



**BURNHAM
HOLDINGS, INC.**
2022 ANNUAL REPORT

LETTER TO OUR SHAREHOLDERS



After more than 15 years of service to the Burnham group of companies, Doug Brossman, incumbent Vice Chair and Chief Executive Officer announced his retirement. Chris Drew, currently President and Chief Operating Officer, will be appointed CEO upon Doug's retirement in April 2023.

2022 | MOVING AHEAD

The Burnham Holdings group of companies entered 2022 in excellent shape, having successfully persevered through the various challenges of 2021 headlined by the triple threats of inflation, staffing shortages and supply chain disruptions. Our commercial and residential order flows in 2022 were excellent, inflation started to ease, and supply chains functioned more effectively. Operationally, the subsidiaries worked diligently to address continuing hiring challenges. All in all, 2022 signaled a return to a more "normal" year after two years of COVID-impacted operations.

The U.S. residential boiler market, which hit a 20-year high in 2021, continued to grow in 2022, with strength in both the condensing and cast-iron product categories. While the U.S. oil furnace market did not experience such strength, Thermo Pride continued to solidify its market-leading position during the year. Commercial construction activity continued its strong run during 2022. Incoming commercial orders were excellent, and, in the aggregate, the commercial segment of the Burnham Holdings business had a strong year. Even with strong commercial shipments in 2022, the backlog of commercial products entering 2023 hit record highs.

During the year we also continued our investments in operations, executing several large projects that should improve plant efficiencies. A few highlights were a new assembly line to support the rapid growth of our Alta/Phantom II high-efficiency condensing boiler, an automated robotic machining cell for cast iron push nipples, various foundry improvements highlighted by improvements to our core making capabilities, our Disamatic molding line, and preparation for a new bridge crane that handles scrap material for charging our melt system.

Our engineering teams remained focused on the future as well. Specific introductions in 2022 included launching new variations of our best-selling Alta/Phantom II products, new sizes and configurations of our light commercial AMP product line, and several new furnace products for the manufactured housing market. We believe that our commitment to new product development continues to set us apart from our competition as we push toward a broader, more diverse revenue stream that reduces our concentration in any specific category of product or market segment.

Net sales for the year were \$240.5 million – an increase of \$22.0 million, or 10.1%, versus 2021. Residential product sales were up over 6.2% versus last year, with commercial product sales also up 23.2%. Inflation was a significant factor in our 2022 results. Each of our businesses absorbed multiple material price increases ranging from 7% to 20%. New labor contracts at various subsidiaries, as well as a highly competitive labor market, resulted in incremental labor wage increases ranging from 5% to 13%. However, pricing actions taken in response to inflation pressures helped contribute to a 30.4% increase in gross margin for 2022 versus 2021.

Net income in 2022 was \$5.1 million, or \$1.10 per share, which was up from last year. Difficulties in finding adequate staff and raw material supply disruptions reduced overall productivity and profitability, particularly at Casting Solutions, our gray iron foundry, which supplies critical parts to our cast iron boiler businesses. The Board of Directors declared a quarterly dividend of \$0.22 per share at its February 2023 meeting.

As mentioned, we remain committed to meet the evolving needs of our customers for more sophisticated, high-efficiency, low-emission products.

Additional examples of these investments and accomplishments include:

- Multiple additional sizes and configurations of the class-leading US Boiler Alta and Velocity Phantom II product were introduced in 2022. The product has quickly become our best-selling high-efficiency residential condensing product, adopted as the product of choice by hundreds of contractors across the country.
- The U.S. Boiler SteamMax cast iron boiler product line, first introduced in late 2021 as the first new residential steam product introduced by the industry in decades, continues to gain acceptance with installers. A version for the Velocity product line was introduced, along with new sizes and expanded distribution throughout the country.
- The Electric Heating Team has developed an electric boiler to meet the increasing demands of our markets and customers for further reduction of carbon emissions. It will launch in Q1 of 2023. Additionally, the team continues to work on emerging refrigerant-based electric hydronic heating technologies, which we expect to supplement our existing residential boiler portfolio.
- Thermal Solutions had a strong year with continued growth of the domestic water heater version of their AMP product line. Additional sizes were introduced late in the year, strongly positioning the organization for a continued sales and marketing push of these products during 2023.
- Thermo Pride released its mid-efficiency gas furnace for the manufactured housing market, significantly expanding its product line presence in this vibrant segment of the HVAC industry. During 2023, Thermo Pride is expected to expand its portfolio in this segment with an electric furnace.
- Enviro Power, the clean energy technology company we began investing in during 2019, successfully achieved all necessary safety and agency certification for its SmartWatt product in 2022. Its focus in 2023 will be commercializing the product, developing serial production capabilities, and further field deployment. This groundbreaking technology adds to our growing portfolio of high-efficiency, low-emission, carbon-reducing products.
- Within our commercial group we have launched a new business, Thermal InMotion. Thermal InMotion owns and rents mobile boiler rooms for situations where the existing boiler or water heater may be out of service. Rentals are provided on a month-to-month basis with short- and long-term rental opportunities available. 2022 saw the development and completion of the first five rental units, with nine more scheduled for completion in 2023.

We announced a significant retirement in 2022. Doug Brossman, our Vice Chair and Chief Executive Officer, announced his retirement, effective as of the Burnham Holdings Annual meeting on April 24, 2023, after more than 15 years with the Burnham group of companies. Chris Drew, currently President and Chief Operating Officer, will be appointed CEO upon Doug's retirement in April 2023. Beginning with Doug's role as General Counsel in 2008, Doug impacted multiple aspects of our business with his thoughtful counsel and advice. During his tenure as CEO, he led the organization through several significant projects, most notably the envisioning and support for US Boiler's world-class research and development lab. His insight, wisdom, and counsel will be greatly missed, and we wish him and his wife, Kate, all the best in their retirement together. Fortunately, we will have the benefit of Doug's talents and experience as he will continue to serve on our Board of Directors.

Additionally, we welcomed J. David Reeves to the Board of Directors. David is active in the business-to-business technology industry. He started his career with QuickBooks, which was acquired by Intuit, and more recently was a founder of Limeade, which he remained with through their IPO in 2019. David's technology background is a strong asset as the HVAC industry continues to intersect with technology opportunities to provide more efficient, energy-saving solutions to consumers and businesses. His experience with Software as a Service (SaaS) is of note, as our subsidiary companies ready their first cloud-based remote monitoring and troubleshooting hardware and software tools. We are looking forward to his involvement with the organization as we continue to execute our growth strategies in this arena.

We also want to recognize the extraordinary efforts of our colleagues and co-workers for their countless contributions during yet another year of ongoing challenges. We are fortunate to have such a caring, experienced workforce, with approximately 16% of our co-workers serving more than 25 years with our various companies as well as our growing cadre of newer employees, without whom our businesses would struggle. Their experience is a major driver of our success, and their guidance to our younger co-workers will maintain our legacy into the future.

Finally, we want to take this opportunity to thank you, our shareholders, for your ongoing support and loyalty. We welcome your questions and comments at any time.

Thank you!



Douglas S. Brossman
Vice Chair & CEO



Christopher R. Drew
President and COO

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

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

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

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

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

OUR VISION

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

OUR PRINCIPLES

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

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

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

Integrity – We keep our promises.

COMPANY SUBSIDIARIES & LOCATIONS

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company does not have any unconsolidated legal entities, “special purpose” entities, or “off-balance-sheet” financial arrangements, nor is it a partner in any joint venture. The Company and its subsidiaries have approximately 800 employees nationwide, of which approximately 46% are union employees covered through separate collective bargaining agreements. Generally, the agreements are for a three-year period and expire at different times, including one agreement expiring within one year covering approximately 24.4% of union employees. Major subsidiaries of the company and their locations are shown below.

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

Burnham Holdings, Inc. results for 2022 were influenced by several factors. We continued to address difficulties in hiring and retaining qualified employees to efficiently run our business units. In addition, persistent supply chain issues resulted in intermittent shortages of critical materials, which in turn restricted production capacity. Finally, cost increases for purchased material continued through 2022, highlighted by the rapid spike in metals and energy costs resulting from the war in Ukraine. Although 2022 proved to be as difficult as, and in some cases even more difficult than the last several years, we continued to focus on investments in new product development and process improvements that are expected to help drive our growth in the future.

- Net sales were \$240.5 million, an increase of \$22.0 million, or 10.1%, compared to 2021. Sales increased 6.2% in the residential businesses during 2022 as residential heating equipment demand remained strong throughout the year. Similarly, sales of commercial boiler products increased in 2022 by 23.2%.
- Gross profit was \$45.7 million, an increase of \$10.7 million, or 30.4%, versus 2021. Gross margin percent was 19.0% in 2022 versus 16.0% in 2021.
- Selling, general and administrative expenses (SG&A) were up \$2.4 million, or 6.9% from 2021. On a percentage of net sales basis, SG&A has continued to trend lower at 15.1% for 2022 versus 15.5% in 2021 and 16.3% in 2020.
- Net cash provided by operating activities was \$1.2 million for 2022 compared to \$10.5 million in 2021. Material cost inflation and higher inventory levels to support higher backlogs were significant impacts to working capital levels in 2022.
- Long-term debt of \$33.7 million was \$11.9 million higher than last year. As noted above, the impact of inflationary pressures on working capital needs combined with higher inventory to support strong order backlogs drove the increase in debt versus 2021.

(In millions, except per share data)	2022	2021	% Change
Net Sales	\$ 240.5	\$ 218.5	10.1%
Net Income	\$ 5.1	\$ 1.0	395.1%
Total Debt	\$ 33.7	\$ 21.8	54.6%
Working Capital	\$ 62.5	\$ 52.1	20.0%
Total Assets	\$ 176.3	\$ 167.5	5.3%
Shareholders' Equity	\$ 91.1	\$ 95.2	-4.3%
Net Cash Provided by Operating Activities	\$ 1.2	\$ 10.5	-88.6%
Per Share Data:			
Basic Earnings per Share	\$ 1.10	\$ 0.22	400.0%
Dividends Paid	\$ 0.88	\$ 0.88	0.0%
Book Value per Share ⁽¹⁾	\$ 19.71	\$ 20.68	-4.7%
Adjusted Book Value per Share ⁽²⁾	\$ 25.69	\$ 25.53	0.6%
Share Price on 12/31	\$ 12.50	\$ 13.84	-5.1%
Market Capitalization on 12/31	\$ 57.6	\$ 63.5	-5.0%

1) Book value per share is calculated as Shareholders' Equity divided by weighted shares outstanding.

2) Adjusted book value per share is calculated as Shareholders' Equity excluding Accumulated Other Comprehensive Loss (AOCL), divided by weighted-shares outstanding.

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



OVERVIEW OF RESULTS

2022 was a year of continued sales growth as demand for boilers and furnaces remained strong. Operations continued to be hampered by continued staffing shortages, high inflation and supply chain disruptions, both internal and external. However, as the year continued, inflation eased and supply chains functioned more effectively while hiring and retention remained challenging.

While we produce our equipment domestically, our supply chain is global, and the war in Ukraine negatively impacted many of our component suppliers. Controls, fans, heat exchangers, wiring harnesses, copper parts, foundry materials, specialty metals for components, semi-conductors among other items are all sourced directly by us or by our primary vendors from around the globe. Many of the inputs for the components we buy run through Eastern Europe. In particular, the war's impact on the global metals and energy complexes was dramatic. Within a span of weeks, certain base commodities doubled or tripled in cost. The impact was swift, challenging and felt throughout the industry at all levels.

The various operational managers reacted quickly, implementing many of the learnings from the prior COVID years. The teams worked closely with their vendors to insure parts supply. They refocused efforts on hiring and retention to improve staffing levels and we analyzed our overall product cost structure, implementing multiple price increases across all product lines during the year to offset the dramatic spikes in material and energy costs.

