

BURNHAM HOLDINGS, INC.

REPORT TO STOCKHOLDERS

**Nine Months Ended
September 30, 2018**

Corporate Data

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Common Stock

The Common Stock of Burnham Holdings, Inc. is traded under the symbol "BURCA" on the electronic Pink Sheets, and is listed by the OTC Markets Group, Inc., reporting service for over-the-counter stocks.

For further information contact:
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Transfer Agent

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Inquiries about stock certificates, stock transfers, dividend payments or address changes should be directed to Fulton Financial at the above address.

BURNHAM HOLDINGS, INC.

Consolidated Statements of Cash Flows

(in thousands and data is unaudited (see Notes))

	Nine Months ended	
	Sep 30, 2018	Oct 1, 2017
Net income	\$ 331	\$ (701)
Loss on sale of property	-	50
Depreciation and amortization	2,957	2,987
Pension and postretirement liabilities expense	281	(311)
Contributions to pension trust (Note 5)	(2,630)	(1,300)
Other net adjustments	582	49
Changes in operating assets and liabilities	(12,711)	(8,784)
NET CASH USED IN OPERATING ACTIVITIES	(11,190)	(8,010)
Net cash used in the purchase of assets	(2,769)	(7,388)
Proceeds from sale of property, net	-	532
Proceeds from borrowings	17,123	16,045
Proceeds from stock option exercise and Treasury activity, net	122	122
Dividends paid	(3,030)	(3,023)
(DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	256	(1,722)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	5,515	7,563
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF QUARTER	\$ 5,771	\$ 5,841

Notes To Financial Statements:

- (1) Basic earnings per share are based upon weighted average shares outstanding for the period. Diluted earnings per share assume the conversion of outstanding rights into common stock.
- (2) Common stock outstanding at September 30, 2018 includes 3,120,830 of Class A shares and 1,431,670 of Class B shares.
- (3) Mark-to-Market adjustments are a result of changes (non-cash) in the fair value of interest rate agreements. These agreements are used to exchange the interest rate stream on variable rate debt for payments indexed to a fixed interest rate. These non-operational, non-cash charges reverse themselves over the term of the agreements.
- (4) Accounting rules require that the funded status of pension and other postretirement benefits be recognized as a non-cash asset or liability, as the case may be, on the balance sheet. For December 31, 2017 and 2016, projected benefit obligations exceeded plan assets. The resulting non-cash presentation on the balance sheet is reflected in "Deferred income taxes", "Other postretirement liabilities", and "Accumulated other comprehensive income (loss)", a non-cash sub-section of "Stockholders' Equity" (See Note 10 of the 2017 Annual Report for more details).
- (5) In the first nine months of 2018 and 2017, the Company made voluntary pre-tax contributions of \$2.63 million and \$1.30 million, respectively, to its defined benefit pension plan. These payments increased the trust assets available for benefit payments (reducing "Other postretirement liabilities"), and did not impact the Statements of Income.
- (6) Unaudited results, forward looking statements, and certain significant estimates and risks. This note has been expanded to include items discussed in detail within the Annual Report.

Unaudited Results and Forward Looking Statements. The accompanying unaudited financial statements contain all adjustments that are necessary for a fair presentation of results for such periods and are consistent with policies and procedures employed in the audited year-end financial statements. These consolidated financial statements should be read in conjunction with the Annual Report for the period ended December 31, 2017. Statements other than historical facts included or referenced in this Report are forward-looking statements subject to certain risks, trends, and uncertainties that could cause actual results to differ materially from those projected. We undertake no duty to update or revise these forward-looking statements.

Certain Significant Estimates and Risks. Certain estimates are determined using historical information along with assumptions about future events. Changes in assumptions for items such as warranties, pensions, medical cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Specific risks, such as those included below, are discussed in the Company's Quarterly and Annual Reports in order to provide regular knowledge of relevant matters. Estimates and related reserves are more fully explained in the 2017 Annual Report.

Retirement Plans: The Company maintains a non-contributory defined benefit pension plan, covering both union and non-union employees, that has been closed to new hires for a number of years. Benefit accrual ceased in 2009, or earlier depending on the employee group, with the exception of a limited, closed group of union production employees. While not 100% frozen, these actions were taken to protect benefits for retirees and eligible employees, and have materially reduced the growth of the pension liability. Lancaster Metal Manufacturing, a Company subsidiary, also contributes to a separate union-sponsored multiemployer defined benefit pension plan that covers its collective bargaining employees. Variables such as future market conditions, investment returns, and employee experience could affect results.

