BURNHAM HOLDINGS, INC.
2018 ANNUAL REPORT

BURNHAM HOLDINGS
PERFORMANCE PROVEN · TECHNOLOGY FORWARD

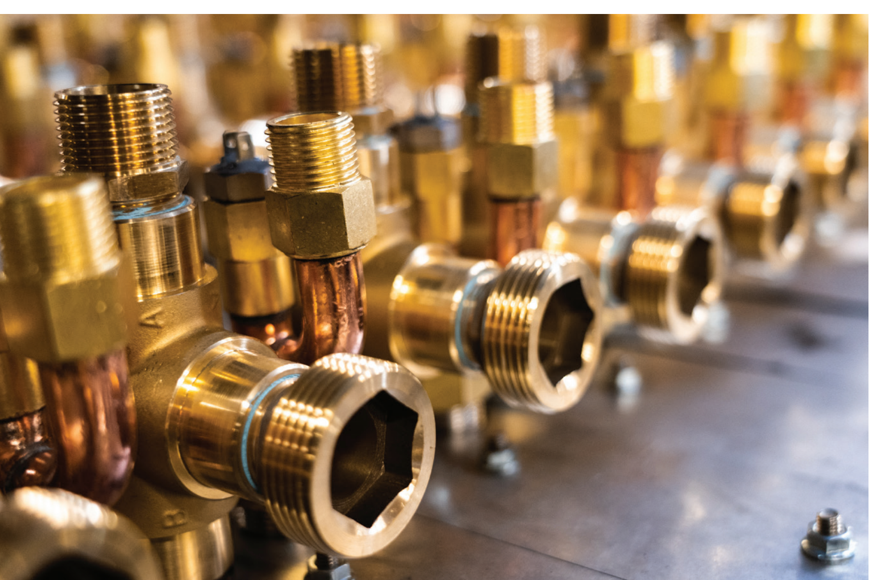
LETTER TO OUR STOCKHOLDERS

Doug Brossman (right) and Chris Drew.

Last year was another year of improved sales and operational performance across all of our businesses, as increased demand for residential and commercial heating equipment combined to improve 2018 sales levels. Net sales for the year were $197.7 million, an increase of $21.9 million, or 12.5%, versus 2017. Residential product sales were up 15.2% as both our residential boiler, particularly our high-efficiency condensing products, and furnace business delivered strong sales improvement. Commercial boiler sales were up 4.9% versus last year, also driven by growing sales of our new commercial high-efficiency condensing products.

Gross profit in 2018 was $41.6 million, an increase of $5.8 million, or 16.3%, versus 2017. Further, we were able to increase our gross profit margin to 21.1% in 2018, despite higher raw material prices incurred due to U.S. import tariffs on steel, aluminum and other imported components.

Although sales of our high-efficiency commercial condensing boilers increased in 2018, changing market demand for large commercial boilers and continued cost impacts (including significant steel price inflation due to U.S. import tariffs) caused us to further adjust the future outlook for sales of large, non-condensing commercial boilers. This resulted in a $6.78 million non-cash goodwill impairment charge in 2018, in addition to the $6.0 million impairment charge taken in 2017. The combined goodwill written down in both years represents all remaining goodwill related to an acquisition of a commercial boiler subsidiary made over 20 years ago.



As a result, our net income results in 2018 and 2017 were negatively impacted by these non-cash goodwill impairment charges resulting in a net loss in 2018 of ($0.55) million, or a basic loss per share of ($0.12), compared to net income of $0.97 million or basic earnings per share of $0.21 in 2017. Also in 2017, a one-time income tax benefit was recorded due to the revaluation of net deferred tax liabilities. Excluding those impacts, net income in 2018 would have been $6.2 million ($1.37/share) versus $4.8 million ($1.06/share) in 2017, up $1.4 million ($0.31/share), or 29.2%.

Our sales and profit growth is the direct result of our strategic execution over the past few years to anticipate and meet the evolving demands of our customers for more sophisticated, high-efficiency products. We have made significant investments in our residential and commercial product development capabilities, and are building on that success with increased focus on our operational, sales and marketing efforts; leveraging our market leadership position with the broadest and most innovative portfolio of condensing and non-condensing commercial and residential products in the industry.

Examples of these investments in our future include the following:

- Our residential boiler businesses are continuing to outpace the competition as we continue to improve our new, sophisticated high-efficiency boiler products, while also enhancing and supporting our equally important line of cast iron and steel non-condensing products.

2018 improvements to this already successful product line-up included introduction of a new full line of compact combination heat and domestic hot water ("Combi") high-efficiency stainless-steel condensing boilers, with all products in our residential condensing line-up able to meet 95% AFUE, with most achieving class-leading modulation ratios as high as 10:1.

- We also continued our investment in our commercial boiler businesses to meet the changing needs of our commercial and industrial customers. Thermal Solutions successfully completed the work started several years ago to increase our commercial condensing boiler product development and manufacturing capabilities. Thermal Solutions and Bryan Steam continued to improve and expand their high-efficiency ARCTIC®/FREEFLEX product families of commercial condensing boilers. They also launched a brand-new condensing product family, the AMP/BFIT. These product development efforts drove double-digit sales growth in 2018 in the high-efficiency product category. These highly innovative products, along with the Thermal Solutions' APEX™ product line, are unique in the industry with advanced feature sets, compact designs, and category-leading performance.
- Our residential furnace business, Thermo Products, posted its sixth consecutive year of increased oil furnace sales and market share gains through expansion of its multi- brand, multi-channel strategy. They also benefited from the completion of the recent project to consolidate customer service, order entry, planning, engineering, and product development activities at their Denton, NC, manufacturing location.

We also announced an important executive change that will be effective as of the Annual Meeting on April 29, 2019. Doug Brossman will continue as CEO, where he will have responsibility for corporate matters, as well as overall strategy development and implementation. Chris Drew, currently our Executive Vice President and Chief Marketing and Strategy Officer, has been promoted to President and Chief Operating Officer. In his new role, Chris will have responsibility for the company's boiler, hot water, furnace and supporting business operations and profitability. With his extensive industry experience, in-depth industry knowledge, and never ending desire to meet customer needs, Chris will continue to drive our growth as we pursue our strategic objectives.

Market demand for our commercial and residential products continues to be driven by the replacement of the large installed North American base of boilers and furnaces, as well as new construction and renovations. Our customers' desire for more sophisticated, energy-efficient products to reduce fuel consumption and operating costs has created many new opportunities that have increased the need for product development, manufacturing and sales resources.

Looking ahead, we will continue to invest in new products. Our residential and commercial engineering teams have a full schedule of new products that will be launched over the next several years. We believe our R&D investments, coupled with a capital equipment upgrade cycle that will begin to transform our manufacturing operations, will support the long-term success of the Company. These new manufacturing technologies will drive efficiency gains, inventory reductions and cost reductions throughout our manufacturing facilities. Additionally, we expect our multi-year project to further integrate our ERP system with manufacturing processes to improve planning, material management and employee productivity.

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

Last year was a successful year for the Company, and we would like to thank our truly exceptional team of dedicated employees for making it happen. Our performance is the direct result of their collective efforts. They delivered on their promises of improving productivity, reducing costs and laser-focused product development. It's only through the hard work and dedication of our employees that the business can grow and prosper.

Lastly, we want to take this opportunity to thank you, our Shareholders, for your ongoing support and loyalty. Our future looks bright. We will continue our strategy of delivering the finest boilers and furnaces on the market through innovation, efficiency, leadership and—most of all—by caring for our customers, employees and shareholders.

We welcome your questions and comments at any time. Thank you!

Sincerely,

Douglas S. Brossman　　Christopher R. Drew

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COMPANY PROFILE

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

Our subsidiaries are market leaders in the design, manufacture, and sale of boilers and related HVAC products and accessories, including advanced control systems, furnaces, radiators, and air conditioning systems. We offer a broad line of high-value, energy-efficient products sold under well-established brand names. Products are manufactured at 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, aluminum, and steel boilers, as well as cast iron and steel heat distribution products. Thermo Products offers warm air furnaces and central air conditioning systems for the residential heating and cooling markets.

Commercial and industrial heating and process needs are addressed by our commercial subsidiaries, including Burnham Commercial, Bryan Steam, and Thermal Solutions. Commercial heating applications include 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, firetube, watertube, and copper tube boilers, as well as boiler room accessories, for commercial and industrial markets.

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

OUR VISION

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

OUR PRINCIPLES

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

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

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

Integrity — We keep our promises.

COMPANY AFFILIATES & LOCATIONS

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company does not have any unconsolidated legal entities, "special purpose" entities, or "off-balance-sheet" financial arrangements, nor is it a partner in any joint venture, nor does it have a minority interest in any other entity. The Company and subsidiaries have approximately 770 employees nationwide, of which approximately 48% 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 8% of employees. Major subsidiaries of the company and their locations are shown below.

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

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

FINANCIAL HIGHLIGHTS

Burnham Holdings, Inc. is reporting a year of significantly higher revenue as favorable seasonal winter weather, a strong U.S. economy, and increased sales of high-efficiency boiler products combined to increase 2018 sales results. We continue to make strategic investments in new product development and process improvements to develop innovative and cost-effective heating products that will drive our future growth.

- Net sales were $197.7 million, an increase of $21.9 million, or 12.5%, compared to 2017 as overall demand for residential and commercial heating equipment and higher sales of our newly introduced, high-efficiency residential and commercial condensing boilers combined to improve 2018 results.
- Gross profit was $41.6 million, an increase of $5.8 million, or 16.3%, versus 2017.
- Operating income, excluding the impact of goodwill impairment charges explained below, was $7.9 million, up $2.0 million, or 34.4%, compared to 2017. This pro forma presentation of operating income is a better indicator of our financial results as net income reflects impairment charges in 2018 and 2017 and tax changes that impacted 2017 reported results.
- Year-end debt of $18.4 million, although higher than last year, remains at a level that allows us ample opportunity to invest in appropriate capital projects and business opportunities. Our net debt level (total debt less cash balances) at the end of 2018 was within $200 thousand of last year.

(In millions, except per share data)	2017	2018	Percent Change 2017/2018
Net Sales	$ 175.8	$ 197.7	12.5%
Net Income (Loss)	1.0	(0.5)	(150.0%)
Pro Forma Net Income (3)	4.8	6.2	29.2%
Debt, Less Interest Rate Swap Instruments	14.7	18.1	23.1%
Total Debt	15.3	18.4	20.3%
Working Capital	49.9	49.7	(0.4%)
Total Assets	138.4	139.4	0.7%
Total Stockholders' Equity (1)	86.7	79.5	(8.3%)
Net Cash Provided by Operating Activities	9.5	7.8	(17.9%)
Per Share Data			
Basic Earnings (Loss) from Net Income (Loss) (2)	0.21	(0.12)	(157.1%)
Pro Forma Basic Earnings from Net Income (3)	1.06	1.37	29.2%
Dividends Paid	0.88	0.88	—
Book Value (1)	19.02	17.40	(8.5%)
Stock Price at Year-end	15.75	14.28	(9.3%)
Market Capitalization at Year-end	71.6	65.0	(9.2%)

1) Please see the discussions titled Pension Matters, as well as the Liquidity and Capital Resources section of the "Review of Operations" on page 5.
2) Impacted negatively by $(1.49) in 2018 and $(1.32) in 2017 due to non-cash goodwill impairment charges.
3) See chart on page 6 for details.

