

# BURNHAM HOLDINGS, INC.

## REPORT TO STOCKHOLDERS

**Six Months Ended  
June 28, 2020**

### **Corporate Data**

Burnham Holdings, Inc.  
1241 Harrisburg Avenue  
Post Office Box 3245  
Lancaster, PA 17604-3245  
Telephone: (717) 390-7800  
Fax: (717) 390-7852

[www.burnhamholdings.com](http://www.burnhamholdings.com)

### **Common Stock**

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

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

### **Transfer Agent**

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

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

BURNHAM HOLDINGS, INC.

## Consolidated Statements of Cash Flows

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

	Six Months ended	
	Jun 28, 2020	Jun 30, 2019
Net (loss) income	\$ (1,442)	\$ 1,428
Depreciation and amortization	2,196	2,086
Pension and postretirement liabilities expense	118	150
Contributions to pension trust (Note 5)	(960)	-
Other net adjustments	(1,452)	(458)
Changes in operating assets and liabilities	(10,285)	(12,827)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(11,825)</b>	<b>(9,621)</b>
Net cash used in the purchase of assets	(2,421)	(3,501)
Proceeds from borrowings	15,819	11,930
Proceeds from stock option exercise and Treasury activity, net	90	131
Principal payments on debt and lease obligations	-	-
Dividends paid	(2,033)	(2,033)
<b>DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>(370)</b>	<b>(3,094)</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD</b>	<b>5,749</b>	<b>8,399</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 5,379</b>	<b>\$ 5,305</b>

### 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 28, 2020 includes 3,163,358 of Class A shares and 1,407,822 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, 2019 and 2018, 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 2019 Annual Report for more details).
- (5) In the first half of 2020, the Company made a voluntary pre-tax contribution of \$0.96 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 2019 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, 2019. 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 2019 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.

The Company balance sheet at June 28, 2020 and June 30, 2019 includes total right-of-use asset values of \$4,320 and \$1,213, respectively; current liabilities of \$(1,119) and \$(839), respectively; and long-term liabilities of \$(3,201) and \$(374), respectively, 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 halves ended June 28, 2020 and June 30, 2019, total lease expenses of \$298 and \$299, respectively, were included in the calculation of operating income. Lease accounting details are explained in greater detail in the 2019 Annual Report.

**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 2020 first half charges for all uninsured litigation of every kind, were \$103 thousand. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the first half were approximately \$36 thousand. Prior year's settlements and expenses, including amounts for self-insured asbestos cases, are disclosed in the 2019 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 2019 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		Six Months Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Net sales	\$ 32,340	\$ 41,926	\$ 69,339	\$ 87,383
Cost of goods sold	26,263	33,470	56,754	69,508
Gross profit	6,077	8,456	12,585	17,875
Selling, general and administrative expenses	6,611	7,612	14,542	15,880
Operating (loss) income	(534)	844	(1,957)	1,995
Other income (expense):				
Interest and investment income	134	32	188	60
Non-service related pension credit	161	145	322	290
Interest expense	(238)	(289)	(425)	(490)
Other income (expense)	57	(112)	85	(140)
Income before income taxes	(477)	732	(1,872)	1,855
Income tax expense (benefit)	(109)	169	(430)	427
NET (LOSS) INCOME	\$ (368)	\$ 563	\$ (1,442)	\$ 1,428
BASIC & DILUTED (LOSS) INCOME PER SHARE (Note 1)	\$ (0.08)	\$ 0.12	\$ (0.32)	\$ 0.31
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))

