BURNHAM HOLDINGS

2010
Annual
Report

Burnham Holdings, Inc.
Investing in the future.

COMPANY PROFILE, PHILOSOPHY, PRINCIPLES

COMPANY PROFILE:

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

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

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

The Burnham Foundry produces boiler castings for the affiliated manufacturing companies as well as outside customers. Norwood Manufacturing is a manufacturer of painted light-gauge metal parts.

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

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

OUR PHILOSOPHY IS TO BE A GROUP OF COMPANIES:

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

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

Where the best people want to work.

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

OUR GUIDING PRINCIPLES ARE:

performance – We are always striving to improve our service and to be a state-of-the-art supplier; we encourage the entrepreneur in each of us.

relationships – We treat customers and suppliers as partners; we treat each other with respect.

growth – We seek new markets and new opportunities; we innovate to get and keep customers.

integrity – We keep our word because we are the Burnham Holdings group of companies.

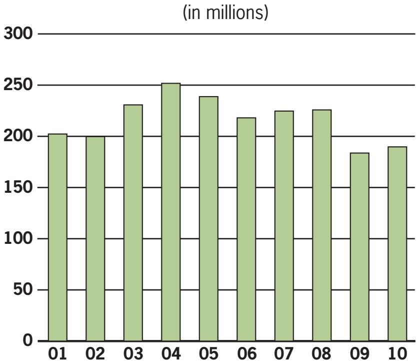
CONTENTS

FINANCIAL HIGHLIGHTS

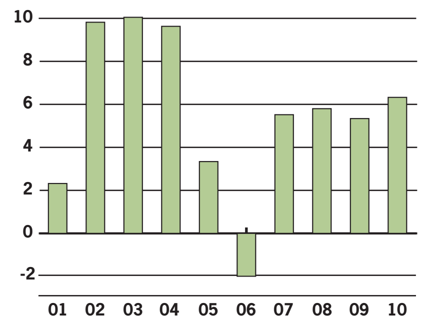
Results for 2010 reflect a year of successful financial performance and accomplishments. With economic indicators pointing to an uncertain, challenging business year in 2010, the Company focused on earnings stability and balance sheet strength. With a firm foundation based on its core principles and philosophy, Burnham Holdings, Inc. is financially and operationally strong and poised to take advantage of current market opportunities, while advancing its strategic initiatives for the longer term.

- Net sales were $189.7 million, a 3.3% increase from 2009. This increase was achieved despite very competitive, flat market conditions. The Company's strategies of product diversification, independent markets served, and continuous new product introductions have served us well during the recession.
- Net income for 2010 was $6.2 million or $1.39 per basic share, 15.8% higher than last year's $1.20 per share. Please see the "Review of Operations" for a discussion of financial performance.
- Gross profit as a percentage of sales was 22.6%, only slightly lower than last year's percentage (on a FIFO basis or replacement cost, 2010 has a higher percentage than 2009), and is higher than profit margins reported back in 2005 when the real estate and housing market began to decline.
- Dividends of $0.68 per share were paid in 2010, the 70th consecutive year of paying a dividend.
- The balance sheet is strong, with appropriate levels of working capital and a conservative ratio of debt to equity. Debt has declined substantially over the last two years and is now at its lowest level in over thirteen years.
- Cash provided from operations of $12.4 million was the second highest over the last seven years. Cash flow from subsidiary operations over this period has supported the Company's ability to fund normal operating expenses while also providing the funds to develop new products, make necessary investments in capital assets, make principal repayments, and pay dividends to our stockholders.

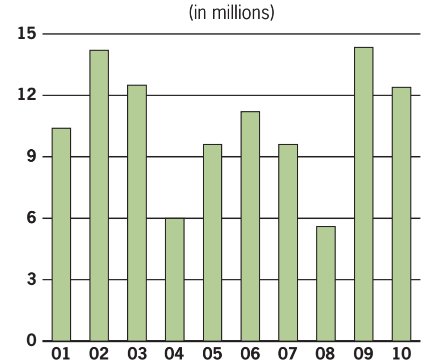
NET SALES
(in millions)



NET INCOME (LOSS)
(in millions)



CASH FLOW FROM OPERATIONS
(in millions)



				Percent Change	
(In millions, except per share data)	**2010**	2009	2008	2010/2009	2009/2008
Net Sales	$189.7	$183.7	$225.8	3.3%	(18.6%)
Net Income	6.2	5.3	5.8	17.0%	(8.6%)
Debt, Less Interest Rate Swap Instruments	12.4	18.7	27.3	(33.7%)	(31.5%)
Total Debt	14.1	20.3	29.5	(30.5%)	(31.2%)
Working Capital	40.5	46.2	51.9	(12.3%)	(11.0%)
Total Assets	140.1	138.4	155.3	1.2%	(10.9%)
Total Stockholders' Equity [1]	73.9	73.5	71.8	0.5%	2.4%
Net Cash Provided by Operating Activities	12.4	14.4	5.7	(13.9%)	152.6%
Per Share Data					
Cash Flow from Net Income	2.38	2.25	2.44	5.8%	(7.8%)
Basic Earnings from Net Income	1.39	1.20	1.30	15.8%	(7.7%)
Dividends Paid	0.68	0.68	0.68	0.0%	0.0%
Book Value [1]	16.52	16.44	16.05	0.5%	2.4%
Stock Price at Year-end	15.13	9.68	9.25	56.3%	4.6%
Market Capitalization at Year-end	67.4	43.1	41.2	56.4%	4.6%

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

BURNHAM HOLDINGS, INC. AT A GLANCE...

RESIDENTIAL

BRANDS

Thermo Pride

U.S. Boiler Company

New Yorker

Governale

Crown Boiler

COMMERCIAL

BRANDS

Bryan Boilers

Thermal Solutions®

Burnham Commercial Boilers

ASSOCIATED BUSINESSES

BURNHAM FOUNDRY, LLC, is a gray and ductile iron foundry business with broad experience in complex, thin-wall, iron pressure castings. This highly automated facility is a leading producer of boiler and radiator castings for the heating industry.

...a presentation of the various brands offered by subsidiaries of Burnham Holdings, Inc.

SUBSIDIARIES

U.S. Boiler and New Yorker product lines feature residential cast iron, stainless steel, aluminum, and steel boilers. U.S. Boiler also includes cast iron and steel heat distribution products, and indirect water heaters. The Governale line features cast iron radiators, baseboards, and convectors. The Thermo Products line includes warm air furnaces, heat pumps, and central air conditioning systems. The Crown line features cast iron and aluminum boilers, indirect water heaters, and warm air furnaces. A full line of related accessories is included with each product line.

MARKETS SERVED

U.S. Boiler, New Yorker, Governale, and Crown products are sold through wholesale distributors who, in turn, market to builders, heating contractors, utilities, and fuel dealers for resale to residential customers. In addition, the products are marketed in partnership with distributors directly to the distributors' customers in order to develop brand loyalty. Thermo Products sells directly to installing contractors and fuel dealers.

BRAND POSITION

U.S. Boiler markets under both the Burnham® and U.S. Boiler brands. Burnham brand products are recognized as the premium brand in the industry. U.S. Boiler is seen as the leader in bringing new and innovative products to the marketplace. The New Yorker, Governale, and Crown brands are known for their high quality and dependable performance and are differentiated from the Burnham brand by the markets they serve. Thermo Pride is the premium brand in the furnace and central air conditioning market.

SUBSIDIARIES

The Burnham Commercial product line features firetube boilers of scotch marine and firebox design as well as large modular and packaged cast iron and stainless steel boilers. The Bryan Steam line features a broad selection of flexible watertube and stainless steel boilers. Both product lines include a full range of boiler room accessories such as deaerators, feedwater systems, and water treatment equipment. The Thermal Solutions line features compact, high-efficiency copper tube boilers and water heaters.

MARKETS SERVED

Commercial products are used for heating applications in large commercial, institutional and industrial facilities such as hospitals, hotels, and schools. The Burnham Commercial and Bryan Steam lines also include high-pressure steam units used for process applications in manufacturing, food processing, and the chemical industries. Commercial products are sold primarily through independent sales representatives directly to contractors or end users.

BRAND POSITION

Burnham Commercial, Bryan Boilers, and Thermal Solutions brand products all have reputations for quality and performance at the forefront of technological and environmental design. Burnham Commercial offers products of a firetube design for long-lasting durability and efficiency. The Bryan name is associated with a flexible bent tube line of boilers, a design pioneered by Bryan Steam, LLC, and a top choice in the industry. The Thermal Solutions brand of copper boilers offers unparalleled durability and high efficiency.

NORWOOD MANUFACTURING, INC., is a state-of-the-art manufacturer of painted light-gauge metal parts. These subsidiaries are wholly-owned by Burnham Holdings, Inc., and are respected as quality leaders in their markets.

LETTER TO OUR STOCKHOLDERS

"Looking ahead, we are enthusiastic about the sales and marketing efforts of our subsidiaries and the impact of their new products... Our broad line of residential and commercial products are second to none in the industry and meet today's demand for advanced, energy-conserving equipment and controls."

Albert Morrison, III
Chairman, President, and CEO

I am pleased to report that 2010 was a sound financial year for Burnham Holdings, Inc., despite the ongoing recession in the general economy and our industry. Sales and profits were up over 2009. The balance sheet ended strong with low debt and high liquidity.

Our subsidiaries were highly focused on increasing sales, introducing important new products, improving margins, and strengthening their balance sheets. This concentrated effort by the entire organization produced sound results in a tough market. We are very appreciative of the efforts of all Burnham Holdings and Subsidiary employees in making all of this happen. It's only through the hard work and dedication of our employees that the business can grow and prosper.

Sales increased approximately 3%, in a very competitive market that was flat with last year. Factory profit, using the FIFO method of valuing inventory (i.e., replacement cost), was up 5.8%, while factory cost as a percentage of sales declined from 77.6% to 77.0% reflecting ongoing improvements in plant operations. Selling, administrative, and general expense increased somewhat as a percentage of sales due to litigation expense. Bottom line profit was favorably impacted by the sale of certain investment properties in Lancaster in conjunction with a long-term plan to own, rather than lease, U.S. Boiler's Centerville manufacturing facilities. The year-end balance sheet was exceptionally strong with a minimal level of debt. Working capital as a percentage of sales was much improved over recent years. Debt as a percentage of capital was only 11.4% on December 31st. The pension trust was appropriately funded and all loan covenants were met by a wide margin. Dividends were paid at the same level as the past three years, despite the recessionary economy.

