BURNHAM HOLDINGS, INC.
2017 Annual Report

BURNHAM HOLDINGS
PERFORMANCE PROVEN · TECHNOLOGY FORWARD

LETTER TO OUR STOCKHOLDERS

Last year was a year of improved sales and operational performance, as demand in our residential boiler markets continued to improve off the lows experienced in 2016. Net sales for the year were $ 176.7 million, an increase of $4.3 million, or 2.5%, versus 2016. Residential product sales were up 5% as both our residential boiler and furnace businesses posted improved sales. While our aggregate commercial boiler sales were off 3.5% versus last year, sales of our new commercial condensing products in the important and growing high-efficiency product category were up over 15%.

Gross profit in 2017 was $37.4 million, up almost $1 million versus 2016. Net income was $1.0 million, or $0.21/share versus $1.02/share in 2016. As explained in detail in the financial statement notes, 2017 net income was negatively impacted by a non-cash goodwill impairment charge arising from lower sales of large commercial boilers, which was partially offset by a one-time gain from the revaluation of net deferred tax liabilities resulting from lower U.S. corporate tax rates enacted in late 2017. Further, net income in 2016 was higher because of a gain from the sale of subsidiary company property. Excluding these one-time items from both years (as shown in the table on page 6), net income in 2017 would have been $4.8 million ($1.06/share) versus $3.9 million ($0.87/share) in 2016, up $0.9 million ($0.19/share), or 22%. Finally, we maintained the dividend in 2017 at $0.88 per share.

I have been reporting for a number of years on the shift of customer demand to more sophisticated, high-efficiency products and the need for us to broaden our product lines to meet our customers' varying needs. We knew it would be a multiyear task that would require difficult decisions regarding capital. With the support of our Board of Directors, we have made the significant long-term investments in people and facilities across our subsidiaries to accomplish the never-ending goal of developing and maintaining the broadest line of condensing <u>and</u> non-condensing commercial <u>and</u> residential products in the industry.

Examples of these investments include the following:

- Our residential boiler businesses began adding engineering staff in 2013, followed by the opening of U.S. Boiler's state-of-the-art Engineering and Technology Center in late 2015. These efforts provided the spring board for the development of new, sophisticated high-efficiency boiler products, while also improving and supporting our equally important line of cast iron and steel non-condensing products. Recent new product lines include U.S. Boilers' ALPINE,™ K2,™ K2™ FIRETUBE and XC™ product lines and Velocity's PHANTOM,® RAPTOR™ heat, RAPTOR-COMBI™ and SHADOW.™ 2017 improvements to this already-successful product line-up included introduction of the ASPEN™ Heat Only and Combi high-efficiency stainless-steel condensing boiler, as well as performance enhancements allowing all products in our residential condensing line-up to meet 95% AFUE, with most achieving class-leading modulation ratios as high as 10:1.
- Our commercial boiler businesses have also realigned their product portfolios to meet the changing needs of their customers. Thermal Solutions made significant capital investments in 2017 to increase our commercial condensing boiler product development and manufacturing capabilities. They extended the available sizes of their high-efficiency ARCTIC® and APEX™ products, leading to double digit unit sales growth in 2017 for both product families. More recently, Bryan Steam launched the BFIT™ and FREEFLEX™ lines of commercial condensing products, and Thermal Solutions launched a third condensing product line, the AMP.™ These highly innovative products are unique in the industry with advanced feature sets and category-leading performance.
- Our residential furnace business, Thermo Pride, posted its fifth consecutive year of increased oil furnace sales and market share gains through execution of its multi-brand, multi-channel strategy. They also completed a new 5,000-square-foot facility adjacent to their Denton, NC, manufacturing facility, which allowed the consolidation of customer service, order entry, planning, engineering and product development activities in a single location.
- We have continued to embrace continuous process improvement as a business strategy for efficient operations and growth, seeking to use the latest manufacturing technologies to drive efficiency gains and cost reductions throughout our manufacturing facilities. We have initiated a multi-year project to further integrate our ERP system with manufacturing processes to improve planning, material management and employee productivity.

In October 2017, the Thaddeus Stevens College of Technology, based in Lancaster, PA, broke ground on its new Greiner Center campus that includes an advanced curriculum in HVAC careers. The new campus will include the Burnham Holdings Center for HVAC Technology, where students will receive hands-on training utilizing equipment designed and manufactured by our subsidiary companies. It is anticipated that the campus will be completed in time to welcome students in fall 2018.

