 per share)	—	—	—	—	(3,600)	—	—	(3,600)
Net income for the year	—	—	—	—	5,314	—	—	5,314
Change in fair value of derivatives, hedges, and investments, net of $(277) of tax	—	—	—	—	—	390	—	390
Pension liability adjustment, net of $(5,620) of tax	—	—	—	—	—	9,991	—	9,991
Postretirement medical liability adjustment, net of $(162) of tax	—	—	—	—	—	287	—	287
Balance at December 31, 2013	**$ 530**	**$ 3,459**	**$ 1,485**	**$ 15,050**	**$ 102,982**	**$ (23,966)**	**$ (17,941)**	**$ 81,599**
Exercise of stock options:								
7,476 shares of common stock	—	—	—	132	—	—	6	138
Conversion of common stock	—	7	(7)	—	—	—	—	—
Cash dividends declared:								
Preferred stock—6%	—	—	—	—	(18)	—	—	(18)
Common stock—($0.84 per share)	—	—	—	—	(3,797)	—	—	(3,797)
Net income for the year	—	—	—	—	8,571	—	—	8,571
Change in fair value of derivatives, hedges, and investments, net of $(139) of tax	—	—	—	—	—	248	—	248
Pension liability adjustment, net of $4,962 of tax	—	—	—	—	—	(8,821)	—	(8,821)
Postretirement medical liability adjustment, net of $(20) of tax	—	—	—	—	—	36	—	36
Balance at December 31, 2014	**$ 530**	**$ 3,466**	**$ 1,478**	**$ 15,182**	**$ 107,738**	**$ (32,503)**	**$ (17,935)**	**$ 77,956**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 (In thousands)	
	2014	2013
OPERATING ACTIVITIES		
Net income	**$ 8,571**	$ 5,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of property (Note 4)	**(165)**	(1,439)
Non-recurring pension withdrawal liability (Note 10)	**(451)**	5,000
Depreciation and amortization	**4,655**	4,643
Deferred income taxes	**3,313**	(58)
Pension (income) expense	**(50)**	1,043
Postretirement liabilities	**430**	415
Reserves and other allowances	**(829)**	484
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	**(868)**	4,821
Increase in inventories	**(2,996)**	(619)
Increase in prepaid expenses and other current assets	**(156)**	(111)
Contributions to pension trust	**(2,114)**	(5,511)
Decrease in accounts payable and accrued expenses	**(358)**	(4,556)
Payment of multiemployer withdrawal liability (Note 10)	**(4,549)**	—
Decrease in income taxes payable	**(1,622)**	(2,946)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,811**	6,480
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(3,127)**	(4,336)
Purchase of other assets	**(8)**	(14)
Proceeds from sale of assets and property, net (Note 4)	**—**	1,302
NET CASH USED IN INVESTING ACTIVITIES	**(3,135)**	(3,048)
FINANCING ACTIVITIES		
Proceeds from borrowings	**4,000**	—
Proceeds from exercise of stock options	**138**	344
Principal payments on long-term debt and capital lease obligations	**—**	(12)
Dividends paid	**(3,815)**	(3,618)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**323**	(3,286)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1)**	146
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,886**	4,740
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 4,885**	$ 4,886

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

dollars in thousands, except per share data

1. NATURE OF OPERATIONS

Burnham Holdings, Inc. ("the Company") is the parent company of a group of subsidiaries whom service the Heating, Ventilating, and Air Conditioning ("HVAC") market segment. These subsidiaries are leading domestic manufacturers of boilers, and related HVAC products and accessories (including advanced control systems, furnaces, radiators, and air conditioning systems) for residential, commercial, and industrial applications. The majority of the 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 73% and 75% of the total year 2014 and 2013 revenues, respectively. 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 years 2014 and 2013, amounted to 1.8% and 2.0%, respectively, of reported net revenues. Sales to the ten largest customers amounted to $73,900 and $75,900 in 2014 and 2013, respectively. The Company and its subsidiaries have approximately 800 employees nationwide, of which approximately 49% are union employees covered through separate collective bargaining agreements. Generally these agreements are for three-year periods and expire at different times, including one agreement expiring within one year covering 22% of employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company 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 summarize certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provide 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 are 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.

Trade Accounts Receivable: Trade 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	2014	2013
Balance at January 1	$ 294	$ 472
Net (Reversals and Recoveries) Accruals for Accounts	3	(170)
Credit Losses	(7)	(8)
Balance at December 31	$ 290	$ 294

Shipping and Handling Costs: The subsidiaries charge certain customers shipping and handling fees. These revenues are recorded in Net Sales. Certain costs associated with receiving material and shipping goods to customers are recorded as cost of goods sold. For the years ended December 31, 2014 and 2013, these receiving and shipping costs were $8,459 and $7,700, 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, including an excess of $933 and $1,142 at December 31, 2014 and 2013, respectively; 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 costs which approximate current market values. The total of these investments were $3,135 and $3,038 at December 31, 2014 and 2013, respectively.

A portion of the Company's cash may be restricted from time to time because of insurance regulatory requirements. As of December 31, 2014 and 2013, restricted cash in each year totaled $3,500. Because of the borrowing capacity of the Company described in Note 6, this is not considered 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 $560 and $1,665 were included in accounts payable as of December 31, 2014 and 2013, respectively.