By the end of 2022, commodity pricing had reverted to levels similar to earlier in the year and component availability had improved. Daily production rates were able to ramp back up to work off the significant backlogs that had grown through the year. Sales growth over 2021 was achieved with net sales of \$240.5 million an increase of \$22.0 million, or 10.1%, compared to 2021.

Castings Solutions, our gray iron foundry, which supplies critical parts to our cast iron boiler businesses was impacted particularly hard by the volatility in commodities it requires as inputs to its process. Energy, chemicals, transportation, and scrap metal all spiked to a degree that made cost recovery difficult by year end. We expect that pricing of items such as these, both internally and externally, will return to more normalized levels in 2023, thereby making our cost structure more predictable.

Overall, the resiliency of our businesses and co-workers was impressive. Our people were able to deliver improved business results by successfully adapting to yet another year of a challenging operational environment and managing an ever-changing set of operational disruptions. It was a significant team effort by the entire organization to remain focused to meet the needs of our customers and the end users who rely on our products for their comfort and well-being.

PERFORMANCE PROVEN, TECHNOLOGY FORWARD

In providing interior comfort solutions to the Heating, Ventilating, and Air Conditioning (HVAC) industry for a multitude of residential, commercial, institutional, and industrial applications, the Company has proven its ability to grow value for stakeholders year after year. The installed base of residential and commercial heating products provides a stable revenue stream due to the consistent product replacement cycle. However, meeting the evolving needs of this marketplace requires continued investment in engineering and new product development to ensure new products are in the pipeline to meet future demand. Furthermore, we continue to evaluate our future product lines considering the important conversations around climate change and its impact on society and by extension our core heating markets.

The expectations of our end users continue to evolve. We are constantly tracking emerging technologies to create a clear vision for meeting our customers' current and future needs through innovative technologies, including more energy-efficient products, "green" products with lower emissions, and smarter controls. Our vision is guided by the needs and desires of end users, homeowners, contractors, specifying engineers, sales representatives, and distributors.

The result of this vision is a forward-thinking product development strategy that meets exacting requirements today, while delivering new and innovative technologies that can meet tomorrow's expectations. In 2022 our engineering teams continued to execute our multi-year product development strategy, which has resulted in the continued expansion of our current high-efficiency product offerings.

Within our commercial group we launched a new business Thermal InMotion, which provides mobile boiler rooms for monthly rental to provide emergency heat or heat water for numerous types of commercial applications. Five trailers were completed by year end with additional units planned for 2023. Thermal Solutions Products introduced new sizes of its hi-efficiency commercial water heater as well as a boiler variant. Both products are sold under both the Thermal Solutions and Bryan Steam brand names "AMP" or "BFIT." These new models broaden the range of high-efficiency, low-emissions water heaters we have available for the commercial water heating market.

In the Residential Boiler category, the completion of additional sizes and variants of the Alta/Phantom II product family was a significant milestone after four years in development. This new residential condensing boiler platform introduces the most advanced "Gas Adaptive" combustion platform in the world to the North American market. Offering a sophisticated self-tuning combustion system, this new family of condensing boilers simplifies installation for the contractor, ensuring clean, efficient combustion regardless of installation conditions. This product has quickly become an industry favorite accounting for more than 60% of our residential hi-efficiency boiler volume in 2022.

Our residential furnace business, Thermo Pride, delivered another solid year of oil and gas furnace sales through continued expansion of its multibrand, multichannel strategy. In 2022 this business launched a new mid-efficiency gas furnace specially designed for the manufactured housing market. Additional products are planned for this unique product segment in 2023.

The capital investment program to increase production efficiency and decrease costs over the past several years continued during 2022. Similar to 2021, we purchased additional metal cutting, forming, and machining capabilities across our businesses as part of a focused effort to increase overall manufacturing efficiency and to support our continuous process improvement programs. We continue to make a concerted multi-year effort to both upgrade our machining capabilities and replace older equipment that's reached end of life. This effort is particularly true at Casting Solutions and US Boiler, where the new and upgraded equipment are expected to significantly improve operational efficiencies.

Finally, we continued to support our investment in energy technology company Enviro Power, in which we acquired a minority stake during 2019. Enviro Power is developing their cutting-edge combined heat and power "SmartWatt" appliance. Enviro Power's SmartWatt boiler received it's CSA and UL certifications in 2022. A significant milestone in the process towards full commercialization. This strategic investment complements our long-term commitment to develop highly efficient, low-emission heating appliances that serve a broad array of residential and commercial applications.

FINANCIAL PERFORMANCE

Net sales in 2022 were \$240.5 million, an increase of 10.1% compared to \$218.5 million in net sales achieved in 2021. The vast majority of Burnham Holdings, Inc. consolidated net sales revenue is derived from sales to customers located in the United States. International sales, including Canada and Mexico, were 1.9% of sales in 2022 and 1.3% of sales in 2021. Sales increased in 2022 due to normal demand and improved economic conditions as residential and commercial heating equipment demand recover. Sales of residential products, which comprised approximately 76.2% of total sales in 2022, increased by 8.3% compared to 2021 levels. Sales of commercial boiler products also increased as overall demand for commercial products rebounded as investment in schools, hotels, manufacturing businesses and other users of large commercial boilers all increased.

We are optimistic about the long-term business outlook for all of our distinct business units. There is a sizeable installed base of hydronic heating equipment in the U.S. that will be replaced over time – either due to the age of the equipment or because the owner wants to improve the operating efficiency and lower the annual cost of operating the equipment. Due to the wide range of modern, high-efficiency residential and commercial products sold by our subsidiaries, we can meet the requirements of virtually any residential or commercial heating application.

Gross profit in 2022 was 19.0% versus 16.0% in 2021. Approximately 87% of our inventory is reported on a last-in, first-out (LIFO) basis. Accordingly, inflation in the supply chain continued to have a significant impact on margins as well as inventory valuations; however the LIFO adjustment was lower in 2022 relative to 2021. The following chart shows our 2022 reported gross adjusted to a first-in, first-out (FIFO) basis that values inventory at current cost (in millions except for percentages):

	2022	2021
Gross Profit as reported	\$ 45.7	\$ 35.0
LIFO adjustments	4.5	9.1
Gross Profit on a FIFO-basis	\$ 50.2	\$ 44.1
Adjusted Gross Margin %	20.9%	20.2%

Selling, general, and administrative expenses (SG&A) were \$36.2 million in 2022 compared to \$33.9 million in 2021, an increase of \$2.4 million, or 6.9%. The increase was primarily due to higher investments in marketing as well as higher commissions on the 10.1% increase in net sales. On a percentage of sales basis, SG&A was lower in 2022 at 15.1% compared to 15.5% in 2021.

Other (expense) income was a net \$2.7 million expense in 2022 versus other income of \$0.1 million in 2021. The higher year over year expense was primarily due to higher interest expense as a result of significant interest rate hikes in 2022, and mark to market adjustments for short-term investments.

The Company's effective tax rate was 24.9% in 2022 versus 18.3% in 2021. The current year tax rate was affected by lower Research and Development (R&D) credits versus prior periods. The Company's federal tax return for 2019 was under audit and resolved in 2022. While the audit did not have a material impact on the Company's financial statements, certain R&D credits were disallowed and previous estimates were trued up in the current year. The Company expects its effective tax rate to approximate federal and state statutory rates prospectively.

PENSION AND POST-RETIREMENT HEALTHCARE BENEFIT PLANS

The Company has a defined benefit pension plan and post-retirement healthcare benefit plans (the Plan) which cover certain eligible employees and retirees. Beginning in 2003, the Plan was amended to state that newly hired, non-union employees would not be eligible to participate in the Plan. Subsequent to 2003, the benefit accrual was eliminated for all unionized new hires and active employees with the exception of a closed group of union production employees. During 2022, the Company was able to reach agreement with this final group of union production employees and freeze further accrual of pension benefits. Additionally, the Plan prevents the Company from obtaining any surplus assets of the Plan during a three-year period immediately following a change in control.

U.S. Generally Accepted Accounting Principles (GAAP) require that companies recognize in their consolidated balance sheets a liability for defined benefit pension and post-retirement plans that are underfunded or an asset for defined benefit pension and post-retirement plans that are overfunded. Pension and post-retirement healthcare obligations are calculated through actuarial valuations. The valuation of benefit obligations and net periodic benefit costs relies on key assumptions including discount rates, mortality, long-term expected return on plan assets, future compensation and healthcare cost trend rates.

The Plan is managed by independent third-party administrators under policies and guidelines established by the Employee Post-Retirement Benefits Committee. It is a policy of the Committee for the pension trust not to directly invest in the Company stock. Obligations and actuarial assumptions are presented in Note 13 of the financial statements. While the Company believes its assumptions are reasonable based on current knowledge, variables such as future market conditions, investment returns, and employee experience could affect results.

Plan assets are measured at fair value and are subject to market volatility. In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted to reflect the current asset mix and current view of the long-term investment market.

During 2022, plan asset performance was negatively impacted by overall market conditions. Plan asset mix is weighted 80/20 between fixed income and equities however both sectors experienced losses. Fixed income performance in the portfolio decreased approximately 22% while equities declined approximately 19%. Conversely, the rising interest environment during 2022 increased the discount rate significantly from 2.55% in 2021 to 4.90% in 2022. The higher discount rate decreased projected liabilities by \$34.8 million at year-end. The net impact of asset performance and a higher discount rate resulted in a net underfunded status of \$1.2 million which was recorded as a liability in the consolidated balance sheet as of December 31, 2022.

During 2021, plan assets decreased as low returns in the fixed income segment of the investment markets negatively impacted overall plan returns. As a result, the value of plan assets declined by \$4.5 million to finish the year at \$180.4 million. However, plan liabilities experienced a significant reduction due to a 40-basis point increase in the discount rate used to determine the present value of plan liabilities. The increase in the discount rate caused liabilities to drop by \$12.6 million to be a total of \$172.5 million at year-end. The combined changes in assets and liabilities during 2021 combined to place the Plan in an overfunded position, and an \$8.0 million pension asset was recorded in the balance sheet at December 31, 2021.

Cash contributions to the Plan are tax-deductible but do not impact the Company's earnings. Minimum mandatory contributions are determined by ERISA regulations as amended by the Pension Protection Act of 2006. Company last made a voluntary contribution of \$1.0 million during 2021. The Company did not have a required contribution in 2022 and does not anticipate a required contribution in 2023.

LIQUIDITY AND CAPITAL RESOURCES

The seasonal nature of our business requires the Company to monitor a sharp 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 by operating activities in 2022 was \$1.2 million compared to \$10.5 million in 2021, a decrease of \$9.3 million, or 88.6%. While operating income was strong and increased \$8.3 million over 2021, the decrease in operating cash flow was primarily the result of inflation on working capital. On a FIFO basis, inventories were up \$13.1 million in 2022 versus 2021. On-hand quantities have gradually increased to support backlogs and anticipated volume growth, however, material cost inflation was the primary driver of the year over year FIFO increase. Inflation averaged double-digits across our operating subsidiaries and accounted for approximately \$5.5 million of the FIFO increase. We continue to monitor all components of working capital closely, particularly inventory levels, and believe they are appropriate to support the operating levels of our subsidiaries in 2023.

The Company maintains a revolving credit facility (the Revolver) through a consortium of three banks with a credit limit of \$72.0 million (primarily used for working capital needs) and three additional letter of credit agreements (the LOC) totaling \$5.5 million. The Revolver had a balance of \$33.7 million and \$21.8 million as of December 31, 2022 and 2021, respectively. The Revolver and LOC have various financial covenants but no scheduled payments prior to maturity. As of December 31, 2022 and 2021, the Company remained in compliance with all covenants.