In addition to achieving sound financial results during the past two years, we are very pleased that our group has also been able to take this time to invest and improve the business for the future.

We continue to invest in the latest machinery and manufacturing methods to continuously drive down costs and further enhance quality and productivity. The results of these efforts are reflected in the favorable factory profit figures mentioned above.

Likewise, we invest heavily in research and development to support a continual flow of new equipment and controls going to market. The models pictured in this Annual Report are examples of new lines of products, all of which have been introduced during the past four years, by our various subsidiaries. These are new designs that use the latest technology for energy conservation and control. Sales of these products were up fifty percent in 2010 and totaled nearly $40 million dollars.

Taking a more detailed look at market demand, boilers have been a popular product for heating in the northeast quadrant and across the northern tier of the country for decades, resulting in an installed base that numbers in the millions and is slowly increasing due to new construction and building additions. Although market demand can swing significantly in a given year, all of these boilers will eventually be replaced due to age or operating cost.

Generally, market demand for residential heating equipment tracks the economic cycle, with strong demand during good economic times and weak demand during poor economic times. Market demand for commercial HVAC equipment follows a similar pattern, but lags residential to some degree. The last cyclical high for residential heating equipment was in 2004, coincident with a strong economy and the boom in housing and real estate. Residential demand in 2009 was down significantly from the highpoint and was the lowest since the early 1980's due to the severity of the recession. Residential demand improved marginally in 2010, but was offset by very weak demand for commercial equipment. While Company subsidiaries produce many types of residential and commercial products, our core business continues to be residential boilers. Market demand for residential boilers in 2010, as reported by all manufacturers, was up 2% over 2009, but down 20%, from the average of the 2005 through 2008 time period, leading up to the recession. While no one knows precisely when unemployment, consumer confidence, credit availability, housing, and real estate activity will return to more normal levels, the market data suggests that when that does eventually occur, there will be a significant upside to our market.

Further, it is clear that market demand is moving steadily toward more sophisticated, more expensive, energy-conserving products to reduce fuel consumption and operating cost. This is a very positive trend that will enhance what has historically been a lucrative replacement market and increase revenue for manufacturers, wholesalers, and contractors alike. Basically, every building owner in the market for a new boiler or furnace wants a safe, reliable product that will lower fuel bills.

Looking ahead, we are enthusiastic about the sales and marketing efforts of our subsidiaries and the impact of their new products. Our employees have done the right things during this industry-wide downturn. Our subsidiaries have strong brands and customer relationships, and are well positioned from the standpoint of distribution, manufacturing, and cost competitiveness to take full advantage of the eventual recovery of their respective markets. Our broad line of residential and commercial products are second to none in the industry and meet today's demand for advanced energy-conserving equipment and controls. Collectively, our subsidiaries have more sales personnel on the street than any other competitor. The Company has a strong cash flow and is well financed. We have the wherewithal to build our business in this industry and take advantage of opportunities as they arise. Most importantly, we have an organization of 1,000 people with a level of experience and commitment of purpose that is unmatched by competition.

While market conditions remain challenging, and we have concerns with respect to litigation cost, we are excited about the Company and our prospects for long-term growth and financial success. I want to take this opportunity to thank the Company's employees, customers, vendors, and stockholders for their continued support and loyalty. We welcome your questions and comments at any time.

Sincerely,

Albert Morrison, III
Chairman, President and CEO

INSTITUTIONAL CENTERS

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

High Efficiency • Energy Savings • Unmatched Capabilities

The administrators at the Masonic Village in Elizabethtown, PA, had a challenge on their hands when it was finally time to replace the boilers at their on-campus conference center, residential dormatories, natatorium (with an Olympic-sized pool), and administration building. Not only did they have a demand load that varied constantly throughout the year, they had a need for both high and low temperature water to be the output from their new heating equipment.

The Masonic Village found their solution with the Energy Star®-rated Burnham® brand Alpine™ by US Boiler Company. Equipped with touch screen displays, advanced microprocessor controls, fully modulating combustion systems and annual efficiencies as high as 95%, the Alpines were a perfect choice to meet the Village's diverse needs. The advanced controls allow multiple boilers to be easily linked together, operating as one large unit when the demand load is high, or selecting individual units to operate as capacity requirements change. The Alpine units on the campus provide space heating and domestic hot water for residential dormitories as well as heating the natatorium and its Olympic sized-pool. Taking advantage of the Alpine's high efficiencies, flexible operating parameters and simple installation will help the Conference Center realize a projected payback of their investment within three years.

Taking advantage of the high efficiencies, flexible operating parameters and simple installation of the Burnham® Alpine™ boilers, by U.S. Boiler Company, Inc., the Conference Center will realize a projected payback of their investment within three years.

Institutional
Centers

OVERVIEW OF RESULTS

2010 was a successful year in terms of both our financial performance and in the accomplishment of several key strategic objectives.

First, with regard to our financial performance, net sales increased by 3.3% to $189.7 million, despite very difficult market and economic conditions. Our net income also improved to $6.2 million from the $5.3 million of 2009. Several large, non-operating matters impacted the 2010 net results. On page 13, as part of "Capital Investments", you will note that two investment properties were sold resulting in a net pre-tax gain of $4.7 million, which is disclosed as a separate line item within "Other income (expense)" on the Statements of Income. Partially offsetting this favorable item are increases to "Selling, administrative and general expenses" ("SG&A") on the Statements of Income to support litigation defense costs for ongoing matters. Additionally, the cash flow generated by operations was the second highest in the last seven years, providing the ability to pay down our financed debt to the lowest level in over 13 years.

The solid financial performance of 2010 enabled us to continue our success in achieving several key strategic objectives. First, as mentioned in the "Letter to Our Stockholders", our subsidiaries continue to introduce new equipment and controls into the market faster than any of our competitors. New introductions over the last four years accounted for over 20% of our 2010 revenue. Secondly, through subsidiaries of Burnham Holdings, we have secured the ownership of our core residential manufacturing facility located in Lancaster, PA, an objective identified five years ago as part of our residential expansion plan. Finally, and most importantly, the Company and subsidiaries strive to keep operating costs at a level that enables them to be highly competitive in the markets served. Cost of goods sold as a percentage of net sales, on a FIFO basis (replacement cost), was lower in 2010 than in 2009. The actions taken over the last several years have lowered our ongoing cost structure and will enable us to remain competitive going forward.

The year-ending Burnham Holdings, Inc. stock price and book value increased from 2009 levels. The Company paid common stock dividends in 2010 for the 70th consecutive year. The rate of $0.68 per share was the same rate as 2009, 2008, and 2007, in spite of the recessionary economy.

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

FINANCIAL PERFORMANCE

Net sales for 2010 were $189.7 million, up 3.3% from last year's $183.7 million. The residential portion of the business (approximately 70% of the Company's sales in 2010 compared to a normal average of 65%) experienced a more than 13% improvement over corresponding 2009 levels, the first improvement we have seen since the cyclical downturn that began back in 2005. As discussed in the "Letter to Our Stockholders," this decline was the result of the economic cycle that not only has impacted Burnham Holdings but also the entire industry. This downturn was a result of a number of factors, including the sharp decline in the real estate market and its impact on home construction, consumer confidence and spending behaviors, the deep recession in the general economy, and reduced credit availability. As the 2010 market for residential boilers was up only 2% in units from 2009, we are very encouraged by the 13% improvement in this portion of our business. We feel this has been accomplished by satisfying the needs of the consumer through the introduction of new equipment and controls, some of which are displayed in this Annual Report. The commercial portion of our business provides heating applications for large commercial, institutional and industrial facilities such as hospitals, factories, hotels, and schools. Modest growth was experienced in commercial related products from 2004 through 2007, which mitigated the downturn in the residential portion of the business. However, in mid-2008, we began to feel the impact of constraints on spending in the commercial sector, which continued into 2010 and resulted in lower sales for this portion of our business. The Burnham Holdings strategies of product

INTEGRITY

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

GOVERNMENT OFFICES
Evolution® boilers by
Thermal Solutions Products, LLC

High Efficiency • Energy Savings • Unmatched Capabilities

The Michael A. Bilandic Building is a 21-story office building in Chicago. Completed in 1920 and renovated in 1992, the building houses offices for the State of Illinois Supreme Court. With a focus on reducing energy consumption and lowering operating costs, an analysis identified the need to modernize the building's HVAC components. Among those items up for replacement were the existing boilers.

Six Evolution® boilers from Thermal Solutions were selected for the retrofit. Equipped with efficiency maximizing, micro-processor based controls, the Evolution units were easily integrated with the facility's building management systems to provide flawless compatibility with the other HVAC equipment. Thermal Solution's Evolution is available as either a standard high-efficiency or ultra-high-efficiency condensing version with certified ratings of up to 97%. With its advanced heat exchanger design and proven track record of significant cost savings, when applied to this retrofit application the Evolution installation contributed to lowering the building's gas usage by 29% in the first year of operation.

The Evolution® boilers by Thermal Solutions Products, LLC, contributed to lowering the building's gas usage by 29% in the first year of operation.

Government
Offices

diversification, independent markets served, and continuous new product introductions have served us well during the recession, resulting in a less dramatic decline in our sales trend over the last five years than the industry as a whole.

Efforts over the past couple of years to consolidate and streamline subsidiary's operations have enabled them to improve quality, reduce material handling, improve productivity, and lower inventory levels while providing a very high level of customer service. Rising and fluctuating fuel costs have increased customer emphasis on more energy–efficient products. In response to this consumer shift, the Company's subsidiaries have introduced more new products over the last several years than at any other time in its history, as we aim to be at the forefront of the industry in this effort.

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

The majority of Burnham Holdings, Inc.'s consolidated revenue is derived from sales in the United States. International sales, which include Canada and Mexico, were 3.3% of reported 2010 revenues.

The net income for 2010 was $6.2 million, or $1.39 per share, improved from the $5.3 million, or $1.20 per share, reported for 2009.