Fair Value of Financial Instruments: The Company has adopted the Financial Accounting Standards Board ("FASB") 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.

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 or liabilities in active markets, quoted prices in inactive markets for identical or similar assets, 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 interest rate swaps, including the period to maturity, and uses observable market-based inputs. The Company's Level 2 liability (payable) for its interest rate swaps carried at fair value as of December 31, 2014 and 2013, was $1,250 and $1,601, respectively.

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 estimated fair values of cash and cash equivalents, trade accounts receivable, accounts payable, and accrued expenses approximate their carrying values at December 31, 2014 and 2013, 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 approximately 84% of the inventories are valued using the last-in, first-out method ("LIFO") as of each year-end. If the subsidiaries had used the first-in, first-out method ("FIFO") of inventory accounting, inventories would have been $20,160 and $19,949 higher than reported at December 31, 2014 and 2013, respectively. The subsidiaries periodically review their inventories and make provisions as necessary for estimated obsolescence and slow-moving inventory items. The amount of such markdown is equal to the difference between cost of inventories and the estimated market value based upon assumptions about future demands, selling prices, and market conditions.

During 2014 and 2013, inventory quantities were reduced either in total or at specific facilities. These reductions resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2014 and 2013 purchases, the effect of which decreased cost of goods sold by approximately $51 and $168 in 2014 and 2013, respectively. These changes increased profits in 2014 by approximately $33 or $0.01 per share and in 2013 by approximately $116 or $0.03 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. In 2014, the Company's Thermo Products subsidiary recorded an impairment charge of $346 related to an idled manufacturing facility in North Judson, Indiana. The reduction in carrying value was taken to reflect the expected sales value of the property. There was no impairment of long-lived assets in 2013.

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 2014 and 2013 was $4,629 and $4,593, respectively.

Other Assets: Other assets primarily include goodwill and other intangible assets. 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, 2014 and 2013. Other intangible assets (primarily customer lists, non-compete agreements, and patents and trademarks) amounted to $83 and $101 at December 31, 2014, and 2013, respectively, net of accumulated amortization of $3,616 and $3,598 at December 31, 2014 and 2013, respectively, and are being amortized over 3 to 20 years using the straight-line method. Total amortization expense for 2014 and 2013 was $26 and $50, respectively. Future amortization expense is expected to be: $14–2015; $14–2016; $13–2017; $13–2018; $13–2019; and $16–2020 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.

The Company accounts for uncertainty in income taxes under the FASB guidance, which clarifies the recognition by prescribing the threshold a tax position is required to meet before being recognized in the financial statements. Tax benefits recognized in the statements are measured based on the largest benefit that cumulatively has a greater than 50% likelihood of being sustained in a tax examination, with a tax examination being presumed to occur.

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, 2014 and 2013.

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, 2014 and 2013, basic and diluted earnings per share are computed as follows:

For the Year Ended December 31, 2014	Net Income	Weighted Average Shares*
Income	$ 8,571	
Less Preferred Stock Dividends	(18)	
Income Available to Common Stockholders	$ 8,553	4,510
Basic Earnings Per Share	$ 1.90	
Dilutive Options		17
Diluted Earnings Per Share	$ 1.89	4,527

For the Year Ended December 31, 2013	Net Income	Weighted Average Shares*
Income	$ 5,314	
Less Preferred Stock Dividends	(18)	
Income Available to Common Stockholders	$ 5,296	4,498
Basic Earnings Per Share	$ 1.18	
Dilutive Options		10
Diluted Earnings Per Share	$ 1.18	4,508

*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 2014 and 2013, 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 2014 and 2013, 120,095 and 105,443 options, respectively, were excluded from the diluted earnings per share calculation because of being anti-dilutive.

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 hedges, and investments, and changes in pension and post-retirement benefit obligations, net of income taxes. These changes have no direct bearing on the core manufacturing or financial strength of the Company. The primary factor impacting balances in AOCI are changes to interest rates and related impacts to the discount rates used for pension and post-retirement benefit obligations and interest rates for swaps. The following reconcilement presents amounts reclassified from AOCI.

	Pension Liability	Post-retirement Medical Liability	Interest Rate Swap Liability	Investment (Asset) Liability	Total	Affected line in the Statements of Income
Balance January 1, 2013	**$ 31,663**	**$ 1,480**	**$ 1,517**	**$ (26)**	**$ 34,634**	
Unrealized (gains)/losses	(12,784)	(163)	(198)	—	(13,145)	
Tax effect	4,602	59	71	—	4,732	
Net unrealized (gains)/losses	(8,182)	(104)	(127)	—	(8,413)	
Amounts reclassified from AOCI (c)						
Realized gains/(losses)	—	—	(572)	—	(572)	Interest expense
Realized gains/(losses)	—	—	—	102	102	Interest and investment income
Amortization of prior service costs	(101)	(76)	—	—	(177)	(a)
Amortization of actuarial loss	(2,725)	(210)	—	—	(2,935)	(a)
Tax (expense) benefit	1,018	103	206	—	1,327	(b)
Net realized reclassification adjustments	(1,808)	(183)	(366)	102	(2,255)	
Balance December 31, 2013	**$ 21,673**	**$ 1,193**	**$ 1,024**	**$ 76**	**$ 23,966**	
Unrealized (gains)/losses	15,565	228	220	(36)	15,977	
Tax effect	(5,604)	(82)	(79)	13	(5,752)	
Net unrealized (gains)/losses	9,961	146	141	(23)	10,225	
Amounts reclassified from AOCI (c)						
Realized gains/(losses)	—	—	(571)	—	(571)	Interest expense
Amortization of prior service costs	(29)	(136)	—	—	(165)	(a)
Amortization of actuarial loss	(1,753)	(148)	—	—	(1,901)	(a)
Tax (expense) benefit	642	102	205	—	949	(b)
Net realized reclassification adjustments	(1,140)	(182)	(366)	—	(1,688)	
Balance December 31, 2014	**$ 30,494**	**$ 1,157**	**$ 799**	**$ 53**	**$ 32,503**	