KEY LIQUIDITY DATA AND OTHER MEASURES

(In millions, except per share data)	2022	2021	2020
Cash and cash equivalents	\$ 7.0	\$ 5.7	\$ 5.8
Working Capital	\$ 62.5	\$ 52.1	\$ 56.3
Debt to Capital	22.1%	15.7%	13.2%
Shareholders' Equity	\$ 91.1	\$ 95.2	\$ 91.2
AOCL	(27.5)	(22.3)	(29.0)
Shareholders' Equity excluding AOCL	\$ 118.6	\$ 117.5	\$ 120.2
Share Price at 12/31	\$ 12.50	\$ 13.84	\$ 12.75
Book Value per Share	\$ 19.71	\$ 20.68	\$ 19.89
Adjusted Book Value per Share	\$ 25.69	\$ 25.53	\$ 26.24

Throughout a typical year, our borrowing requirements fluctuate based on business activity and our need to support working capital levels. The normal cyclical high-borrowing level occurs during the third quarter of each year and is provided for by the Revolver mentioned above. Peak debt levels during the third quarters of 2022 and 2021, were \$49.1 million and \$40.4 million, respectively.

The Company believes at this time that its liquidity position, its capital structure, and its banking relationships are adequate to meet foreseeable future needs. The Company is party to a financial derivative transactions to hedge its exposure to interest rate fluctuations on a portion of its variable-rate debt.

CAPITAL EXPENDITURES

Capital expenditures totaled \$7.3 million in 2022 and \$9.5 million in 2021, compared to depreciation expenses of \$4.8 million and \$4.5 million in 2022 and 2021, respectively. Capital spending for 2022 was lower than our guidance in last year's report of \$7.7 million, primarily due to a retiming of planned spend. Capital spending in 2021 included the \$4.4 million purchase of a previously leased building used by our Crown and Velocity subsidiaries in Philadelphia.

Capital expenditures for 2023 are budgeted at approximately \$10.0 million. The 2023 capital spending plan includes several large projects that will enhance our subsidiaries' flexible manufacturing capabilities as we continue to introduce new, high-efficiency heating products. Additionally, planned capital expenditures include investments intended to drive future growth while improving productivity and product quality. Replacing and refurbishing manufacturing machinery and equipment is also a significant portion of our planned capital spend in 2023.

BOARD ACTIONS

On February 16, 2023, the Company announced a quarterly dividend of \$0.22 per common share. This quarterly dividend would equate to an annual dividend rate of \$0.88 per share. The annual dividend rate for Preferred stock is \$3.00 per share. At its February 2023 meeting, the Board of Directors authorized the repurchase of 60,000 shares of either class of common stock at market prices during 2023. The Board may authorize additional repurchases from time to time. Management also has authority to repurchase preferred stock. There were no discretionary repurchases of common stock in either 2022 or 2021. The Company repurchased 4 shares of preferred stock in 2022.

FORWARD-LOOKING STATEMENTS

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

The Company's financial statements are based on the selection and application of significant accounting policies that currently affect the presentation of the Company's financial condition and results of operations, which require management to make significant estimates and assumptions. Management believes that the following are some of the more critical judgment areas in the application of accounting policies that currently affect the presentation of the Company's financial condition and results of operations.

Medical Health Coverage: The Company and its subsidiaries are self-insured for most of the medical health benefits offered to its employees. The Company's exposure is limited to \$275,000 per occurrence under third-party stop-loss coverage. The Company retains various third-party providers for the administration of its health coverage. The costs of these various plans and administrative charges are expensed monthly.

Retiree Health Benefits: For a number of years prior to 2006, the Company provided certain medical benefits to a closed group of Medicare-eligible retirees. Starting in 2006, the Company began to pay a fixed annual amount that assists this group in purchasing medical and/or prescription drug coverage from providers. Additionally, certain employees electing early retirement receive a fixed dollar amount based on years of employee service to assist them in covering medical costs. 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 after mid-2023, the Company's retained liability is for the first \$100,000 per occurrence of product liability and environmental claims, a total exposure of \$750,000 per occurrence for workers' compensation in Ohio and Pennsylvania (fully insured for workers' compensation in all other states), and for the first \$50,000 per occurrence of property claims. All policies and corresponding deductible levels are reviewed on an annual basis. Third-party administrators, approved by the Company and the insurance carriers, handle claims and attempt to resolve them to the benefit of both the Company and its insurance carriers. The Company reviews claims periodically in conjunction with the administrators and adjusts recorded reserves as required. At this time, the Company believes that its insurance policies and associated reserves for product, general, workers' compensation, and property liabilities are reasonable based on the information currently available.

General Litigation, Including Asbestos: In the normal course of business, certain subsidiaries of the Company have been named, and may in the future be named, as defendants in various legal actions, including claims related to property damage and/or personal injury allegedly arising from products of the Company's subsidiaries or their predecessors. A number of these claims allege personal injury arising from exposure to asbestos-containing material allegedly contained in certain boilers manufactured many years ago, or through the installation or removal of heating systems. The Company's subsidiaries, directly and/or through insurance providers, are vigorously defending all open asbestos cases, many of which involve multiple claimants and many defendants, which may not be resolved for several years. Asbestos litigation is a national issue with thousands of companies defending claims. While the large majority of claims have historically been resolved prior to the completion of trial, from time to time some claims may be expected to proceed to a potentially substantial verdict against subsidiaries of the Company. Any such verdict would be subject to a potential reduction or reversal of verdict on appeal, any set-off rights, and/or a reduction of liability following allocation of liability among various defendants.

The Company conducts its various businesses in separate subsidiaries and, as a result, it believes that any potential liability of a subsidiary as a result of a particular claim would be limited to such subsidiary. Further, the Company believes, based upon its understanding of its available insurance policies and discussions with legal counsel, that all pending legal actions and claims, including asbestos actions and claims, should ultimately be resolved (whether through settlements or verdicts) within existing insurance limits and reserves, or for amounts not material to the Company's financial position or results of operations. However, the resolution of litigation generally entails significant uncertainties, and no assurance can be given as to the ultimate outcome of litigation or its impact on the Company and its subsidiaries. Furthermore, the Company cannot predict the extent to which new claims will be filed in the future, although the Company currently believes that the great preponderance of future asbestos claims will be covered by existing insurance. There can be no assurance that insurers will be financially able to satisfy all pending and future claims in accordance with the applicable insurance policies or that any disputes regarding policy provisions will be resolved in favor of the Company.

Litigation, Settlements and Defense: The cost for settlements, including legal and consulting fees, in 2022, 2021 and 2020, for all uninsured litigation was \$1.3 million, \$1.3 million and \$1.0 million, respectively. Each of these years includes a self-insured asbestos claim. While it is unusual for an asbestos suit to not be covered by insurance, uninsured claims do exist depending on the alleged time period of asbestos exposure.

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

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

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for remedial actions at disposal areas containing waste materials from their current or former operations. In the past five years, the Company has not received any notice that it or its subsidiaries might be responsible for new or additional remedial cleanup actions under government supervision. However, there is one older open matter that relates to 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 cleanup have been reimbursed by insurance proceeds. In 2009, our insurance carrier established and funded a trust account to fund anticipated future site activities. While it is not possible to be certain whether or how any new or old matters will proceed, the Company does not presently have reason to anticipate incurring material costs in connection with any matters, and no reserves have been established.

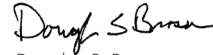
MANAGEMENT'S REPORT & REPORT OF INDEPENDENT AUDITORS

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

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

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

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



Douglas S. Brassman
Vice Chair & CEO



Nicholas I. Ribich
Vice President, CFO and Secretary

Opinion

We have audited the consolidated financial statements of Burnham Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, shareholders' equity and cash flows for the years ended December 31, 2022, 2021 and 2020, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2022, 2021 and 2020 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information includes the Letter to Our Shareholders, Company Profile, Financial Highlights, Review of Operations, Critical Accounting Estimates, Management's Report, Five-Year Summary and Investor & Shareholder Information sections on pages 1-10 and pages 27-29 but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Baker Tilly US, LLP
Lancaster, Pennsylvania
March 3, 2023

CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31, 2022, 2021 and 2020 (In thousands, except per share data)		
	2022	2021	2020
Net sales	\$ 240,547	\$ 218,508	\$ 187,461
Cost of goods sold	194,871	183,486	148,985
Gross profit	45,676	35,022	38,476
Selling, general, and administrative expenses	36,245	33,891	30,477
Operating income	9,431	1,131	7,999
Other income (expense):			
Non-service related pension credit	130	574	684
Interest and investment (loss) income	(1,124)	596	719
Interest expense	(1,690)	(1,049)	(930)
Other (expense) income	(2,684)	121	473
Income before income taxes	6,747	1,252	8,472
Income tax expense	1,682	229	1,925
Net Income	\$ 5,065	\$ 1,023	\$ 6,547
Earnings per share			
Basic	\$ 1.10	\$ 0.22	\$ 1.43
Diluted	\$ 1.10	\$ 0.22	\$ 1.43
Cash dividends per share	\$ 0.88	\$ 0.88	\$ 0.88

The accompanying notes are integral to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years ended December 31, 2022, 2021 and 2020 (In thousands)		
	2022	2021	2020
Net income	\$ 5,065	\$ 1,023	\$ 6,547
Other comprehensive (loss) income, net of tax:			
Pension liability	(6,981)	5,959	1,979
Post-retirement medical liability	183	46	12
Interest rate swap	1,509	778	(296)
	(5,289)	6,783	1,695
COMPREHENSIVE (LOSS) INCOME	\$ (224)	\$ 7,806	\$ 8,242

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

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31 (In thousands)	
	2022	2021
Current Assets		
Cash and cash equivalents	\$ 6,994	\$ 5,654
Trade accounts receivable, net	29,243	24,920
Inventories, net	59,635	51,066
Prepaid expenses and other current assets	3,747	4,717
Total Current Assets	99,619	86,357
Property, plant and equipment, net	59,980	57,496
Lease assets	1,793	2,065
Other long-term assets	14,866	21,551
Total Assets	\$ 176,258	\$ 167,469

LIABILITIES AND SHAREHOLDERS' EQUITY	2022	2021
Current Liabilities		
Accounts payable & accrued expenses	\$ 36,047	\$ 33,442
Current portion of long-term liabilities	152	152
Current portion of lease liabilities	854	765
Total Current Liabilities	37,053	34,359
Long-term debt	33,721	21,830
Lease liabilities	939	1,300
Other post-retirement liabilities	5,636	6,062
Deferred income taxes	7,822	8,753
Shareholders' Equity		
Preferred Stock	530	530
Class A Common Stock	3,626	3,615
Class B Convertible Common Stock	1,318	1,329
Additional paid-in capital	16,565	16,317
Retained earnings	114,526	113,582
Accumulated other comprehensive loss	(27,549)	(22,260)
Treasury stock, at cost	(17,929)	(17,948)
Total Shareholders' Equity	91,087	95,165
Total Liabilities and Shareholders' Equity	\$ 176,258	\$ 167,469

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2022, 2021 and 2020 (In thousands, except per share data)								
	Preferred Stock	Class A Common Stock	Class B Convertible Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at Cost	Shareholders' Equity
Balance at December 31, 2019	\$ 530	\$ 3,536	\$ 1,408	\$ 16,034	\$ 114,139	\$ (30,738)	\$ (17,973)	\$ 86,936
Net income	–	–	–	–	6,547	–	–	6,547
Other comprehensive income, net of tax (Note 14)	–	–	–	–	–	1,695	–	1,695
Cash dividends declared:								
Preferred stock - 6%	–	–	–	–	(18)	–	–	(18)
Common stock - (\$0.88 per share)	–	–	–	–	(4,035)	–	–	(4,035)
Share-based compensation	–	–	–	81	–	–	9	90
Conversion of common stock	–	24	(24)	–	–	–	–	–
Balance at December 31, 2020	\$ 530	\$ 3,560	\$ 1,384	\$ 16,115	\$ 116,633	\$ (29,043)	\$ (17,964)	\$ 91,215
Net income	–	–	–	–	1,023	–	–	1,023
Other comprehensive income, net of tax (Note 14)	–	–	–	–	–	6,783	–	6,783
Cash dividends declared:								
Preferred stock - 6%	–	–	–	–	(18)	–	–	(18)
Common stock - (\$0.88 per share)	–	–	–	–	(4,056)	–	–	(4,056)
Share-based compensation	–	–	–	202	–	–	16	218
Conversion of common stock	–	55	(55)	–	–	–	–	–
Balance at December 31, 2021	\$ 530	\$ 3,615	\$ 1,329	\$ 16,317	\$ 113,582	\$ (22,260)	\$ (17,948)	\$ 95,165
Net income	–	–	–	–	5,065	–	–	5,065
Other comprehensive loss, net of tax (Note 14)	–	–	–	–	–	(5,289)	–	(5,289)
Cash dividends declared:								
Preferred stock - 6%	–	–	–	–	(18)	–	–	(18)
Common stock - (\$0.88 per share)	–	–	–	–	(4,103)	–	–	(4,103)
Share-based compensation	–	–	–	248	–	–	19	267
Conversion of common stock	–	11	(11)	–	–	–	–	–
Balance at December 31, 2022	\$ 530	\$ 3,626	\$ 1,318	\$ 16,565	\$ 114,549	\$ (27,549)	\$ (17,929)	\$ 91,087