With net sales relatively flat and the need to remain competitive in the market, increased emphasis has been placed on cost control and resource optimization, both facility and manpower, in order to maintain operating margins. The Company's sales are highly seasonal; both residential and commercial sales follow patterns throughout the year, requiring inventory to be produced during slow periods to meet demand during peak periods. The uncertainty of the 2010 seasonal demand and the decision on when to build inventory was more challenging than in most years. Through strict spending policies and flexibility with manufacturing capabilities, subsidiaries were highly successful in this effort of balancing the building of inventory and covering the costs of fixed overhead, while having the stock necessary to meet expectations. As a result, manufacturing overhead expenses and production variances continued to decline in 2010 from the already low prior year by nearly $2 million (the decline in 2009 from 2008 was by almost $10 million). This lowering of expenses further built upon the reductions we accomplished in prior years, and positions us with gross profit margins similar to those when the downturn began back in 2005.

Actual cost of goods sold as a percentage of sales was 77.4% in 2010 versus 76.6% in 2009 (77.0% in 2010 versus 77.6% in 2009 on a FIFO, replacement cost basis), and 2010 SG&A expenses were 19.2% as a percentage of sales compared to 18.3% in 2009. As mentioned in the "Overview" above, SG&A has been negatively impacted by litigation defense costs for ongoing matters. Traditional SG&A expenses were lower as a percentage of sales.

In addition, the "Other income (expense)" section of the Statement of Income shows total income of $3.3 million compared to the prior year's expense of $1.0 million. You will note the line item "Gain on sale of property" for $4.7 million in 2010, which relates to the investment property sold and previously described. Otherwise, the Company's other income (expense) was similar to the prior year.

PENSION MATTERS

The Company's pension plan (the "Plan") prevents it from obtaining any surplus assets of the Plan during a three-year period immediately following a change in control. The pension trust is managed by independent third-party administrators, under policies and guidelines established by the Employee Benefits Committee of the Board of Directors. It is a policy of the Employee Benefits Committee for the pension trust not to invest directly in Burnham Holdings, Inc., stock. Obligations and actuarial assumptions are presented in Note 10 of the financial statements. While the Company believes its assumptions are conservative in nature based on current knowledge, variables such as future market conditions, investment returns, and employee experience could affect results.

Steps have been taken over the past seven years to protect benefits for retirees and eligible employees. Starting in 2003, the Plan was amended to state that newly hired, non-union employees would no longer be eligible for the benefit. In the ensuing years, the benefit accrual was eliminated for all new hires and active employees with the exception of a closed group of union production employees. While not 100% frozen, these actions have materially reduced the growth of the pension liability in future years.

HISTORIC FACILITIES
MPC™ boilers by
Burnham Commercial

High Efficiency • Energy Savings • Unmatched Capabilities

Finding a boiler capable of efficiently heating Lancaster PA's Central Market was no easy task. Built in 1889, the 20,000-square-foot structure features two-story windows and a cathedral-style roof. While these features are great for allowing in natural light and pulling heat away from ground level in the summer, they can be quite challenging from a heating perspective. A restricted mechanical room with low ceilings and limited chimney options further complicated the retrofit installation.

The Central Market renovation committee looked at a number of alternate boiler types eventually settling on a Burnham Commercial MPC™ high-efficiency cast-iron boiler. Operating at efficiencies up to 89%, the MPC has the highest efficiency available of any US-manufactured cast-iron commercial boiler. Its sectional multi-pass design, integrated thermal-shock protection and low profile allowed it to be brought into the mechanical room in sections and assembled on site. Equipped with Burnham Commercial's exclusive SBC control system, the MPC is able to modulate its firing rate to meet demand as well as adjust its water supply temperature based on outside air temperatures. Full operating and diagnostic information is available via the control's integrated display, simplifying system set-up and maintenance.

The MPC has been a huge success at the Market! In its first year of operation, heating bills were reduced by almost 75%.

The Burnham Commercial MPC™ has been a huge success at the Market. In its first year of operation, heating bills were reduced by almost 75%.

Current pension accounting, adopted in 2006, requires 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 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.

At the end of 2008, as a result of the downturn in the stock market and corresponding impact to the investments of the pension trust, pension trust assets were $94.2 million compared to the 2008 Plan liability of $114.5 million. This $20.3 million shortfall was recorded as a liability on the Company's balance sheet, resulting in a reduction in Stockholders' Equity (net of tax). In 2009, the stock market rebounded to recover a portion of the prior year's loss, which favorably impacted the investments of the pension trust. The pension assets at the end of 2009 increased to $109.1 million compared to the 2009 liability of $126.9 million (increased from the prior year because of plan assumption changes related to the discount rate and government-supplied mortality tables). This $17.8 million shortfall was recorded as a liability on the Company's balance sheet, decreasing the liability recorded in 2008 by $2.5 million. In 2010 and as a result of further favorable improvements in the investments of the pension trust, pension assets increased to $119.0 million. This is compared to the 2010 liability of $137.8 million, which increased from the prior year because of plan assumption changes, primarily related to lowering the discount rate to 5.25% (the lowest rate in modern history) from the 2009 rate of 5.80% (discount rates are set based on matching the Plan's cash flow stream with a portfolio of similar bond maturities). This $18.8 million shortfall (slightly higher than the 2009 shortfall) is recorded as a liability on the Company's balance sheet.

These entries are included in Stockholders' Equity in a subsection called Accumulated Other Comprehensive Income (Loss) ("AOCI") and have no direct bearing on the operation or financial condition of the Company. In addition to the pension, AOCI includes other non-cash items including mark-to-market adjustments for interest rate hedge instruments 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. Pension assets significantly exceeded minimum required levels at the start of 2010 and 2009. The Company made $2.8 million and $4.2 million of voluntary contributions during 2010 and 2009, respectively. The Company believes any minimum required contributions in 2011 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 2010 was $12.4 million, the second highest level in the last seven years. This compares to the $14.4 million provided in 2009, which was the highest level since the mid-1990's. The main reasons for this increased cash flow over the last two years has been a decrease of accounts receivable ($6.2 million alone for 2009, which reflects an increased receipt of funds) and a decrease in inventory levels of $8.6 million over the two years (lower spending). These two positive factors were marginally offset by the $2.8 and $4.2 million (pre-tax) contributions to the Company's pension trust for 2010 and 2009, respectively. While these payments do not impact operating profits, they are deductible for income taxes. The decrease in receivables is in line with the overall revenue stream for the years, and internally measured Days Sales Outstanding ratios remain consistent year-to-year in spite of this difficult economic cycle. Accounts receivable and inventory continue to be in tight control and appropriate for the business level. The cash provided by operations in 2010 and 2009 supported the

STABILITY

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

PLACES OF WORSHIP

Burnham® MPO® boilers by
U.S. Boiler Company, Inc.

High Efficiency • Energy Savings • Unmatched Capabilities

The congregation of St. Anne's Episcopal Church in Middletown, Delaware, has been in existence for quite a long time. Founded in 1705, they have worshipped in three buildings over the years, one of which is still standing and is currently listed on the National Register of Historic Places. Their current church building was completed in 1872 and was heated by a single, inefficient, very old boiler.

A 2010 recipient of a Consumer's Digest Best Buy Award, the Burnham® MPO®-IQ boiler, by U.S. Boiler Company, Inc., operates with industry leading annual efficiencies of 87%.

Seeking to lower their heating costs they consulted with Fletcher Plumbing of Smyrna, Delaware. Owner Brian Fletcher suggested a recently introduced version of US Boiler's Burnham® brand MPO®, the MPO-IQ. A 2010 recipient of a Consumer's Digest Best Buy Award, the MPO-IQ operates with industry leading annual efficiencies of 87%. Its three-pass design and quiet reliable operation have made it an industry favorite since its introduction in 2005. Upgraded for 2011 with US Boiler's unique "IQ" control panel, the MPO is in a class by itself. The IQ "Plug-n-Play" control system allows the installer to economically add highly sophisticated functionality, generally reserved for much more expensive commercial boilers, simply by plugging the desired technology module into the control's expansion slot. Once inserted, the boiler's primary control "learns" what functionality has been added and resets its parameters accordingly. Currently the IQ family of accessories includes a touch screen display for boiler operating information and a number of different ancillary safety controls as well as an outdoor reset module that will reduce system water temperatures based on outdoor air temperature. This is a feature that has been shown to improve system efficiency by 10-25%, depending on the system.

group's ability to fund normal operating expenses while also providing the funds to develop new products, make necessary investments in capital assets, meet principal requirements, and pay dividends to our stockholders.

Excluding the debt related to interest rate swap instruments, financed debt decreased to $12.4 million as a result of principal payments, down from $18.7 million last year, and is the lowest debt level in over 13 years. The debt related to interest rate instruments of $1.8 million (this is the mark-to-market of four interest rate swaps that will reverse themselves over the terms of the agreements) increased slightly from last year's level of $1.6 million.

On March 1, 2007, all of the debt, short-term lines of credit and long-term facilities (other than Industrial Revenue Bonds and State-assisted loans), were refinanced through a consortium of four banks under a new loan agreement (the "Revolver") totaling $72 million and a new letter of credit agreement (the "LOC") totaling $3 million. Since then, these agreements were amended to reduce the number of participating banks to three, while adding additional credit lines of up to $4 million on two separate lines for specific bank services, and to increase the LOC agreement to $3.5 million. In 2010, these agreements were amended to extend the terms of the agreements by a year to August 2012. 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, 2010 and 2009, the Company was in compliance with all covenants as shown below:

Dollars in thousands	December 2010	December 2009	
Funded Debt (1)	$ 9,103	$ 16,242	
Stockholders' Equity on FIFO basis (2)	113,771	109,762	Minimum level: $97,000 for 2010 and $95,900 for 2009
Debt Coverage Ratio (1)	3.33	2.61	Minimum Ratio: 1.35
Funded Debt to EBITDA (1)	0.93	1.59	Maximum Ratio: 5.00

(1) As defined by Revolver and LOC Agreement (EBITDA definition changed for 2010)
(2) Stockholders' Equity excluding AOCI (shown below) plus LIFO inventory reserve (which can be found in "Inventories" Note 2 on page 23)

In addition to the Revolver, which is primarily used to fund working capital needs, the Company and its subsidiaries have used a combination of State-assisted loans and Industrial Revenue Bonds to finance specific equipment and facility expansions in both Pennsylvania and North Carolina. These loans have favorable repayment schedules and interest rates.