(a) These AOCI components are included in the computation of net periodic pension costs, which are included within Cost of Goods Sold and Selling, General and Administrative expenses in the Statements of Income (see Note 10 for additional details).
(b) Tax (expense) benefits are adjustments to deferred taxes within the Statements of Income.
(c) Amounts in parentheses indicate a decrease to profit.

Recent Accounting Pronouncements: In December 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-12 "Definition of a Public Business Entity." The update provides a single definition of public business entity for use in financial accounting guidance effective January 1, 2014. The amendment does not affect existing requirements. Based on the guidance, the Company is considered a public business entity for future financial accounting guidance. The amendment did not have any impact on the Company's financial statements in 2014 or 2013.

3. CERTAIN SIGNIFICANT ACCRUALS AND ALLOWANCES

The Company expenses, in the year incurred, those costs related to normal operating charges. Certain accruals and allowances are determined using historical information along with assumptions about future events. Changes in assumptions for such things as product quality, law changes, 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 allowances 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 allowances as required. At this time, allowances for self-insured claims are based on the information currently available.

Product Requirements and Warranty: The Company's subsidiaries manufacture high-value, high-quality products known for their reliability and longevity. These products are designed and manufactured to meet the stated performance requirements upon their installation. Accruals for 2014 and 2013 were increased based on several subsidiaries' forecasts to address a group of related product matters. Additionally, some of the subsidiaries of the Company offer a variety of warranty coverages depending on the type of unit and its application. General warranty allowances are maintained by each subsidiary based on its product warranty policy and historical experience. The Company and its subsidiaries are not insured for warranty claims.

Product Warranty and Related Product Matters	2014	2013
Balance at January 1	$ 2,913	$ 1,891
Accruals Related to Product Warranty and Product Matters	417	2,002
Settlements Made (in cash or in kind)	$ (1,348)	(980)
Balance at December 31	$ 1,982	$ 2,913

4. SALE OF PROPERTY

On July 23, 2013, a subsidiary of the Company sold a portion of its property located in Lancaster, PA. The total sales price of this property was $1.35 million. The net book value of this property plus expenses of sale was $76,000, resulting in a total book gain of $1.274 million.

On September 28 and December 13, 2010, subsidiaries of the Company sold investment properties located in Lancaster, PA. The total sales price of these properties was $11.8 million. The net 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, is being recognized over five years as required by accounting guidance related to sale/leaseback rules. In 2014 and 2013, $165 was recognized in each year in the Statements of Income related to this deferred gain.

These gains have been tax deferred as 1031/1033 Like Kind Exchange transactions for Federal and State tax matters because the proceeds were, or will be, used in the purchase of other similar property.

5. PROPERTY, PLANT AND EQUIPMENT

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

December 31	2014	2013
Land and Land Improvements	$ 6,194	$ 6,583
Buildings and Improvements	34,312	33,809
Machinery and Equipment	98,006	95,991
Total Property, Plant and Equipment	138,512	136,383
Accumulated Depreciation	(92,831)	(88,854)
Net Property, Plant and Equipment	$ 45,681	$ 47,529

There is no equipment under capital lease at December 31, 2014 or 2013. Future minimum payments, by year, under non-cancelable operating leases as of December 31, 2014, are: $1,187–2015; $1,053–2016; $944–2017; $906–2018; and $912–2019 and $297 thereafter. For 2014 and 2013, external rental expense for property (principally warehouse space) that was included in the Statements of Income totaled $1,482 and $1,495, respectively. A subsidiary has entered into a long-term lease (as part of an original acquisition agreement) with a Trust, in which one of the beneficiaries is the current President of that subsidiary. Related lease expense of $354 and $346 are included in the Statements of Income for 2014 and 2013, respectively.

6. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

December 31	2014	2013
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
Revolving Line of Credit through August 1, 2016	4,000	—
Fair Value of Swaps	1,250	1,601
Total Long-term Debt	10,514	6,865
Less Current Portion	—	—
Long-term Debt	$ 10,514	$ 6,865

Long-term Borrowings: The Company has a loan agreement (the "Revolver") financed through a consortium of three banks totaling $72.0 million (primarily used for working capital needs), and three additional agreements (the "LOC") totaling $5.5 million for other specific bank services. Under these agreements, the Revolver and the LOC are due in full 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 2014, these agreements were extended until August 1, 2016. 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, 2014, be at least $109.0 million using the first-in, first-out ("FIFO") method of inventory valuation and excluding non-cash adjustments to AOCI. Stockholders' Equity on December 31, 2014, was $130,619 on this basis ($77,956 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, 2014 and 2013, the Company was in compliance with all covenants. Interest rates as of December 31, 2014 and 2013, were 1.56% and 1.57%, 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. The Company has a relationship with one of the three banks mentioned above as part of this bank consortium, in which two board members of the bank holding company are Directors of the Company and one Director of the Company is an officer in the bank holding company. All relationships between this institution and the Company are considered arms-length.