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2022, 2021 and 2020
(In thousands)

	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 5,065	\$ 1,023	\$ 6,547
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,802	4,543	4,336
Deferred income taxes	(106)	152	43
Provision for long-term employee benefits	(119)	93	91
Contributions to pension trust	—	(500)	(960)
Other reserves and allowances	920	1,165	332
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable, net	(4,318)	3,734	(4,060)
(Increase) in inventories, net	(8,569)	(1,863)	(2,554)
Decrease (increase) in other current assets	312	(591)	(493)
Increase in accounts payable and accrued expenses	3,213	2,772	1,458
Net cash provided by operating activities	1,200	10,528	4,740
Cash flows from investing activities:			
Capital expenditures	(7,278)	(9,534)	(4,349)
Investment in EnviroPower	(611)	(796)	(250)
Other investing activities	(8)	(8)	(8)
Net cash used by investing activities	(7,897)	(10,338)	(4,607)
Cash flows from financing activities:			
Net proceeds from borrowings	11,891	3,561	3,840
Proceeds from share-based compensation activity	248	202	81
Repurchase of common and preferred stock	19	16	9
Dividends paid	(4,121)	(4,074)	(4,053)
Net cash provided by (used by) financing activities	8,037	(295)	(123)
Net increase (decrease) in cash and cash equivalents	\$ 1,340	\$ (105)	10
Cash and cash equivalents, beginning of period	5,654	5,759	5,749
Net increase (decrease) in cash and cash equivalents	1,340	(105)	10
Cash and cash equivalents, end of period	\$ 6,994	\$ 5,654	\$ 5,759

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Burnham Holdings, Inc. (the Company) is the parent company of a group of subsidiaries that service the Heating, Ventilating, and Air Conditioning (HVAC) market segment. These subsidiaries are leading domestic manufacturers of boilers and related HVAC products and accessories (including advanced control systems, furnaces, radiators, and air conditioning systems) for residential, commercial, and industrial applications.

The Company and its subsidiaries have approximately 800 employees nationwide, of which approximately 46% are union employees covered through separate collective bargaining agreements. Generally the agreements are for three year periods and expire at different time. One agreement is set to expire in 2023 covering approximately 24% union employees .

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation:

The consolidated financial statements include the accounts of the Company and subsidiaries. All intercompany accounts and material intercompany transactions have been eliminated. The Company does not have any unconsolidated legal entities, joint ventures, special-purpose entities or off-balance sheet financial arrangements.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company considers all highly liquid investments with a maturity of 90 days or less to be cash equivalents. Included in cash are investments in short-term, liquid assets whose balances are based on costs which approximate current market values. The total of these investments was \$4.7 million and \$5.1 million as of December 31, 2022 and 2021, respectively.

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.

Trade Accounts Receivable: Trade accounts receivable are recorded at the invoice price, net of allowances for doubtful accounts and discounts, 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 and is reviewed 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.

Inventories: As of December 31, 2022 and 2021, approximately 87% and 89%, respectively, of the Company's inventories are valued using the last-in, first-out (LIFO) method. The remainder of the Company's inventories are valued on the first-in, first-out (FIFO) method. The subsidiaries periodically review their inventories and make provisions for estimated obsolescence and slow-moving parts.

Property, plant and equipment, net: Property, plant and equipment is recorded at cost, net of accumulated depreciation and amortization. Depreciation is generally determined using the straight-line method over the estimated useful lives of the assets although certain machinery and equipment are being depreciated using the units of production method. The estimated useful lives of each class of property, plant and equipment generally consist of 30 years for buildings, 15 years for building and land improvements, 10 years for machinery and equipment and 5 to 7 years for all other items. Accelerated methods of depreciation are used for income tax purposes.

Goodwill: Goodwill represents the excess of acquisition cost over the fair value of the net assets purchased in a business combination. Goodwill is tested for impairment, based on financial data related to the reporting unit to which it has been assigned, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. During 2022 and 2021, the Company tested its goodwill balances for impairment and no adjustments were recorded to goodwill as a result of those reviews.

Long-lived Assets: The Company periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset for assets to be held and used. The Company also reviews the useful life of its long-lived assets when events and circumstances indicate that the actual useful life may be shorter than originally estimated. In the event that the actual useful life is deemed to be shorter than the original useful life, depreciation is adjusted prospectively so that the remaining book value is depreciated over the revised useful life. There were no impairments of long-lived assets during 2022 and 2021.

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 per occurrence. The liability recorded on the financial statements represents an estimate of the ultimate cost of claims incurred as of the reporting date, after giving effect to anticipated insurance recoveries. The Company reviews these liabilities periodically in conjunction with the plan administrators and adjusts recorded allowances as required. At this time, allowances for self-insured claims are based on the information currently available.

Advertising: Costs are expensed as incurred within Selling, general and administrative expenses.

Shipping and Handling Costs: The subsidiaries charge certain customers shipping and handling fees which are included in Net sales. Certain costs associated with receiving material and shipping goods to customers are recorded as Cost of goods sold. For the years ended December 31, 2022, 2021 and 2020, these receiving and shipping costs were \$10.5 million, \$9.3 million and \$8.1 million, respectively.

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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are reduced by a valuation allowance if, in the judgment of the Company's management, it is more likely than not that such assets will not be realized.

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

Company Loans: Loans from the Company to any employee or director are prohibited as a matter of policy and by the Company's charter, unless approved by shareholders who are not directors. There were no loans outstanding as of December 31, 2022 and 2021.

Reclassifications: Certain prior year numbers have been reclassified to conform to current year presentation. There was no change to the previously reported net income as a result of these reclassifications.

Recent Accounting Pronouncements: During March 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU No. 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities could elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. During December 2022, the FASB issued ASU No. 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." These amendments defer the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The Company is currently assessing the effect that electing the optional expedients and exceptions included in ASU No. 2020-04 would have on its results of operation, financial position, and cash flows.

Subsequent Events: The Company has evaluated subsequent events occurring after December 31, 2022 through March 3, 2023. All material required events have been recorded or disclosed in the Company's financial statements.

2. REVENUE

The Company accounts for revenue under Accounting Standards Codification 606 - Revenue From Contracts With Customers (ASC 606). Revenue is measured based on the consideration that the Company and its subsidiaries expect to be entitled to in exchange for the goods or services transferred.

Disaggregated revenue by major source for the years ended December 31 (in thousands):

	2022		2021		2020	
Residential Products and Accessories	\$ 179,747	74.7%	\$ 169,177	77.4%	\$ 138,317	73.8%
Commercial/Industrial Products and Accessories	60,800	25.3%	49,331	22.6%	49,144	26.2%
	\$ 240,547	100.0%	\$ 218,508	100.0%	\$ 187,461	100.0%

Revenue is primarily derived from sales in the United States, with a concentration of these domestic sales located in the Northeast quadrant of the nation. The majority of sales are to wholesale distributors who, in turn, market to builders, heating contractors, utilities, and fuel dealers for resale to end-use customers. Commercial products are sold primarily through independent sales representatives, directly to contractors or end users. The Company's subsidiaries also market many of their products internationally, working in conjunction with selected independent sales representatives worldwide. International sales, which include Canada and Mexico, for the years ended December 31, 2022, 2021 and 2020 were 1.9%, 1.3% and 1.1% of reported sales, respectively. Sales to the 10 largest customers amounted to \$108.6 million, \$99.2 million and \$85.2 million in 2022, 2021 and 2020, respectively.

For certain products supplied by our subsidiaries, the customer has a limited right to return standard products that for various reasons may not conform to specifications (e.g., damaged goods, incorrect product shipment, etc.). Each subsidiary recognizes returns as a reduction in revenue when goods are returned by the customer. There is no reserve for returns, as there is normally a short time period (30-45 days) between the original shipment of goods and their ultimate return, and thus any impact on the financial statements would be immaterial.

Some subsidiaries of the Company engage in volume and incentive rebate programs that result in payments or credits being issued throughout the year to their customers. The amounts due under these programs are either estimated based on historical patterns or on actual sales volumes during the year and are recorded as a reduction in sales revenue in the period incurred. The Company records a contract liability for the amount of rebates expected to be paid to its customers.

Also, certain subsidiaries offer standard warranties that the product will meet published specifications for a defined period of time after delivery. These warranties do not represent separate performance obligations, and the Company's subsidiaries establish reserves for potential warranty claims based on historical experience.

The Company does not have contract assets since revenue is recorded by subsidiaries as control of goods are transferred to customers on a point-in-time basis. Any contract liabilities are not material and represent advance payments by customers that may be required based on the credit terms of a particular sales transaction or rebates owed to its customers.

The Company has elected the practical expedient in ASC 606-10-50-14 and does not disclose any information about any remaining performance obligations that have original expected durations of one year or less. The Company applies the practical expedient in ASC 340-40-25-4 and recognizes the incremental costs of obtaining contracts as selling expense when incurred when the amortization period over which the Company otherwise would have recognized is one year or less. The Company also applies the practical expedient in ASC 606-10-32-18 to not adjust the amount received in a contract for any financing component, as the Company expects all consideration to be received in one year or less at contract inception. Lastly, the Company applies the practical expedient in ASC 606-10-25-18B to treat shipping and handling costs as a fulfillment cost and not as a separate performance obligation.

3. INCOME TAXES

Income tax expense for the years ended December 31, consists of the following (in thousands):

	2022	2021	2020
Current:			
Federal	\$ 786	\$ (158)	\$ 1,241
State	468	210	678
	1,254	52	1,919
Deferred:			
Federal	372	113	5
State	56	64	1
	428	177	6
Income tax expense	\$ 1,682	\$ 229	\$ 1,925
Income taxes paid	\$ 370	\$ 2,179	\$ 2,516
Effective tax rate	24.9%	18.3%	22.7%

The principal components of the Company's deferred income tax assets and liabilities as of December 31, include the following (in thousands):

	2022	2021
Deferred income tax assets	\$ 4,670	\$ 2,714
Valuation allowance	(334)	(336)
	4,336	2,378
Deferred income tax liabilities	(12,158)	(11,131)
	\$ (7,822)	\$ (8,753)

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

	2022	2021
Depreciation	\$ (8,279)	\$ (8,244)
Vacation	526	505
Employee Benefits	111	161
Workers' Compensation	112	112
Pension	274	(1,834)
Inventory	(2,028)	(1,340)
Warranty	502	444
Fair Value of Swap	(488)	3
Other	1,408	1,440
Net deferred tax liability	\$ (7,822)	\$ (8,753)

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2022 and 2021, no accrued interest or penalties related to uncertain tax positions were recorded in the consolidated balance sheets.

The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized is \$0.1 million in both years. The tax years 2019 to 2022 remain open to examination by major taxing jurisdictions to which the Company is subject. The Company is no longer under audit for its 2019 tax return.

