

BURNHAM HOLDINGS, INC.

REPORT TO STOCKHOLDERS

**Three Months Ended
April 2, 2017**

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

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:
Cathleen J. Anderson, Financial Services
Administrator, or Dale R. Bowman,
VP-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 at the above address.

BURNHAM HOLDINGS, INC.

Consolidated Statements of Income

(In thousands, except per share data)

(Data is unaudited (see Notes))

Three Months Ended
April 2, **March 27,**
2017 **2016**

| | | |
|--|-----------|------------|
| Net sales | \$ 35,782 | \$ 33,185 |
| Cost of goods sold | 29,466 | 27,158 |
| Gross profit | 6,316 | 6,027 |
| Selling, general and administrative expenses | 7,488 | 7,623 |
| Operating income | (1,172) | (1,596) |
| Other income (expense): | | |
| Interest and investment income | 12 | 15 |
| Interest expense | (196) | (206) |
| Other income (expense) | (184) | (191) |
| Income before income taxes | (1,356) | (1,787) |
| Income tax expense | (488) | (643) |
| NET INCOME | \$ (868) | \$ (1,144) |
| BASIC EARNINGS PER SHARE (Note 1) | \$ (0.19) | \$ (0.25) |
| DILUTED EARNINGS PER SHARE (Note 1) | \$ (0.19) | \$ (0.25) |
| COMMON STOCK DIVIDENDS PAID | \$ 0.22 | \$ 0.22 |

Consolidated Balance Sheets

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

April 2, **March 27,**
2017 **2016**

| ASSETS | 2017 | 2016 |
|--|-------------|-------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 7,138 | \$ 5,329 |
| Trade accounts receivable, less allowances | 14,477 | 12,237 |
| Inventories | 44,453 | 47,103 |
| Prepaid expenses and other current assets | 1,196 | 2,121 |
| TOTAL CURRENT ASSETS | 67,264 | 66,790 |
| PROPERTY, PLANT AND EQUIPMENT, net | 45,350 | 47,638 |
| DEFERRED INCOME TAXES (Note 4) | - | - |
| OTHER ASSETS, net | 22,402 | 22,489 |
| TOTAL ASSETS | \$ 135,016 | \$ 136,917 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | 2017 | 2016 |
| CURRENT LIABILITIES | | |
| Accounts and taxes payable & accrued expenses | \$ 17,173 | \$ 18,072 |
| Current portion of long-term liabilities | 157 | 184 |
| Current portion of long-term debt | - | 1,264 |
| TOTAL CURRENT LIABILITIES | 17,330 | 19,520 |
| LONG-TERM DEBT | 13,220 | 12,204 |
| OTHER POSTRETIREMENT LIABILITIES (Notes 4 and 5) | 17,669 | 25,886 |
| DEFERRED INCOME TAXES (Note 4) | 3,335 | 484 |
| STOCKHOLDERS' EQUITY | | |
| Preferred Stock | 530 | 530 |
| Class A Common Stock | 3,486 | 3,478 |
| Class B Convertible Common Stock | 1,458 | 1,467 |
| Additional paid-in capital | 15,684 | 15,553 |
| Retained earnings | 110,215 | 109,329 |
| Accumulated other comprehensive income (loss) (Note 4) | (29,913) | (33,529) |
| Treasury stock, at cost | (17,998) | (18,005) |
| TOTAL STOCKHOLDERS' EQUITY | 83,462 | 78,823 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 135,016 | \$ 136,917 |

Consolidated Statements of Cash Flows

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

| | Three Months ended | |
|--|--------------------|-----------------|
| | Apr 2, 2017 | Mar 27, 2016 |
| Net income | \$ (868) | \$ (1,144) |
| Depreciation and amortization | 1,015 | 1,092 |
| Pension and postretirement liabilities expense | (47) | 77 |
| Contributions to pension trust (Note 5) | (488) | (1,406) |
| Other net adjustments | (447) | (772) |
| Changes in operating assets and liabilities | 4,284 | 4,827 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 3,449 | 2,674 |
| Net cash used in the purchase of assets | (616) | (764) |
| Proceeds from borrowings | (2,260) | (500) |
| Proceeds from stock option exercise and Treasury activity, net | - | 3 |
| Principal payments on debt and lease obligations | - | - |
| Dividends paid | (998) | (996) |
| INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | (425) | 417 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR | 7,563 | 4,912 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR | \$ 7,138 | \$ 5,329 |