Chris Drew, our Executive Vice President and Chief Marketing and Strategy Officer, completed his term as Chairman of the Board of Directors of the Air-Conditioning, Heating and Refrigeration Institute (AHRI), the largest trade group representing our industry. Chris' experience as Chair allowed us to gain valuable industry insights while continuing to support our industry. This opportunity was recognition of Chris' personal skill and integrity, as well as his career-long passion and commitment to our industry.

Many of our associates also invest their time, talents and resources in the strength and success of the communities in which they live. Our associates, along with our support, volunteer their time and contribute resources to a broad array of national and local organizations, including the United Way, the American Cancer Society, the Boy Scouts of America, Junior Achievement, Compass Mark, Wounded Warriors Project and the Special Olympics.

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 energy-efficient products to reduce fuel consumption and operating costs has driven our improvements in product development, manufacturing and sales resources. Accordingly, we have continued to make these investments to support the long-term success of the Company.

Our investments in our businesses will drive our long-term 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, 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.

Our performance is the result of the collective efforts of a truly exceptional team of dedicated employees that is unmatched in the industry. They delivered on their 2017 promises of improving productivity, reducing costs and innovative product development. It's only through the hard work and dedication of our employees that the businesses can grow and prosper.

I also would like to express my appreciation and gratitude to Albert Morrison, III, who will be retiring from the Board effective April 23, 2018, after more than 45 years of service to the Company. Al has been a valuable member of our board for almost 30 years, serving 16 years as Chairman. Beyond his board service, Al was an employee of the Company for almost 40 years, 24 years of which were as President and CEO. Burnham Holdings would not be where it is today if not for Al's countless contributions. His wisdom and insights have provided a strong foundation for our future. He has been a personal mentor for me, and for that I will always be grateful. While he will be greatly missed, we wish him and Pat the best as they continue to enjoy their retirement together.

Lastly, I want to take this opportunity to thank you, our shareholders, for your ongoing support and loyalty.

I welcome your questions and comments at any time.

Thank you!

Sincerely,

Douglas S. Brossman
President and CEO

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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 740 employees nationwide, of which approximately 47% are union employees covered through separate collective bargaining agreements. Generally the agreements are for a three-year period and expire at different times. 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 increased revenue as business conditions in the HVAC market improved in 2017 as a result of normal seasonal heating patterns during the winter months. With a solid foundation built on our proven long-term performance, the Company has the required financial and operational resources to perform in varying market conditions. We continue to invest in new product development and process improvements to develop high-value, innovative products that will contribute to our future success.

- Net sales were $176.7 million, an increase of $4.3 million, or 2.5%, from 2016, as demand for residential heating equipment rebounded from the lower than normal levels experienced in 2015-2016.
- Gross profit (as shown on page 11) in 2017 was $37.4 million, or 21% of net sales; the same percentage experienced in 2016.
- Net income was $1.0 million, which included a $6.0 million goodwill impairment charge and a $2.2 million gain from revaluation of net deferred tax liabilities. Excluding these one-time items, net income would have been $4.8 million, or $1.06 per basic share.
- Book value of our common stock in 2017 was $19.02 per share, an increase of 2%. Dividends of $0.88 per share were paid in 2017, the same level as in 2016.
- Our year-end debt level of $15.3 million remains at a level that allows us to continue to invest in new product technologies and appropriate business opportunities. Interest expense increased in 2017 due to higher interest rates as average borrowing levels in 2017 were consistent with 2016 levels.

			Percent Change
(in millions, except per share data)	**2016**	**2017**	**2016/2017**
Net Sales	$ 172.4	$ 176.7	2.5%
Net Income	4.6	1.0	(78.3%)
Debt, Less Interest Rate Swap Instruments	14.7	14.7	—
Total Debt	15.6	15.3	(1.9%)
Working Capital	54.2	49.9	(7.9%)
Total Assets	139.7	138.4	(0.9%)
Total Stockholders' Equity[1]	85.2	86.7	1.8%
Net Cash Provided by Operating Activities	5.0	9.5	90.0%
Per Share Data			
Cash Flow from Net Income	1.84	2.29	24.5%
Basic Earnings from Net Income	1.02	0.21	(79.4%)
Dividends Paid	0.88	0.88	—
Book Value[1]	18.72	19.02	1.6%
Stock Price at Year-end	15.85	15.75	(0.6%)
Market Capitalization at Year-end	71.9	71.6	(0.4%)

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.