4. CAPITAL STOCK AND EARNINGS PER SHARE

Capital Stock: The Company's Preferred Stock is 6% cumulative, voting, par value \$50 a share; is redeemable at \$52.50 a share; and is carried at its stated liquidation preference of \$50 a share. There are 10,600 shares authorized and issued, including shares in Treasury Stock at December 31, 2022 and 2021, of 4,631 and 4,627, respectively.

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.

Share information regarding the Company's common stock at December 31, was as follows:

	2022	2021
Class A issued	3,626,485	3,614,913
Treasury shares	(337,830)	(356,942)
Class A outstanding	3,288,655	3,257,971
Class B outstanding	1,317,726	1,329,298
Total outstanding	4,606,381	4,587,269

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 share. 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.

The Company paid cash dividends of \$0.88 per share during the years ended December 31, 2022, 2021 and 2020 for its Class A and B shares. The Company paid cash dividends of \$3.00 per share during the years ended December 31, 2022, 2021 and 2020 for its Preferred shares.

Earnings Per Share: The computation of basic and diluted earnings per share for the years ended December 31, was as follows (in thousands except per share amounts):

	2022	2021	2020
Net income	\$ 5,065	\$ 1,023	\$ 6,547
Less: Preferred Share Dividends	(18)	(18)	(18)
Net income available to Common Shareholders	\$ 5,047	\$ 1,005	\$ 6,529
Basic weighted-average shares outstanding	4,601	4,580	4,568
Effect of dilutive securities share-based compensation plan	—	—	—
Diluted weighted-average shares outstanding	4,601	4,580	4,568
Earnings per share:			
Basic	\$ 1.10	\$ 0.22	\$ 1.43
Diluted	\$ 1.10	\$ 0.22	\$ 1.43

Shares of common stock related to share-based compensation that were not included in the effect of dilutive securities because the effect would have been anti-dilutive include 0.2 million shares during each of 2022, 2021 and 2020, respectively.

5. ADDITIONAL BALANCE SHEET INFORMATION

Inventories consisted of the following as of December 31, (in thousands):

	2022	2021
Raw materials and work in progress	\$ 82,717	\$ 71,566
Finished goods	12,799	10,849
Inventory at lower of FIFO or net realizable value	95,516	82,415
Excess of FIFO over LIFO cost	(35,881)	(31,349)
Inventories, net	\$ 59,635	\$ 51,066

Inventory obsolescence reserves deducted from FIFO cost were \$1.9 million and \$2.0 million as of December 31, 2022 and 2021, respectively.

During 2022 and 2021, certain inventory quantities were reduced either in total or at specific subsidiaries. These reductions resulted in a liquidation of LIFO inventory quantities carried at different costs prevailing in prior years versus the current year cost in 2022 and 2021. The following table shows the impact of the LIFO liquidation for the year ended December 31 (in thousands):

	2022	2021
Decrease to Cost of goods sold	\$ (987)	\$ (182)
Increase to Net income	\$ 760	\$ 140
Increase to Earning per share	\$ 0.21	\$ 0.03

Property, plant, and equipment, net consisted of the following as of December 31, (in thousands):

	2022	2021
Land and related improvements	\$ 7,982	\$ 7,791
Buildings and related improvements	51,917	50,323
Machinery and equipment	122,680	117,558
	182,579	175,672
Accumulated depreciation	(122,599)	(118,176)
Property, plant, and equipment, net	\$ 59,980	\$ 57,496

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are included in Other long-term assets in the Company's Consolidated balance sheets. The carrying amount of goodwill in the Residential segment for the years ended December 31, 2022 and 2021 was \$3.0 million. Indefinite-lived intangible assets for the years ended December 31, 2022 and 2021 were \$3.6 million.

7. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to risks from fluctuations in interest rates. To reduce exposure to such risks, the Company selectively uses derivative financial instruments. All derivative transactions are

authorized and executed pursuant to regularly reviewed policies and procedures which prohibit the use of financial instruments for speculative trading purposes.

All derivative financial instruments are recognized on the Consolidated balance sheets at fair value. In accordance with ASC Topic 815, Derivatives and Hedging (ASC Topic 815), the accounting for changes in the fair value of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. Changes in the fair value of derivative financial instruments that are designated as cash flow hedges are initially recorded in Other comprehensive income (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, both at the inception of each hedge and on an ongoing basis, whether the derivative financial instruments that are designated as cash flow hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. No component of a designated hedging derivative financial instrument's gain or loss is excluded from the assessment of hedge effectiveness. Cash flow activity associated with the Company's derivative financial instruments is recorded in Cash flows from operating activities on the Consolidated statement of cash flow.

The notional and fair values of the Company's derivative financial instruments designated as cash flow hedging instruments under ASC Topic 815, at December 31, were as follows (in thousands):

	2022		
	Notional Value	Other Current Assets	Accrued Liabilities
Interest rate swaps	\$ 15,000	\$ 1,947	\$ -

	2021		
	Notional Value	Other Current Assets	Accrued Liabilities
Interest rate swaps	\$ 15,000	\$ 370	\$ 383

The amount of gains and losses related to derivative financial instruments designated as cash flow hedges for the years ended December 31, were as follows (in thousands):

	Gain / (Loss) Recognized in OCI		
	2022	2021	2020
Interest rate swaps	\$ 1,766	\$ 575	\$ (742)

	Gain / (Loss) Reclassified from AOCL into Income		
	2022	2021	2020
Interest rate swaps	\$ 193	\$ (435)	\$ (358)

The effects of cash flow hedges are recorded in Interest expense in the Consolidated statements of income. The amount of net gain included in AOCL at December 31, 2022 estimated to be reclassified into income of the next 12 months was \$0.4 million.

The Company is exposed to risk in the event of non-performance by the counterparty to its derivative financial instruments. Although no assurances can be given, the Company does not expect its counterparty to fail to meet its obligations.

8. LEASES

The Company accounts for leases under ASC 842, "Leases" (ASC 842). The Company determines if an arrangement is or contains a lease at contract inception. Right-of-use (ROU) assets related to the Company's leases are recorded in Lease assets and lease liabilities are recorded in Current liabilities and Lease liability on the Consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset over the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the lease term. The ROU asset also includes prepaid lease payments and initial direct costs and is reduced for lease incentives paid by the lessor. The discount rate used to determine the present value is generally the Company's incremental borrowing rate because the implicit rate in the lease is not readily determinable. The lease term used to calculate the ROU asset and lease liabilities includes periods covered by options to extend or terminate when the Company is reasonably certain the lease term will include these optional periods.

The Company elected the short-term lease practical expedient that allows entities to recognize lease payments on a straight-line basis over the lease term for leases with a term of 12 months or less. The Company has also elected the practical expedient under ASC Topic 842 allowing entities to not separate non-lease components from lease components, but instead account for such components as a single lease component for all leases except leases involving assets used in manufacturing and distribution processes.

The Company and its subsidiaries enter into operating leases for certain real estate, automobiles, and office equipment. These leases have remaining terms of 1 to 5 years. One building lease has an option to renew the term for one 3-year period. Certain leases contain an option to purchase leased items at fair value at the end of the lease. As of December 31, 2022, the Company and its subsidiaries do not have any financing leases or any operating leases that have not yet commenced.

Operating lease expenses and supplemental information related to the Company's leases at December 31, was as follows (in thousands):

	2022	2021
Operating lease expense	\$ 895	\$ 874
Short-term lease expense	548	589
	\$ 1,443	\$ 1,463
Non-cash information:		
ROU assets obtained in exchange for lease obligations	\$ 566	\$ 206
Weighted-average remaining lease term (in years)	2.16	2.72
Weighted-average discount rate	3.17%	2.84%

Future minimum lease payments as of December 31, 2022, are as follows:

2023	\$ 886
2024	673
2025	182
2026	102
2027	6
Future lease payments	1,849
Interest	(56)
Lease liabilities	\$ 1,793

For the years ended December 31, 2021 and 2020, external rental expense for property (principally warehouse space) that was included in the Consolidated statements of income totaled \$1.1 million and \$1.2 million, respectively. A subsidiary was party to a long-term lease (as part of an original acquisition agreement) with a Trust, in which one of the beneficiaries is the current President of that subsidiary. This lease ended on March 12, 2021, when the leased building and land were purchased from the Trust by one of our subsidiaries for approximately \$4.4 million. Related lease expense of \$0.1 million and \$0.3 million are included in the Consolidated statements of income for 2021 and 2020, respectively.

9. DEBT

The Company maintains a revolving credit facility (the Revolver) financed through a consortium of three banks with a credit line of \$72.0 million (primarily used for working capital needs) and three additional letters of credit agreements (the LOC) totaling \$5.5 million for other specific bank services. The Revolver matures on January 31, 2025 with no scheduled principal payments prior to maturity; interest on the Revolver is due monthly. Interest rates are equal to a predefined margin rate plus the London Interbank Offered Rate (LIBOR).

Financial Covenants: The Company is subject to various financial covenants related to its Revolver and LOC. In addition to debt service and leverage ratios, the covenants require Shareholders' Equity (excluding Accumulated other comprehensive loss) to exceed a certain threshold as defined in the agreements. The margin rate the Company is charged for the upcoming year is based on the preceding year-end leverage ratio.

At December 31, 2022 and 2021, the Company remained in compliance with all covenants.

Interest: Interest rates as of December 31, 2022, 2021 and 2020 were 6.07%, 2.00% and 1.55%, respectively. The increase in interest rates from 2021 to 2022 was the result of market interest rate hikes throughout 2022 and their impact on LIBOR. Cash paid during the years ended December 31, 2022, 2021 and 2020 for interest was \$1.7 million, \$1.0 million and \$0.9 million, respectively.

Related Party: A Director of the Company is also a Director and Officer of a member bank in the Company's lender consortium. All relationships between this institution and the Company are considered arms-length.

10. FAIR VALUE

The Company assesses the inputs used to measure fair value using a three-tier hierarchy.

Level 1 inputs include quoted prices for identical instruments and are the most observable.

Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates and yield curves. The Company uses the market approach to derive the fair value for its Level 2 fair value measurements. Interest rate swaps are valued using proprietary models of the counterparty to the swaps.

Level 3 inputs are not observable in the market and include the Company's judgments about the assumptions market participants would use in pricing the asset or liability. The Company does not have any Level 3 fair value assets or liabilities as of December 31, 2022 and 2021.

The Company's assets and liabilities measured at fair value on a recurring basis as of December 31, were as follows (in thousands):

	2022		
	Balance	Level 1	Level 2
Assets:			
Marketable securities	\$ 4,679	\$ 4,679	\$ –
Interest rate swaps	1,947	–	1,947
	\$ 6,626	\$ 4,679	\$ 1,947

	2021		
	Balance	Level 1	Level 2
Assets:			
Marketable securities	\$ 5,077	\$ 5,077	\$ –
Interest rate swap	370	–	370
	\$ 5,447	\$ 5,077	\$ 370
Liabilities:			
Interest rate swap	\$ 383	\$ –	\$ 383

The estimated fair values of cash and cash equivalents, trade accounts receivable, accounts payable and accrued expenses approximate their carrying values at December 31, 2022 and 2021 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.

11. PRODUCT WARRANTY

Certain subsidiaries of the Company offer a variety of warranty coverages depending on the type of unit and its application. General warranty allowances are maintained by each subsidiary based on its product warranty policy and historical experience.

Product warranty liabilities are recorded in Accrued liabilities in the Consolidated balance sheets. Changes in product warranty liabilities were as follows as of December 31, (in thousands):

	2022	2021	2020
Balance, beginning of period	\$ 1,000	\$ 957	\$ 979
Accruals made during the period	1,274	1,618	1,740
Settlements made during the period	(1,256)	(1,575)	(1,762)
Balance, end of period	\$ 1,018	\$ 1,000	\$ 957

12. SHARE-BASED AWARDS

The Company has a share-based compensation plan which was approved by its shareholders in April 2013 (the Plan) under which its Board of Directors may grant to key employees, officers and directors share-based awards including restricted stock awards (RSAs), stock options and stock appreciation rights (SARs). RSAs granted under the plan generally vest ratably over a three-year period with the first one-third of the grant vesting one year after the date of grant. Dividends are paid on RSAs. Stock options granted expire 10 years from the date of grant.