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 April 2, 2017 includes 3,079,181 of Class A shares and 1,457,725 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, 2016 and 2015, 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 2016 Annual Report for more details).
- (5) In the first quarters of 2017 and 2016, the Company made voluntary pre-tax contributions of \$0.49 million and \$1.41 million, respectively to its defined benefit pension plan. These payments increased the trust assets available for benefit payments (reducing "Other postretirement liabilities"), and did not impact the Statements of Income.
- (6) Unaudited results, forward looking statements, and certain significant estimates and risks. This note has been expanded to include items discussed in detail within the Annual Report.

Unaudited Results and Forward Looking Statements. The accompanying unaudited financial statements contain all adjustments that are necessary for a fair presentation of results for such periods and are consistent with policies and procedures employed in the audited year-end financial statements. These consolidated financial statements should be read in conjunction with the Annual Report for the period ended December 31, 2016. 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 2016 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.

(Note 6 continued on following page)

Note (6) Certain Significant Estimates and Risks (continued from previous page)

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 2017 three-month charges for all uninsured litigation of every kind, was \$60 thousand. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the three-months were approximately \$23 thousand. Prior year's settlements and expenses, including amounts for self-insured asbestos cases, are disclosed in the 2016 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, two pre-2008 issues covered by insurance policies remain open as of this date and are fully disclosed in the year-end 2016 Annual Report. While it is not possible to be certain whether or how any new or old matters will proceed, the Company does not presently have reason to anticipate incurring material costs in connection with any matters.

To Our Shareholders:

Burnham Holdings, Inc. performance in the first quarter of 2017 included the following highlights:

- Net sales were \$35.8 million compared to \$33.2 million in the first quarter of 2016; up almost 8% and the second consecutive quarter of year on year net sales growth.
- Net loss for the quarter was \$(0.9) million, an improvement of \$0.2 million, or 18%, compared to the \$(1.1) million net loss recorded in the first quarter of 2016.
- Total debt was \$13.2 million, \$248 thousand lower than the first quarter of 2016. Interest expense on debt was lower by \$10 thousand for the quarter compared to last year.

Financial Results

First quarter net sales were \$35.8 million, an increase of 7.8% compared to the same period last year. In total, our residential businesses experienced higher sales (up 14.6%) in the first quarter versus last year. Although sales in our commercial business units were down by 6.3% for the quarter compared to last year, the commercial order backlog is up 35% compared to the same time in 2016. Net loss in the first quarter of 2017 was \$(0.9) million, or \$(.19) per common share. This was an improvement from the first quarter 2016 reported loss of \$(1.1) million, or \$(.25) per common share.

Cost of goods sold ("COGS") as a percentage of sales for the first quarter totaled 82.3%, compared to the 2016 level of 81.8%. The increase in COGS was due mainly to the mix of commercial product sales and generally higher prices paid for select raw materials (steel and scrap). Selling, general and administrative expenses were lower in the first quarter in both dollar terms (\$7.5 million vs. \$7.6 million) and as a

percentage of sales (20.9% vs. 23.0%) compared to 2016. Other expenses, which consist mostly of net interest expense, were lower by \$7 thousand compared to the same period last year.

In general, the first quarter provides the lowest quarterly sales of our fiscal year (normally less than 20% of full year sales), and we advise caution when using the financial results from the first quarter as a predictor of full year expectations. Although the HVAC markets that we serve may fluctuate from year to year, the long-term outlook for boilers, furnaces and associated equipment remains good. Our core markets retain a large installed base of heating equipment that will be replaced over time, either due to the age of the equipment or to improve efficiency. Our continued investment in increased product development has allowed both our residential and commercial businesses to introduce new high efficiency boiler products over the last several years, with more new products slated for introduction through the balance of 2017. These new product offerings, along with our line-up of existing products, position our subsidiaries with one of the broadest product portfolios in the industry.

Balance Sheet Condition

The Company's balance sheet has appropriate levels of working capital to support current business activity. Long-term debt of \$13.5 million was \$0.3 million lower than at the end of the first quarter of 2016. Cash provided by operations increased by \$775 thousand in the first quarter of 2017, due to better income results and lower voluntary pension contributions compared to the first quarter of 2016.

Douglas S. Brossman
President and CEO