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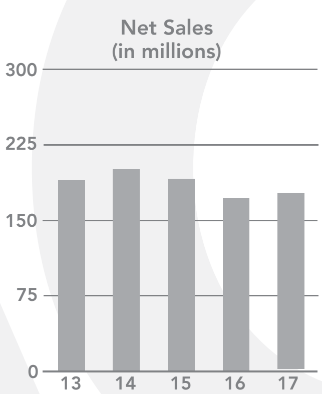

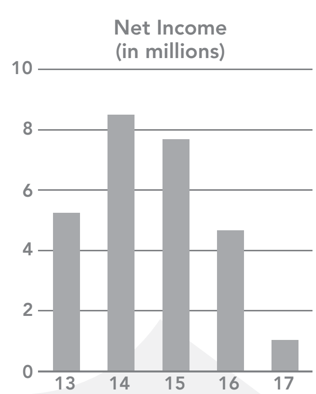

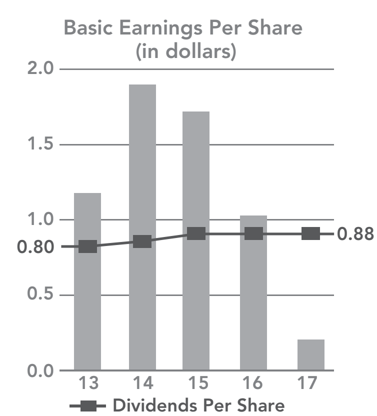

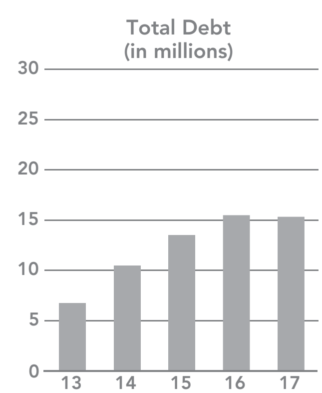

REVIEW OF OPERATIONS

OVERVIEW OF RESULTS

2017 was a year of continued improvement for the Company. The balance sheet remains strong, and there was consistent sales growth across the residential portions of our business. Net sales for the year were $176.7 million, an increase of 2.5% from last year. Demand during the year consistently outpaced the prior year with specific improvements in our commercial condensing product sales as well as our residential OEM businesses. Net income was $1.0 million, or $0.21 per share versus $4.6 million or $1.02 per share in 2016. 2017 net income was negatively impacted by a $6.0 million ($1.32/share) goodwill impairment charge, which was partially offset by a one-time income tax benefit of $2.2 million ($0.48/share) resulting from federal tax reform. Further, net income in 2016 was higher because of a $0.7 million ($0.16/share) real estate gain. Excluding these one-time items from both years, net income in 2017 would have been $4.8 million ($1.06/share) versus $3.9 million ($0.87/share) in 2016, up $0.9 million ($0.19/share), or 22%. The Company maintained the same dividend payout rate as in 2016 at $0.88 per share.

We continue to see customer preference with respect to both residential and commercial heating products trend toward higher efficiency, higher value products. Our subsidiaries continue to invest in product development resources and have introduced a number of new energy efficient products over the past several years, with more new products slated for introduction in 2018. Our residential boiler subsidiaries introduced improved versions of our popular residential condensing products with improved combustion efficiency and higher modulation ranges. Our residential furnace subsidiary increased sales and market share of oil furnaces for the fifth consecutive year. Sales of our commercial condensing products were up over 15% as our commercial subsidiaries expanded the functionality and size range of existing products, and introduced a third commercial condensing boiler line. Backlogs in both residential and commercial products were comparable at year-end 2017 to the prior year. 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 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 diverse product lines of our subsidiaries include some of the most recognized brand names in the industry and serve defined residential, commercial, and industrial market sectors. Our diverse product mix, combined with an absolute need for heating solutions, provides the foundation for consistent financial performance through fluctuating economic cycles.

The Company's commitment to investment in new 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 2017 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.

2017 was another example of the value of these investments.