The Company recognizes the cost of its share-based awards in its Consolidated Statements of Income. The cost of each share-based equity award is based on the grant date fair value. Share-based award expense is recognized on a straight-line basis over the service period of each separately vesting tranche within the awards. The expense recognized reflects the number of awards that are ultimately expected to vest based on the service requirements of each award. Total share-based award expense recognized by the Company for the years ended December 31, 2022, 2021 and 2020, was \$0.3 million, \$0.3 million and \$0.1 million, respectively. As of December 31, 2022, there were 0.4 million shares available for future awards under the Plan.

Restricted Stock Awards: The fair value of RSAs settled in stock is determined based on the market price of the Company's stock on the grant date. The activity for these awards for the year ended December 31, 2022 was as follows:

	Shares	Weighted-Average Fair Value per Share
Nonvested, beginning of period	47,404	\$ 11.42
Granted	30,650	\$ 13.54
Vested	(22,713)	\$ 12.02
Forfeited	(667)	\$ 11.48
Nonvested, end of period	54,674	\$ 12.36

As of December 31, 2022, there was \$0.7 million of unrecognized compensation cost related to RSAs that is expected to be recognized over a weighted-average period of 1.8 years.

Stock Options: The fair value of the Company's stock option awards is re-measured at each reporting period using a Black-Scholes option-pricing model and are recorded on the Company's Consolidated Balance Sheet as a liability award. The Company uses historical volatility to determine the expected volatility of its stock. The risk-free rate for periods within the contractual life of the option is based on the yield curve of a zero-coupon U.S. Treasury bond at the time of grant. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected term of options granted is derived from historical exercise experience. There were no stock options granted in 2022 or 2021.

The stock option transactions for the year ended December 31, 2022 were as follows:

	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	246,055	\$ 16.87
Granted	–	–
Exercised	–	–
Forfeited	(32,605)	\$ 15.88
Outstanding, end of period	213,450	\$ 17.02
Exercisable, end of period	213,450	\$ 17.02

Options outstanding and exercisable at December 31, 2022, have exercise prices between \$14.52 and \$21.70. The weighted-average remaining contractual life of Options and outstanding and exercisable was 3.6 years.

13. EMPLOYEE BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFITS

The Company maintains a non-contributory defined benefit pension plan and a post-retirement healthcare benefit plan. The plans cover certain eligible employees and retirees of the Company and its subsidiaries.

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.

Obligations and funded status: The changes in the benefit obligation, fair value of plan assets and the funded status of the Company's pension and post-retirement healthcare plans as of the Company's measurement dates of December 31, were as follows (in thousands):

	Pension Benefits		Post-Retirement Healthcare Benefits	
	2022	2021	2022	2021
Change in benefit obligation:				
Benefit obligation, beginning of period	\$ 172,451	\$ 185,118	\$ 1,219	\$ 1,336
Service cost	225	642	24	27
Interest cost	4,266	3,863	27	26
Actuarial (gains) losses	(35,427)	(8,000)	(239)	(68)
Plan amendment	890	–	–	–
Benefits paid	(9,305)	(9,172)	(72)	(102)
Benefits obligation, end of period	133,100	172,451	959	1,219
Change in plan assets:				
Fair value of plan assets, beginning of period	\$ 180,425	\$ 184,901	\$ –	\$ –
Return on plan assets, net of expenses	(39,209)	4,196	–	–
Contributions	–	500	–	–
Benefits paid	(9,305)	(9,172)	–	–
Fair value of plan assets, end of period	131,911	180,425	–	–
Funded status of the plan	\$ (1,189)	\$ 7,974	\$ (959)	\$ (1,219)

	Pension Benefits		Post-Retirement Healthcare Benefits	
	2022	2021	2022	2021
Funded status as recognized on the Consolidated balance sheets:				
Other assets	\$ –	\$ 7,974	\$ –	\$ –
Post-retirement liabilities	(1,189)	–	(959)	(1,219)
Amounts included in Accumulated other comprehensive loss, net of tax:				
Prior service cost	\$ 650	\$ –	\$ –	\$ –
Actuarial losses (gains)	\$ 28,462	\$ 22,131	\$ (64)	\$ 119

During 2022, plan funded status was negatively impacted by overall market conditions which caused a decline in plan assets versus expected returns on plan assets. A 235-basis point increase in the discount rate from 2021 to 2022 had an inverse effect on plan funded status by decreasing projected liabilities. The offsetting impacts of asset performance and the change in the discount rate reduced the funded status of the pension by \$9.2 million, resulting in an underfunded status of \$1.2 million.

During 2021, plan funded status was primarily affected by a 40-basis point increase in the discount rate which resulted in a decrease of projected pension plan liabilities. Assets returns were \$4.2 million but lower than expected returns assumed. The impacts of the net changes in actuarial assumptions in 2021 resulted in a funded status of \$8.0 million at December 31, 2021.

Benefit Costs: Service cost is included in Cost of goods sold in the Consolidated statements of income. Non-service cost components of net periodic benefit cost are included in Non-service related pension credit in the Consolidated statements of income. Components of net periodic benefit costs for the Company's defined benefit plans for the years ended December 31, were as follows (in thousands):

	Pension Benefits		Post-Retirement Healthcare Benefits	
	2022	2021	2022	2021
Service cost	225	642	24	27
Interest cost	4,266	3,863	27	26
Expected return on plan assets	(6,101)	(7,195)	–	–
Amortization of unrecognized:				
Prior service credit	46	–	–	(18)
Net loss	1,659	2,738	–	10
Net periodic benefit cost	\$ 95	\$ 48	\$ 51	\$ 45

The expected return on plan assets is calculated based on historical returns as well as future expected returns for each asset class. Target asset allocation of the pension trust is also included in the calculations.

Assumptions: Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost at December 31, were as follows:

	Pension Benefits		Post-Retirement Healthcare Benefits	
	2022	2021	2022	2021
Assumptions for benefit obligations:				
Discount rate	4.90%	2.55%	4.91%	2.55%
Rate of compensation increase	0.00%	2.50%	N/A	N/A
Assumptions for net periodic benefit cost:				
Expected return on plan assets	4.25%	5.25%	N/A	N/A
Discount rate	2.55%	2.15%	2.55%	2.15%
Rate of compensation increase	0.00%	2.50%	N/A	N/A

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.

It is a policy of the Company that the pension trust does not invest in the Company's stock. While 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, 2022 and 2021. The Plan provides that the Company may not obtain surplus assets of the Plan during a three-year period immediately following a change in control of the Company. The allocation of assets between equities (or equity type investments) and bonds is rebalanced periodically on a moving scale based on the funded level of the Plan. At December 31, 2022 and 2021, the asset allocation was approximately 20% equity and 80% fixed income. The asset allocation strategy, as approved by the Employee Post-Retirement Benefits Committee, is that the assets of the trust fund are to be allocated based upon an analysis of the funding adequacy, cash flow requirements, maturity level, and participant growth rate of the Plan. The investment alternatives available in each of the capital markets are to be analyzed based on the risk tolerance indicated by the Plan's unique characteristics.

The following table presents pension plan assets carried at fair value (as discussed in Note 2 – FVM) as measured on a recurring basis as of December 31, 2022 and 2021 (in thousands):

	2022			
	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:				
Fixed income	\$ 105,007	\$ 105,007	\$ –	\$ –
Domestic equities	15,476	15,476	–	–
International equities	10,660	10,660	–	–
Cash	768	768	–	–
	\$ 131,911	\$ 131,911	\$ –	\$ –

	2021			
	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:				
Fixed income	\$ 99,697	\$ 99,697	\$ –	\$ –
Domestic equities	27,590	27,590	–	–
Common Collective Trust Funds:				
Interest rate management	42,031	–	42,031	–
Other	11,107	11,107	–	–
	\$ 180,425	\$ 138,394	\$ 42,031	\$ –

Future contributions and benefit payments: Based on the funded status of the qualified pension plan, there is no requirement for the Company to make contributions to the qualified pension plan in 2023. The Company's future expected benefit payments as of December 31, 2022 were as follows (in thousands):

	Pension Benefits	Post-Retirement Healthcare Benefits
2023	\$ 9,979	\$ 121
2024	\$ 10,062	\$ 100
2025	\$ 10,170	\$ 104
2026	\$ 10,216	\$ 124
2027	\$ 10,206	\$ 122
2028-2032	\$ 49,052	\$ 460

Multi-Employer Plan: A company subsidiary, Lancaster Metal Manufacturing LLC, is also a participant in a union-sponsored multi-employer defined benefit pension plan covering collective bargaining employees. This plan is not administered by the subsidiary or the Company, and the provisions of the negotiated labor agreement determine the contributions. The subsidiary's contributions do not represent 5% or more of the plan's total contributions, and there were no surcharges assessed for either of the years 2021 or 2020. The risks of participating in a multi-employer plan are different from a single-employer plan in that assets contributed by one employer are not specifically segregated to its covered employees, unfunded obligations of the plan may be borne by all participants, and the liability to withdraw from the plan may be determined based on the funded status of the plan. Participation in this plan is outlined as follows and is based on Company information or information received from the certified annual reports of the plan.

	Funded Status ⁽¹⁾		Company Contributions	
	2022	2021	2022	2021
Steelworkers Pension Trust EIN/Plan Number 23-6648508-499	90.1%	87.1%	\$ 94	\$ 69

(1) The plan was valued as of January 1 of the preceding year, 2021 is the most recently available.

The Steelworkers Pension Trust was considered "Safe" for 2022 per the Pension Protection Act of 2006 because of the 2021 funded status being over 80%.

Defined Contribution Plans: The Company has various defined contribution benefit plans that in total cover substantially all full-time employees. Employees can make voluntary contributions in accordance with the provisions of their respective plan, which includes a 401(k) tax deferral option. The Company makes additional contributions to the plans on behalf of the employees and expensed \$1.3 million, \$1.2 million and \$0.8 million during 2022, 2021 and 2020, respectively.

Other Plans: 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 impact associated with holding these securities was an \$0.8 million loss in 2022 and gains of \$0.6 million and \$0.4 million in 2021 and 2020, respectively and was recognized in Interest and investment (loss) income in the Company's Consolidated statements of income. Trust assets were \$3.6 million and \$5.0 million as of December 31, 2022 and 2021, respectively, and included in Other long-term assets on the Company's Consolidated balance sheets. Trust assets are recorded at fair value using Level 1 inputs (see Note 10). The liabilities to employees were \$3.6 million and \$5.0 million as of December 31, 2022 and 2021, respectively, and included within Other post-retirement liabilities in the Company's Consolidated balance sheets. Adjustments to this liability caused by changes in the value of the marketable securities was an \$0.8 million loss in 2022 and a \$0.6 million gain in 2021 and are classified within selling, general, and administrative expenses.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in Accumulated other comprehensive loss for the years ended December 31, were as follows (in thousands):

2022				
	Pension Liability	Post-Retirement Medical Liability	Interest Rate Swap Liability	Total
Balance, beginning of period	\$ (22,131)	\$ (119)	\$ (10)	\$ (22,260)
Other comprehensive (loss) / income before reclassifications	(10,772)	238	1,766	(8,768)
Income tax benefit / (expense)	2,478	(55)	(406)	2,017
	(8,294)	183	1,360	(6,751)
Reclassifications:				
Realized losses	–	–	193	193
Amortization: ^(a)				
Prior Service Costs	46	–	–	46
Actuarial Loss	1,659	–	–	1,659
Income tax benefit ^(b)	(392)	–	(44)	(436)
	1,313	–	149	1,462
Other comprehensive (loss) income	(6,981)	183	1,509	(5,289)
Balance, end of period	\$ (29,112)	\$ 64	\$ 1,499	\$ (27,549)

(a) Amounts reclassified are included in the computation of net periodic benefit cost, discussed further in Note 13.