On November 9, 2004, two Industrial Revenue Bonds, a $4.0 million fixed rate bond and a $264 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 (0.73% and 0.74% at December 31, 2014 and 2013, 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.

Future maturities of long-term debt by year are: $0–2015; $5,264–2016; $0–2017; $1,250 –2018; and $4,000–2019.

Total interest incurred in 2014 and 2013 was $1,233 and $1,244, respectively. Interest paid during 2014 and 2013 was $1,229 and $1,270, 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 $15.0 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 (0.16% and 0.17% at December 31, 2014 and 2013, respectively). 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. Additional expense incurred related to the swap agreements in 2014 and 2013 was $571 and $558, respectively. An estimate, based on the December 31, 2014, interest rate, of amounts to be reclassified in 2015 out of AOCI and expensed through the Statement of Income is $417.

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. Under this agreement, the counterparty was paid interest at a fixed rate of 5.46% on the notional amount of the swap. The counterparty paid interest at a variable rate equal to the 30-day LIBOR rate. The obligation under the swap was collateralized as part of the Revolver discussed above under Long-term Borrowings. The swap was accounted for as a cash flow hedge. Accordingly, the change in the fair value of the swap was included in other comprehensive income, a separate component of Stockholders' Equity. Additional expense incurred related to the swap agreement in 2013 was $14.

On March 5, 2004 (agreement expired 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 was paid interest at a fixed rate of 5.88% on the notional amount of the swap. The counterparty paid interest at a variable rate equal to the 90-day LIBOR rate (0.24% at December 31, 2013). Under the terms of this agreement, the notional amount of the swap decreased quarterly ($290 at December 31, 2013). The obligation under the swap has been collateralized as part of the Revolver discussed above under Long-term Borrowings. The December 31, 2013, fair value was reflected in the balance sheet as a liability. The 2014 and 2013 Statements of Income reflect the change in fair value as mark-to-market interest income. Interest income and expense related to the swap is accrued as interest rates fluctuate, and is recognized in the Statements of Income as the interest rate changes occur. Additional expense incurred related to the swap agreements in 2014 was less than $1 and for 2013 was $58. Additional income recognized related to the change in fair value of the swap agreement in 2014 was less than $1 and for 2013 was $57.

The following table presents the interest rate swap agreements:

	Notional Amount	Liability	Fair Value Change	Income (Expense) Impact to AOCI[2]
December 31, 2014				
1)	$ 10,000	$ (893)	$ 253	$ 162
1)	5,000	(357)	98	63
December 31, 2013				
1)	$ 10,000	$ (1,146)	$ 524	$ 336
1)	5,000	(455)	233	149
	—	—	12	7
1)	290	—	58	—

1) Reflected within long-term debt on the balance sheet.
2) Net fair value change after tax effect.

7. INCOME TAXES

The provision for income taxes consists of:

For the Year Ended December 31	2014	2013
Current:		
Federal	$ 569	$ 1,694
State	534	748
Total Current	1,103	2,442
Deferred:		
Federal	3,037	(53)
State	276	(5)
Total Deferred	3,313	(58)
Total Income Tax Expense	$ 4,416	$ 2,384
Income Taxes Paid	$ 2,418	$ 4,457

The Company's effective tax rate for 2014 approximates the Federal statutory rate as the Federal tax benefit of domestic manufacturing deductions, research and development credits, and exempt income offset the effect of State income taxes. The Company's effective tax rate for 2013 is lower than the Federal statutory rate. 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 could not claim this deduction until they filed their 2013 return, which included credits for 2012 and 2013 development. The lower tax rate for 2013 is a result of the two years Federal credit for research and development, the Federal tax benefit of domestic manufacturing deductions and exempt income, which more than fully offset State income taxes.

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

December 31	2014	2013
Current Deferred Taxes:		
Gross Assets	$ 2,740	$ 4,799
Gross Liabilities	(1,437)	(1,348)
Net current Deferred Tax Assets	1,303	3,451
Non-current deferred Taxes:		
Gross Assets	10,311	6,421
Gross Liabilities	(9,805)	(9,522)
Valuation Allowance[1]	(350)	(381)
Net Non-current Deferred Tax (Liability) Asset	156	(3,482)
Net Deferred Tax (Liability) Asset	$ 1,459	$ (31)

1) The valuation allowance as of December 31, 2012 was ($461).