New Accounting Standards: All of the following accounting standards were adopted in the first quarter of 2018:

Beginning on January 1, 2018, we adopted accounting standard ASC606, Revenue from Contracts with Customers, using the full retrospective adoption method. In the Consolidated Statements of Income for the nine month period ended October 1, 2017, the adoption of ASC606 caused a decrease in sales of \$639 and a corresponding decrease of \$639 in selling, general and administrative expenses compared to previously reported results. There was no impact to income before taxes in the first nine months of 2017 and no changes to balance sheet accounts were required as the result of the adoption of ASC606. On an ongoing basis, we expect the impact of the adoption of ASC606 to be immaterial to our reported net income.

(Note 6 continued on following page)

Also effective January 1, 2018, we adopted ASU 2017-07 - Compensation - Retirement Benefits (Topic 715). In the Consolidated Statements of Income, the adoption of the standard had the following impacts on previously reported 2017 nine month results: increase to cost of goods sold of \$487 thousand, increase to SG&A expenses of \$506 thousand and increase to the line item titled "non-service related pension credit" in other income of \$993 thousand. The implementation of the standard had no net impact on income before taxes, just the line items where pension expense/credit was previously reported.

We also adopted the requirements of ASU 2018-02, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income (AOCI). The Company has elected to adopt the policy of reclassifying stranded tax effects caused by the Tax Cut and Jobs Act from AOCI to retained earnings and also to include the full effect of the reclassification in 2018. In the Consolidated Balance Sheets, adoption of the standard increased the balance of retained earnings and AOCI by \$5.176 million in 2018 compared to the ending balances recorded at December 31, 2017.

Medical Health Coverage: The Company and its subsidiaries are self-insured for most of the medical health insurance provided for its employees, limiting maximum exposure per occurrence by purchasing third-party stop-loss coverage.

Retiree Health Benefits: The Company pays a fixed annual amount that assists a specific group of retirees in purchasing medical and/or prescription drug coverage from providers. Additionally, certain employees electing early retirement have the option of receiving access to an insured defined benefit plan at a yearly stipulated cost or receiving a fixed dollar amount to assist them in covering medical costs.

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. 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 administrators and adjusts recorded reserves as required.

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. For example, on July 23, 2013 and December 12, 2014, New York City State Court juries found numerous defendant companies, including a subsidiary of the Company, responsible for asbestos-related damages in cases involving multiple plaintiffs. The subsidiary, whose share of the verdicts amounted to \$42 million and \$6 million, respectively, before offsets, filed post-trial motions and appeals seeking to reduce and/or overturn the verdicts, and granting of new trials. On February 9, 2015, the trial court significantly reduced the 2013 verdicts, reducing the subsidiary's liability from \$42 million to less than \$7 million. Additionally, on May 15, 2015, the trial court reduced the subsidiary's liability in the 2014 verdict to less than \$2 million. On October 30, 2015, the subsidiary settled these verdicts for significantly less than the trial courts' reduced verdicts, with all such settled amounts being covered by applicable insurance. The Company believes, based upon its understanding of its available insurance policies and discussions with legal counsel, that all pending legal actions and claims, including asbestos, should ultimately be resolved (whether through settlements or verdicts) within existing insurance limits and reserves, or for amounts not material to the Company's financial position or results of operations. However, the resolution of litigation generally entails significant uncertainties, and no assurance can be given as to the ultimate outcome of litigation or its impact on the Company and its subsidiaries. Furthermore, the Company cannot predict the extent to which new claims will be filed in the future, although the Company currently believes that the great preponderance of future asbestos claims will be covered by existing insurance. There can be no assurance that insurers will be financially able to satisfy all pending and future claims in accordance with the applicable insurance policies, or that any disputes regarding policy provisions will be resolved in favor of the Company.

Litigation Expense, Settlements, and Defense: The 2018 first nine month charges for all uninsured litigation of every kind, were \$100 thousand. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the current nine months were approximately \$81 thousand. Prior year's settlements and expenses, including amounts for self-insured asbestos cases, are disclosed in the 2017 Annual Report.

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

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

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for response actions at disposal areas containing waste materials from their operations. In the past five years, the Company has not received any notice that it or its subsidiaries might be responsible for remedial clean-up actions under government supervision. However, one issue covered by insurance policies remains open as of this date and is fully disclosed in the 2017 Annual Report. 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.

To Our Shareholders:

Highlights of our our third quarter and year-to-date (YTD) operating performance include the following:

- Net sales in the third quarter and YTD in 2018 were \$47.5 million and \$127.8 million, respectively, compared to \$43.5 million and \$112.7 million in the same periods in 2017. This was an increase of 9.2% in the third quarter and 13.3% on a YTD basis compared to last year
- Residential product sales increased by 10.5% in the third quarter and by 14.4% YTD compared to last year, while sales of products for commercial applications increased by 6.1% and 10.7% for the same periods. Sales of high efficiency residential and commercial products reflect strong year-over-year growth on a YTD basis.
- Long-term debt was \$31.9 million, \$400 thousand higher than at the end of the third quarter of 2017. Interest expense for the third quarter was higher by approximately 6% as the result of higher interest rates.
- YTD net profit of \$331 thousand was up \$1.032 million versus 2017.