(b) Tax benefits are adjustments to deferred taxed within the Statements of income.

2021				
	Pension Liability	Post-Retirement Medical Liability	Interest Rate Swap Liability	Total
Balance, beginning of period	\$ (28,090)	\$ (165)	\$ (788)	\$ (29,043)
Other comprehensive income before reclassifications	5,003	52	575	5,630
Income tax expense	(1,151)	(12)	(132)	(1,295)
	3,852	40	443	4,335
Reclassifications:				
Realized losses	–	–	435	435
Amortization: ^(a)				
Prior Service Costs	–	18	–	18
Actuarial Loss/(Gain)	2,738	(10)	–	2,728
Income tax benefit ^(b)	(631)	(2)	(100)	(733)
	2,107	6	335	2,448
Other comprehensive income	5,959	46	778	6,783
Balance, end of period	\$ (22,131)	\$ (119)	\$ (10)	\$ (22,260)

(a) Amounts reclassified are included in the computation of net periodic benefit cost, discussed further in Note 13.

(b) Tax benefits are adjustments to deferred taxed within the Statements of income.

2020				
	Pension Liability	Post-Retirement Medical Liability	Interest Rate Swap Liability	Total
Balance, beginning of period	\$ (30,069)	\$ (177)	\$ (492)	\$ (30,738)
Other comprehensive income / (loss) before reclassifications	87	8	(742)	(647)
Income tax (expense) / benefit	(20)	(2)	170	148
	67	6	(572)	(499)
Reclassifications:				
Realized losses	–	–	358	358
Amortization: ^(a)				
Prior Service Costs	–	18	–	18
Actuarial Loss/(Gain)	2,483	(10)	–	2,473
Income tax benefit ^(b)	(571)	(2)	(82)	(655)
	1,912	6	276	2,194
Other comprehensive income	1,979	12	(296)	1,695
Balance, end of period	\$ (28,090)	\$ (165)	\$ (788)	\$ (29,043)

(a) Amounts reclassified are included in the computation of net periodic benefit cost, discussed further in Note 13.

(b) Tax benefits are adjustments to deferred taxed within the Statements of income.

15. COMMITMENTS AND CONTINGENCIES

The Company is contingently liable at any given time under standby letters or credit pertaining to workers' compensation self-insurance coverage, employee medical insurance, international product purchases, and other business guarantees. In the normal course of business, this amount is less than \$2.5 million, and at December 31, 2022 and 2021, the amount outstanding was \$1.6 million in both years.

In the normal course of business, certain subsidiaries of the Company have been named, and may in the future be named, as defendants in various legal actions, including claims related to property damage and/or personal injury allegedly arising from products of the Company's subsidiaries or their predecessors. A number of these claims allege personal injury arising from exposure to asbestos-containing material allegedly contained in certain boilers manufactured many years ago, or through the installation or removal of heating systems. The Company's subsidiaries, directly and/or through insurance providers, are vigorously defending all open asbestos cases, many of which involve multiple claimants and many defendants, which may not be resolved for several years. Asbestos litigation is a national issue with thousands of companies defending claims. While most claims have historically been resolved prior to the completion of trial, from time to time some claims may be expected to proceed to a potentially substantial verdict against subsidiaries of the Company. Any such verdict would be subject to a potential reduction or reversal of verdict on appeal, any set-off rights, and/or a reduction of liability following allocation of liability among various defendants.

The Company conducts its various businesses in separate subsidiaries and, as a result, it believes that any potential liability of a subsidiary as a result of a particular claim would be limited to such subsidiary. The Company believes, based upon its understanding of its available insurance policies and discussions with legal counsel, that all pending legal actions and claims, including asbestos actions and claims, should ultimately be resolved (whether through settlements or verdicts) within existing insurance limits and reserves, or for amounts not material to the Company's financial position or results of operations. However, the resolution of litigation generally entails significant uncertainties, and no assurance can be given as to the ultimate outcome of litigation or its impact on the Company and its subsidiaries. Furthermore, the Company cannot predict the extent to which new claims will be filed in the future, although the Company currently believes that the great preponderance of future asbestos claims will be covered by existing insurance. There can be no assurance that insurers will be financially able to satisfy all pending and future claims in accordance with the applicable insurance policies, or that any disputes regarding policy provisions will be resolved in favor of the Company.

The operations of the Company's subsidiaries are subject to a variety of federal, state, and local environmental laws. At this time, the Company believes its subsidiaries are in material compliance with all environmental laws and permits. As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for remedial actions at disposal areas containing waste materials from their operations.

FIVE YEAR SUMMARY (IN MILLIONS, EXCEPT PER SHARE DATA) (UNAUDITED):

	2022	2021	2020	2019	2018
Net sales	\$ 240.5	\$ 218.5	\$ 187.5	\$ 212.3	\$ 197.7
Income before Income Taxes	\$ 6.7	\$ 1.3	\$ 8.5	\$ 11.6	\$ 1.0
Income Tax Expense	\$ 1.7	\$ 0.3	\$ 1.9	\$ 2.8	\$ 1.6
Net income (Loss)	\$ 5.0	\$ 1.0	\$ 6.6	\$ 8.8	\$ (0.6)
Earnings / (Loss) per Share	\$ 1.10	\$ 0.22	\$ 1.43	\$ 1.91	\$ (0.12)
Cash flow per Share ⁽¹⁾	\$ 2.18	\$ 1.23	\$ 2.39	\$ 2.83	\$ 2.25
Net Cash Provided By Operating Activities	\$ 1.2	\$ 10.5	\$ 4.7	\$ 12.0	\$ 7.8
Total Dividends Paid	\$ 4.1	\$ 4.1	\$ 4.1	\$ 4.0	\$ 4.0
Dividends per Share	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.88
Property, Plant, and Equipment, Net	\$ 60.0	\$ 57.5	\$ 52.5	\$ 52.5	\$ 50.0
Capital Expenditures	\$ 7.3	\$ 9.5	\$ 4.3	\$ 6.6	\$ 4.4
Depreciation and Amortization	\$ 4.8	\$ 4.5	\$ 4.3	\$ 4.1	\$ 3.9
Current Assets	\$ 99.6	\$ 86.4	\$ 85.8	\$ 79.2	\$ 79.4
Current Liabilities	\$ 37.1	\$ 34.3	\$ 29.5	\$ 27.8	\$ 29.7
Working Capital	\$ 62.5	\$ 52.1	\$ 56.3	\$ 51.4	\$ 49.7
Total Debt	\$ 33.7	\$ 21.8	\$ 18.3	\$ 14.5	\$ 18.4
Shareholders' Equity	\$ 91.1	\$ 95.2	\$ 91.2	\$ 86.9	\$ 79.5
Book value per share	\$ 19.71	\$ 20.68	\$ 19.89	\$ 18.99	\$ 17.40
Adjusted book value per share ⁽²⁾	\$ 25.69	\$ 25.53	\$ 26.24	\$ 25.73	\$ 24.76
Outstanding common shares (in thousands)	4,606	4,587	4,571	4,562	4,553

(1) Cash Flow per Share is calculated as net income plus depreciation and amortization less pension income, divided by weighted-shares outstanding.

(2) Adjusted Book Value per Share is calculated as Shareholders' Equity excluding AOCL, divided by weighted-shares outstanding.

INVESTOR & SHAREHOLDER INFORMATION

REPORTING REQUIREMENTS

The Company is not currently required to register with the SEC (Securities and Exchange Commission) and therefore is not subject to the reporting requirements of an SEC-regulated public company. Individuals, trusts, and investment organizations hold shares of the Company. To the best of the Company's knowledge, no one person owns more than 10% of the outstanding shares, regardless of class or combination of classes (shares held by family relatives have not been combined in computing this percentage). 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, 2022. 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 from interim reporting. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by independent auditors as prescribed by the SEC. This Annual Report contains forward-looking statements. Other reports, letters, and press releases distributed by the Company may also contain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates, and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, variations in weather, changes in the regulatory environment, raw material costs, litigation, customer preferences, general economic conditions, technology, product performance, and increased competition.

BUSINESS STRATEGY

Subsidiaries of the Company provide high-value, high-quality HVAC products backed by superior service. This diverse product mix meets the various needs of most residential, commercial, and industrial applications. This diversification, combined with the critical need for thermal solutions, ensures consistent financial performance through fluctuating economic cycles. That's how the Company provides consistent returns: We're creating value in established market segments driven by a constant replacement cycle. Our strong earnings and dividend history, proven management team, diverse product mix, and continuing product demand represent an outstanding opportunity for stakeholders. The Company is a unique investment opportunity that creates stable value while delivering solid returns. The Company has also grown and will continue to grow through acquisitions. The Company is continually looking for appropriate acquisitions at appropriate prices.

CORPORATE GOVERNANCE

The Board of Directors (the Board) of the Company comprises nine members, seven of whom are considered “independent” directors (not an employee, not affiliated with the Company’s auditors, and not part of an interlocking directorate). The remaining two members of the Board are the Company’s Vice Chairman and Chief Executive Officer and the Company’s President and Chief Operating Officer. Directors are selected based on their individual qualifications and experience, the overall balance of the Board’s background and experience, and the 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 five times per year, with various additional Board committee meetings and special meetings held throughout the year. Board committees concentrate on important areas of responsibility. Standing committees of the Company consist of the Audit and Risk Committee, the Nominating and Governance Committee and the Human Resources Committee. These committees have defined charters that address the committees’ purposes, goals, and responsibilities. All committees meet on a scheduled basis. Please refer to the proxy for more information on corporate governance, executive compensation, and security holders.

INVESTOR AND SHAREHOLDER INFORMATION

Shareholder Inquiries

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

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

Stock Exchange Listing

The Common Stock of the Company is traded under the symbol “BURCA” on the electronic Pink Sheets and is listed by the OTC Markets Group, Inc., a reporting service for over-the-counter stocks. Stock quotation information is available through stock reporting services on the internet.

Annual Meeting

Burnham Holdings, Inc.’s Annual Meeting will be held on Monday, April 24, 2023, beginning at 11:30 a.m. at the Marriott Penn Square in Lancaster, PA. Further details will be provided in March 2023 on our website, www.burnhamholdings.com.

Corporate Data

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

For further information contact:

Nicholas I. Ribich, Vice President, Chief Financial Officer
and Secretary
Telephone: (717) 390-7812
Fax: (717) 390-7852
Email: nribich@burnhamholdings.com

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

DIRECTORS & OFFICERS



BOARD OF DIRECTORS

E. Philip Wenger, Donald A. Stern, Christopher R. Drew, Laura T. Wand, Douglas S. Brossman, John W. Lyman, J. David W. Reeves, William F. Dodge, II, Christopher E. Pruitt

AUDIT & RISK COMMITTEE

E. Philip Wenger - Chair
 John W. Lyman
 Christopher E. Pruitt
 Donald A. Stern
 Laura T. Wand

HUMAN RESOURCES COMMITTEE

Laura T. Wand - Chair
 John W. Lyman
 Douglas S. Brossman
 Christopher R. Drew
 E. Philip Wenger

NOMINATING & GOVERNANCE COMMITTEE

Donald A. Stern - Chair
 John W. Lyman
 William F. Dodge, II
 Christopher R. Drew
 J. David W. Reeves

PROXY COMMITTEE

William F. Dodge, II - Chair
 John W. Lyman
 Donald A. Stern



OFFICERS OF BURNHAM HOLDINGS, INC.