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

December 31	2014	2013
Depreciation	$ (9,716)	$ (9,884)
Vacation	850	823
Employee Benefits	740	750
Workers' Compensation	173	152
Pension	7,578	4,038
Inventory	(766)	(744)
Warranty	952	1,143
Fair Value of Swap	450	576
Other	1,198	3,115
Net Deferred (Liability) Tax Asset	$ 1,459	$ (31)

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:

For the Year Ended December 31	2014	2013
Balance at January 1	$ 183	$ 484
Gross Increases for Current Year Tax Positions	—	104
Gross Settlements	(83)	(405)
Lapse of Statute of Limitations	—	—
Balance at December 31	$ 100	$ 183

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2014 and 2013, we have approximately $5 and $20 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 $100 and $183 as of December 31, 2014 and 2013, respectively. The tax years 2011 to 2014 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 shares in Treasury Stock at December 31, 2014 and 2013, of 4,598 and 4,573, respectively. The Company's Class A common stock ("Class A") has a par value of $1.00 per share; there are 9.0 million shares authorized. The Company's Class B convertible common stock ("Class B") has a par value of $1.00 per share; there are 4.0 million shares authorized.

Common Stock shares outstanding were as follows:

December 31	2014	2013
Class A Stock Issued	3,466,084	3,459,443
Treasury Shares	(429,917)	(437,393)
Class A Stock Outstanding	3,036,167	3,022,050
Class B Stock Outstanding	1,478,127	1,484,768
Total Stock Outstanding	4,514,294	4,506,818

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 a stock-based incentive compensation plan ("the 2013 Plan"), approved by stockholders on April 22, 2013, for key employees, including officers and directors. The 2013 Plan replaces the Company's 1982 Incentive and Non-Qualified Stock Option Plan and a Stock Appreciation Rights Plan (as amended through the April 2013 date), which was set to expire in 2014. This latter plan has vested remaining awards that will be exercised or expire over the next eight years (last grant expires on May 14, 2022). The adoption of the 2013 Plan as the new governing document for future stock-based incentive compensation awards was intended to update the legal provisions applicable to the Company's stock awards to reflect legal developments. The 2013 Plan gives the Board of Directors the ability to grant restricted stock awards ("Restricted Shares"), and other similar awards, in addition to stock options ("Options") and stock appreciation rights ("Rights"), on terms and conditions set forth in the 2013 Plan. The 2013 Plan also increased the aggregate number of shares of the Company's stock that may be delivered pursuant to awards to be granted under the 2013 Plan to the sum of (A) 350,000 plus (B) the number of shares available as of April 22, 2013, and as subsequently would have become available pursuant to the 1982 Plan, were such plan not terminated in connection with the adoption of this 2013 Plan (200,884 shares). Out of that sum, the aggregate number of shares that may be delivered pursuant to awards other than stock options, stock appreciation rights, and other similar awards, such as for example, restricted stock awards is limited to 225,000 shares of stock.

In general, Restricted Shares involve the delivery to participants of shares of stock that are subject to forfeiture conditions, such as continued employment or achievement of performance objectives. Deferred share awards are promises to deliver shares of stock, or cash based on the value of shares of stock, in the future, subject to specified conditions. Options, qualified or non-qualified, 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. Holders of Rights, on exercise, receive the excess of the fair market value of the common stock over the grant price in cash, common stock or a combination thereof at the election of the Board of Directors. Shares issued under these plans can be either new, previously un-issued shares, or treasury shares.

In May 2014, 10,461 Restricted Shares were granted to participants at a market price of $18.53, and in May 2013, 9,628 shares were granted at a market price of $18.03. These shares vest in annual installments of 33-1/3%, commencing one year after the date of grant (subject to forfeiture conditions) and are expensed on a straight-line basis over the three years based on the fair market value of the Company's stock at date of grant.

Currently outstanding 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. Additionally, while not required by the plans, these Rights and Options were 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, 2014 and 2013, were $255 and $635, respectively. The estimated compensation expense for non-vested share-based awards as of December 31, 2014, is $282 and will be recognized over the next three years.

The significant weighted average assumptions related to Options and Rights were as follows:

For the Year Ended December 31	2014	2013
Dividend Yield	4.5%	4.5%
Volatility Rate	19.0%	19.0%
Risk-free Interest Rate	3.7%	4.2%
Expected Option Life (years)	7.0	7.0

Transactions for 2014 and 2013 are as follows:

	2014		2013	
Options & Rights Awards	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding January 1	206,133	$ 17.83	486,744	$ 17.78
Granted	37,300	18.53	34,800	18.03
Exercised	(10,718)	13.74	(206,277)	14.52
Lapsed	(18,666)	25.24	(109,134)	24.13
Outstanding December 31	214,049	$ 17.51	206,133	$ 17.83
Exercisable December 31	137,293	$ 17.40	115,429	$ 18.88

	2014		2013	
Restricted Stock	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding January 1	9,628	$ 18.03	N/A	N/A
Granted	10,461	18.53	9,628	$ 18.03
Vested	(3,206)	18.03	N/A	N/A
Forfeited	(750)	18.33	N/A	N/A
Outstanding December 31	16,133	$ 18.34	9,628	$ 18.03

Options and Rights outstanding and exercisable at December 31, 2014, have exercise prices between $25.63 and $8.20. The weighted-average remaining contractual life of Options and Rights outstanding was 5.93 years and Options and Rights exercisable was 4.44 years. Shares available for grant at December 31, 2014 and 2013, were 587,245 and 615,590, respectively.