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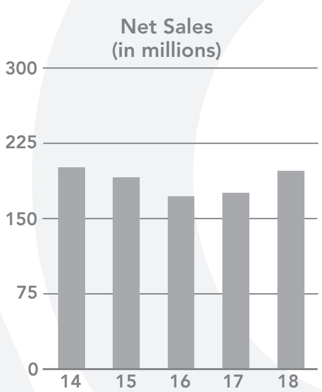

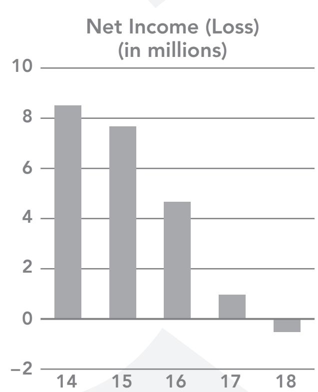

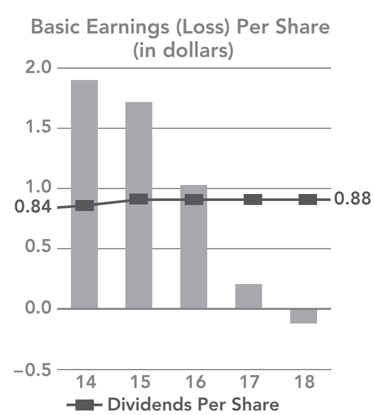

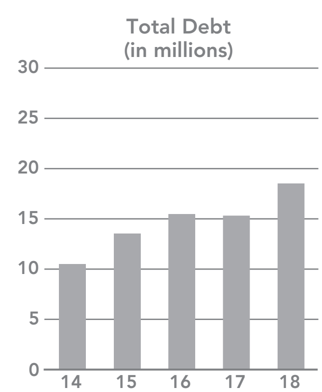

REVIEW OF OPERATIONS

OVERVIEW OF RESULTS

2018 was a year of continued improvement for the Company. The balance sheet remains strong, and there was consistent sales growth across the residential and commercial portions of our business. Net sales for the year were $197.7 million, an increase of 12.5% from last year. Demand during the year for residential and commercial HVAC products, particularly high-efficiency condensing boilers, was up versus last year, helping to drive overall sales growth. Net income results in 2017 and 2018 were negatively impacted by a $6.78 million non-cash goodwill impairment charge in 2018, in addition to the $6.0 million impairment charge taken in 2017. The goodwill impairment charge in both years pertains to an acquisition made over 20 years ago, and represents all remaining goodwill related to the commercial subsidiaries. Also in 2017, a one-time income tax benefit of $2.2 million ($0.48/share) was recorded due to the revaluation of net deferred tax liabilities resulting from lower U.S. corporate tax rates enacted in late 2017 as part of the Tax Cuts and Jobs Act. The combined impact of these charges resulted in a net loss in 2018 of ($0.55) million, or ($0.12) basic loss per share, compared to net income of $0.97 million or basic earnings per share of $0.21 in 2017. Excluding the impacts of the non-cash, non-deductible goodwill impairment charges in 2018 and 2017, and tax rate changes from 2017 results; net income in 2018 would have been $6.2 million ($1.37/share) versus $4.8 million ($1.06/share) in 2017, up $1.4 million ($0.31/share), or 29.2%.

We continue to see customer preference with respect to both residential and commercial heating products trend toward higher efficiency, higher value products. Our desire to meet our customers' needs has driven our continued investment in new products. The result has been the introduction of a number of new energy efficient products over the past several years, with more new products planned for the years ahead. In 2018, our residential boiler subsidiaries rounded out their product lines of condensing and non-condensing products with the introduction of a new combi boiler product. Our residential furnace subsidiary increased sales and market share of oil furnaces for the sixth consecutive year. Sales of our new commercial condensing products were also up over the prior year as our commercial subsidiaries continued to expand the functionality and available sizes of their existing high-efficiency products. Backlogs in both residential and commercial products were higher at year end 2018 versus 2017. Details of the results mentioned in this overview are discussed on the following pages.

PERFORMANCE PROVEN, TECHNOLOGY FORWARD

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

The key to our performance is a clear vision for meeting our customers' current and future needs through innovative technologies, including more energy-efficient products, "green" products with lower emissions, and smarter controls. This vision drives our product development and operational excellence.

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

The end result is a forward-thinking product development strategy that meets exacting requirements today, while delivering new and innovative technologies that can meet the expectations of tomorrow. This philosophy continued to be borne out in 2018 as our engineering teams executed against a comprehensive product development strategy that will result in the continued expansion of our current high-efficiency offerings and the commercialization of a number of advanced heat exchanger, combustion, and control technologies over the next several years.

2018 was another example of the value of these investments.

In the Commercial Boiler space, we made significant progress in developing and launching new products as we leveraged capital investments we made in 2017 to increase our commercial condensing boiler product development and manufacturing capabilities. We completed our new commercial testing lab and added additional manufacturing capacity to support the rapidly growing AMP/B-FIT light commercial condensing product family. Thermal Solutions continued to improve their high-efficiency ARCTIC®, APEX™, and AMP families of condensing boilers, leading to double-digit unit sales growth in 2018. These highly innovative products are unique in the industry with advanced feature sets and category-leading performance made possible by the recent investments in our commercial boiler product development capabilities.

In the Residential Boiler segment, U.S. Boiler Company, Velocity Boiler Works, and New Yorker leveraged their strong distribution networks to drive sales growth across all product categories. All products in our residential condensing product lineup now meet 95% AFUE, and most can achieve class-leading combustion modulation ratios as high as 10:1. Additionally, 2018 saw the introduction of new versions of our highly successful K2™/PHANTOM® products. The two new "combi" products combine the ability to provide space heating and domestic water heating into a compact, high-efficiency package. These products were introduced in the first quarter and quickly became best sellers within our condensing portfolio.

Finally, in the residential furnace space, Thermo Products increased unit sales and market share through improvements to both its oil and gas furnace lines that supported its multi-brand, multi-channel strategy. They also completed the multi-year consolidation of customer service, engineering, and product development activities in a single location at their Denton, NC facility.

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

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

FINANCIAL PERFORMANCE

Net sales in 2018 were $197.7 million, an increase of 12.5% compared to the $175.8 million in sales during 2017. 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 1.2% of sales in 2018 and 1.9% of sales in 2017. Sales increased in 2018 as a result of favorable seasonal weather in our key geographic markets, strong U.S. economic conditions, and significantly higher sales of condensing boiler products. Sales of residential products, which made up approximately 76% of total sales in 2018, increased by 15.2% over 2017 levels. Sales of commercial boiler products increased by 4.9% in 2018, with sales of new high-efficiency commercial boilers also showing solid growth in 2018 compared to 2017 results.

We continue to be optimistic regarding the long-term outlook for our various business subsidiaries. There is a sizeable amount of installed hydronic heating equipment in the U.S., which will be replaced over time—either due to the age of the equipment or because the owner wants to improve operating efficiency and lower the annual cost of operating the equipment. Due to the wide array of modern, high-efficiency residential and commercial products sold by our subsidiaries, we are able to meet the requirements of virtually any heating application.

Our subsidiaries continue to make investments in projects that will increase employee safety, improve the design and manufacture of high-quality value-added products, provide world class customer service, and increase manufacturing productivity. All of these efforts help our subsidiaries to consistently manufacture and market innovative products that are highly competitive in the markets they serve.

Gross profit (profit after deducting cost of goods sold (COGS) from net sales) in 2018 was $41.6 million, or 21.1% of net sales. This compares to gross profit of $35.8 million in 2017, which represented 20.4% of net sales. Positive impacts to gross profit resulted from higher sales volume and a more profitable mix of products sold in 2018. A significant negative impact to gross profit in 2018 was the result of much higher raw material prices due to U.S. import tariffs on steel, aluminum, and other imported components.

Selling, general, and administrative expenses (SG&A), shown on the Consolidated Statements of Income on page 11, were higher at $33.7 million in 2018 compared to $29.9 million in 2017, an increase of $3.8 million, or 12.7%. Although SG&A expenses were up in dollar terms, the amount in 2018 on a percentage of sales basis of 17.1% was only slightly higher than the 17.0% of sales in 2017. Income from operations was reduced in 2018 by $6.78 million and in 2017 by $6.00 million due to charges for goodwill impairment as explained under "Other Assets" in Note 2 of the financial statement footnotes.

Other income (expense) as shown on the Consolidated Statements of Income, reflects a decrease of ($0.60) million compared to 2017 results. A major portion of the difference between years was the result of changes in pension investment return assumptions that reduced the amount of pension credit reported in 2018, compared to 2017. The remaining changes in this category were the result of lower returns on investments along with slightly higher interest expenses in 2018.

In both years 2018 and 2017, reported income tax expense as a percentage of reported pre-tax income was significantly affected by goodwill impairment charges in each year (non-deductible item for tax purposes) and in 2017 by a $2.178 million reduction in net deferred tax liabilities as the result of the Tax Cuts and Jobs Act. The effective tax rates for 2018 and 2017 as reported on the Consolidated Statements of Income were 154.0% and (165.8%), respectively. On a pro forma basis, the effective tax rates excluding the impacts of goodwill impairment charges and revaluation of net deferred tax liabilities would have been 19.9% in 2018 and 24.7% in 2017. This compares to Federal statutory tax rates of 21% in 2018 and 34% in 2017.

In an effort to supply more transparent financial information, we are presenting the following proforma table. Most of the line items have been mentioned in previous paragraphs and are more fully discussed in other sections of this report. Excluding these unusual items gives a better summary of 2018 and 2017 results from normal operations.

Dollars in Thousands	2017	2018
Reported Net Income (Loss)	$ 970	$ (545)
Goodwill Impairment Loss (Note 2 — Other Assets)	6,000	6,780
Corporate Tax Reform Benefit (Note 7)	(2,178)	—
Proforma Net Income	$ 4,792	$ 6,235
Proforma % Return on Net Sales	2.7%	3.2%
Proforma Basic and Diluted Earnings per Share	$1.06	$1.37

Reported net loss in 2018 was $(0.545) million, a return on net sales of (0.3)%, and basic loss per share of $(0.12). This compared to reported 2017 net income of $1.0 million, a return on net sales of 0.5%, and basic earnings per share of $0.21. Excluding the impacts of the non-cash, non-deductible goodwill impairment charges in 2018 and 2017, and tax effects of revaluing deferred tax liabilities from 2017 results as explained above, net income in 2018 would have been $6.2 million (basic earnings per share of $1.37) versus $4.8 million (basic earnings per share of $1.06) in 2017, up $1.4 million (basic earnings per share of $0.31), or 29.2%.

PENSION MATTERS

Steps have been taken with the Company's pension plan (the Plan) over the past years to protect benefits for retirees and eligible employees, while reducing future uncertainty for the Company. Starting in 2003, the Plan was amended to state that newly hired, non-union employees would not be eligible to participate in the Plan. In the years following 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. While not 100% frozen, these actions have materially reduced the growth of the pension liability in future years. Additionally, the Plan prevents the Company from obtaining any surplus assets of the Plan during a three-year period immediately following a change in control.

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

REVIEW OF OPERATIONS

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

At the end of 2016, pension plan assets were $156.3 million compared to the projected benefit liability of $170.4 million, resulting in a recorded balance sheet liability of $14.1 million. Several changes occurred in 2017 that created both positive and negative impacts to the recorded pension liability.