In the Commercial Boiler space, we made significant capital investments in 2017 to increase our commercial condensing boiler product development and manufacturing capabilities. Thermal Solutions extended the available sizes of their high-efficiency ARCTIC® and APEX™ family of condensing boilers, leading to double digit unit sales growth in 2017 for both product families. More recently, Thermal Solutions launched a third line of commercial boilers, the AMP,™ to round out its condensing product line to provide the right product solution to any commercial heating need. 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 category, U.S. Boiler Company and Velocity Boiler Works also executed their strategy of continued new product introductions, including new high-efficiency products, and products for the OEM market. They have enhanced the already successful ALPINE,™ K2-WT,™ and PHANTOM® residential condensing boiler lines with the release of enhanced versions of the RAPTOR™ Heat Only, RAPTOR-COMBI,™ and the introduction of the ASPEN™ Heat Only and Combi high-efficiency stainless-steel condensing boilers. All products in our residential lineup now meet 95% AFUE, and most can achieve class leading combustion modulation ratios as high as 10:1. This new product momentum has been facilitated by U.S. Boiler's new state-of-the-art Engineering and Technology Center that was opened in late 2015.

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 a new 5,000 square foot facility adjacent to their Denton, N.C. manufacturing facility which allowed the consolidation of customer service, engineering, and product development activities in a single location.

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 2017 were $176.7 million, an increase of 2.5% compared to the $172.4 million in sales during 2016. 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 1.9% of sales in 2017 and 1.8% of sales in 2016. Sales of residential products, which made up approximately 74% of total sales in 2017, increased by 4.8% over 2016 levels. Sales improved mainly as a result of normal seasonal winter weather and expanded sales of private label boiler products. Sales of commercial boiler products declined by 3.5% in 2017, however, sales of new high-efficiency commercial boilers increased by over 15% during 2017 compared to the previous year.

We continue to be optimistic regarding the long-term prospects for our various business units. There is a large installed base of hydronic heating equipment in the U.S., and it will continue to be replaced over time – either because of age or in order to gain efficiency and lower annual operating costs. The extensive array of modern, high-efficiency residential and commercial products sold by our subsidiaries positions us well to meet the needs of virtually any heating application.

Our subsidiaries continue to invest in efforts to improve employee safety, design and manufacture high value-added products, maintain high quality standards, provide world class customer service, and improve manufacturing productivity. All of these efforts help our subsidiaries to consistently manufacture and market high-quality, 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 2017 was $37.4 million, or 21.2% of net sales. This compares to gross profit of $36.5 million in 2016, which also represented 21.2% of net sales. Margins were favorably impacted in 2017 from lower employee medical costs, while being negatively impacted by higher prices for certain raw materials and overhead costs.

Selling, general, and administrative expenses (SG&A), shown on the Consolidated Statements of Income on page 11, were slightly higher at $30.3 million in 2017 compared to $30.2 million in 2016, an increase of $0.1 million. Due to the higher sales experienced in 2017, SG&A expenses as a percentage of sales decreased to 17.2% from 17.5% in 2016. Income from operations was reduced in 2017 by a $6.0 million charge 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 ($985) thousand compared to 2016 results. The main reason for the decline was that 2016 results included a $1.1 million gain from the sale of subsidiary company property as explained under "Sale of Property" in Note 4 of the financial statement footnotes. The remaining changes in this category were the result of better investment returns offset slightly by higher interest expense in 2017.

Reported income tax expense in 2017 was impacted significantly due to the recently enacted changes to U.S. Corporate tax laws. The major component of the new law, the reduction in the statutory rate to 21%, caused a sizable favorable change in 2017 tax expense. Although the law does not take full effect until 2018, accounting standards require that any deferred tax liabilities and assets outstanding at December 31, 2017 be restated to reflect tax rates that are expected to be in effect in the future. As a result, net deferred tax liabilities were reduced at December 31, 2017 by $2.2 million, with the amount being included in the current year income tax net benefit as reflected on the Consolidated Statement of Income. This large, favorable tax benefit in combination with the negative impact to income before taxes from the $6.0 million goodwill impairment charge caused the effective tax rate for 2017 to be (165.8%) compared to the Federal statutory rate of 34%. As a comparison, the effective tax rate for 2016 was 30.0%.

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 2016 and 2017 results from normal operations.