Key Liquidity Data and Other Measures:

Dollars in thousands	December 2010	December 2009	December 2008
Cash	$ 3,965	$ 3,827	$ 3,608
Working Capital	40,515	46,163	51,929
Total Debt	14,143	20,275	29,460
Financed Debt (1)	12,382	18,676	27,332
Financed Debt (1) to Capital (2)	11.4%	16.7%	23.2%
Stockholders' Equity	73,940	73,509	71,769
AOCI	(22,171)	(19,394)	(18,847)
Stockholders' Equity (excluding AOCI)	96,111	92,903	90,616
Common Stock Price	$ 15.13	$ 9.68	$ 9.25
Book Value per share as reported	16.52	16.44	16.05
Book Value per share (excluding AOCI)	21.50	20.80	20.28

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

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

Burnham Holdings, Inc., is not a party to any financial derivative transaction or any hedging agreements, except for interest rate swap instruments, which the Company has entered into to hedge its exposure to interest rate fluctuations on a portion of its variable rate debt.

CAPITAL INVESTMENTS

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

GOVERNMENT BUILDINGS

Triple-Flex™ boilers by
Bryan Steam, LLC

High Efficiency • Energy Savings • Unmatched Capabilities

The Federal Building in downtown Fort Collins, Colorado, needed to do something about its overall heating costs. After analyzing its needs, the engineers on the project selected three Bryan Triple Flex™ boilers.

Bryan Steam, LLC, was the originator of the flexible bent tube boiler. It has taken the next step in the evolution of this design with the new Triple Flex. This boiler is the most advanced in its class. Manufactured with all stainless-steel flue side construction, a multi-pass flue configuration, and a combustion air pre-heater, the Triple Flex is unique in all respects. Most condensing boilers sold in North America achieve 90% or better efficiencies only when system water temperatures are below 140° F. Not the Triple Flex. This industry-leading design makes it the only commercial condensing boiler currently sold that guarantees efficiency levels of over 90% with supply water temperatures as high as 180° F. Such high performance allows the Triple Flex to generate real-world savings in typical retrofit applications that require higher system temperatures to achieve the desired level of comfort.

Bryan Steam, LLC's Triple-Flex™ boilers offer unmatched efficiencies and capabilities, providing building owners with long-term reliability and energy savings.

Beyond its unsurpassed energy saving capabilities, the Triple Flex is equipped with a state-of-the-art control system. All boiler functions and parameters can be set using the color touch-screen display and integration with external building management systems is easily accomplished through the on-board communication ports.

Bryan's Triple Flex is an industry first. It has set the new standard for performance, flexibility, and durability. A great product that will provide building owners with long-term reliability and energy savings.

Government
Buildings

acquisition price of $12.7 million. These actions were handled as a 1031 Like Kind Exchange transaction for Federal and State tax matters, which enables the gains to be tax deferred into the future. In addition to these transactions, and as previously announced in last year's Annual Report, on February 22, 2010, a subsidiary of the Company sold the assets of Wendland Manufacturing Corp. in Texas for net proceeds of $871 thousand. The sale was recorded in the 2009 financial statements, while the transfer of cash occurred on the date of sale.

Capital expenditures other than property acquisitions totaled $3.0 million and $2.1 million in 2010 and 2009, respectively, compared to 2010 depreciation expense of $4.3 million. The practice has generally been to re-invest capital at a level that approximates the depreciation expense within the operating statements. The expenditures over the last two years, while reduced, were adequate and allowed us to provide funding for the following major items: continual upgrades and replacements of equipment at Burnham Foundry, LLC (specifically in 2010 and carrying over into 2011 is over $750 thousand being spent to meet new Federal EPA guidelines for air quality emissions); almost $1.7 million for equipment and building modifications related to production optimization and quality-related equipment to ensure the standards of the products; and nearly $600 thousand expended for machinery, tooling, and pattern costs related to new or redesigned products. Capital expenditures for 2011 are budgeted at approximately $4.2 million. This spending includes approximately $2.6 million for new machinery to enhance production effectiveness and quality assurance (the enhancements are being spread across most subsidiaries). The remaining amount is targeted for the continual upgrades and replacements and for capital to support new products.

BOARD ACTIONS

On February 24, 2011, the Company announced a quarterly dividend of $0.17 per share, the 71st consecutive year of paying a dividend. The annual dividend rate for Preferred stock is $3.00 per share.

At the February 2011 meeting, the Board of Directors authorized the repurchase of 60,000 shares of common stock of either class at market prices during 2011. The Board may authorize additional repurchases from time to time. Management also has authority to repurchase preferred stock. The Company purchased 111 preferred shares in 2009. There were no other shares repurchased in either 2010 or 2009.

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, and product performance; and increased competition.

DIVERSIFICATION

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

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 cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Specific estimates are explained below in order to provide the basis for relevant expenses and reserves.

Medical Health Coverage: The Company and its subsidiaries are self-insured for most of the medical health insurance provided for its employees, limiting their maximum exposure to $175,000 per occurrence by purchasing third-party stop loss coverage. The Company retains various third-party providers to support the effort required in the administration of its health coverage. The costs of these various plans and administrative charges are expensed monthly.

Retiree Health Benefits: For a number of years prior to 2006, the Company provided certain medical benefits to a closed group of Medicare-eligible retirees. Starting in 2006, the Company will pay a fixed annual amount that will assist this group in purchasing medical and/or prescription drug coverage from providers. Coverage will be provided through insured plans, thus capping the Company's cost in future years. 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-2011, the Company's retained liability is for the first $100,000 per occurrence of product liability and environmental claims, a total exposure of $750,000 per occurrence for workers' compensation in Ohio and Pennsylvania (fully insured for workers' compensation in all other states), and for the first $50,000 per occurrence of property claims. All policies and corresponding deductible levels are reviewed on an annual basis. Third-party administrators, approved by the Company and the insurance carriers, handle claims and attempt to resolve them to the benefit of both the Company and its insurance carriers. The Company reviews claims periodically in conjunction with the administrators and adjusts recorded reserves as required. At this time, reserves for product, general, workers' compensation, and property liabilities are reasonable based on the information currently available.

Warranty Litigation, Class Action: Two of the Company's subsidiaries were served in 2010 with a class action lawsuit relating generally to boiler products manufactured and sold by a predecessor to one of the Company's subsidiaries more than ten years ago. Substantial warranty reserves for that predecessor were discussed in the 2000, 2001, and 2002 Annual Reports. During the ensuing years those reserves and additional funds have been used to honor warranties. Generally, class action lawsuits are complex and take many months or years to resolve. The Company intends to vigorously defend the lawsuit, and while we believe there are viable defenses to Plantiffs' claims, the ultimate resolution of this matter, as with any litigation, entails significant risks and uncertainties. Accordingly, there can be no assurance that the ultimate cost of resolving this matter will not be material.

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

Litigation Expense, Settlements, and Defense: The cost of settlements in 2010 and 2009, for all uninsured litigation of every kind was $815,000 and $444,000, respectively. The 2009 amount included some unusual matters, the largest of which is a self-insured asbestos claim. The 2010 amount includes two self-insured asbestos claims (while it is rare for an asbestos suit not to be covered by insurance, a few such claims exist, depending on the alleged time period of asbestos exposure). Expenses for legal counsel, consultants, etc., in defending these various actions and claims have historically not been material to current year earnings. Such expenses in 2010 were $2,201,000.

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

Environmental Matters: The operations of the Company's subsidiaries are subject to a variety of federal, state, and local environmental laws. Among other things, these laws require the Company's subsidiaries to obtain and comply with the terms of a number of federal, state and local environmental regulations and permits, including permits governing air emissions, wastewater discharges, and waste disposal. The Company's subsidiaries periodically need and 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. Currently Burnham Foundry, LLC, the Company's subsidiary located in Zanesville, Ohio, is in the process of meeting strict, new Federal EPA guidelines for air emissions that are required to demonstrate compliance in mid-2011. Subject to the successful demonstration of compliance noted in the previous sentence, the Company believes its subsidiaries are in material compliance with all environmental laws and permits.

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for response actions at disposal areas containing waste materials from their operations. In the past five years, the Company has received only one notice that it or its subsidiaries might be responsible for remedial clean-up actions under government supervision. 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.

REPORTS OF MANAGEMENT AND INDEPENDENT AUDITORS

MANAGEMENT'S REPORT

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

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

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

The Audit Committee of the Board of Directors meets regularly with management, the independent auditors and the internal audit manager 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.

Albert Morrison, III
Chairman, President and CEO

Douglas B. Springer
Vice President and CFO

REPORT OF INDEPENDENT AUDITORS

We have audited the accompanying consolidated balance sheets of Burnham Holdings, Inc. (the "Company") and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

ParenteBeard LLC
Lancaster, Pennsylvania
March 2, 2011

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31 (In thousands, except per share data)	
	2010	2009
Net sales	**$189,707**	$183,678
Cost of goods sold	**146,894**	140,738
Gross profit	**42,813**	42,940
Selling, administrative and general expenses	**36,337**	33,555
Operating income	**6,476**	9,385
Other income (expense):		
Gain on sale of property (Note 4)	**4,685**	—
Mark-to-market	**199**	369
Interest and investment income	**188**	212
Interest expense	**(1,815)**	(1,620)
Other income (expense)	**3,257**	(1,039)
Income before income taxes	**9,733**	8,346
Income tax expense	**3,524**	3,007
NET INCOME	**$ 6,209**	$ 5,339
BASIC EARNINGS PER SHARE	**$ 1.39**	$ 1.20
DILUTED EARNINGS PER SHARE	**$ 1.39**	$ 1.20

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

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31 (In thousands) 2010	2009
CURRENT ASSETS		
Cash and cash equivalents	**$ 3,965**	$ 3,827
Trade accounts receivable, less allowances (2010 – $489 and 2009 – $486)	**23,666**	23,767
Inventories:		
Materials, in process and supplies	**29,541**	29,523
Finished goods	**7,052**	9,374
Total inventory	**36,593**	38,897
Prepaid expenses and other current assets	**850**	1,309
Current portion of deferred income taxes	**2,866**	1,764
TOTAL CURRENT ASSETS	**67,940**	69,564
PROPERTY, PLANT AND EQUIPMENT, net	**50,001**	45,720
DEFERRED INCOME TAXES	**—**	777
OTHER ASSETS, net	**22,156**	22,373
TOTAL ASSETS	**$140,097**	$138,434