In 2017, there were two distinct factors that impacted the overall funding status of the Plan. The discount rate declined in 2017, dropping 45 basis points, from 3.85% to 3.40%. In general, decreasing the discount rate has the effect of increasing plan liabilities and in fact, plan liabilities did increase by $6.1 million during the year. However, due to much better investment returns in 2017, the value of plan assets increased by $14.4 million. Overall, the net pension liability at the end of 2017 decreased by $8.2 million, and the total liability amount of $6.0 million is recorded on the Company's balance sheet.

In 2018, economic factors contributed to cause a reversal of the impacts that affected the Plan in 2017. As the result of increased interest rates in the U.S. during 2018, the discount rate used to value plan liabilities increased from 3.40% in 2017 to 4.05% in 2018. This caused the total of plan liabilities to decline by $13.9 million compared to 2017. However, due to the impact of rising interest rates on the value of fixed income investments and lower returns in U.S. equity markets, the value of plan assets at the end of 2018 decreased by $15.3 million compared to the end of 2017. Combining these changes, the net pension liability at the end of 2018 increased by $1.4 million, and the year-end total of $7.4 million is recorded as a liability on the Company's balance sheet. While the Plan would appear to be under-funded from this limited, point-in-time accounting view, the Plan easily passes all ERISA funding targets (based on government defined rates and methods), and is close to being fully funded based on long-term discount rates recommended by our actuaries and investment consultants.

The adjustments that are made to pension liabilities on an annual basis as discussed above are included in the Stockholders' Equity section of the Company's balance sheet in the subsection titled Accumulated Other Comprehensive Income (Loss) (AOCI). In addition to the pension liability changes, AOCI includes adjustments for other non-cash items such as mark-to-market accounting for interest rate hedge instruments, currency contracts, and retiree health benefits.

Cash contributions to the Plan are tax-deductible and do not impact the Company's earnings. Minimum mandatory contributions are determined by ERISA regulations as amended by the Pension Protection Act of 2006. The Plan assets significantly exceeded minimum required levels at the start of 2018 and 2017. The Company made voluntary contributions of $2.63 million and $1.30 million during 2018 and 2017, respectively. The Company believes any minimum required contributions in 2019 would not be material.

LIQUIDITY AND CAPITAL RESOURCES

The seasonal nature of our business requires the Company to maintain a dedicated 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 operations in 2018 was $7.8 million, a decrease from $9.5 million in 2017. $1.1 million of the decrease was due to higher levels of accounts receivable as the result of higher sales volume in 2018. An increase in voluntary pension contributions in 2018 (in order to take advantage of favorable tax treatment) accounted for $1.3 million of the difference in cash flow between years. Inventory levels did increase in 2018 in order to support the higher level of sales and also due to cost inflation during the year. The increases in inventory levels were, however, offset by higher levels of payables and other accrued expenses. All components of working capital are monitored closely and maintained at levels that are appropriate for the current operating levels of our subsidiaries.

Most important, the cash provided by operations in 2018 and 2017 supported the ability to fund normal operating expenses while also providing the funds to develop new products, make necessary investments in capital assets, maintain low debt levels, make contributions to the Company's pension trust, and pay dividends to our stockholders.

Excluding the debt related to an interest rate swap instrument, year-end "financed debt" for 2018 was $18.1 million, compared to $14.7 million at the end of 2017. The outstanding $18.1 million of debt for the Company and its subsidiaries is composed of $14.1 million on the Company's revolving loan agreement (the Revolver) and one Industrial Revenue Bond used to finance a specific equipment and facility expansion in North Carolina. The industrial bond loan has a fixed repayment of $4.0 million at maturity in 2019, and is classified as current portion of long term debt on the balance sheet at December 31, 2018. (This amount could be refinanced by the Revolver, but no decision had been made on that option as of the date of this report.) The debt related to interest rate instruments of $0.3 million (mark-to-market of one interest rate swap that will reverse itself over the term of the agreement) was $0.3 million lower at year-end 2018 compared to 2017.

The Revolver is financed through a consortium of three banks totaling $72.0 million (primarily used for working capital needs) and three additional agreements (the LOC) totaling $5.5 million for specific bank services. The Revolver had a balance of $14.1 million at year end in 2018 and $10.7 million at year end in 2017. In 2018, these agreements were amended to extend the term of the agreements by a year to August 2020. Operating assets and certain other specific assets collateralize the Revolver and LOC. These agreements were obtained on the strength of the

Company's balance sheet and our proven ability to monitor and control working capital levels. The agreements allow us to operate effectively, both through the economic cycles that occur from time to time and the seasonal nature of our business. The Revolver and LOC have various financial covenants but no scheduled payments prior to maturity. As of December 31, 2018 and 2017, the Company was in compliance with all financial covenants as shown below:

Dollars in Thousands	December 2017	December 2018	
Funded Debt(1)	$ 9,221	$ 9,711	
Stockholders' Equity on FIFO Basis(2)	131,568	128,819	Minimum Level: $118,000
Debt Coverage Ratio(1)	6.51	6.57	Minimum Ratio: 1.35
Funded Debt to EBITDA(1)	1.24	0.93	Maximum Ratio: 5.00

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

KEY LIQUIDITY DATA AND OTHER MEASURES

Dollars in Thousands	December 2016	December 2017	December 2018
Cash	$ 7,563	$ 5,515	$ 8,399
Working Capital	54,202	49,865	49,726
Total Debt	15,582	15,342	18,423
Financed Debt (1)	14,664	14,736	18,120
Financed Debt (1) to Capital (2)	11.3%	11.6%	13.8%
Stockholders' Equity	85,244	86,729	79,532
AOCI	(29,997)	(25,572)	(33,481)
Stockholders' Equity (excluding AOCI)	115,241	112,301	113,013
Common Stock Price	$ 15.85	$ 15.75	$ 14.28
Book Value Per Share as Reported	18.72	19.02	17.40
Book Value Per Share (excluding AOCI)	25.33	24.64	24.76

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

Throughout a typical year, our borrowing requirements fluctuate based on business activity and our need to support working capital levels. The normal cyclical high borrowing level occurs during the third quarter of each year and is provided for by the Revolver mentioned above. Peak debt levels during the third quarter ending September 30, 2018 and 2017 were $31.9 million and $31.5 million, respectively.

The Company believes at this time that its liquidity position, its capital structure, and its banking relationships are adequate to meet foreseeable future needs. The Company is not a party to any financial derivative transaction or any hedging agreements, except for one interest rate swap instrument. The Company has entered into this arrangement to hedge its exposure to interest rate fluctuations on a portion of its variable-rate debt.

CAPITAL INVESTMENTS

Capital expenditures totaled $4.4 million in 2018 and $8.3 million in 2017, compared to depreciation expenses of $3.9 million in each of the same periods. Capital spending in 2018 was lower compared to last year, as 2017 contained a significant capital expenditure ($4.75 million) to purchase the operating facility of our Thermal Solutions subsidiary in Lancaster that was previously leased from a third party. Capital spending projects completed in 2018 included upgrades and replacements of equipment at Casting Solutions, LLC (normally in the range of $800,000 to $1.0 million per year); equipment related to production efficiency and quality improvement; expenditures for machinery and tooling related to new and/or redesigned products, and upgrades of existing machinery and equipment and facilities.

Capital expenditures for 2019 are budgeted at approximately $8.6 million. The 2019 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. There are also a number of other projects in the plan that will improve productivity, reduce manufacturing costs, improve product quality, and maintain our existing machinery, equipment, and facilities.

BOARD ACTIONS

On February 21, 2019, the Company announced a quarterly dividend of $0.22 per common share. This 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 2019 meeting, the Board of Directors authorized the repurchase of 60,000 shares of either class of common stock at market prices during 2019. The Board may authorize additional repurchases from time to time. Management also has authority to repurchase preferred stock. There was one share of preferred stock repurchased in 2018 and no shares repurchased in 2017.

PERSONNEL

The Company has recently announced an important executive change that will become effective as of the Annual Meeting, April 29, 2019. Douglas Brossman will continue in his current role as Chief Executive Officer where he will have responsibility for corporate matters, as well as overall strategy development and implementation. The Board has named Christopher R. Drew President and Chief Operating Officer of the Company. Mr. Drew was previously Executive Vice President, Chief Marketing and Strategy Officer. In his new role, Chris will have responsibility for the company's boiler, hot water, furnace, and supporting business operations and profitability.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Other reports, letters, and press releases distributed by the Company may also contain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates, and projections, and 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.

CERTAIN SIGNIFICANT ESTIMATES

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

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

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

Insurance: The Company and its subsidiaries maintain insurance to cover product liability, general liability, workers' compensation, and property damage. Well-known and reputable insurance carriers provide current coverage. For these policies, which cover periods ending after mid-2019, 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. For example, on July 23, 2013, and December 12, 2014, New York City State Court juries found numerous defendant companies, including a subsidiary of the Company, responsible for asbestos-related damages. The subsidiary, whose share of the verdicts amounted to $42 million and $6 million, respectively, before offsets, 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 cost for settlements in 2018, 2017, and 2016, for all uninsured litigation of every kind, was $1,250,000, $108,000, and $(30,000), respectively. Each of these years includes a self-insured asbestos claim. While it is unusual for an asbestos suit not to be covered by insurance, a few uninsured claims exist, depending on the alleged time period of asbestos exposure. The credit in 2016 is a reduction in estimated required reserves for actions or claims established in previous years. Expenses for legal counsel, consultants, etc., in defending these various actions and claims have historically not been material to current year earnings. Such expenses in 2018, 2017, and 2016 were $187,000, $108,000, and $105,000, respectively.