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 ("the Plan") with substantial assets and liabilities. As required by current pension accounting standards, any excess or shortfall between the market value of the assets and liabilities of the Plan are recorded on the balance sheet. The Plan covers non-union employees hired before June 5, 2003, with final benefit accruals for non-union employees ending in 2006 and 2009 (based on age and service). The Plan also covers union employees, and during collective bargaining negotiations after 2004, the unions agreed that newly hired union employees would no longer have access to the Plan. There remains a limited, closed group of union employees still accruing benefits under 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. The Company may, from time to time, also make voluntary 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, 2013, the Company did not have a minimum contribution required for 2014. However, in 2014, the Company made a pre-tax contribution of $2.114 million into the Plan. In 2013, the Company made non-required pre-tax contributions of $5.511 million. Minimum contributions for 2015 are undeterminable at this time, but will be based on actuarial certifications to be received by August 2015 that are governed by the Pension Protection Act of 2006 ("PPA"). The Company believes minimum required contributions, if any, will not be material.

Company subsidiaries were also part of two separate union-sponsored multiemployer defined benefit pension plans covering collective bargaining employees. One plan previously covered Bryan Steam, LLC (see separate paragraph below) and the other plan currently covers Lancaster Metal Manufacturing, Inc., collective bargaining employees. These plans are not administered by the subsidiaries or the Company, and the provisions of the negotiated labor agreement determine contributions. The subsidiaries' contributions do not represent 5% of either of the plan's total contributions and there were no surcharges assessed for either of the years 2014 or 2013. 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]		Company Contributions	
		2014	2013	2014	2013
Steelworkers Pension Trust	23-6648508-499	81.3%	81.8%	$ 69	$ 71
Boilermaker-Blacksmith National Pension Trust	48-6168020	N/A	75.0%	N/A	$ 271[2]

1) Both plans are valued as of January 1 of the preceding year, with the 2013 information being the most recently available.
2) The Boilermaker-Blacksmith contribution was for the period of January 1 to June 18, 2013.

The Steelworkers Pension Trust was considered "Safe" for 2014 per the Pension Protection Act of 2006 because of the 2013 funded status being over 80%.

The Boilermaker-Blacksmith National Pension Trust was considered "Endangered" for 2013 as a result of its 2012 funded status being less than 80%. As announced in a June 19, 2013, press release and the 2013 Annual Report, Bryan Steam, LLC recorded a non-recurring charge of $5.0 million relating to a new union agreement at the subsidiary, which resulted in Bryan Steam, LLC withdrawing from the plan ("Pension Charge") thus ending benefit accrual. In 2014, the final lump-sum payment to the Boilermakers Trust was lower than estimated resulting in a return to income of $451. This Pension Charge and the change in estimate reducing the accrual to the amount paid are included in the "Other income (expense)" section of the Statements of Income. This one-time, non-manufacturing charge, while material to the 2013 results of operations, was not material to the balance sheet. The Pension Charge and termination of participation will eliminate all future contributions to the underfunded, multiemployer Boilermaker-Blacksmith National Pension Trust and should position Bryan Steam, LLC to be more cost competitive in the aggressive commercial market, while also lowering future risk to the Burnham Holdings shareholders through the elimination of this obligation.

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, $206 and $360 in 2014 and 2013, respectively, has been recognized in the Company's earnings as part of interest and investment income. The assets of the Company (within Other Assets) and the liability to employees (within Other Postretirement Liabilities) under the plan were $2,895 and $2,426 at December 31, 2014 and 2013, respectively. The assets (a mix of mutual funds) are carried at fair value (as discussed in Note 2—Fair Value Measurements ("FVM")) as Level 1 FVM measured on a recurring basis as of December 31, 2014 and 2013. Adjustments to this liability caused by changes in the value of the marketable securities, gains of $206 and $360 in 2014 and 2013, respectively, are classified within selling, general, and administrative 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. 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, 2014, pension trust assets were $155,375 and the pension liability was $180,325, with the shortfall of $24,950 being recorded as a liability on the balance sheet. The shortfall increased in 2014 from the prior year because of assumption changes related to the discount rate (the rate was lowered to 3.75%), and a change to mortality tables which increased liabilities of the Plan and postretirement medical benefits partially offset by favorable market returns on Plan assets. Included in AOCI at December 31, 2014, are the following before-tax amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial loss of $47,617 and $1,399 for the Plan and postretirement medical benefits, respectively, including amortization of losses for upcoming fiscal year of $2,429 and $144 for the Plan and postretirement medical benefits, respectively, and unrecognized prior service costs of $30 and $409 for the Plan and postretirement medical benefits, respectively. The postretirement liability increased in 2014 from a plan amendment resulting in a change of $301.

At December 31, 2013, pension trust assets were $143,660 and the pension liability was $156,976, with the shortfall of $13,316 being recorded as a liability on the balance sheet. The shortfall decreased substantially in 2013 from the prior year because of assumption changes related to the discount rate (the rate was raised to 4.50%) and favorable market returns on Plan assets. Included in AOCI at December 31, 2013, are the following before-tax amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial loss of $33,804 and $1,620 for the Plan and postretirement medical benefits, respectively, including amortization of losses for upcoming fiscal year of $1,775 and $199 for the Plan and postretirement medical benefits, respectively, and unrecognized prior service costs of $59 and $244 for the Plan and postretirement medical benefits, respectively. There were no Plan amendments in 2013.

