Corporate Data

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Common Stock

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

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BURNHAM HOLDINGS, INC.

BURNHAM HOLDINGS, INC.

REPORT TO STOCKHOLDERS

Six Months Ended June 30, 2019

Consolidated Statements of Cash Flows

(in thousands and data is unaudited (see Notes))	Six Months ended Jun 30, 2019	Jul 1, 2018
Net income (loss)	$ 1,428	$ (372)
Depreciation and amortization	2,086	2,013
Pension and postretirement liabilities expense	150	120
Contributions to pension trust (Note 5)	-	(979)
Other net adjustments	(458)	285
Changes in operating assets and liabilities	(12,827)	(6,984)
NET CASH USED IN OPERATING ACTIVITIES	(9,621)	(5,917)
Net cash used in the purchase of assets	(3,501)	(1,717)
Proceeds from borrowings	11,930	9,494
Proceeds from stock option exercise and Treasury activity, net	131	122
Principal payments on debt and lease obligations	-	-
Dividends paid	(2,033)	(2,028)
DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(3,094)	(46)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	8,399	5,515
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 5,305	$ 5,469

Notes To Financial Statements:

(1) Basic earnings per share are based upon weighted average shares outstanding for the period. Diluted earnings per share assume the conversion of outstanding rights into common stock.

(2) Common stock outstanding at June 30, 2019 includes 3,135,309 of Class A shares and 1,426,270 of Class B shares.

(3) Mark-to-Market adjustments are a result of changes (non-cash) in the fair value of interest rate agreements. These agreements are used to exchange the interest rate stream on variable rate debt for payments indexed to a fixed interest rate. These non-operational, non-cash charges reverse themselves over the term of the agreements.

(4) Accounting rules require that the funded status of pension and other postretirement benefits be recognized as a non-cash asset or liability, as the case may be, on the balance sheet. For December 31, 2018 and 2017, projected benefit obligations exceeded plan assets. The resulting non-cash presentation on the balance sheet is reflected in "Deferred income taxes", "Other postretirement liabilities", and "Accumulated other comprehensive income (loss)", a non-cash sub-section of "Stockholders' Equity" (See Note 10 of the 2018 Annual Report for more details).

(5) In the first half of 2018, the Company made a voluntary pre-tax contribution of $0.98 million to its defined benefit pension plan. This payment increased the trust assets available for benefit payments (reducing "Other postretirement liabilities"), and did not impact the Statement of Income. There were no voluntary contributions made in the first half of 2019.

(6) Unaudited results, forward looking statements, and certain significant estimates and risks. This note has been expanded to include items discussed in detail within the 2018 Annual Report.

Unaudited Results and Forward Looking Statements. The accompanying unaudited financial statements contain all adjustments that are necessary for a fair presentation of results for such periods and are consistent with policies and procedures employed in the audited year-end financial statements. These consolidated financial statements should be read in conjunction with the Annual Report for the period ended December 31, 2018. Statements other than historical facts included or referenced in this Report are forward-looking statements subject to certain risks, trends, and uncertainties that could cause actual results to differ materially from those projected. We undertake no duty to update or revise these forward-looking statements.

Certain Significant Estimates and Risks. Certain estimates are determined using historical information along with assumptions about future events. Changes in assumptions for items such as warranties, pensions, medical cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Specific risks, such as those included below, are discussed in the Company's Quarterly and Annual Reports in order to provide regular knowledge of relevant matters. Estimates and related reserves are more fully explained in the 2018 Annual Report.

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

New Accounting Standard: During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (ASC 842). ASC 842 requires lessees to recognize the assets and liabilities that arise from all leases that exceed twelve months in duration on the balance sheet, regardless if they are operating or financing type leases. A lessee shall recognize on the balance sheet a liability to make future lease payments (the lease liability) and a right-of-use asset representing the value of the right to use the asset for the remaining term of the lease agreement. ASC 842 is effective for annual periods beginning after December 15, 2018, including interim periods. The Company adopted ASC 842 effective January 1, 2019 using the optional transition method described in ASU No. 2018-11, 'Leases - Targeted Improvements', which was issued in July, 2018. Under the optional transition method, the Company recognized any cumulative impact of initially applying ASC 842 as an adjustment to the opening balance of retained earnings as of January 1, 2019.

(Note 6 continued on following page)

Based on the guidance provided in ASC 842, the Company balance sheet at June 30, 2019 includes a total right-of-use asset value of $1,213, and current liabilities of $(839) and long-term liabilities of $(374) related to future lease payments. Leases at all of the Company's subsidiaries have been classified as operating leases. Therefore, all lease payments made with respect to outstanding leases are reported as lease expense. For the first half ended June 30, 2019, total lease expenses of $598 were included in the calculation of operating income.