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 25,140**	$ 21,426
Income taxes payable	**1,924**	1,632
Current portion of other postretirement liabilities	**234**	196
Current portion of long-term debt	**127**	147
TOTAL CURRENT LIABILITIES	**27,425**	23,401
LONG-TERM DEBT	**14,016**	20,128
OTHER POSTRETIREMENT LIABILITIES	**22,892**	21,396
DEFERRED INCOME TAXES	**1,824**	—
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
Preferred Stock	**530**	530
Class A Common Stock	**3,323**	3,283
Class B Convertible Common Stock	**1,591**	1,627
Additional paid-in capital	**14,350**	14,308
Retained earnings	**94,275**	91,113
Accumulated other comprehensive income (loss)	**(22,171)**	(19,394)
Treasury stock, at cost	**(17,958)**	(17,958)
TOTAL STOCKHOLDERS' EQUITY	**73,940**	73,509
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$140,097**	$138,434

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

Years Ended December 31, 2010 and 2009
(In thousands, except per share data)

	Preferred Stock	Class A Common Stock	Class B Convertible Common Stock	Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Stockholders' Equity
Balance at January 1, 2009	**$530**	**$3,258**	**$1,652**	**$14,308**	**$88,820**		**$(18,847)**	**$(17,952)**	**$71,769**
Cost of 111 shares of preferred stock acquired for treasury	–	–	–	–	–		–	(6)	(6)
Conversion of common stock	–	25	(25)	–	–		–	–	–
Cash dividends declared:									
Preferred stock – 6%	–	–	–	–	(18)		–	–	(18)
Common stock – ($0.68 per share)	–	–	–	–	(3,028)		–	–	(3,028)
Components of comprehensive income (loss):									
Net income for the year	–	–	–	–	5,339	$ 5,339	–	–	–
Change in fair value of derivative, net of $238 of tax	–	–	–	–	–	423	423	–	–
Pension liability adjustment, net of $562 of tax	–	–	–	–	–	(1,000)	(1,000)	–	–
Post-Retirement medical liability adjustment, net of $17 of tax	–	–	–	–	–	30	30	–	–
Total comprehensive income (loss)						$ 4,792			4,792
Balance at December 31, 2009	**$530**	**$3,283**	**$1,627**	**$14,308**	**$91,113**		**$(19,394)**	**$(17,958)**	**$73,509**
Exercise of stock options:									
3,749 shares of common stock	–	4	–	42	–		–	–	46
Conversion of common stock	–	36	(36)	–	–		–	–	–
Cash dividends declared:									
Preferred stock – 6%	–	–	–	–	(18)		–	–	(18)
Common stock – ($0.68 per share)	–	–	–	–	(3,029)		–	–	(3,029)
Components of comprehensive income (loss):									
Net income for the year	–	–	–	–	6,209	$ 6,209	–	–	–
Change in fair value of derivative, net of $304 of tax	–	–	–	–	–	(541)	(541)	–	–
Pension liability adjustment, net of $1,227 of tax	–	–	–	–	–	(2,181)	(2,181)	–	–
Post-Retirement medical liability adjustment, net of $31 of tax	–	–	–	–	–	(55)	(55)	–	–
Total comprehensive income (loss)						$ 3,432			3,432
Balance at December 31, 2010	**$530**	**$3,323**	**$1,591**	**$14,350**	**$94,275**		**$(22,171)**	**$(17,958)**	**$73,940**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 (In thousands) 2010	2009
OPERATING ACTIVITIES		
Net income	**$ 6,209**	$ 5,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of property	**(4,685)**	—
Depreciation and amortization	**4,389**	4,673
Deferred income taxes	**3,051**	2,439
Pension expense	**373**	91
Postretirement liabilities	**142**	64
Reserves and other allowances	**1,260**	(2,296)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**98**	6,217
Decrease in inventories	**1,813**	6,798
Decrease (increase) in prepaid expenses and other current assets	**459**	(185)
Contributions to pension trust	**(2,800)**	(4,200)
Increase (decrease) in accounts payable and accrued expenses	**1,787**	(3,180)
Increase (decrease) in income taxes payable	**292**	(1,400)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**12,388**	14,360
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(15,666)**	(2,056)
Purchase of other assets	**(8)**	(8)
Proceeds from sale of assets and property, net	**12,718**	—
NET CASH USED IN INVESTING ACTIVITIES	**(2,956)**	(2,064)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	**46**	—
Principal payments on long-term debt and capital lease obligations	**(6,293)**	(9,025)
Purchase of Treasury stock	**—**	(6)
Dividends paid	**(3,047)**	(3,046)
NET CASH USED IN FINANCING ACTIVITIES	**(9,294)**	(12,077)
INCREASE IN CASH AND CASH EQUIVALENTS	**138**	219
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,827**	3,608
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 3,965**	$ 3,827

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

dollars in thousands except per share data

1. NATURE OF OPERATIONS

Burnham Holdings, Inc., the parent company of fourteen subsidiaries that are leading domestic manufacturers of boilers, and related HVAC products and accessories (including furnaces, radiators, and air conditioning systems), for residential, commercial and industrial applications. As defined by financial accounting standards related to the disclosures about segments of an enterprise, the Company services the Heating, Ventilating, and Air Conditioning ("HVAC") market segment. The majority of the Company's revenue is derived from sales in the United States with a concentration of these domestic sales located in the northeast quadrant of the nation. Sales of residential products amounted to approximately 70% of the total year 2010 revenues. The majority of the sales are to wholesale distributors who, in turn, market to builders, heating contractors, utilities, and fuel dealers for resale to end-use customers. Commercial products are sold primarily through independent sales representatives directly to contractors or end users. The Company's subsidiaries also market many of their products internationally, working in conjunction with selected independent sales representatives worldwide. International sales, which include Canada and Mexico, for the year 2010, amounted to 3.3% of reported net revenues. Sales to the ten largest customers amounted to $60,100 and $50,300 in 2010 and 2009, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Advertising: Costs are expensed as incurred.

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

Allowance for doubtful accounts	2010	2009
Balance at January 1	$ 486	$ 305
Net accruals for accounts	242	214
Credit losses	(239)	(33)
Balance at December 31	$ 489	$ 486

Shipping and Handling Costs: The subsidiaries charge certain customers' shipping and handling fees. These revenues are recorded in Net Sales. The costs associated with receiving material and shipping goods to customers are recorded as cost of goods sold. For the years ended December 31, 2010 and 2009, these gross receiving and shipping costs were $7,710 and $7,612, 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 ($3,303 and $2,736 at December 31, 2010 and 2009, respectively); however, the Company has not experienced any losses.

A portion of the Company's cash may be restricted from time to time because of insurance regulatory requirements. For the years ended December 31, 2010 and 2009, this was not material to the Company's liquidity.

The Company utilizes various zero-balancing bank accounts with certain financial institutions to manage its cash disbursements. From time to time, checks disbursed from these accounts result in a negative cash balance or book overdraft positions until funds are transferred into the accounts as checks are subsequently presented for payment. The Company includes these negative balances as a component of accounts payable. Book overdrafts of $686 and $1,393 were included in accounts payable as of December 31, 2010 and 2009, respectively.

Marketable Securities: At December 31, 2010 and 2009, the Company did not have any marketable securities.

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

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

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

The following table presents interest rate swaps assets and liabilities carried at fair value as measured on a recurring basis as of December 31, 2010 and 2009:

	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2010				
Receivable	$ 16	—	$ 16	—
Payable	1,761	—	1,761	—
December 31, 2009				
Receivable	$ 500	—	$ 500	—
Payable	1,599	—	1,599	—

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

The estimated fair values of accounts receivable and accounts payable approximates their carrying values at December 31, 2010 and 2009, 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. 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 80% of the inventories are valued using the last-in, first-out method. If the subsidiaries had used the first-in, first-out method of inventory accounting, inventories would have been $17,660 and $16,859 higher than reported at December 31, 2010 and 2009, respectively.

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

During 2010 and 2009, inventory quantities were reduced either in total or at specific facilities. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2010 and 2009 purchases, the effect of which decreased cost of goods sold by approximately $342 and $1,162 at December 31, 2010 and 2009, respectively. These changes increased profits in 2010 by approximately $222 or $0.05 per share and in 2009 by approximately $743 or $0.17 per share.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets whenever events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, the Company reviews long-lived assets to assess recoverability from future operations. Impairments are recognized in earnings to the extent that the carrying value exceeds fair value. There was no such impairment as of December 31, 2010 or 2009, respectively.

Depreciation: Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of plant and equipment is computed principally using the straight-line method (certain machinery and equipment are being depreciated using the units of production method) at rates adequate to depreciate the cost of applicable assets over their expected useful lives. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon is removed from the accounts, with any gain or loss realized upon sale or disposal charged or credited to operations. Depreciation expense for 2010 and 2009 was $4,317 and $4,538, respectively.

Other Assets: Other assets primarily include goodwill and other intangibles. Goodwill of $15,783 and other indefinite-lived intangible assets of $3,640 are reviewed annually for impairment in accordance with financial accounting standards specific to Goodwill and Other Intangible Assets. The Company has determined that no impairment exists as of and for the years ended December 31, 2010 and 2009. Other intangible assets (primarily customer lists, non-compete agreements, and patents and trademarks) within this line item amount to $228 and $291 in 2010 and 2009, respectively, net of accumulated amortization of $3,451 and $3,379 in 2010 and 2009, respectively, and are being amortized over 3 to 20 years using the straight-line method. Amortization expense was $72 and $135 for the years ending 2010 and 2009, respectively. Future amortization expense is expected to be: $56 - 2011, $40 - 2012, $24 - 2013, $14 - 2014, $14 - 2015, and $80 - 2016 and thereafter.

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

Company Loans: Loans from the Company to any employee or director are prohibited as a matter of policy and by the Company's charter, unless approved by shareholders who are not directors. There are no loans outstanding as of December 31, 2010 and 2009.