Permitting Activities (Excluding Environmental): The Company's subsidiaries are engaged in various matters with respect to obtaining, amending, or renewing permits required under various laws and associated regulations in order to operate each of its manufacturing facilities. Based on the information presently available, management believes it has all necessary 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 Virchow Krause, LLP, independent auditors, are engaged to audit and report on these financial statements. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Douglas S. Brossman
President and CEO

Dale R. Bowman
Vice President and CFO

To the Board of Directors of Burnham Holdings, Inc.
We have audited the accompanying consolidated financial statements of Burnham Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Burnham Holdings, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other information included in the Letter To Our Stockholders, Company Profile, Financial Highlights, Review of Operations, Certain Significant Estimates, Management's Report, Ten-Year Summary, and Investor & Stockholder Information sections on pages 1–10 and pages 27–29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Baker Tilly Virchow Krause, LLP
Lancaster, Pennsylvania
March 1, 2019

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31 (In thousands, except per share data)	
	2018	2017
Net sales	$197,707	$ 175,778
Cost of goods sold	156,058	139,976
Gross profit	41,649	35,802
Selling, general, and administrative expenses	33,746	29,922
Goodwill impairment loss (Note 2 — other assets)	6,780	6,000
Operating income (loss)	1,123	(120)
Other (expense) income:		
Loss on sale of property (Note 4)	—	(50)
Non-service related pension credit	650	1,142
Interest and investment income	293	413
Interest expense	(1,057)	(1,020)
Other (expense) income	(114)	485
Income before income taxes	1,009	365
Income tax expense (benefit)	1,554	(605)
NET (LOSS) INCOME	$ (545)	$ 970
BASIC (LOSS) EARNINGS PER SHARE	$ (0.12)	$ 0.21
DILUTED (LOSS) EARNINGS PER SHARE	$ (0.12)	$ 0.21

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31 (In thousands)	
	2018	2017
Components of comprehensive income:		
Net (loss) income for the year	$ (545)	$ 970
Other comprehensive (loss) income:		
Change in fair value of derivatives, hedges, and investments	156	195
Pension liability adjustment	(3,038)	4,083
Post-retirement medical liability adjustment	149	147
Other comprehensive (loss) income	(2,733)	4,425
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (3,278)	$ 5,395

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

CONSOLIDATED BALANCE SHEETS

	December 31 (In thousands)	
ASSETS	**2018**	2017
CURRENT ASSETS		
Cash, cash equivalents and restricted cash	$ 8,399	$ 5,515
Trade accounts receivable, less allowances (2018 – $290 and 2017 – $321)	23,567	22,461
Inventories:		
Materials, in process and supplies	36,838	33,086
Finished goods	8,979	9,748
Total inventory	45,817	42,834
Prepaid expenses and other current assets	1,656	1,338
TOTAL CURRENT ASSETS	79,439	72,148
PROPERTY, PLANT, AND EQUIPMENT, net	49,997	49,532
OTHER ASSETS, net of accumulated goodwill impairment of $12,780 and $6,000	9,930	16,725
TOTAL ASSETS	$ 139,366	$ 138,405

LIABILITIES AND STOCKHOLDERS' EQUITY	**2018**	2017
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 25,423	$ 21,068
Income taxes payable	154	1,081
Current portion of other postretirement liabilities	136	134
Current portion of long-term debt	4,000	—
TOTAL CURRENT LIABILITIES	29,713	22,283
LONG-TERM DEBT	14,423	15,342
OTHER POST-RETIREMENT LIABILITIES	11,502	10,221
DEFERRED INCOME TAXES	4,196	3,830
STOCKHOLDERS' EQUITY		
Preferred Stock	530	530
Class A Common Stock	3,518	3,500
Class B Convertible Common Stock	1,426	1,444
Additional paid-in capital	15,911	15,798
Retained earnings	109,610	109,019
Accumulated other comprehensive loss	(33,481)	(25,572)
Treasury stock, at cost	(17,982)	(17,990)
TOTAL STOCKHOLDERS' EQUITY	79,532	86,729
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 139,366	$ 138,405

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2018 and 2017
(In thousands, except per share data)

	Preferred Stock	Class A Common Stock	Class B Convertible Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Stockholders' Equity
Balance at January 1, 2017	**$ 530**	**$ 3,486**	**$ 1,458**	**$ 15,684**	**$ 112,081**	**$ (29,997)**	**$(17,998)**	**$ 85,244**
Exercise of stock options:								
7,388 shares of common stock	—	—	—	114	—	—	8	122
Conversion of common stock	—	14	(14)	—	—	—	—	—
Cash dividends declared:								
Preferred stock—6%	—	—	—	—	(18)	—	—	(18)
Common stock—($0.88 per share)	—	—	—	—	(4,014)	—	—	(4,014)
Net income for the year	—	—	—	—	970	—	—	970
Change in fair value of derivatives, hedges, and investments, net of $(102) of tax	—	—	—	—	—	195	—	195
Pension liability adjustment, net of $(2,296) of tax	—	—	—	—	—	4,083	—	4,083
Post-retirement medical liability adjustment, net of $(83) of tax	—	—	—	—	—	147	—	147
Balance at December 31, 2017	**$ 530**	**$ 3,500**	**$ 1,444**	**$ 15,798**	**$ 109,019**	**$ (25,572)**	**$(17,990)**	**$ 86,729**
Reclassification adjustment for stranded tax effects	—	—	—	—	5,176	(5,176)	—	—
Exercise of stock options:								
8,206 shares of common stock	—	—	—	113	—	—	8	121
Conversion of common stock	—	18	(18)	—	—	—	—	—
Cash dividends declared:								
Preferred stock—6%	—	—	—	—	(18)	—	—	(18)
Common stock—($0.88 per share)	—	—	—	—	(4,022)	—	—	(4,022)
Net loss for the year	—	—	—	—	(545)	—	—	(545)
Change in fair value of derivatives, hedges, and investments, net of $(46) of tax	—	—	—	—	—	156	—	156
Pension liability adjustment, net of $907 of tax	—	—	—	—	—	(3,038)	—	(3,038)
Post-retirement medical liability adjustment, net of $(44) of tax	—	—	—	—	—	149	—	149
Balance at December 31, 2018	**$ 530**	**$ 3,518**	**$ 1,426**	**$ 15,911**	**$ 109,610**	**$ (33,481)**	**$(17,982)**	**$ 79,532**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 (In thousands)	
	2018	2017
OPERATING ACTIVITIES		
Net (loss) income	$ (545)	$ 970
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss/(gain) on sale of property (Note 4)	—	50
Depreciation and amortization	3,933	3,942
Goodwill impairment loss	6,780	6,000
Deferred income taxes	1,172	(1,971)
Pension expense (credit)	68	(507)
Post-retirement liabilities	157	178
Reserves and other allowances	3,104	177
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,075)	524
Increase in inventories	(4,976)	(2,980)
Increase in prepaid expenses and other current assets	(318)	(45)
Contributions to pension trust	(2,630)	(1,300)
Increase in accounts payable and accrued expenses	3,071	4,327
(Decrease) increase in income taxes payable	(927)	184
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,814	9,549
INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(4,377)	(8,283)
Proceeds from sale of assets and property, net (Note 4)	—	532
Purchase of other assets	(8)	(8)
NET CASH USED IN INVESTING ACTIVITIES	(4,385)	(7,759)
FINANCING ACTIVITIES		
Proceeds from borrowings	3,374	72
Proceeds from exercise of stock options	113	114
Principal payments on long-term debt	—	—
Purchase of treasury stock	8	8
Dividends paid	(4,040)	(4,032)
NET CASH USED IN FINANCING ACTIVITIES	(545)	(3,838)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	2,884	(2,048)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	5,515	7,563
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	$ 8,399	$ 5,515

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

dollars in thousands, except per share data

1. NATURE OF OPERATIONS

Burnham Holdings, Inc. (the Company) is the parent company of a group of subsidiaries 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 majority of the revenue is derived from sales in the United States with a concentration of these domestic sales located in the Northeast quadrant of the nation. Sales of residential products amounted to approximately 76% and 74% of 2018 and 2017 net sales, respectively. The majority of the sales are to wholesale distributors who, in turn, market to builders, heating contractors, utilities, and fuel dealers for resale to end-use customers. Commercial products are sold primarily through independent sales representatives directly to contractors or end users. The Company's subsidiaries also market many of their products internationally, working in conjunction with selected independent sales representatives worldwide. International sales, which include Canada and Mexico, for the years 2018 and 2017, amounted to 1.2% and 1.9% of reported sales, respectively. Sales to the 10 largest customers amounted to $72.3 million and $65.8 million in 2018 and 2017, respectively. The Company and its subsidiaries have approximately 770 employees nationwide, of which approximately 48% are union employees covered through separate collective bargaining agreements. Generally these agreements are for three-year periods and expire at different times, including one agreement expiring within one year covering 8% of employees.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue Recognition: On January 1, 2018, the Company adopted the provisions of Accounting Standards Codification 606—Revenue from Contracts with Customers ("ASC 606"). The Company adopted ASC 606 using the full retrospective method. Comparative information for 2017 in the Consolidated Financial Statements has been modified to conform to the new standard. The results of the retrospective adjustments to 2017 results were immaterial.

The standard eliminated the transaction and industry specific revenue recognition guidance under prior U.S. GAAP and replaced it with a principles-based approach for revenue recognition and disclosure. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that matches the consideration that the Company's subsidiaries expect to receive in exchange for those goods or services.

Performance Obligations: The Company's subsidiaries generate revenue from the sale of residential and commercial heating products and accessories to distributors and dealers, or through independent sales representatives and contractors. Revenue related to product sales is recognized at the time that control of the product has been transferred to the customer, either when the product is shipped from our facilities or when the product is received by the customer. Essentially all of the sales of our subsidiaries are recorded as point in time transactions, with payment terms that are short-term in duration.

Returns, Sales Incentives and Warranties: 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 (i.e. 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.

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.

Disaggregated Revenue: The following table disaggregates our revenue by major category for the years ended December 31, 2018 and 2017, respectively:

	2018	2017
Residential Products and Accessories	$ 149,537	$ 129,843
Commercial/Industrial Products and Accessories	48,170	45,935
Total Revenue	$ 197,707	$ 175,778

Contract Assets and Liabilities: 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.

Use of Practical Expedients in Applying ASC 606: 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.

Advertising: Costs are expensed as incurred.

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. The Company reviews the allowance for doubtful accounts monthly. Receivable balances are written off against the allowance when management believes it is probable the receivable will not be recovered. The Company does not have any off- balance-sheet credit exposure related to its customers.

Shipping and Handling Costs: The subsidiaries charge certain customers shipping and handling fees. These revenues are recorded in Net Sales. Certain costs associated with receiving material and shipping goods to customers are recorded as cost of goods sold. For the years ended December 31, 2018 and 2017, these receiving and shipping costs were $8,856 and $7,988, respectively.

Cash, Cash Equivalents, and Restricted Cash:
The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company's cash balances at times exceeded federally insured limits, including an excess of $3,628 and $584 at December 31, 2018 and 2017, respectively; the Company has not experienced any losses. Additionally, and reported as part of cash, were investments in short-term, liquid assets whose balances are based on costs which approximate current market values. The total of these investments were $4,664 and $4,639 at December 31, 2018 and 2017, respectively.

A portion of the Company's cash may be restricted from time to time because of insurance regulatory requirements. As of December 31, 2018 and 2017, restricted cash in each year totaled $3,500.

The Company utilizes various zero-balancing bank accounts with certain financial institutions to manage its cash disbursements. From time to time, checks disbursed from these accounts result in a negative cash balance or book overdraft positions until funds are transferred into the accounts as checks are subsequently presented for payment. The Company includes these negative balances as a component of accounts payable. Book overdrafts of $0 and $2 were included in accounts payable as of December 31, 2018 and 2017, respectively.

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

Valuation Hierarchy: FVM establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value.

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

The Company's specific Level 2 FVM for its interest rate swaps has been derived from proprietary models of the third-party financial institution holding these instruments. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs. The Company's Level 2 liability (payable) for its interest rate swaps carried at settlement value, which approximates fair value as of December 31, 2018 and 2017, was $313 and $606, respectively.

Valuation Techniques: FVM permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings.

The estimated fair values of cash and cash equivalents, trade accounts receivable, accounts payable, and accrued expenses approximate their carrying values at December 31, 2018 and 2017, due to their short-term nature. The fair value of debt approximates its carrying value based on the variable nature of interest rates and current market rates available to the Company, and is classified as Level 2 within the fair value hierarchy. The Company, from time to time, uses interest rate swaps to hedge its exposure to the impact of market interest rate fluctuations on its variable-rate debt. The Company follows the provisions of financial accounting standards specific to accounting for derivative instruments and hedging activities for all interest rate swap transactions as detailed in Note 6.