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

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

Insurance: The Company and its subsidiaries maintain insurance to cover product liability, general liability, workers' compensation, and property damage. Well-known and reputable insurance carriers provide current coverage. All policies and corresponding deductible levels are reviewed on an annual basis. Third-party administrators, approved by the Company and the insurance carriers, handle claims and attempt to resolve them to the benefit of both the Company and its insurance carriers. The Company reviews claims periodically in conjunction with administrators and adjusts recorded reserves as required.

General Litigation, including Asbestos: In the normal course of business, certain subsidiaries of the Company have been named, and may in the future be named, as defendants in various legal actions including claims related to property damage and/or personal injury allegedly arising from products of the Company's subsidiaries or their predecessors. A number of these claims allege personal injury arising from exposure to asbestos-containing material allegedly contained in certain boilers manufactured many years ago, or through the installation or removal of heating systems. The Company's subsidiaries, directly and/or through insurance providers, are vigorously defending all open asbestos cases, many of which involve multiple claimants and many defendants, which may not be resolved for several years. Asbestos litigation is a national issue with thousands of companies defending claims. While the large majority of claims have historically been resolved prior to the completion of trial, from time to time some claims may be expected to proceed to a potentially substantial verdict against subsidiaries of the Company. Any such verdict would be subject to a potential reduction or reversal of verdict on appeal, any set-off rights, and/or a reduction of liability following allocation of liability among various defendants. For example, on July 23, 2013 and December 12, 2014, New York City State Court juries found numerous defendant companies, including a subsidiary of the Company, responsible for asbestos-related damages in cases involving multiple plaintiffs. The subsidiary, whose share of the verdicts amounted to $42 million and $6 million, respectively, before offsets, filed post-trial motions and appeals seeking to reduce and/or overturn the verdicts, and granting of new trials. On February 9, 2015, the trial court significantly reduced the 2013 verdicts, reducing the subsidiary's liability from $42 million to less than $7 million. Additionally, on May 15, 2015, the trial court reduced the subsidiary's liability in the 2014 verdict to less than $2 million. On October 30, 2015, the subsidiary settled these verdicts for significantly less than the trial courts' reduced verdicts, with all such settled amounts being covered by applicable insurance. The Company believes, based upon its understanding of its available insurance policies and discussions with legal counsel, that all pending legal actions and claims, including asbestos, should ultimately be resolved (whether through settlements or verdicts) within existing insurance limits and reserves, or for amounts not material to the Company's financial position or results of operations. However, the resolution of litigation generally entails significant uncertainties, and no assurance can be given as to the ultimate outcome of litigation or its impact on the Company and its subsidiaries. Furthermore, the Company cannot predict the extent to which new claims will be filed in the future, although the Company currently believes that the great preponderance of future asbestos claims will be covered by existing insurance. There can be no assurance that insurers will be financially able to satisfy all pending and future claims in accordance with the applicable insurance policies, or that any disputes regarding policy provisions will be resolved in favor of the Company.

Litigation Expense, Settlements, and Defense: The 2019 first half charges for all uninsured litigation of every kind, were $94 thousand. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the quarter were approximately $44 thousand. Prior year's settlements and expenses, including amounts for self-insured asbestos cases, are disclosed in the 2018 Annual Report.

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

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

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for response actions at disposal areas containing waste materials from their operations. In the past five years, the Company has not received any notice that it or its subsidiaries might be responsible for remedial clean-up actions under government supervision. However, one issue covered by insurance policies remains open as of this date and is fully disclosed in the 2018 Annual Report. While it is not possible to be certain whether or how any new or old matters will proceed, the Company does not presently have reason to anticipate incurring material costs in connection with any matters.

Consolidated Statements of Operations

(In thousands, except per share data) (Data is unaudited (see Notes))	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018	Six Months Ended June 30, 2019	Six Months Ended July 1, 2018
Net sales	$ 41,926	$ 39,540	$ 87,383	$ 80,310
Cost of goods sold	33,470	31,955	69,508	65,089
Gross profit	8,456	7,585	17,875	15,221
Selling, general and administrative expenses	7,612	7,774	15,880	15,807
Operating income	844	(189)	1,995	(586)
Other income (expense):				
Interest income	32	28	60	52
Non-service related pension credit	145	220	290	473
Interest expense	(289)	(236)	(490)	(422)
Other income (expense)	(112)	12	(140)	103
Income before income taxes	732	(177)	1,855	(483)
Income tax expense (benefit)	169	(40)	427	(111)
NET INCOME (LOSS)	$ 563	$ (137)	$ 1,428	$ (372)
BASIC & DILUTED INCOME (LOSS) PER SHARE (Note 1)	$ 0.12	$ (0.03)	$ 0.31	$ (0.08)
COMMON STOCK DIVIDENDS PAID (Note 1)	$ 0.22	$ 0.22	$ 0.44	$ 0.44