Financial Results

Residential product sales continued to show improvement in the third quarter, as sales were up 10.5% compared to the third quarter of 2017. On a YTD basis, residential product sales were higher by 14.4% compared to 2017, as sales of high efficiency condensing products contributed strong year-over-year growth. Sales of products for commercial applications also increased in the quarter, with sales up 6.1% compared to the prior year, as our new condensing boiler products continue to gain acceptance in the commercial marketplace.

Cost of goods sold ("COGS") as a percentage of sales for the third quarter and YTD in

2018 was 81.4% and 81.2%, respectively, compared to 81.9% and 82.2% for the same periods in 2017. Favorable impacts to COGS included the higher overall sales volume, a more profitable mix of products sold and higher plant utilization compared to last year. However, these benefits were offset by higher prices paid for steel, scrap metal and other component parts during 2018 as the result of threatened or imposed tariffs. Product pricing actions were implemented in the first half of 2018 to address these factors. We continue to monitor the tariff situation to assess the need for any additional pricing actions. Selling, general and administrative expenses were higher YTD in terms of total dollars spent, however, they were lower than last year on a percentage of sales basis (18.5% compared to 19.0%).

Net profit in the third quarter was \$703 thousand compared to \$543 thousand in the third quarter of 2017, up 11%. On a YTD basis, 2018 results reflect a net profit of \$331 thousand compared to a 2017 net loss of (\$701) thousand, an improvement of \$1.032 million.

Balance Sheet Condition

The Company's balance sheet has appropriate levels of working capital to adequately support the expected level of business activity in the fourth quarter. Long-term debt was higher at the end of the third quarter compared to last year (\$31.9 million vs. \$31.5 million). Net cash used in operating activities was higher by \$3.2 million, mainly due to higher voluntary pension contributions and higher inventory levels needed to support the increased sales volumes experienced in 2018.

Douglas S. Brossman
President and CEO

Consolidated Statements of Operations

(In thousands, except per share data)

(Data is unaudited (see Notes))

	Three Months Ended		Nine Months Ended	
	Sep 30, 2018	Oct 1, 2017	Sep 30, 2018	Oct 1, 2017
Net sales	\$ 47,453	\$ 43,453	\$ 127,763	\$ 112,747
Cost of goods sold	38,607	35,588	103,696	92,665
Gross profit	8,846	7,865	24,067	20,082
Selling, general and administrative expenses	7,771	7,043	23,578	21,436
Operating income	1,075	822	489	(1,354)
Other income (expense):				
(Loss) on sale of property				(50)
Interest income	31	24	83	56
Non-service related pension credit	135	311	608	993
Interest expense	(328)	(309)	(750)	(740)
Other income (expense)	(162)	26	(59)	259
Income before income taxes	913	848	430	(1,095)
Income tax expense (benefit)	210	305	99	(394)
NET INCOME	\$ 703	\$ 543	\$ 331	\$ (701)
BASIC & DILUTED INCOME (LOSS) PER SHARE	\$ 0.15	\$ 0.12	\$ 0.07	\$ (0.16)
DIVIDENDS PAID	\$ 0.22	\$ 0.22	\$ 0.66	\$ 0.66

Consolidated Balance Sheets

(in thousands and data is unaudited (see Notes))

	Sep 30, 2018	Oct 1, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,771	\$ 5,841
Trade accounts receivable, less allowances	22,707	20,234
Inventories	53,087	51,647
Prepaid expenses and other current assets	1,406	1,369
TOTAL CURRENT ASSETS	82,971	79,091
PROPERTY, PLANT AND EQUIPMENT, net	49,352	49,579
DEFERRED INCOME TAXES (4)		
OTHER ASSETS, net	16,650	22,184
TOTAL ASSETS	\$ 148,973	\$ 150,854
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and taxes payable & accrued expenses	\$ 20,652	\$ 17,522
Current portion of long-term liabilities	134	157
TOTAL CURRENT LIABILITIES	20,786	17,679
LONG-TERM DEBT	31,896	31,521
OTHER POSTRETIREMENT LIABILITIES (4)(5)	7,840	16,575
DEFERRED INCOME TAXES	3,940	3,341
STOCKHOLDERS' EQUITY		
Preferred Stock	530	530
Class A Common Stock	3,513	3,487
Class B Convertible Common Stock	1,431	1,457
Additional paid-in capital	15,912	15,798
Retained earnings	111,496	108,357
Accumulated other comprehensive income (loss) (4)	(30,389)	(29,901)
Treasury stock, at cost	(17,982)	(17,990)
TOTAL STOCKHOLDERS' EQUITY	84,511	81,738
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 148,973	\$ 150,854