Inventories: Inventories are valued at the lower of cost or net realizable value, and 82% of the inventories were valued using the last-in, first-out method (LIFO) as of the end of both 2018 and 2017. If the subsidiaries had used the first-in, first-out method (FIFO) of inventory accounting, inventories would have been $20,982 and $19,268 higher than reported at December 31, 2018 and 2017, respectively. The subsidiaries periodically review their inventories and make provisions as necessary for estimated obsolescence and slow-moving inventory items. The amount of such markdown is equal to the difference between cost of inventories and the estimated net realizable value based upon assumptions about future demands, selling prices, and market conditions.

During 2018 and 2017, inventory quantities were reduced either in total or at specific facilities. These reductions resulted in a liquidation of LIFO inventory quantities carried at different costs prevailing in prior years as compared with the cost of 2018 and 2017 purchases, the effect of which decreased cost of goods sold by approximately $54 in 2018 and increased cost of goods sold by $8 in 2017. These changes increased profits in 2018 by approximately $41, or $0.01 per share, and decreased profits in 2017 by approximately $6, or $0.00 per share.

Impairment of Long-lived Assets: The Company evaluates long-lived assets whenever events and circumstances have occurred that indicate that the remaining estimated useful life of such assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, the Company reviews long-lived assets to assess recoverability from future operations. Impairments are recognized in earnings to the extent that the carrying value exceeds fair value. There was no impairment of long-lived assets in 2018 or 2017.

Depreciation: Property, plant, and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of plant and equipment is computed principally using the straight-line method (certain machinery and equipment are being depreciated using the units of production method) at rates adequate to depreciate the cost of applicable assets over their expected useful lives. Maintenance and repairs are charged to operations as incurred, and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon is removed from the accounts, with any gain or loss realized upon sale or disposal charged or credited to operations. Depreciation expense for 2018 and 2017 was $3,912 and $3,921 respectively.

Other Assets: Other assets primarily include goodwill and other intangible assets. Goodwill of $3,002 and $9,782 (net of accumulated impairment charges of $12,780 and $6,000, respectively) as of December 31, 2018 and 2017 and other indefinite-lived intangible assets of $3,640 as of December 31, 2018 and 2017 are reviewed annually for impairment. In 2017, the Company early-adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-04, "Simplifying the Test for Goodwill Impairment". ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. During the annual impairment testing of goodwill in 2017, it was determined that certain conditions had changed, causing the Company to adjust its assumptions due to recent declines in revenues and net earnings for our subsidiaries that service the commercial boiler market. The Company used a blend of the Guideline Public Company Method and Guideline Transaction Method, both market approaches and the Discounted Cash Flows Method, an income approach to determine the indicated fair value of the commercial subsidiaries for both 2018 and 2017. Based on the results of the impairment testing which showed that the carrying value exceeded the fair value of goodwill, we recorded a non-cash impairment charge of $6,000 as of December 31, 2017. Although sales in our commercial subsidiaries, particularly sales of our high-efficiency commercial condensing boilers, increased in 2018, changing market demand for large commercial boilers and continued cost impacts (including significant steel price inflation due to U.S. import tariffs) caused us to further adjust the future outlook for sales of large, non-condensing commercial boilers. This resulted in our taking an additional $6,780 non-cash goodwill impairment charge in 2018 to eliminate the balance of goodwill associated with the commercial subsidiaries. No other impairment charges were recorded related to goodwill or other indefinite-lived intangible assets for 2018 or 2017.

Other intangible assets (primarily customer lists, non-compete agreements, and patents and trademarks) amounted to $29 and $42 at December 31, 2018, and 2017, respectively, net of accumulated amortization of $3,670 and $3,657 at December 31, 2018 and 2017, respectively, and are being amortized over 3 to 20 years using the straight-line method. Total amortization expense for 2018 and 2017 was $21 in both 2018 and 2017. Future amortization expense is expected to be: $13 – 2019; $12 – 2020; $4 – 2021; and $0 – 2022 and thereafter.

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

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

Company Loans: Loans from the Company to any employee or director are prohibited as a matter of policy and by the Company's charter, unless approved by shareholders who are not directors. There are no loans outstanding as of December 31, 2018 and 2017.

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

Consolidated Earnings per Share (EPS): For the years ended December 31, 2018 and 2017, basic and diluted earnings per share are computed as follows:

For the Year Ended December 31, 2018	Net Income (Loss)	Weighted Average Shares*
Loss	$ (545)	
Less Preferred Stock Dividends	(18)	
Loss Available to Common Stockholders	$ (563)	4,549
Basic Loss per Share	$ (0.12)	
Dilutive Options		1
Diluted Loss per Share	$ (0.12)	4,550
For the Year Ended December 31, 2017	**Net Income**	**Weighted Average Shares***
Income	$ 970	
Less Preferred Stock Dividends	(18)	
Income Available to Common Stockholders	$ 952	4,542
Basic Earnings per Share	$ 0.21	
Dilutive Options		1
Diluted Earnings per Share	$ 0.21	4,543

*Shares stated in thousands.

In accordance with financial accounting standards related to EPS, basic earnings per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of shares of Class A and Class B common stock outstanding during the year. In accordance with accounting guidance, Class B common stock has been included in the basic and diluted earnings per share as if the shares were converted into Class A common stock on a 1-for-1 basis. On a diluted basis, shares outstanding are adjusted to assume the conversion of outstanding rights into common stock. For 2018 and 2017, diluted earnings per share were determined on the assumption that rights outstanding under the Company's Incentive and Non-qualified Stock Option and Stock Appreciation Rights Plans (see Note 9) will be settled in the form of stock, as settlement in stock is more dilutive. In 2018 and 2017, 165,170 and 138,153 options, respectively, were excluded from the diluted earnings per share calculation because of being anti-dilutive.

Accumulated Other Comprehensive Income (Loss) (AOCI): This is a subsection of Stockholders' Equity that includes changes in fair value of interest rate swap instruments, currency hedges, and investments, and changes in pension and post-retirement benefit obligations, net of income taxes. The primary factor impacting balances in AOCI are changes to interest rates and related impacts to the discount rates used for pension and post-retirement benefit obligations and interest rates for swaps. The following reconcilement presents amounts reclassified from AOCI.

	Pension Liability	Post-retirement Medical Liability	Interest Rate Swap Liability	Investment (Asset) Liability	Total	Affected Line in the Statements of Income
Balance January 1, 2017	**$ 28,900**	**$ 423**	**$ 587**	**$ 87**	**$ 29,997**	
Unrealized (Gains)/Losses	(4,387)	(139)	(24)	14	(4,536)	
Tax Effect	1,579	50	9	(10)	1,628	
Net Unrealized (Gains)/Losses	(2,808)	(89)	(15)	4	(2,908)	
Amounts Reclassified from AOCI (c)						
Realized Gains/(Losses)	—	—	(287)	—	(287)	Interest Expense
Amortization of Prior Service Costs	(2)	(50)	—	—	(52)	(a)
Amortization of Actuarial Loss	(1,990)	(41)	—	—	(2,031)	(a)
Tax (Expense) Benefit	717	33	103	—	853	(b)
Net Realized Reclassification Adjustments	(1,275)	(58)	(184)	—	(1,517)	
Balance December 31, 2017	**$ 24,817**	**$ 276**	**$ 388**	**$ 91**	**$ 25,572**	
Unrealized (Gains)/Losses	6,122	(113)	(144)	91	5,956	
Tax Effect	(1,408)	26	33	(21)	(1,370)	
Net Unrealized (Gains)/Losses	4,714	(87)	(111)	70	4,586	
Amounts Reclassified from AOCI (c)						
Realized Gains/(Losses)	—	—	(149)	—	(149)	Interest Expense
Reclassification Adjustment for Stranded Tax Effects	5,041	56	79	—	5,176	(d)
Amortization of Prior Service Costs	(2)	(50)	—	—	(52)	(a)
Amortization of Actuarial Loss	(2,175)	(30)	—	—	(2,205)	(a)
Tax (Expense) Benefit	501	18	34	—	553	(b)
Net Realized and Other Reclassification Adjustments	3,365	(6)	(36)	—	3,323	
Balance December 31, 2018	**$ 32,896**	**$ 183**	**$ 241**	**$ 161**	**$ 33,481**	

(a) These AOCI components are included in the computation of net periodic pension costs, which are included within Cost of Goods Sold and Selling, General, and Administrative expenses in the Statements of Income (see Note 10 for additional details).
(b) Tax (expense) benefits are adjustments to deferred taxes within the Statements of Income.
(c) Amounts in parentheses indicate a decrease to profit.
(d) Amounts recorded to recognize stranded tax effects under ASU 2018-02, Reclassification of Certain Tax Effects from AOCI.

Recent Accounting Pronouncements: During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "Leases (Topic 842)." Subsequently, various ASU's have impacted topic 842 by allowing for practical expedients or issuing targeted improvements to the topic. Topic 842 requires lessees to recognize the assets and liabilities that arise from all leases on the balance sheet, whether operating or financing in nature. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Topic 842 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Early adoption is permitted. The Company has determined that when it adopts the standard in the first quarter of 2019, there will be no impact to the income statement and the total amount recorded as a lease liability with an offsetting right-of-use asset will be approximately $1.6 million.

During August 2018, the FASB issued ASU No. 2018-14, "Compensation–Retirement Benefits–Defined Benefit Plans–General (Subtopic 715-20)," which will modify the disclosure requirements for employers that sponsor defined benefit pension and other post-retirement plans. The amendments in this update will be effective for the Company's fiscal years ending after December 15, 2020. The Company is currently assessing the impact that ASU-2018-14 will have on its consolidated financial statements.

3. CERTAIN SIGNIFICANT ACCRUALS AND ALLOWANCES

Certain accruals and allowances are determined using historical information along with assumptions about future events. Changes in assumptions for such things as product quality, law changes, warranties, medical cost trends, employment demographics, and legal actions, as well as changes in actual experience, could cause these estimates to change. Certain significant accruals and allowances are described below:

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

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

Product Warranty and Related Product Matters	2018	2017
Balance at January 1	$ 1,162	$ 1,176
Accruals Related to Product Warranty and Product Matters	1,337	1,729
Settlements Made (in Cash or in Kind)	$ (1,470)	$ (1,743)
Balance at December 31	$ 1,029	$ 1,162

4. SALE OF PROPERTY

On November 30, 2016, a subsidiary of the Company sold a portion of its property located in Lancaster, PA. The total sales price of the property was $2,000 and the net book value plus expenses of sale was $893, resulting in a total book gain of $1,107.

On July 23, 2013, a subsidiary of the Company sold investment properties located in Lancaster, PA. The total sales price of the property was $1,350. The net book value of this property plus expenses of sale was $76, resulting in a total book gain of $1,274.

These gains have been tax deferred as 1031/1033 Like Kind Exchange transactions for Federal and State tax purposes because the proceeds were used in a May 2017 purchase by a subsidiary company of other similar property. The similar property was purchased for $4,750 and contains the manufacturing and administrative facilities of our Thermal Solutions subsidiary.