Consolidated Balance Sheets

(in thousands and data is unaudited (see Notes)) ASSETS	June 30, 2019	July 1, 2018
CURRENT ASSETS		
Cash and cash equivalents	$ 5,305	$ 5,469
Trade accounts receivable, less allowances	19,824	18,445
Inventories	59,264	52,292
Prepaid expenses and other current assets	1,763	1,855
TOTAL CURRENT ASSETS	86,156	78,061
PROPERTY, PLANT AND EQUIPMENT, net	51,415	49,239
OPERATING LEASE RIGHT OF USE ASSETS (Note 6)	1,213	
OTHER ASSETS, net	9,759	16,672
TOTAL ASSETS	$ 148,543	$ 143,972
LIABILITIES AND STOCKHOLDERS' EQUITY	**2019**	**2018**
CURRENT LIABILITIES		
Accounts and taxes payable & accrued expenses	$ 21,947	$ 21,456
Current portion of long-term liabilities	136	
Current portion of operating lease liabilities (Note 6)	839	
Current portion of long-term debt	4,000	134
TOTAL CURRENT LIABILITIES	26,922	21,590
LONG-TERM DEBT	26,748	24,387
LONG-TERM OPERATING LEASE LIABILITIES (Note 6)	374	
OTHER POSTRETIREMENT LIABILITIES (Notes 4 and 5)	11,482	9,342
DEFERRED INCOME TAXES (Note 4)	4,138	3,917
STOCKHOLDERS' EQUITY		
Preferred Stock	530	530
Class A Common Stock	3,518	3,501
Class B Convertible Common Stock	1,425	1,443
Additional paid-in capital	16,034	15,912
Retained earnings	109,005	111,795
Accumulated other comprehensive income (loss) (Note 4)	(33,660)	(30,463)
Treasury stock, at cost	(17,973)	(17,982)
TOTAL STOCKHOLDERS' EQUITY	78,879	84,736
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 148,543	$ 143,972

To Our Shareholders:

Financial Results

Net sales in the second quarter and YTD were $41.9 million and $87.4 million, respectively, compared to $39.5 million and $80.3 million in 2018. Sales of residential products increased by 8.3% in the first half of 2019, driven by favorable seasonal weather in our key market areas, continued strength in the U.S. economy, and increased sales of high efficiency condensing boilers. Sales of commercial products also increased by 10.1% in the first half as our new commercial condensing products experienced strong year-over-year growth. Order backlogs, especially in our commercial businesses, were significantly higher than last year heading into the second half of 2019.

Cost of goods sold ("COGS") as a percentage of sales for the second quarter and YTD in 2019 was 79.8% and 79.5%, respectively, compared to 80.8% and 81.0% in 2018. The decrease in COGS (as a percentage of sales) was due to higher sales volumes, product pricing actions taken in both late 2018 and early 2019, higher operating levels at most subsidiaries, and a more profitable mix of products sold. Selling, general and administrative expenses were slightly higher in dollar terms in the first half of 2019 (0.5%), but were lower as a percentage of sales (18.2% vs. 19.7%) compared to last year.

Net income in the second quarter of 2019 was $563 thousand compared to a net loss of ($137) thousand in 2018. On a YTD basis, 2019 results reflect a net profit of $1.43 million compared to a net loss of ($372) thousand in 2018, an improvement of $1.80 million. Earnings per share were $0.31 in the first half of 2019 compared to a loss per share of ($0.08) in 2018. The first half earnings results were the highest reported for the Company in the past fifteen years.

Balance Sheet Condition

The Company's balance sheet has appropriate levels of working capital to adequately support our current level of business activity. Long-term debt was higher this year at the end of the first half compared to last year ($30.7 million vs. $24.4 million), but continues to be at a reasonable level in comparison to total capital. Net cash used in operations was higher this year in the first half by $3.7 million due to the higher levels of accounts receivable and inventory needed to support the increased sales volume experienced in the first half of 2019. Debt balances were also higher due to the increased level of spending on capital expenditure projects compared to last year.

Dividends / Board Actions

At its meeting on July 18, 2019, the Burnham Holdings, Inc. Board of Directors declared a regular quarterly common stock dividend of $0.22 per share payable August 22, 2019, with a record date of August 15, 2019. The Board also announced the appointment of E. Philip Wenger to the Company's Board of Directors, effective October 1, 2019 for a term ending at the Annual Meeting in 2020, at which time he will be on the proxy for election by shareholders to a three year term. Mr. Wenger holds a B.S. degree in Finance from Penn State University and an M.B.A. from Penn State Harrisburg; and is currently Chairman, President and CEO of Fulton Financial Corporation, a Lancaster based financial holding company.

Douglas S. Brossman
Chief Executive Officer