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, 2014 and 2013:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Projected Benefit Obligation	$ (180,325)	$ (156,976)	$ (2,475)	$ (2,299)
Fair Value of Plan Assets	155,375	143,660	—	—
Funded Status	$ (24,950)	$ (13,316)	$ (2,475)	$ (2,299)
Benefit Liability Recognized in the Consolidated Balance Sheet at December 31	$ (24,950)	$ (13,316)	$ (2,475)	$ (2,299)
Accumulated Benefit Obligation	$ (178,068)	$ (155,056)		

The pension trust is managed by independent third-party administrators, under policies and guidelines established by the Employee Benefits Committee of the the Company 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, 2014 and 2013. 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. At December 31, 2014, the asset allocation was approximately 38% equity and 62% fixed income. At December 31, 2013, the asset allocation was approximately 38% equity, 60% 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 2— Fair Value Measurements ("FVM")) as measured on a recurring basis as of December 31, 2014 and 2013:

	Carrying Value	Level 1	Level 2	Level 3
December 31, 2014				
Mutual Funds				
Fixed Income	$ 48,384	$ 48,384	$ —	$ —
Domestic Stock	19,701	19,701	—	—
Common Collective Trust Funds:				
U.S. Equity	18,241	—	18,241	—
Interest Rate Management	47,535	—	47,535	—
Other	21,514	9,779	11,735	—
December 31, 2013				
Mutual Funds				
Fixed Income	$ 39,607	$ 39,607	$ —	$ —
Domestic Stock	16,897	16,897	—	—
Common Collective Trust Funds:				
U.S. Equity	18,334	—	18,334	—
Interest Rate Management	44,910	—	44,910	—
Other	23,912	9,103	12,001	2,808

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. In 2014, Level 3 investments were redeemed in their entirety and the proceeds were allocated into existing Level 1 and Level 2 investments. Level 3 investments increased by $341 at December 31, 2013, from December 31, 2012, primarily caused by realized and unrealized gains related to instruments still held at the reporting date.

Weighted-average assumptions used to determine benefit obligations as of December 31 were:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Discount Rates	3.75%	4.50%	3.75%	4.50%

Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31 were:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Discount Rates	4.50%	3.75%	4.50%	3.75%
Expected Return on Assets	8.25%	8.50%	—	—

The discount rates used for assumption purposes are set based on matching the Plan's cash flow stream with a portfolio of similar bond maturities.

The rate of compensation increase used to determine the pension benefit obligations and benefit cost was 2.5% for both 2014 and 2013.

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	
	2014	2013	2014	2013
Benefit (Income) Cost	$ (50)	$ 1,043	$ 430	$ 415
Employer Contributions	2,114	5,511	198	83
Participant Contributions	—	—	144	142
Benefits Paid	8,873	7,405	342	225

The following pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid: $8,154–2015; $8,550–2016; $9,046–2017; $9,431–2018; $9,853–2019; and $52,837–2020 to 2024.

The following postretirement medical benefit payments, net of plan participants' contributions, are expected to be paid: $232–2015; $253–2016; $277–2017; $311–2018; $278–2019; and $990–2020 to 2024.

Employee Savings Plans: The Company has established two 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 $533 and $457 in 2014 and 2013, respectively.

The Company maintains a second Employee Savings Plan for 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 collective bargaining agreements negotiated after 2004, 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. In 2013, effective with the new Bryan Steam, LLC contract, which eliminated its participation in the multiemployer defined benefit pension plan (discussed previously), Bryan Steam, LLC union employees began receiving employer contributions within this plan based on wages earned. The contributions charged against income for this plan were $143 and $108 in 2014 and 2013, 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 described in Note 6 as part of the LOC. In the normal course of business, this amount is less than $2,500, and at December 31, 2014 and 2013, the amount outstanding for both years was $1,875.

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. While the large majority of claims have historically been resolved prior to the completion of trial, from time to time some claims may be expected to proceed to a potentially substantial verdict against subsidiaries of the Company. Any such verdict would be subject to appeal, any set-off rights and/or issues involving allocation of liability among various defendants. For example, on July 23, 2013 and December 12, 2014, New York City State Court juries found numerous defendant companies, including a subsidiary of the Company, responsible for asbestos-related damages. The subsidiary, whose share of the verdicts amounted to $42 million and $6 million, respectively, before offsets, has filed and will file post-trial motions and appeals seeking to reduce and/or overturn the verdicts, and granting of new trials. Most recently, on February 9, 2015, the trial court significantly reduced the 2013 verdicts, reducing the subsidiary's liability from $42 million to less than $7 million. The subsidiary will continue its appeals under the New York State Appellate Court System. The Company believes, based upon its understanding of its available insurance policies and discussions with legal counsel, that all pending legal actions and claims, including asbestos, should ultimately be resolved (whether through settlements or verdicts) 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.

The operations of the Company's subsidiaries are subject to a variety of Federal, State, and local environmental laws. At this time 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 remedial actions at disposal areas containing waste materials from their operations. 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 allowances have been established.

In February of 2015, the Company's U.S. Boiler Company subsidiary executed a contract with a local firm for the construction of their new product development and engineering test lab for a total cost of approximately $4 to $5 million. This was a planned capital expenditure as of December 31, 2014.