5. PROPERTY, PLANT, AND EQUIPMENT

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

December 31	2018	2017
Land and Land Improvements	$ 6,801	$ 6,694
Buildings and Improvements	45,525	44,226
Machinery and Equipment	105,902	103,361
Total Property, Plant, and Equipment	158,228	154,281
Accumulated Depreciation	(108,231)	(104,749)
Net Property, Plant, and Equipment	$49,997	$49,532

Future minimum payments, by year, under non-cancelable operating leases as of December 31, 2018, are: $1,124 – 2019; $384 – 2020; $141 – 2021; $12 – 2022 and $3 thereafter. For 2018 and 2017, external rental expense for property (principally warehouse space) that was included in the Statements of Income totaled $1,197 and $1,283, respectively. A subsidiary has entered into a long-term lease (as part of an original acquisition agreement) with a Trust, in which one of the beneficiaries is the current President of that subsidiary. Related lease expense of $334 and $328 are included in the Statements of Income for 2018 and 2017, respectively.

6. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

Long-term debt and short-term borrowings are as follows:

December 31	2018	2017
North Carolina Industrial Revenue Bond Due November 9, 2019	$ 4,000	$ 4,000
Revolving Line of Credit through August 1, 2020	14,110	10,736
Fair Value of Swaps	313	606
Total Long-term Debt	18,423	15,342
Less Current Portion	4,000	—
Long-term Debt	$14,423	$15,342

Long-term Borrowings: The Company has a loan agreement (the Revolver) financed through a consortium of three banks totaling $72,000 (primarily used for working capital needs), and three additional Letters of Credit agreements (the LOC) totaling $5,500 for other specific bank services. Under these agreements, the Revolver and the LOC are due in full in May of each year, except that yearly extensions of this date are to be considered on the anniversary date of the agreements. In May of 2018, these agreements were extended until August 1, 2020. The Revolver and LOC are collateralized by operating assets and certain other specific assets of the Company. The Revolver and LOC, which were obtained from local lending institutions, have various financial covenants but no scheduled principal payments prior to maturity. Among other things, the covenants require that Stockholders' Equity on December 31, 2018, be at least $118,000 using the FIFO method of inventory valuation and excluding non-cash adjustments to AOCI. Stockholders' Equity on December 31, 2018, was $128,819 on this basis ($79,532 reported in the financial statements). The Revolver and LOC also require that certain ratios be maintained including a debt service ratio and a leverage ratio as defined in the agreements. As of December 31, 2018 and 2017, the Company was in compliance with all financial covenants. Interest rates as of December 31, 2018 and 2017, were 3.78% and 2.79%, respectively. The rates were equal to LIBOR plus a margin rate as determined by the ratio of funded debt to earnings before taxes, interest, depreciation, and amortization, goodwill impairment charges, and the cash flow impacts of LIFO and other specific adjustments, less the payment of dividends. Interest on the Revolver is due monthly. The Company has a relationship with one of the three banks mentioned above as part of this bank consortium, in which one board member of the bank holding company is a Director of the Company. Prior to April 23, 2018, two board members of the bank holding company were directors of the Company and one Director of the Company was an officer in the bank holding company. All relationships between this institution and the Company are considered arms-length.

On November 9, 2004, two Industrial Revenue Bonds, a $4,000 fixed rate bond and a $264 variable-rate bond, were signed with a lending institution to finance the acquisition and subsequent renovations and equipment purchases at the Norwood, North Carolina location. The fixed-rate bond has a 15-year maturity with the principal due at maturity in 2019. The interest rate on this tax-exempt bond is fixed at 4.80% and is payable quarterly. The variable-rate bond had a 12-year maturity with the principal due at maturity in 2016 (principal on this bond was repaid on November 9, 2016). The rate on the tax-exempt variable bond was a floating interest rate equal to LIBOR plus a margin based on a LIBOR rate schedule and was payable quarterly. The bonds, when outstanding, were collateralized by a lien on the building and equipment purchased.

Future maturities of long-term debt (including interest rate swap obligations) by year are: $4,000 – 2019; $14,110 – 2020; $0 – 2021; $0 – 2022; and $313 – 2023.

Total interest incurred in 2018 and 2017 was $1,057 and $1,020, respectively. Interest paid during 2018 and 2017 was $1,032 and $1,002, respectively.

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

On March 4 and March 19, 2009, with an effective beginning date of January 5, 2013, and a termination date of January 5, 2018, two interest rate swap agreements were entered into to hedge exposure to interest rate fluctuations on $15,000 of its outstanding long-term debt. The notional amounts of the swaps were $10,000 and $5,000, respectively. Under these agreements, interest at a fixed rate of 4.11% and 3.52%, respectively, was paid to the counter-party on the notional amount of the swaps. The counter-party paid interest at a variable-rate equal to the 30-day LIBOR rate. On December 22, 2015, an agreement was entered into with the counter-party of the above swaps to terminate the existing swaps and replace them with a single swap with a notional amount of $15,000 with a termination date of January 5, 2023, and a lower fixed interest rate of 2.96%, paid to the counter-party on the notional amount of the swap. The counter-party pays interest at a variable rate equal to the 30-day LIBOR rate (2.38% and 1.38% at December 31, 2018 and 2017, respectively). The obligations under the swaps are collateralized as part of the Revolver discussed above under Long-term Borrowings. The swaps are accounted for as cash flow hedges. Accordingly, the change in the fair value of the swaps has been included in other comprehensive income, a separate component of Stockholders' Equity. Additional expense incurred related to the swap agreements in 2018 and 2017 was $149 and $287, respectively. An estimate, based on the December 31, 2018, interest rate, of amounts to be reclassified in 2019 out of AOCI and expensed through the Statement of Income is $88.

The following table presents the interest rate swap agreements:

	Notional Amount	Liability	Fair Value Change	Income (Expense) Impact to AOCI (2)
December 31, 2018				
1)	$15,000	$ (313)	$ 293	$ 67
December 31, 2017				
1)	$15,000	$ (606)	$ 312	$ 200

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

7. INCOME TAXES

The provision for income taxes consists of the following:

For the Year Ended December 31	2018	2017
Current:		
Federal	$ (88)	$ 1,149
State	470	217
Total Current	$ 382	$ 1,366
Deferred:		
Federal	1,019	(1,988)
State	153	17
Total Deferred	1,172	(1,971)
Total Income Tax (Benefit) Expense	$ 1,554	$ (605)
Income Taxes Paid	$ 1,511	$ 922

In both years 2018 and 2017, reported income tax expense as a percentage of reported pre-tax income was significantly affected by goodwill impairment charges (non-deductible items for tax purposes) and in 2017 by a $2.178 million reduction in net deferred tax liabilities as the result of the Tax Cuts and Jobs Act. The effective tax rates for 2018 and 2017 as reported on the Consolidated Statements of Income were 154.0% and (165.8%), respectively. On a pro forma basis, the effective tax rates excluding the impacts of goodwill impairment charges and revaluation of net deferred tax liabilities would have been 19.9% in 2018 and 24.7% in 2017. This compares to Federal statutory tax rates of 21% in 2018 and 34% in 2017.

In 2017, the Company adopted FASB ASU 2015-17 which requires that all deferred tax assets and deferred tax liabilities be recorded and presented as non-current.

A summary of deferred tax assets and liabilities as of December 31, is as follows:

December 31	2018	2017
Deferred Tax Assets	4,656	3,966
Less: Valuation Allowance (1)	(320)	(335)
Net Deferred Tax Assets	4,336	3,631
Deferred Tax Liabilities	$ (8,532)	(7,461)
Net Deferred Tax Liability	$ (4,196)	$ (3,830)

1) The valuation allowance as of December 31, 2016 was ($241).

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

December 31	2018	2017
Depreciation	$ (6,824)	$ (6,206)
Vacation	522	515
Employee Benefits	220	231
Workers' Compensation	197	221
Pension	1,387	1,074
Inventory	(1,033)	(886)
Warranty	323	381
Fair Value of Swap	72	139
Other	940	701
Net Deferred Tax Liability	$ (4,196)	$ (3,830)

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

For the Year Ended December 31	2018	2017
Balance at January 1	$ 53	$ 53
Gross Settlements	(0)	(0)
Balance at December 31	$ 53	$ 53

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2018 and 2017, no accrued interest or penalties related to uncertain tax positions were recorded in the balance sheet.

The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized is $53 in both years. The tax years 2015 to 2018 remain open to examination by major taxing jurisdictions to which the Company is subject.

8. STOCKHOLDERS' EQUITY

The Company's Preferred Stock is 6% cumulative, voting, par value $50 a share; is redeemable at $52.50 a share; and is carried at its stated liquidation preference of $50 a share. There are 10,600 shares authorized and issued, including shares in Treasury Stock at December 31, 2018 and 2017, of 4,627 and 4,626, 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.

Common stock shares outstanding were as follows:

December 31	2018	2017
Class A Stock Issued	3,517,941	3,500,373
Treasury Shares	(391,711)	(399,917)
Class A Stock Outstanding	3,126,230	3,100,456
Class B Stock Outstanding	1,426,270	1,443,838
Total Stock Outstanding	4,552,500	4,544,294

Class A and Class B have similar rights except for voting rights and transferability. Class A has one vote per share. Class B has eight votes per share. A majority approval by the holders of Class B is required for certain corporate actions. Class B may be transferred only to Permitted Transferees, as defined in related documents, at the option of the holder of the Class B. Other transfers of Class B result in the automatic conversion of the transferred shares into an equal number of shares of Class A. Class B can be converted at any time into Class A at the option of the holder.

9. STOCK COMPENSATION PLAN

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

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

Restricted shares vest in annual installments of 33-1/3%, commencing one year after the date of grant (subject to forfeiture conditions) and are expensed over the three-year vesting period based on the fair market value of the Company's stock.

Currently outstanding Options and Rights are exercisable in cumulative annual installments of 33-1/3%, commencing one year after the date of grant, and expire 10 years after grant. Additionally, while not required by the plans, these Rights and Options were issued in tandem, and the exercise of either serves to cancel the other. Effective January 1, 2006, the Company adopted the financial accounting provisions specific to Share-based Payments (SBP). The fair value of each of the Company's stock option awards is re-measured at each reporting period using a Black-Scholes option-pricing model that uses the assumptions noted in the table below as they are liability classified awards. The fair value of the Company's Options and Rights, which are subject to graded vesting, is expensed over the vesting life of the stock options. Expected volatility is based on an average of (1) historical volatility of the Company's stock and (2) implied volatility from traded options on the Company's stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted, with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected life of stock option awards granted is derived from historical exercise experience under the Company's share-based payment plans, and represents the period of time that stock option awards granted are expected to be outstanding.

Compensation expenses related to the Company's share-based awards recorded for the years ended December 31, 2018 and 2017 were $101 and $166, respectively. The estimated compensation expense for non-vested share-based awards as of December 31, 2018, is $156 and will be recognized over the next three years.

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

For the Year Ended December 31	2018	2017
Dividend Yield	4.5%	4.5%
Volatility Rate	18.0%	19.0%
Risk-free Interest Rate	4.0%	3.4%
Expected Option Life (years)	8.0	8.0

Transactions for 2018 and 2017 were as follows:

	2018		2017	
Options & Rights Awards	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding January 1	207,507	$ 17.50	181,907	$ 17.69
Granted	36,800	14.88	36,100	16.38
Exercised	—	—	—	—
Lapsed	(9,200)	17.34	(10,500)	16.97
Outstanding December 31	235,107	$ 17.10	207,507	$ 17.50
Exercisable December 31	165,908	$ 17.72	139,208	$ 17.65

	2018		2017	
Restricted Stock	**Shares**	**Weighted Average Grant Price**	**Shares**	**Weighted Average Grant Price**
Outstanding January 1	20,505	$ 17.18	18,877	$ 18.47
Granted	11,239	14.88	10,953	16.38
Vested	(10,017)	18.04	(9,325)	18.85
Forfeited	(666)	15.62	—	—
Outstanding December 31	21,061	$ 15.59	20,505	$ 17.18

Options and Rights outstanding and exercisable at December 31, 2018, have exercise prices between $21.70 and $8.20. The weighted-average remaining contractual life of Options and Rights outstanding was 6.22 years and Options and Rights exercisable was 5.16 years. Shares available for grant at December 31, 2018 and 2017 were 479,222 and 517,395, respectively.

10. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFIT ARRANGEMENTS

Defined Benefit and Other Post-retirement Benefit Programs: The Company maintains a non-contributory defined benefit pension plan (the Plan) with substantial assets and liabilities. As required by current pension accounting standards, any excess or shortfall between the fair value of the assets and liabilities of the Plan are recorded on the balance sheet.

The Plan covers non-union employees hired before June 5, 2003, with final benefit accruals for non-union employees ending in 2006 and 2009 (based on age and service). The Plan also covers union employees, and during collective bargaining negotiations after 2004, the unions agreed that newly hired union employees would no longer have access to the Plan. There remains a limited, closed group of union employees still accruing benefits under the Plan.

Normal retirement age is 65, but provision is made for earlier retirement. Benefits for salaried employees are based on salary and years of service, while hourly employee benefits are based on average monthly compensation and years of service with negotiated minimum benefits. The Company's funding policy is to make minimum annual contributions required by applicable regulations. The Company may, from time to time, also make voluntary contributions based on the market fluctuations, on impact on the plan assets, and on financial discount rates. Based on the funded position of the Plan at November 30, 2017, the Company did not have a minimum contribution required for 2018. However, in 2018, the Company made a voluntary pre-tax contribution of $2,630 into the Plan. In 2017, the Company made voluntary pre-tax contributions of $1,300. Minimum contributions for 2019 are indeterminable at this time, but will be based on actuarial certifications to be received by August 2019 that are governed by the Pension Protection Act of 2006 (PPA). The Company believes minimum required contributions, if any, will not be material.

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 2018 or 2017. 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:

Pension Plan	EIN/Plan Number	Plan Funded Status[1]		Company Contributions	
		2018	**2017**	**2018**	**2017**
Steelworkers Pension Trust	**23-6648508-499**	81.2%	81.7%	$ 63	$ 62

1) The plan was valued as of January 1 of the preceding year, with the 2017 information being the most recently available.

The Steelworkers Pension Trust was considered "Safe" for 2018 per the Pension Protection Act of 2006 because of the 2017 funded status being over 80%.

The Company also maintains a non-qualified deferred compensation plan available to certain executives. Under this plan, participants may elect to defer up to 16% of their compensation. The Company invests the deferrals in participant-selected marketable securities that are held in a

Rabbi Trust. The net unrealized gains associated with holding these securities, $174 and $328 in 2018 and 2017, respectively, were recognized in the Company's earnings as part of interest and investment income. The assets of the Company (within Other Assets) and the liabilities to employees (within Other Post-retirement Liabilities) under the plan were $2,882 and $2,860 at December 31, 2018 and 2017, respectively. The assets (a mix of mutual funds) are carried at fair value (as discussed in Note 2 — (FVM)) as Level 1 FVM measured on a recurring basis as of December 31, 2018 and 2017. Adjustments to this liability caused by changes in the value of the marketable securities, gains of $174 in 2018 and $328 in 2017, are classified within selling, general, and administrative expenses.

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

At December 31, 2018, pension trust assets were $155,366 and the pension liability was $162,722 with the difference of $7,356 being recorded as a liability on the balance sheet. The pension liability decreased in 2018 due to the use of a higher discount rate (4.05% compared to 3.40% in 2017). The decrease in the pension liability from the lower discount rate was more than offset by lower investment returns on plan assets. Included in AOCI at December 31, 2018, are the following before-tax amounts that have not yet been recognized in net periodic Post-retirement benefit costs: unrecognized net actuarial loss of $42,720 and $275 for the Plan and Post-retirement medical benefits, respectively, including amortization of losses for the upcoming fiscal year of $1,538 and $23 for the Plan and Post-retirement medical benefits, respectively, and unrecognized prior service costs of $2 and $(46) for the Plan and Post-retirement medical benefits, respectively.

At December 31, 2017, pension trust assets were $170,665 and the pension liability was $176,639, with the difference of $5,974 being recorded as a liability on the balance sheet. The pension liability increased in 2017 due to the use of a lower discount rate (3.40% compared to 3.85% in 2016). The increase in the pension liability from the lower discount rate was more than offset by higher investment returns on plan assets. Included in AOCI at December 31, 2017, are the following before-tax amounts that have not yet been recognized in net periodic Post-retirement benefit costs: unrecognized net actuarial loss of $38,774 and $427 for the Plan and Post-retirement medical benefits, respectively, including amortization of losses for the upcoming fiscal year of $2,194 and $50 for the Plan and Post-retirement medical benefits, respectively, and unrecognized prior service costs of $3 and $4 for the Plan and Post-retirement medical benefits, respectively.

The following financial disclosures present the aggregate defined benefit plans and other Post-retirement medical benefits for qualified employees of the plans for the years ending December 31, 2018 and 2017:

	Pension Benefits		Other Post-retirement Benefits	
	2018	**2017**	**2018**	**2017**
Projected Benefit Obligation	$ (162,722)	$ (176,639)	$ (1,400)	$ (1,522)
Fair Value of Plan Assets	155,366	170,665	—	—
Funded Status	$ (7,356)	$ (5,974)	$ (1,400)	$ (1,522)
Benefit Liability Recognized in the Consolidated Balance Sheet at December 31	$ (7,356)	$ (5,974)	$ (1,400)	$ (1,522)
Accumulated Benefit Obligation	$ (160,622)	$ (174,751)		

The pension trust is managed by independent third-party administrators, under policies and guidelines established by the Employee Benefits Committee of the Company Board of Directors. It is a policy of the Employee Benefits Committee for the pension trust not to invest directly in the Company's stock. While highly unlikely, it is possible that a "mutual fund" investment of the pension trust could invest in the Company's stock in a limited way. To the best of the Company's knowledge, there is no Burnham stock in the pension trust at December 31, 2018 and 2017. 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, 2018 and 2017, the asset allocation was approximately 35% equity and 65% fixed income. The asset allocation strategy, as approved by the Employee Benefits Committee, is that the assets of the trust fund are to be allocated based upon an analysis of the funding adequacy, cash flow requirements, maturity level, and participant growth rate of the Plan. The investment alternatives available in each of the capital markets are to be analyzed based on the risk tolerance indicated by the Plan's unique characteristics. The following table presents pension plan assets carried at fair value (as discussed in Note 2 — FVM) as measured on a recurring basis as of December 31, 2018 and 2017:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2018				
Mutual Funds				
Fixed Income	$ 57,030	$ 57,030	$ —	$ —
Domestic Stock	18,094	18,094	—	—
Common Collective Trust Funds:				
Interest Rate Management	45,499	—	45,499	—
Other	34,743	10,116	24,627	—
December 31, 2017				
Mutual Funds				
Fixed Income	$ 59,444	$ 59,444	$ —	$ —
Domestic Stock	21,371	21,371	—	—
Common Collective Trust Funds:				
Interest Rate Management	51,044	—	51,044	—
Other	38,806	11,302	27,504	—

The plan had no Level 3 FMV investments at December 31, 2018 or December 31, 2017.

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

	Pension Benefits		Other Post-retirement Benefits	
	2018	2017	2018	2017
Discount Rates	4.05%	3.40%	4.05%	3.40%

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

	Pension Benefits		Other Post-retirement Benefits	
	2018	2017	2018	2017
Discount Rates	3.40%	3.85%	3.40%	3.85%
Expected Return on Assets	6.50%	7.25%	—	—

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

The rate of compensation increase used to determine the pension benefit obligations and benefit cost was 2.50% for 2018 and 2017.

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

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

On January 1, 2018, we adopted Accounting Standards Update No. 2017-07—"Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The new standard improves the presentation of net periodic pension and postretirement costs by requiring that employers report the service cost component of retirement benefit plans in the same line items as other compensation costs arising from services rendered by employees covered by the plans during the period. The annual service cost components as shown in the table below are included in the Consolidated Statements of Income in the line item titled "Cost of Goods Sold". The total of all of the other components of net periodic pension benefit (expense) / credit is shown as a separate line item in the Consolidated Statements of Income titled "Non-service related pension (expense) / credit".

Net periodic benefit expense (income) for our pension and postretirement benefit plans include the following components:

	Pension Benefits		Other Post-retirement Benefits	
	2018	2017	2018	2017
Service Cost	$ 845	$ 781	$ 30	$ 32
Interest Cost	5,878	6,372	47	55
Expected Return on Plan Assets	(8,832)	(9,652)	—	—
Amortization of Net (Gain) or Loss	2,175	1,990	30	41
Amortization of Prior Service Cost	2	2	50	50
Total Benefit (Credit) Cost	$ 68	$(507)	$ 157	$ 178

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

	Pension Benefits		Other Post-retirement Benefits	
	2018	2017	2018	2017
Employer Contributions	2,630	1,300	78	92
Participant Contributions	—	—	61	80
Benefits Paid	8,820	8,428	139	172

The following pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid: $9,558 – 2019; $9,755 – 2020; $10,066 – 2021; $10,253 – 2022; $10,412 – 2023; and $52,686 – 2024 to 2028

The following Post-retirement medical benefit payments, net of plan participants' contributions, are expected to be paid: $136 – 2019; $167 – 2020; $171 – 2021; $174 – 2022; $157 – 2023; and $567 – 2024 to 2028.

Employee Savings Plans: The Company has established two Employee Savings Plans as an employee benefit to encourage and assist employees in adopting a regular savings program and to help provide additional security for retirement. One plan covers employees of the Company who are not covered by a collective bargaining agreement and are eligible to participate in the plan. The Company's contribution charged against income for this plan was $740 and $690 in 2018 and 2017, respectively.

The Company maintains a second Employee Savings Plan for other employees. Certain hourly employees covered by collective bargaining agreements and plan-defined other production and shipping personnel are eligible to participate in this plan. Effective with collective bargaining agreements negotiated after 2004, new union employees (who are not eligible for the defined benefit pension plan) are eligible to receive a contribution based on their personal savings percentage. The contributions charged against income for this plan were $251 and $190 in 2018 and 2017, respectively.

11. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

The Company is contingently liable at any given time under standby LOC pertaining to workers' compensation self-insurance coverage, employee medical insurance, international product purchases, and other business guarantees described in Note 6 as part of the LOC. In the normal course of business, this amount is less than $2,500, and at December 31, 2018 and 2017, the amount outstanding was $1,600 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 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. 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.

The operations of the Company's subsidiaries are subject to a variety of federal, state, and local environmental laws. At this time, the Company believes its subsidiaries are in material compliance with all environmental laws and permits. As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for remedial actions at disposal areas containing waste materials from their operations. While it is not possible to be certain whether or how any new or old matters will proceed, the Company does not presently have reason to anticipate incurring material costs in connection with any matters, and no allowances have been established.

The Company has evaluated subsequent events (events that occur after December 31, 2018 through March 1, 2019, which represents the date the financial statements were available to be issued). All required events have been recorded or disclosed in the Company's financial statements.