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, 2010 and 2009, basic and diluted earnings per share are computed as follows:

For the Year Ended 2010	Net Income	Weighted Average Shares*
Income	$ 6,209	
Less preferred stock dividends	(18)	
Income available to common stockholders	$ 6,191	4,454
Basic Earnings Per Share	$ 1.39	
Dilutive options		7
Diluted Earnings Per Share	$ 1.39	4,461

For the Year Ended 2009	Net Income	Weighted Average Shares*
Income	$ 5,339	
Less preferred stock dividends	(18)	
Income available to common stockholders	$ 5,321	4,452
Basic and Diluted Earnings Per Share	$ 1.20	

*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 2010, 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 2010, 303,491 options were excluded from the dilutive earnings per share calculation because of being antidilutive.

dollars in thousands except per share data

During 2009 there were no dilutive securities, as the exercise price of all outstanding options was greater than the market value of the Company's common stock.

Accumulated Other Comprehensive Income (Loss): This is a subsection of Stockholder's Equity that includes changes in fair value of interest rate swap instruments and changes in post-retirement benefit obligations. These changes have no direct bearing on the operation or financial condition of the Company. As of December 31, 2010, the account consisted of $19,653 related to pension liabilities, $1,662 related to post-retirement medical liabilities, and $856 related to interest rate swap instruments. As of December 31, 2009, the account consisted of $17,471 related to pension liabilities, $1,607 related to post-retirement medical liabilities, and $316 related to interest rate swap instruments.

3. CERTAIN SIGNIFICANT ACCRUALS AND RESERVES

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

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

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

	2010	2009
Balance at January 1	$1,687	$2,118
Accruals related to warranties	898	398
Settlements made (in cash or in kind)	(665)	(829)
Balance at December 31	$1,920	$1,687

4. SALE OF PROPERTY

On September 28 and December 13, 2010, subsidiaries of Burnham Holdings sold investment properties located in Lancaster, PA. These properties had been used by the subsidiaries as manufacturing and distribution locations prior to the residential expansion project, which occurred in 2005. Since 2005, the major portion of the properties had been leased to various third party entities (less than 30% of one of the buildings is still being leased by a subsidiary) and has generated a positive cash flow for the subsidiaries over these years. The total sales price of these properties was $11.8 million. The book value of these properties plus expenses of sale was $6.3 million, resulting in total book gains of $5.5 million. A portion of this gain, $788 thousand, will be recognized over the next five years as required by accounting guidance related to sale/leaseback rules. These gains have been tax deferred as a 1031 Like Kind Exchange transaction for Federal and State tax matters because the proceeds were used in the purchase of property as discussed in Note 5 below.

On February 22, 2010, a subsidiary of the Company sold the assets of Wendland Manufacturing Corp. in Texas. The sale to an independent third party, at slightly less than book value, was recorded in the 2009 financial statements as part of selling, general, and administrative expense. Wendland's book value and revenue were not material to the Company in 2010 or 2009.

5. PROPERTY, PLANT AND EQUIPMENT

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

Year Ended December 31	2010	2009
Land and land improvements	$ 5,644	$ 4,543
Buildings and improvements	32,488	33,588
Machinery and equipment	89,875	89,310
Total property, plant and equipment	128,007	127,441
Accumulated depreciation	(78,006)	(81,721)
Net property, plant and equipment	$ 50,001	$ 45,720

On December 23, 2010, subsidiaries of Burnham Holdings purchased properties located in Lancaster, PA, which were previously leased as part of the 2005 residential expansion project, for a net acquisition cost of $12.7 million. These properties were purchased mostly through the use of the proceeds related to the properties sold discussed previously in Note 4.

At December 31, 2009, the leased mobile equipment under capital leases that was included in net property, plant and equipment totaled $30. There was no equipment under capital lease in 2010.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases as of December 31, 2010, are: $1,322 – 2011; $889 – 2012; $625 – 2013; $431 – 2014; and $254 – 2015.

At December 31, 2010 and 2009, rental expense for property (principally warehouse space) that was included in operating expenses totaled $2,161 and $2,286, respectively. A subsidiary has entered into a long-term lease with a former owner (and current employee). Lease expense of $322 and $310 are included in operating expenses for 2010, and 2009, respectively.

6. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

Year Ended December 31	2010	2009
North Carolina Industrial Revenue Bond due November 9, 2019	$ 4,000	$ 4,000
Pennsylvania Industrial Revenue Bond due December 30, 2016	1,000	1,000
North Carolina Industrial Revenue Bond due November 9, 2016	264	264
Pennsylvania Machinery and Equipment Loan due through August 1, 2013	118	161
Pennsylvania Machinery and Equipment Loan	—	221
Revolving line of credit due on August 1, 2012	7,000	13,000
Fair value of swaps	1,761	1,599
Capital lease obligations and other	—	30
Total long-term debt	14,143	20,275
Less current portion	127	147
Long-term debt	$14,016	$20,128

Long-term borrowings: On March 1, 2007, all of the debt, short-term lines of credit and long-term facilities (other than Industrial Revenue Bonds and State-assisted loans), were refinanced through a consortium of four banks under a loan agreement (the "Revolver") totaling $72 million and a new letter of credit agreement (the "LOC") totaling $3 million (increased to $3.5 million in June 2008). In June 2008 an additional credit line was added of up to $2 million for specific bank services and in May 2010 a second additional credit line was added for up to $2 million for specific bank services. Under these agreements, the Revolver and the LOC were due in full on May 1, 2010, except that yearly extensions of this date are to be considered on the anniversary date of the agreements. In May of 2010, both of these agreements were extended with three of the original four banks until August 1, 2012. 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, 2010, be at least $97,000 using the first-in, first-out ("FIFO") method of inventory valuation and excluding non-cash adjustments to Other Comprehensive Income (Loss). Stockholders' Equity on December 31, 2010, was $113,771 on this basis ($73,940 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, 2010 and 2009, the Company was in compliance with all covenants. Interest rates as of December 31, 2010 and 2009 were 2.51% and 1.98%, 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 these agreements is due monthly.

On July 31, 2006, a $300 Machinery and Equipment Loan with the State of Pennsylvania was signed to assist in financing equipment purchases in Lancaster, Pennsylvania. The loan has scheduled monthly payments of principal and interest and has a seven-year maturity. The rate on the loan is fixed at 2.75%. The loan is collateralized by a lien on certain identified pieces of machinery and equipment.

On November 15, 2005, a $500 Machinery and Equipment Loan with the State of Pennsylvania was signed to assist in financing its expansion in Lancaster, Pennsylvania. This loan was repaid in its entirety in August 2010.

On November 9, 2004, two Industrial Revenue Bonds, a $4 million fixed rate bond and a $264 thousand variable rate bond, were signed with a lending institution to finance the acquisition and subsequent renovations and equipment purchases at the Norwood, North Carolina, location. The fixed rate bond has a 15-year maturity with the principal due at maturity in 2019. The interest rate on this tax-exempt bond is fixed at 4.80% and is payable quarterly. The variable rate bond has a 12-year maturity with the principal due at maturity in 2016. The rate on the tax-exempt variable bond is a floating interest rate equal to LIBOR plus a margin based on a LIBOR rate schedule (0.80% and 0.76% at year-end December 31, 2010 and 2009, respectively) and is payable quarterly. The bonds are collateralized by a lien on the building and equipment purchased and cross-collateralized with the Pennsylvania Industrial Revenue Bond.

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

Maturities of long-term debt are: $127 – 2011; $7,045 – 2012; $1,144 – 2013; $322 – 2014; $0 – 2015; and $5,505 – 2016 and thereafter.

Total interest incurred in 2010 and 2009 was $1,815 and $1,620, respectively. Interest paid during 2010 and 2009 was $1,795 and $1,604, 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, two interest rate swap agreements were entered into to hedge exposure to interest rate fluctuations on $15 million of its outstanding long-term debt. The notional amounts of the swaps are $10,000 and $5,000, respectively. Under these agreements, interest at a fixed rate of 4.11% and 3.52%, respectively, will be paid to the counterparty on the notional amount of the swaps. The counterparty will pay interest at a variable rate equal to the 30-day LIBOR rate. The obligation under the swaps has been collateralized as part of the Revolver discussed above under Long-term borrowings. The swaps are accounted for as cash flow hedges. Accordingly, the change in the fair value of the swaps has been included in other comprehensive income, a separate component of stockholders' equity. There was no expense incurred related to these swap agreements in 2010 or 2009.

On July 27, 2007, with an effective beginning date of January 7, 2008, an interest rate swap agreement was entered into to hedge exposure to interest rate fluctuations on $15 million of its outstanding long-term debt. The notional amount of this swap ($8,600 and $5,560 at December 31, 2010 and 2009, respectively) is equal to $15 million less the notional amount of the two original swap agreements mentioned below. Under this agreement, the counterparty will be paid interest at a fixed rate of 5.46% on the notional amount of the swap. The counterparty will pay interest at a variable rate equal to the 30-day LIBOR rate (0.27% and 0.24% at December 31, 2010 and 2009, respectively). Under the terms of this agreement, the notional amount of the swap increases equal to the decreases in the original swaps. The obligation under the swap has been collateralized as part of the Revolver discussed above under Long-term borrowings. The swap is accounted for as a cash flow hedge. Accordingly, the change in the fair value of the swap has been included in other comprehensive income, a separate component of stockholders' equity. Additional expense incurred related to the swap agreement in 2010 and 2009 was $389 and $226, respectively.

dollars in thousands except per share data

On March 5, 2004, an interest rate swap agreement was entered into to hedge exposure to interest rate fluctuations on a $6,400 term line of credit. Under this agreement, the counterparty will be paid interest at a fixed rate of 5.88% on the notional amount of the swap. The counterparty will pay interest at a variable rate equal to the 90-day LIBOR rate (0.30% and 0.26% at December 31, 2010 and 2009, respectively). On March 28, 2002, an interest rate swap agreement was entered into to hedge exposure to interest rate fluctuations on a $21,500 term line of credit. Under this agreement, the counterparty will be paid interest at a fixed rate of 5.20% on the notional amount of the swap. The counterparty will pay interest at a variable rate equal to the 90-day LIBOR rate (0.30% and 0.28% at December 31, 2010 and 2009, respectively). Under the terms of these agreements, the notional amount of the swaps decreases quarterly ($6,400 and $9,440 at December 31, 2010 and 2009, respectively). The obligation under the swaps has been collateralized as part of the Revolver discussed above under Long-term borrowings. The 2010 and 2009 fair value was reflected in the balance sheet as a liability. The 2010 and 2009 statements of operations reflect the change in fair value as mark-to-market interest income. Interest income and expense related to the swaps is accrued as interest rates fluctuate, and is recognized in the statement of operations as the interest rate changes occur. Additional expense incurred related to the swap agreements in 2010 and 2009 was $394 and $479, respectively. Additional income recognized related to the change in fair value of the swap arrangement in 2010 and 2009 was $199 and $369, respectively.