Bradley C. Ehlert	Controller
Nicholas I. Ribich	Vice President, Chief Financial Officer and Secretary
Melissa M. Devitz	Vice President of Human Resources
Douglas S. Brossman	Vice Chair and Chief Executive Officer
Christopher R. Drew	President and Chief Operating Officer
Paul D. Spradling	Vice President of Operations
Bryan O'Toole	Vice President of Business Development



Jim Cipollone leads Burnham's new rental boiler affiliate, Thermal InMotion, which provides a variety of mobile boiler rooms for short and long term rental

STRIKING A BALANCE, SHARPENING FOCUS

BURNHAM BUILDS MOMENTUM WITH RENEWED VISION

For Burnham Holdings, Inc. ("BHI"), 2022 was a year of balance and focus. Every priority had multiple perspectives, and BHI strove to focus on opportunities that offered the most potential for growth and financial return. We also announced several leadership transitions, including that Doug Brossman was retiring, with Chris Drew being appointed CEO in early 2023.

In this interview, Chris, as well as Bryan O'Toole, Burnham's new VP of business development, and Paul Spradling, the new VP of operations, discuss how the BHI team continued to support their core businesses while pushing toward opportunities.

Congrats to all three of you on new roles within BHI. Paul and Bryan, can you explain yours in more detail?

Paul Spradling: I oversee our operations, encompassing our residential and commercial businesses, and the captive parts operations. There are diverse operations to manage ... following operational best practices, supporting safety and making quality products. There's also an ongoing focus on process improvement and smart spending, to continually improve our operational and financial performance.

Bryan O'Toole: I'm responsible for the oversight and guidance of BHI's sales organization, Heating Solution Sales Company, which we created at the beginning of 2022 to handle the sales and marketing for most of the Burnham subsidiaries. I also oversee our engineering effort, which we combined into an entity called Burnham Holdings Engineering Company. Our industry is heavily product driven, so we felt it was logical to closely link sales with product development and new business opportunities.

You mentioned the creation of several new organizations under the BHI umbrella. How will those benefit the business?

Chris Drew: As a broad organization with multiple subsidiary companies, we want to work in the most efficient manner possible across the portfolio of businesses versus each individual company making unique decisions. We can provide a stronger array of products to the HVAC market as a group.

Bryan O'Toole: For example, our sales and marketing resources were duplicated among our subsidiaries. Now, we can combine those resources and focus them on specific initiatives to allow the business to gain momentum. It helps us drive growth in a selected segment and quickly have an impact.

Paul Spradling: We're doing a lot of things that drive synergies, efficiencies and communication – all with the goal of moving the business ahead with a team that knows exactly where we're going and what we're doing.

Speaking of your team, how did your approach to staffing change in 2022?

Paul Spradling: Our HR team has done a great job coming up with creative ways to make people feel valued. We're all proud of the culture of teamwork we're creating and how we're able to take care of our customers, employees and shareholders. We've added production shifts to meet demand in 2022, which in turn required our quality and sourcing teams to respond to the increased output. They worked hard to keep parts flowing into the plants, with some shops reaching new levels of throughput. Additionally, several operations improved their safety performance, which is a fantastic achievement considering the new colleagues in the plants.

Chris Drew: Also, we're cognizant, as a leadership group, of the need to share our vision. To continue to get buy-in from the rest of the organization, we must make sure that we're sharing our goals for the business. We're excited about what we think we can accomplish, and we're clearly focused on translating our vision to actionable goals and pushing that down further into the organization.



Staffing challenges are certainly affecting the industry at large. What were some of the other challenges BHI had to overcome this year?

Bryan O'Toole: From the sales side, the biggest challenge we had was balancing strong incoming order flow while increasing equipment prices due to ongoing cost increases of our commodities and components – even as our delivery times were extended. We relied on our strong relationships and transparent communication with our customers to keep them informed.

Paul Spradling: There was a huge amount of work done by a lot of teams to keep parts coming in. And it takes more than calling suppliers and telling them what you need. We came up with alternate suppliers for multiple components, so instead of having one supplier for a critical component, we now have two suppliers. It's a team effort to pull that off. It all comes back to parts and people. We can have all the parts in the world, but with no people, we can't build. Also, we can have all the people in the world, but with no parts, we can't build. So, it's a balance.

“We're clearly focused on translating our vision to actionable goals.”

- Chris Drew

These challenges around supply chains, staffing and rising costs have obviously reshaped the business landscape. How has BHI adapted?

Bryan O'Toole: Traditionally, you could consistently count on getting a residential boiler in a couple of weeks. Currently, it's taking much longer. From the customer standpoint, that stirs up opportunity because a customer who is desperate for product may find another supplier. Loyalty diminishes. Fortunately, this type of disruption has been positive for us as our delivery performance allowed us to capture additional business.

Paul Spradling: Throughout the year, we consistently received feedback that we maintained better lead times than many of our competitors. To do so, we've had to adapt our hiring practices for production teammates. It's been an exercise in patience and working closely with our suppliers to help maintain the steady inflow of components required to keep the production lines running.

Chris Drew: Let me add to what Paul said about hiring. We've seen a broader demographic shift in the U.S. population. There are people with decades of experience retiring out of our plants. They've spent their whole career here, and we're trying to backfill that with a new generation of employees. So, significant areas of focus for us on the HR front during 2023 will be retaining employees, continuing to develop our culture and working toward creating an environment where people view working at one of our businesses as a career, rather than a job.

Two Burnham technicians complete lab work on a full-size AMP model



Compact AMP series condensing boiler; a technician works on a heat exchanger inside a boiler

completed the initial release of our USB Connect mobile app, which allows contractors to interact with their Alta, Alpine and Aspen boilers through a mobile phone interface and communicate directly with our technical and customer service teams utilizing a cloud-based data service.

It sounds like there are lots of exciting opportunities on the horizon. Is there anything that you'd like to leave us with as we look ahead to 2023?

Chris Drew: Overall, the team and I are excited about the future. BHI's position in our core boiler and furnace markets is excellent, and we plan to maintain and strengthen those positions. We've experienced solid growth in 2022, and the addition of several new boiler and furnace products will support additional growth. Our research and development efforts on several new "green" product initiatives will help drive the future of hydronic heating, further reducing our emissions footprint. All these actions will help us diversify our revenue stream, which begins to minimize BHI's dependency on any one segment of the HVAC industry.

"We're doing a lot of things that drive synergies, efficiencies and communication – all with the goal of moving the business ahead."

- Paul Spradling

With all those changes in mind, how has BHI stayed ahead in terms of new products and technologies?

Bryan O'Toole: One thing we haven't touched on yet is the evolving attitude about climate change. We have a team of engineers looking at technologies related to reducing our products' carbon emissions. This includes exploring hydronic heating technologies that are compatible with renewable biofuels and working to deploy hydronic heat pumps as a potential alternative to gas- and oil-fired boilers. We're also monitoring the deployment of alternative fuels, like green hydrogen, which is being effectively adopted in Europe and is slowly gaining more prominence and investment in the U.S.

Chris Drew: We're active with various government agencies regarding regulations and their potential impact on homeowners and end users. We're constantly participating in discussions about decarbonization and how regulations at every level may impact our business. Our current residential and commercial product portfolio is significantly more fuel-efficient and emissions-friendly than it was just five years ago. As we mentioned, we're tracking additional technologies that will allow us to continue developing solutions for the heating needs of our customers in the most climate-friendly manner possible while ensuring choice and comfort.

Bryan O'Toole: The cast iron boiler market is important to BHI. It's continuing to consolidate, and we plan to maintain our leadership position. We've also stayed focused on our strategic plan to continue to grow our high efficiency, condensing boiler revenue. We launched the full lineup of Alta/Phantom II residential high-efficiency boilers in March 2022 with tremendous success.

The Alta/Phantom II product is focused on simplifying the process of installing and commissioning a boiler in the basement. Its gas-adaptive combustion technology ensures the cleanest combustion possible, regardless of operating or atmospheric conditions. This simplifies initial startup for the installer. We also

Internally, the restructured organization has increased our flexibility and efficiency, while the accompanying new members of the management team are rich with ideas to improve operational performance, expand our share of the markets we serve and improve financial performance. It's an incredibly talented group of leaders that will help us accomplish great things as we meet the uncertainty and challenges of the decades to come.



Christopher Drew
President and
Chief Operating Officer,
Burnham Holdings, Inc.



Bryan O'Toole
Vice President of
Business Development,
Burnham Holdings, Inc.



Paul Spradling
Vice President
of Operations,
Burnham Holdings, Inc.

ACCELERATING GROWTH: A NEW FOCUS ON RENTAL SOLUTIONS

Thermal InMotion, a new rental boiler affiliate, aims to capture market share and feature BHI brands

The North American rental boiler market supports roughly \$500 million a year in rental revenue, and there's seemingly never enough rental units to meet demand. BHI believes this creates a meaningful opportunity solidly within their operating sphere, which showcases both their commercial boiler product portfolio and their comprehensive engineering capabilities.

Thermal InMotion, BHI's rental solutions affiliate, was created in 2022 to develop a fleet of engineered mobile boiler rooms and transportable skid- or trailer-mounted systems that will produce steam, hydronic hot water heat, domestic or potable hot water or a combination of all of them. These systems will be offered for sale, rent or lease-to-own to meet a range of customer needs.

Leveraging our network and expertise

BHI subsidiaries, like Thermal Solutions, Burnham Commercial and Bryan Steam, have a decades-long legacy in producing quality boilers and accessories. Thermal InMotion brings together these industry-leading manufacturers to develop mobile and modular systems, the first of which was rented in the fourth quarter of 2022, with several others ready to be deployed in early 2023.

While these solutions represent a cross-functional effort among the various commercial engineering and design teams, there are benefits for the sales organization, HSSC, as well. The sales team can identify opportunities where a Thermal InMotion rental solution can solve a short-term problem for customers, such as bridging a long lead time between order placement and installation of a new boiler system. Likewise, when providing a rental unit, the Thermal InMotion team may uncover an opportunity to sell a new unit. A customer's purchase of new equipment potentially opens the door for an ongoing relationship, with BHI positioned as a partner with a suite of turnkey offerings.

Delivering systems, not components

Thermal InMotion is currently focused on developing comprehensive mobile boiler rooms that help customers manage unexpected outages, continue production during planned maintenance and expand their utility systems.

As Jim Cipollone, general manager of Thermal InMotion, explains, "We'll go out and actively talk to industrial prospects, survey their systems and help them develop a plan to install the necessary connections for a rental system so that, if they do have a failure, it's just a matter of giving us a call."

Thermal InMotion mobile 2M BTU hot water boiler system



Jim Cipollone, general manager of Thermal InMotion

This approach helps customers by reducing downtime and lost productivity. It's also unique within the market, with most competitors building components rather than functioning systems. Virtually all the design layouts and equipment produced by Thermal InMotion are solutions that BHI subsidiaries build and engineer.

The team plans to have more than 10 systems built out by the end of 2023 – all with varying configurations and production outputs for the industrial process market. For this initial fleet, hot water heating systems will operate at up to four million BTUs per hour, steam systems up to 1,000 horsepower and portable/hydronic heat up to eight million BTUs per hour.

Supporting a range of customer needs

Modular boiler solutions can be used by industrial manufacturers to keep production lines running during planned maintenance when the main system is down. As infrastructure begins to fail, these systems can prevent downtime while customers make necessary repairs. Modular systems may also be brought in on a seasonal basis to increase capacity during peak demand or as a solution for meeting new regulatory requirements. For other organizations, like colleges, hospitals and offices, these products can help them expand their systems as they grow without needing to expand their utility plant.

Thermal InMotion will also support customers in emergency situations. Natural disasters, fires and mechanical failures can leave facilities scrambling, but emergency rentals can minimize the effects of an unplanned outage, including lost time and supply chain disruption.

"Burnham Holdings sees a business opportunity, and the breadth of the products sold throughout the subsidiaries puts them in a unique position to provide solutions to a broad array of rental needs," Jim Cipollone said when asked to describe this new venture. "I see us fitting into that role – building systems that feature our brands will allow us to penetrate the North American boiler market and grow our market share as a startup."