TEN-YEAR SUMMARY (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Sales*	$ 181,568	$ 188,043	$ 196,604	$ 202,934	$ 188,890	$ 198,115	$ 189,338	$ 171,183	$ 175,778	$ 197,707
Income Before Income Taxes	8,346	9,733	7,656	12,796	7,698	12,987	11,392	6,625	365	1,009
Income Tax Expense (Benefit)	3,007	3,524	2,573	4,569	2,384	4,416	3,647	1,988	(605)	1,554
Net Income (Loss)	5,339	6,209	5,083	8,227	5,314	8,571	7,745	4,637	970	(545)
Basic Earnings (Loss) per Share of Common Stock	1.20	1.39	1.13	1.83	1.18	1.90	1.71	1.02	0.21	(0.12)
Cash Flow per Share of Common Stock	2.25	2.38	2.11	2.88	2.21	2.92	2.63	1.84	2.29	2.25
Net Cash Provided By Operating Activities	14,360	12,388	6,498	13,999	6,480	2,811	7,322	5,043	9,549	7,814
Total Dividends Paid	3,046	3,047	3,055	3,244	3,618	3,815	4,014	4,025	4,032	4,040
Dividends per Share of Common Stock	0.68	0.68	0.68	0.72	0.80	0.84	0.88	0.88	0.88	0.88
Net Book Value of Plant and Equipment	45,720	50,001	50,122	47,785	47,529	45,681	47,969	45,752	49,532	49,997
Purchases of Property, Plant and Equipment	2,056	15,666	4,412	2,274	4,336	3,127	6,572	3,153	8,283	4,377
Charges for Depreciation and Amortization	4,673	4,389	4,355	4,659	4,643	4,655	4,306	4,245	3,942	3,933
Current Assets	69,564	67,940	71,051	74,761	71,952	73,827	71,395	71,486	72,148	79,439
Current Liabilities	23,401	27,425	27,496	34,020	32,068	23,885	20,539	17,284	22,283	29,713
Working Capital	46,163	40,515	43,555	40,741	39,884	49,942	50,856	54,202	49,865	49,726
Total Debt	20,275	14,143	16,320	7,692	6,865	10,514	13,472	15,582	15,342	18,423
Net Worth	73,509	73,940	64,392	68,891	81,599	77,956	81,244	85,244	86,729	79,532
Book Value per Share of Common Stock	16.44	16.52	14.34	15.29	18.04	17.20	17.87	18.72	19.02	17.40
Proforma Book Value per Share of Common Stock**	20.80	21.50	21.93	23.01	23.35	24.40	25.21	25.33	24.64	24.76
Outstanding Shares of Common Stock***	4,452	4,456	4,468	4,486	4,507	4,514	4,528	4,537	4,544	4,553

Basic earnings per share is shown after reserving Preferred Stock dividends.
Book value per share is shown after reserving net worth equal to the redemption price of $52.50 per share of Preferred Stock outstanding at each date.
Cash flow per share is based on the net income plus charges for depreciation, amortization and goodwill impairment less pension income, divided by weighted average shares outstanding.
* Sales results have been modified to conform to ASC 606. The result of the modifications were immaterial to previously reported results.
** Proforma Book Value per Share of Common Stock is based on adjusting Net Worth to exclude the impacts of Accumulated Other Comprehensive Income (Loss).
*** Shares stated in thousands.

INVESTOR & STOCKHOLDER INFORMATION

REPORTING REQUIREMENTS

The Company is not currently required to register with the SEC (Securities and Exchange Commission) and therefore is not subject to the reporting requirements of an SEC-regulated public company. Individuals, trusts, and investment organizations hold shares of the Company. To the best of the Company's knowledge, no one person owns more than 10% of the outstanding shares, irrespective of class or combination of classes (shares held by family relatives have not been combined in computing this percentage). While the Company has chosen not to voluntarily register and become subject to the costly reporting requirements of the SEC, the Company has always been committed to providing timely, complete, and accurate financial information consistent with generally accepted accounting principles, legal, and regulatory requirements. The Company issues periodic news releases, quarterly unaudited statements, a yearly Annual Report with audited financial statements, and a Proxy Statement. Interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2018. The results for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in audited financial statements have been omitted. As mentioned previously, the Company is not subject to SEC reporting requirements and therefore its quarterly interim consolidated financial statements are not subject to an interim review by independent auditors as prescribed by the SEC. This Annual Report contains forward-looking statements. Other reports, letters, and press releases distributed by the Company may also contain forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates, and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, variations in weather, changes in the regulatory environment, raw material costs, litigation, customer preferences, general economic conditions, technology, product performance, and increased competition.

BUSINESS STRATEGY

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

INVESTOR & STOCKHOLDER INFORMATION *(cont.)*

CORPORATE GOVERNANCE

The Board of Directors (the Board) of the Company is comprised of 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 President and Chief Executive Officer, and the Company's Executive Vice President and Chief Marketing and Strategy Officer. Directors are selected based on their individual qualifications and experience, the overall balance of the Board's background and experience, and each individual's willingness to fulfill their obligations and to contribute appropriately. 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 Employee Benefits Committee, the Nominating Committee, the Audit Committee, the Compensation Committee and the Strategic Review 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 STOCKHOLDER INFORMATION

Stockholder Inquiries

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

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

Stock Exchange Listing

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

Annual Meeting

The Company's annual meeting is scheduled for 11:30 a.m. on Monday, April 29, 2019, to be held at the Eden Resort and Suites in Lancaster, PA.

Corporate Data

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

For further information, contact Dale R. Bowman, Vice President and Chief Financial Officer.

Telephone: (717) 390-7832
Fax: (717) 390-7852
Email: dbowman@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

Philmer H. Rohrbaugh, Christopher R. Drew, George W. Hodges, William F. Dodge, II, Douglas S. Brossman, Elizabeth H. McMullan, Robert P. Newcomer, John W. Lyman, Donald A. Stern

AUDIT COMMITTEE

George W. Hodges
John W. Lyman
Philmer H. Rohrbaugh
Donald A. Stern

COMPENSATION COMMITTEE

John W. Lyman
Elizabeth H. McMullan
Robert P. Newcomer
Donald A. Stern

EMPLOYEE BENEFITS COMMITTEE

Elizabeth H. McMullan
Douglas S. Brossman
William F. Dodge, II
Robert P. Newcomer

NOMINATING COMMITTEE

William F. Dodge, II
Christopher R. Drew
George W. Hodges
John W. Lyman
Elizabeth H. McMullan

STRATEGIC REVIEW COMMITTEE

Robert P. Newcomer
Elizabeth H. McMullan
John W. Lyman
Douglas S. Brossman

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

OFFICERS OF BURNHAM HOLDINGS, INC.

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

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At the AMP production line, (from left) Jim Schnorr, Ronak Patel, and Sonia Frush bring high-efficiency boilers with a small footprint to the commercial HVAC market.

Our state-of-the-art K2™ condensing production line is designed to meet the ergonomic needs of each employee.

SETTING THE INDUSTRY STANDARD

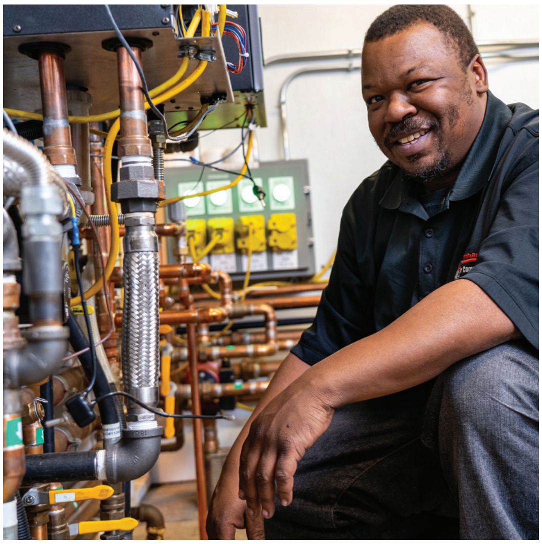
What does it take to be an industry leader? Ingenuity? Inspiration? Passion? At Burnham Holdings we feel these are all aspiring qualities for a company. However, there is one singular attribute that has made us a leader in our industry.

We care.

We care about our customers. We care for our employees. We take care of our shareholders. Care is grounded in everything we do – from developing new and innovative boilers to embracing cleaner, greener technologies. Care has always been at the heart of the way we do business. It's allowed us to set the industry standard for today, and for years to come.

Creating innovative products involves discussing, challenging, and calculating performance before prototyping and final design.

Delivering high-efficiency boilers to the marketplace includes rigorous testing to ensure optimal performance in the field.



We see progress every day – from our talented engineering teams to the skilled workers on the plant floor. Progress is fostered by leadership that encourages innovation. We achieve this by effectively communicating our company's vision and generating genuine enthusiasm for the products we make. Working collaboratively, Burnham employees have developed advanced systems, including a semi-automated condensing boiler production line that's designed to calibrate each unit for optimum performance. In addition, the industry-leading Sage Zone Control delivers superior boiler efficiency by matching firing rates to room size to minimize fuel consumption and maximize boiler longevity by optimizing operating cycles.

The engineering management team oversees our world-class research and development lab. (From left: Ed Johann, Peter Cloonan, Duane Brenneman, Randy Witmer)

INNOVATION

Engineers collaborate with technicians to develop, prototype, and test new ideas.

"Innovative products are never designed by a single person," said Chris Drew, Executive Vice President of Burnham Holdings. "Although they may start from an original idea, the end result is a collaboration of dozens of employees contributing their time and talents to fine tune the original concept and deliver a revolutionary product."

Our innovation through leadership extends beyond the manufacturing floor and into homes and commercial buildings throughout the country. Our diverse line of products serves a wide variety of market sectors – from high schools to high-rise buildings. Burnham was even there after Superstorm Sandy destroyed the boiler room at the historic Ellis Island – flooding it under six feet of water. Due to limited space, Burnham strategically installed a mix of boilers to help minimize the potential for future flooding.

"Innovation doesn't stop when our products roll off the assembly line," added Drew. "Our sales organizations have the flexibility to leverage all the products in our portfolio to find the right solution for each job. They are committed to taking a holistic view of each project to determine which equipment will offer the highest levels of efficiency and the greatest return on investment."

THROUGH LEADERSHIP

Fully-stocked warehouses allow us to increase speed-to-market with products such as our popular K2™ high-efficiency condensing boiler.

FIRST TO MARKET WITH MORE EFFICIENT TECHNOLOGIES

A significant part of being an industry-leading company is anticipating market demand. At Burnham Holdings we are constantly seeking out new and inventive ways to meet our customers' needs – sometimes before they even know they need them. One of our future-ready products is the AMP Condensing Ultra High Efficiency Hot Water Boiler. This highly efficient unit is remarkably compact – requiring only half the square footage of similar products – while delivering superior efficiencies. The compact boiler design offers the cost-saving advantages of a multiple boiler system with a focus on reducing emissions into the environment with enhanced operating characteristics.

The future looks bright at Burnham Holdings. We will continue our legacy of delivering the finest boilers on the market through innovation, efficiency, leadership and – most of all – by caring for our customers, employees and shareholders.

Good things do come in small packages. Our revolutionary AMP condensing boiler delivers ultra-high efficiency with a much smaller footprint.