The following table presents the interest rate swap agreements:

	Notional Amount	Fair Value Asset (Liability)	Fair Value Change	Income (Expense) Impact to Other Comprehensive Income
December 31, 2010				
1)	$10,000	$ (240)	$ (490)	$ (314)
2)	5,000	16	(234)	(150)
1)	8,600	(1,113)	(120)	(77)
3)	6,400	(408)	199	—
December 31, 2009				
2)	$10,000	$ 250	$ —	$ 160
2)	5,000	250	—	160
1)	5,560	(993)	(160)	103
1)	9,440	(606)	369	—

1) Reflected within long-term debt on the balance sheet
2) Reflected within other assets, net on the balance sheet
3) $86 is reflected in current portion of long-term debt and $322 is reflected within long-term debt on the balance sheet

7. INCOME TAXES

The provision for income taxes consists of:

Year Ended December 31	2010	2009
Current:		
Federal	$ 342	$ 102
State	131	466
Total current	473	568
Deferred:		
Federal	2,803	2,236
State	248	203
Total deferred	3,051	2,439
Total income tax expense	$3,524	$3,007
Income taxes paid	$ 218	$1,149

The Company's effective income tax rates for 2010 and 2009 are higher than the Federal statutory rate because of state income taxes, offset partially by research and development credits, domestic manufacturing deductions, and contribution deductions.

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

Year Ended December 31	2010	2009
Current deferred taxes:		
Gross assets	$ 3,959	$ 3,021
Gross liabilities	(1,093)	(1,257)
Net current deferred tax assets	2,866	1,764
Non-current deferred taxes:		
Gross assets	7,823	9,006
Gross liabilities	(9,647)	(8,229)
Net non-current deferred tax (liability) asset	(1,824)	777
Net deferred tax asset	$ 1,042	$ 2,541

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

Year Ended December 31	2010	2009
Depreciation	$(9,479)	$(7,297)
Vacation	830	864
Employee benefits	1,190	1,635
Workers' compensation	296	343
Pension	5,855	6,387
Inventory	(419)	(633)
Warranty	781	651
Fair value of swap	628	404
Other	1,360	187
Net deferred tax asset	$ 1,042	$ 2,541

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

Unrecognized tax benefits	2010	2009
Balance at January 1	$ 537	$ 450
Gross increases for current year tax positions	—	472
Gross decreases for current year settlements and adjustment of tax positions	(147)	(385)
Lapse of statute of limitations	—	—
Balance at December 31	$ 390	$ 537

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2010 and 2009, we have approximately $267 and $115 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 $390 and $537 as of December 31, 2010 and 2009, respectively. The tax years 2007 to 2010 remain open to examination by major taxing jurisdictions to which we are subject.

8. STOCKHOLDERS' EQUITY

The Company's Preferred Stock is 6% cumulative, voting, par value $50 a share; is redeemable at $52.50 a share; and is carried at its stated liquidation preference of $50 a share. There are 10,600 shares authorized and issued, including 4,573 shares in Treasury Stock at December 31, 2010 and 2009.

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

Common Stock outstanding was as follows:

Year Ended December 31	2010	2009
Class A stock issued	3,323,151	3,282,594
Treasury shares	(458,102)	(458,102)
Class A stock outstanding	2,865,049	2,824,492
Class B stock outstanding	1,590,589	1,627,397
Total stock outstanding	4,455,638	4,451,889

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

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

9. STOCK COMPENSATION PLAN

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

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

Compensation (expense) income related to the Company's share-based awards recorded for the years ended December 31, 2010 and 2009 were $(262) and $104, respectively.

The significant weighted average assumptions were as follows:

Year Ended December 31	2010	2009
Dividend yield	4.5%	4.5%
Volatility rate	20.0%	20.0%
Risk-free interest rate	4.6%	5.1%
Expected option life (years)	7.0	10.0

Transactions for 2010 and 2009 are as follows:

	2010		2009	
Options	Weighted Average Exercise Shares	Exercise Price	Weighted Average Exercise Shares	Exercise Price
Outstanding January 1	411,247	$18.07	395,188	$19.97
Granted	67,800	14.72	68,100	8.20
Exercised	(8,560)	8.20	—	—
Lapsed	(24,925)	19.81	(52,041)	19.65
Outstanding December 31	445,562	$17.65	411,247	$18.07
Exercisable December 31	310,634	$19.90	277,047	$21.30
Available for grant at December 31	296,897		339,772	

Plan options outstanding and options exercisable at December 31, 2010, have exercise prices between $27.78 and $8.20. The weighted-average remaining contractual life of options outstanding was 6.12 years and options exercisable was 5.00 years.

dollars in thousands except per share data

10. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFIT ARRANGEMENTS

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

Company subsidiaries also contribute to two separate union-sponsored defined benefit pension plans that cover all Bryan Steam, LLC and Lancaster Metal Manufacturing, Inc. bargaining unit employees. Contributions to these union-sponsored pension plans totaled $551 and $437 for 2010 and 2009, respectively. These plans are not administered by the subsidiaries and the provisions of the negotiated labor agreement determine contributions.

Normal retirement age is 65, but provision is made for earlier retirement. Benefits for salaried employees are based on salary and years of service, while hourly employee benefits are based on average monthly compensation and years of service with negotiated minimum benefits. The Company's funding policy is to make minimum annual contributions required by applicable regulations or to voluntarily make contributions based on the market fluctuations, impact on the plan assets, and on financial discount rates. Based on the funded position of the Plan at November 30, 2009, the Company did not have a minimum contribution required for 2010. However, in 2010, the Company made a pre-tax contribution of $2.8 million into the Plan. In 2009, the Company made non-required pre-tax contributions of $4.2 million. Minimum contributions for 2011 are undeterminable at this time, but will be based on actuarial certifications to be received by August 2011 that are governed by the Pension Protection Act of 2006 ("PPA"). The Company believes minimum required contributions, if any, will not be material.

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, $176 and $209 in 2010 and 2009, respectively, has been recognized in the Company's earnings as part of interest and investment income in accordance with financial accounting standards. The assets of the Company (within Other Assets) and the liability to employees (within Other PostRetirement Liabilities) under the plan were $2,122 and $1,796 at December 31, 2010 and 2009, respectively. Adjustments to this liability caused by changes in the value of the marketable securities, gains of $176 and $209 in 2010 and 2009, respectively, are recognized in accordance with financial accounting standards, and are classified within selling, administrative, and general expenses.

For a number of years prior to 2006, the Company provided certain medical benefits to a closed group of Medicare-eligible retirees. Starting in 2006, the Company pays a fixed annual amount that will assist this group in purchasing medical and/or prescription drug coverage from providers. Coverage will be provided through insured plans thus capping the Company's cost and exposure in future years. On December 31, 2006, the Company adopted the recognition and disclosure provisions of financial standards related to employers' accounting for Defined Benefit Pension and Other Postretirement Plans. Current standards require employers to recognize the funded status (i.e., the difference between the fair value of plan assets and benefit obligations) of all defined benefit postretirement plans in the statement of financial position, with corresponding adjustments to accumulated other comprehensive income (loss) ("AOCI"), net of tax, and intangible assets. For a pension plan, the pension liability is the projected benefit obligation; for any other postretirement plan, the liability is the accumulated postretirement benefit obligation.

At December 31, 2010 pension trust assets were $119,022 and the pension liability was $137,786, with the shortfall of $18,764 being recorded as a liability on the balance sheet. The pension liability increased in 2010 from the prior year because of assumption changes related to the discount rate (rate was lowered to 5.25%, the lowest rate in modern history). Included in AOCI at December 31, 2010, are the following before-tax amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial loss of $30,122 and $2,196 for the Plan and postretirement medical benefits, respectively, and unrecognized prior service costs of $586 and $401 for the Plan and postretirement medical benefits, respectively.

At December 31, 2009 pension trust assets were $109,099 and the pension liability was $126,882, with the shortfall of $17,783 being recorded as a liability on the balance sheet. The pension liability increased in 2009 from the prior year because of assumption changes related to the discount rate and government-supplied mortality tables. Included in AOCI at December 31, 2009, are the following before-tax amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial losses of $26,477 and $2,042 for the Plan and postretirement medical benefits, respectively, and unrecognized prior service costs of $822 and $469 for the Plan and postretirement medical benefits, respectively.

The following financial disclosures present the aggregate defined benefit plans and other postretirement medical benefits for qualified employees of the plans for the years ending December 31, 2010 and 2009:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Projected benefit obligation	$(137,786)	$(126,882)	$(2,240)	$(2,013)
Fair value of plan assets	119,022	109,099	—	—
Funded status	$ (18,764)	$ (17,783)	$(2,240)	$(2,013)
Benefit liability recognized in the consolidated balance sheet at December 31	$ (18,764)	$ (17,783)	$(2,240)	$(2,013)
Accumulated benefit obligation	$ 136,127	$ 125,500		

The pension trust is managed by independent third-party administrators, under policies and guidelines established by the Employee Benefits Committee of the Burnham Holdings, Inc., Board of Directors. It is a policy of the Employee Benefits Committee for the pension trust not to invest directly in the Company's stock. While highly unlikely, it is possible that a "mutual fund" investment of the pension trust could invest in the Company's stock in a limited way. To the best of the Company's knowledge, there is no Burnham stock in the pension trust at December 31, 2010 and 2009. 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 (43% bonds at 85% funded to 58% bonds at 100% funded). At December 31, 2010, the asset allocation was approximately 47% equity, 48% fixed income, and 5% alternative investments. The asset allocation strategy, as approved by the Employee Benefits Committee, is that the assets of the trust fund are to be allocated based upon an analysis of the funding adequacy, cash flow requirements, maturity level, and participant growth rate of the Plan. The investment alternatives available in each of the capital markets are to be analyzed based on the risk tolerance indicated by the Plan's unique characteristics.