The Company has evaluated subsequent events (events that occur after December 31, 2014) through March 4, 2015, 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 (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Sales	$ 238,768	$ 218,127	$ 224,677	$ 225,805	$ 183,678	$ 189,707	$ 198,842	$ 204,762	$190,181	$ 200,360
Income (Loss) Before Income Taxes	5,208	(3,932)	8,629	9,068	8,346	9,733	7,656	12,796	7,698	12,987
Income Tax Expense (Benefit)	1,865	(1,599)	3,106	3,264	3,007	3,524	2,573	4,569	2,384	4,416
Net Income (Loss)	3,343	(2,333)	5,523	5,804	5,339	6,209	5,083	8,227	5,314	8,571
Basic Earnings (Loss) per Share of Common Stock	0.75	(0.53)	1.24	1.30	1.20	1.39	1.13	1.83	1.18	1.90
Cash Flow per Share of Common Stock	1.95	0.66	2.43	2.44	2.25	2.38	2.11	2.88	2.21	2.92
Net Cash Provided By Operating Activities	9,572	11,239	9,638	5,681	14,360	12,388	6,498	13,999	6,480	2,811
Total Dividends Paid	5,185	4,114	3,046	3,046	3,046	3,047	3,055	3,244	3,618	3,815
Dividends per Share of Common Stock	1.16	0.92	0.68	0.68	0.68	0.68	0.68	0.72	0.80	0.84
Net Book Value of Plant and Equipment	53,602	51,427	49,499	48,202	45,720	50,001	50,122	47,785	47,529	45,681
Purchases of Property, Plant and Equipment	5,079	2,823	3,047	3,552	2,056	15,666	4,412	2,274	4,336	3,127
Charges for Depreciation and Amortization	5,357	5,251	5,311	5,041	4,673	4,389	4,355	4,659	4,643	4,655
Current Assets	84,322	77,088	78,976	82,487	69,564	67,940	71,051	74,761	71,952	73,827
Current Liabilities	40,663	40,199	29,717	30,558	23,401	27,425	27,496	34,020	32,068	23,885
Working Capital	43,659	36,889	49,259	51,929	46,163	40,515	43,555	40,741	39,884	49,942
Total Debt	34,902	31,361	28,417	29,460	20,275	14,143	16,320	7,692	6,865	10,514
Net Worth	91,788	81,191	90,613	71,769	73,509	73,940	64,392	68,891	81,599	77,956
Book Value per Share of Common Stock	20.55	18.17	20.28	16.05	16.44	16.52	14.34	15.29	18.04	17.20
Proforma Book Value per Share of Common Stock*	20.61	19.16	19.66	20.28	20.80	21.50	21.93	23.01	23.35	24.40
Outstanding Shares of Common Stock**	4,451	4,452	4,452	4,452	4,452	4,456	4,468	4,486	4,507	4,514

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.

INVESTOR & STOCKHOLDER INFORMATION

REPORTING REQUIREMENTS

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 an SEC-regulated 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 the Company 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, 2014. 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, raw material costs, litigation, customer preferences, general economic conditions, technology, product performance, and increased competition.

BUSINESS STRATEGY

Subsidiaries of the Company provide high-value, high-quality HVAC products backed by superior service. This diverse product mix meets the various needs of most residential, commercial, and institutional applications. For our stakeholders, this diversification, combined with the critical need for thermal solutions, ensures consistent financial performance through fluctuating economic cycles. That's how the Company provides consistent returns: We're creating value in established market segments driven by a constant replacement cycle.

Our strong earnings and dividend history, proven management team, diverse product mix, and continuing product demand represent an outstanding opportunity for stakeholders. The Company is a unique investment opportunity that creates stable value while delivering solid returns. The Company has also grown and will continue to grow through acquisitions. The Company is continually looking for appropriate acquisitions at appropriate prices.

INVESTOR & STOCKHOLDER INFORMATION *(cont.)*

CORPORATE GOVERNANCE

The Board of Directors ("the Board") of the Company is comprised of twelve members, ten of whom are considered "independent" directors (not an employee, not affiliated with the Company's auditors, and not part of an interlocking directorate). The remaining two members of the Board are the Company's President and CEO, and the Company's Executive Vice President and Chief Marketing & Strategy Officer. 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. Five 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 additional Board committee meetings and special meetings held throughout the year. Board committees concentrate on important areas of responsibility. Standing committees of the Company 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' purposes, 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.

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 The Company 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 the Company 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 27, 2015, 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 Cathleen J. Anderson, Financial Services Administrator, or Dale R. Bowman, 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.**

DIRECTORS & OFFICERS



Donald A. Stern, Albert Morisson, III (Chairman), John W. Lyman, Robert P. Newcomer, Douglas S. Brossman, Elizabeth H. McMullan, Thomas C. Kile, Eleanor B. Drew, William F. Dodge, II, Christopher R. Drew, Philmer H. Rohrbaugh, 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

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
John W. Lyman
Elizabeth H. McMullan
Albert Morrison, III



John A. Roda, Dale R. Bowman, Douglas S. Brossman, Christopher R. Drew, Bradley C. Ehlert

Officers of Burnham Holdings, Inc.

Douglas S. Brossman	President and CEO
Christopher R. Drew	Executive Vice President — Chief Marketing & Strategy Officer
Dale R. Bowman	Vice President & Chief Financial Officer, Assistant Secretary
John A. Roda	Vice President — General Counsel and Secretary
Bradley C. Ehlert	Controller

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