	June 28, 2020	June 30, 2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,379	\$ 5,305
Trade accounts receivable, less allowances	17,444	19,824
Inventories	60,582	59,264
Prepaid expenses and other current assets	1,192	1,763
TOTAL CURRENT ASSETS	84,597	86,156
PROPERTY, PLANT AND EQUIPMENT, net	52,438	51,415
OPERATING LEASE RIGHT OF USE ASSETS (Note 6)	4,320	1,213
OTHER ASSETS, net	11,290	9,759
TOTAL ASSETS	\$ 152,645	\$ 148,543
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts and taxes payable & accrued expenses	\$ 20,056	\$ 21,947
Current portion of long-term liabilities	152	\$ 136
Current portion of operating lease liabilities (Note 6)	1,119	\$ 839
Current portion of long-term debt	-	4,000
TOTAL CURRENT LIABILITIES	21,327	26,922
LONG-TERM DEBT	31,336	26,748
LONG-TERM OPERATING LEASE LIABILITIES (Note 6)	3,201	374
OTHER POSTRETIREMENT LIABILITIES (Notes 4 and 5)	7,624	11,482
DEFERRED INCOME TAXES (Note 4)	5,952	4,138
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock	530	530
Class A Common Stock	3,536	3,518
Class B Convertible Common Stock	1,407	1,425
Additional paid-in capital	16,115	16,034
Retained earnings	110,664	109,005
Accumulated other comprehensive income (loss) (Note 4)	(31,083)	(33,660)
Treasury stock, at cost	(17,964)	(17,973)
TOTAL STOCKHOLDERS' EQUITY	83,205	78,879
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 152,645	\$ 148,543

## To Our Shareholders:

Net sales in the second quarter and YTD were \$32.3 million and \$69.3 million, respectively, compared to \$41.9 million and \$87.4 million in 2019. Residential product sales were lower by 33% for the quarter and 28% year to date. Sales of commercial products were lower by approximately 3% for the quarter and YTD versus last year.

Cost of goods sold ("COGS") as a percentage of sales for the second quarter and YTD in 2020 was 81.2% and 81.9%, respectively, compared to 79.8% and 79.5% in 2019. The increase in COGS (as a percentage of sales) was due mainly to fixed operating expenses (for example, depreciation of fixed assets) being spread across lower net sales in 2020. Numerous expense controls were put in place during the second quarter to offset the uncertain business environment. Selling, general and administrative expenses on a YTD basis were down 8.4% in dollar terms, but were higher as a percentage of sales (21.0% vs. 18.2%) compared to last year as the result of the decline in net sales in the first half of 2020. Additionally, we continued planned investments in new product development and operations, releasing three new products for production in preparation for the fall heating season and commissioning a number of new pieces of manufacturing equipment. Net loss in the second quarter of 2020 was \$(368) thousand compared to a net income of \$563 thousand in 2019. On a YTD basis, 2020 results reflect a net loss of \$(1.44) million compared to a net income of \$1.43 million in 2019, a decrease of \$(2.87) million. Loss per share was \$(0.32) in the first half of 2020 compared to earnings per share of \$0.31 in 2019.

Our business results were significantly affected in the first quarter by mild win-

ter weather, and in the second quarter by impacts from the COVID-19 pandemic, as most states implemented "stay at home" orders curtailing business and economic activities. While all of our subsidiaries continued operating as essential businesses, the "stay at home" orders forced many of our wholesaler customers to close, limited HVAC installers to conducting only emergency replacements, and shuttered most commercial construction projects, dramatically impacting demand for our products. While there remains significant uncertainty regarding the broader economic effects of the pandemic and the pace of re-opening of economic activity, the functional necessity of our products as critical components of the country's heating infrastructure may support future demand as the economy, particularly in our core Northeastern market, re-opens.

At its meeting on July 16, 2020, the Burnham Holdings, Inc. Board of Directors announced the appointment of Laura T. Wand as a Director, effective October 1, 2020. The appointment is for a term ending at the Company's Annual Meeting in 2021, at which time it is anticipated that Ms. Wand will be on the Proxy for election by shareholders to a three year term. Ms. Wand holds a Bachelor's degree in Mechanical Engineering from the Georgia Institute of Technology. She recently retired after a successful career in the HVAC industry, retiring as Vice President & General Manager of Applied HVAC Equipment for Johnson Controls International, a global leader in building HVAC, automation and protection.

The Board also declared a regular quarterly common stock dividend of \$0.22 per share payable August 19, 2020, with a record date of August 12, 2020.

**Douglas S. Brossman**  
*Chief Executive Officer*