The following table presents pension plan assets carried at fair value (as discussed in Note 1 - Fair Value Measurements ("FVM")) as measured on a recurring basis as of December 31, 2010 and 2009:

	Carrying Value	Level 1	Level 2	Level 3
December 31, 2010				
Mutual Funds:				
Fixed income	$25,992	$25,992	$ —	$ —
Domestic stock	17,433	17,433	—	—
Common Collective Trust Funds:				
U.S. equity	20,681	—	20,681	—
Interest rate management	30,001	—	30,001	—
Other	24,915	9,319	9,520	6,076
December 31, 2009				
Mutual Funds:				
Fixed income	$20,962	$20,962	$ —	$ —
Domestic stock	17,483	17,483	—	—
Common Collective Trust Funds:				
U.S. equity	19,364	—	19,364	—
Interest rate management	24,789	—	24,789	—
Other	26,501	9,125	9,571	7,805

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. The reduction in alternative investments from 2009 to 2010 is primarily the result of a $1,887 redemption. Other changes are caused by realized and unrealized gains and losses related to instruments still held at the reporting date.

In 2010 and 2009 there were no Plan amendments. Weighted-average assumptions used to determine benefit obligations as of December 31 were:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Discount rates	5.25%	5.80%	5.25%	5.80%

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

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Discount rates	5.80%	6.30%	5.80%	6.30%
Expected return on assets	8.50%	8.50%	—	—

The rate of compensation increase used to determine the pension benefit obligations and benefit cost was 2.5% for both 2010 and 2009.

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	
	2010	2009	2010	2009
Benefit cost	$ 373	$ 91	$ 450	$ 386
Employer contributions	2,800	4,200	308	322
Participant contributions	—	—	128	143
Benefits paid	6,481	6,247	436	465

The following pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid: $6,762 – 2011; $7,139 – 2012; $7,512 – 2013; $7,898 – 2014; $8,209 – 2015; and $46,704 – 2016 to 2020.

The following postretirement medical benefit payments, net of plan participants' contributions, are expected to be paid: $234 – 2011; $249 – 2012; $260 – 2013; $269 – 2014; $249 – 2015; and $1,170 – 2016 to 2020.

Employee Savings Plans: The Company has established two (2) Employee Savings Plans as an employee benefit to encourage and assist employees in adopting a regular savings program and to help provide additional security for retirement. One plan covers employees of the Company who are not covered by a collective bargaining agreement and are eligible to participate in the plan. The Company's contribution charged against income for this plan was $433 and $463 in 2010 and 2009, respectively.

The Company maintains a second Employee Savings Plan for all other employees. Certain hourly employees covered by collective bargaining agreements and plan defined other production and shipping personnel are eligible to participate in this plan. Effective with the contracts negotiated at the two largest unions in 2005 and 2006, new union employees (who are not eligible for the defined benefit pension plan) are eligible to receive a contribution based on their personal savings percentage. For all other employees covered by collective bargaining agreements, the Company does not contribute to the plan. The contributions charged against income for this plan was $26 and $20 in 2010 and 2009, respectively.

11. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

The Company is contingently liable at any given time under standby letters of credit pertaining to workers' compensation self-insurance coverage, employee medical insurance, international product purchases, and other business guarantees. In the normal course of business, this amount is less than $3 million, and at December 31, 2010 and 2009, the amounts outstanding were $2,275 and $2,450, respectively.

The Company's subsidiaries are a party to legal actions as a result of various claims arising in the normal course of business including a class action lawsuit. Generally, class action lawsuits are complex and take many months or years to resolve. The Company intends to vigorously defend the lawsuit, and while we believe there are viable defenses to Plantiffs' claims, the ultimate resolution of this matter, as with any litigation, entails significant risks and uncertainties. Accordingly, there can be no assurance that the ultimate cost of resolving this matter will not be material. The Company believes that the disposition of all other matters will not have a materially adverse effect on the financial condition, results of operations, or liquidity of the Company.

The Company has evaluated subsequent events (events that occur after December 31, 2010) through March 2, 2011, which represents the date the financial statements were available to be issued. All required events have been recorded or disclosed in the Company's financial statements.

TEN YEAR SUMMARY

dollars in thousands except per share data

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Sales	$202,267	$199,739	$230,714	$251,747	$238,768	$218,127	$224,677	$225,805	$183,678	$189,707
Income (Loss) From Continuing Operations										
Before Income Taxes	12,280	16,652	15,872	15,409	5,208	(3,932)	8,629	9,068	8,346	9,733
Income Taxes from Continuing Operations	4,394	6,228	5,826	5,778	1,865	(1,599)	3,106	3,264	3,007	3,524
Income (Loss) from Continuing Operations	7,886	10,424	10,046	9,631	3,343	(2,333)	5,523	5,804	5,339	6,209
Net Income (Loss)	2,324	9,816	10,046	9,631	3,343	(2,333)	5,523	5,804	5,339	6,209
Basic Earnings (Loss) per Share of Common Stock from:										
Continuing Operations	1.79	2.37	2.28	2.17	0.75	(0.53)	1.24	1.30	1.20	1.39
Net Income (Loss)	0.53	2.23	2.28	2.17	0.75	(0.53)	1.24	1.30	1.20	1.39
Cash Flow per Share of Common Stock from:										
Continuing Operations	2.80	3.35	3.44	3.37	1.95	0.66	2.43	2.44	2.25	2.38
Net Income (Loss)	1.63	3.21	3.44	3.37	1.95	0.66	2.43	2.44	2.25	2.38
Total Dividends Paid	4,514	4,546	4,687	4,985	5,185	4,114	3,046	3,046	3,046	3,047
Dividends per Share of Common Stock	1.02	1.03	1.06	1.12	1.16	0.92	0.68	0.68	0.68	0.68
Net Book Value of Plant and Equipment	51,264	50,560	51,389	53,616	53,602	51,427	49,499	48,202	45,720	50,001
Purchases of Property, Plant and Equipment	3,530	3,905	5,010	7,277	5,079	2,823	3,047	3,552	2,056	15,666
Charges for Depreciation and Amortization	5,941	5,074	5,112	5,310	5,357	5,251	5,311	5,041	4,673	4,389
Current Assets	83,953	85,313	84,221	89,291	84,322	77,088	78,976	82,487	69,564	67,940
Current Liabilities	38,975	34,641	37,647	40,215	40,663	40,199	29,717	30,558	23,401	27,425
Working Capital	44,978	50,672	46,574	49,076	43,659	36,889	49,259	51,929	46,163	40,515
Total Debt	34,318	32,656	30,825	37,573	34,902	31,361	28,417	29,460	20,275	14,143
Net Worth	77,435	81,648	87,534	93,199	91,788	81,191	90,613	71,769	73,509	73,940
Book Value per Share of Common Stock	17.55	18.51	19.77	20.90	20.55	18.17	20.28	16.05	16.44	16.52
ProForma Book Value per Share of										
Common Stock*	17.55	18.51	19.77	20.90	20.61	19.16	19.66	20.28	20.80	21.50
Outstanding Shares of Common Stock**	4,394	4,396	4,412	4,444	4,451	4,452	4,452	4,452	4,452	4,456

The financial data summarized above was derived from audited financial statements.

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

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

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

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

**Shares stated in thousands.

Company Affiliates & Locations

The consolidated financial statements include the accounts of Burnham Holdings, Inc., and subsidiaries. Burnham Holdings, Inc., does not have any unconsolidated legal entities, "special purpose" entities, or "off-balance-sheet" financial arrangements, nor is it a partner in any joint venture nor does it have a minority interest in any other entity. Burnham Holdings, Inc. and subsidiaries have approximately 1,000 employees nationwide, of which approximately 50% are union employees covered through four separate bargaining agreements. Generally the agreements are for a three-year period and expire at different times.

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

Business Strategy

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

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

Corporate Governance

The Board of Directors ("the Board") of Burnham Holdings, Inc., is comprised of nine members, eight of whom who are considered "independent" directors (not an employee, not affiliated with the Company's auditors, and not part of an interlocking directorate). The remaining member of the Board is the Company's President and CEO, who was also elected Chairman of the Board in April 2002. Directors are selected based on their individual qualifications and experience, the overall balance of the Board's background and experience, and each individual's willingness to fulfill their obligations and to contribute appropriately. Four directors are members of families, the extended members of which hold in the aggregate significant ownership interests in the Company. Board members have complete access to Company information and personnel through meetings, reports, on-site operational reviews, and direct contact.

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

REPORTING REQUIREMENTS

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

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

Interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2010. The results for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in audited financial statements have been omitted. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by Independent Auditors as prescribed by the SEC.

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

INVESTOR AND STOCKHOLDER INFORMATION

Stockholder Inquiries

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

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

Stock Exchange Listing

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

Annual Meeting

The Company's Annual Meeting is scheduled for 11:30 am on Tuesday, April 26, 2011, to be held at the Eden Resort and Conference Center in Lancaster, PA.

Corporate Data

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

For further information, contact Audrey L. Behr, Financial Services Administrator, or Douglas B. Springer, Vice President and Chief Financial Officer.

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

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

DIRECTORS AND OFFICERS

Board of Directors

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

Audit Committee
Eleanor B. Drew
George W. Hodges
Thomas C. Kile
John W. Lyman

Compensation Committee
Rufus A. Fulton, Jr.
John W. Lyman
Elizabeth H. McMullan

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

Officers

(pictured left to right): Douglas B. Springer; Christopher R. Drew; Douglas S. Brossman; Albert Morrison, III; Stephan P. Amicone; Bradley C. Ehlert

Officers of Burnham Holdings, Inc.

Albert Morrison, III	Chairman, President and Chief Executive Officer
Stephan P. Amicone	Executive Vice President and Chief Operating Officer
Douglas S. Brossman	Vice President and General Counsel
Christopher R. Drew	Vice President
Douglas B. Springer	Vice President and Chief Financial Officer
Bradley C. Ehlert	Controller

Burnham Holdings, Inc.
1241 Harrisburg Avenue
Lancaster, PA 17603