Dollars in Thousands	2016	2017
Reported Net Income	$ 4,637	$ 970
Net Gain on Sale of Property (Note 4)	(708)	—
Goodwill Impairment Loss (Note 2 — Other Assets)	—	6,000
Corporate Tax Reform Benefit (Note 7)	—	(2,178)
Proforma Net Income	$ 3,929	$ 4,792
Proforma % Return on Net Sales	2.3%	2.7%
Proforma Basic and Diluted Earnings per Share	$0.87	$1.06

Net income in 2017 was $1.0 million, a return on sales of 0.5%, and earnings of $0.21 per basic share. This compared to 2016 net income of $4.6 million, a return on sales of 2.7%, and earnings per share of $1.02 per basic share.

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 liability 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 2015, pension plan assets were $149.4 million compared to the projected benefit liability of $172.2 million, resulting in a recorded balance sheet liability of $22.8 million. Several changes occurred in 2016 that created both positive and negative impacts to the recorded pension liability.

Although the discount rate used to value liabilities decreased from 4.00% in 2015 to 3.85% in 2016 (thereby increasing the level of liabilities), two positive factors outweighed the negative impact of the reduction in the discount rate. Due to better investment returns in 2016, the value of plan assets increased by $6.9 million to $156.3 million at December 31, 2016. Also, favorable adjustments to mortality assumptions outweighed the impact on plan liabilities caused by the lower discount rate. In total, liabilities of the plan decreased by $1.8 million in 2016. Overall, the pension liability at the end of 2016 declined by $8.7 million, and the year-end total of $14.1 million is recorded as a liability on the Company's balance sheet.

In 2017, there were again two distinct factors that impacted the overall funding status of the plan. The discount rate declined again 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. 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 stringent Pension Protection Act of 2006. The Plan assets significantly exceeded minimum required levels at the start of 2017 and 2016. The Company made voluntary contributions of $1.30 million and $3.75 million during 2017 and 2016, respectively. The Company believes any minimum required contributions in 2018 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 2017 was $9.5 million. This compared favorably to the $5.0 million in cash provided by operations in 2016. The main positive impacts to cash from operations were the higher net income (after adding back the non-cash goodwill impairment loss) level along with increased levels of payables and other accrued expenses. Inventory levels did increase from 2016 in order to support the higher level of sales and to support several new product launches. All components of working capital continue to be monitored closely and are maintained at levels that are appropriate for the current operating levels of our subsidiaries.

Most important, the cash provided by operations in 2017 and 2016 supported the group's 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 2017 was $14.7 million, the same amount as in 2016, a level that was consistent with the average of the past ten-year period. The outstanding $14.7 million of debt for the Company and its subsidiaries is composed of $10.7 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 long-term, fixed repayment at maturity in 2019. The debt related to interest rate instruments of $0.6 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 2017 compared to 2016.

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 $10.7 million at year end for both 2016 and 2017. In 2017, these agreements were amended to extend the term of the agreements by a year to August 2019. 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, 2017 and 2016, the Company was in compliance with all financial covenants as shown below:

Dollars in Thousands	December 2016	December 2017	
Funded Debt[1]	$ 9,060	$ 9,221	
Stockholders' Equity on FIFO Basis[2]	134,353	131,568	Minimum Level: $118,000 for 2017 and $117,000 for 2016
Debt Coverage Ratio[1]	2.18	6.51	Minimum Ratio: 1.35
Funded Debt to EBITDA[1]	1.29	1.24	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 2015	December 2016	December 2017
Cash	$ 4,912	$ 7,563	$ 5,515
Working Capital	50,856	54,202	49,865
Total Debt	13,473	15,582	15,342
Financed Debt[1]	12,264	14,664	14,736
Financed Debt[1] **to Capital**[2]	9.7%	11.3%	11.6%
Stockholders' Equity	81,244	85,244	86,729
AOCI	(33,245)	(29,997)	(25,572)
Stockholders' Equity (excluding AOCI)	114,489	115,241	112,301
Common Stock Price	$ 16.49	$ 15.85	$ 15.75
Book Value Per Share as Reported	17.87	18.72	19.02
Book Value Per Share (excluding AOCI)	25.21	25.33	24.64

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. Debt levels for the third quarter ending September 2017 and 2016 were $31.5 million and $31.4 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 interest rate swap instruments. The Company has entered into these arrangements to hedge its exposure to interest rate fluctuations on a portion of its variable-rate debt.

CAPITAL INVESTMENTS

Capital expenditures totaled $8.3 million in 2017 and $3.1 million in 2016, compared to depreciation expenses of $3.9 million and $4.2 million for the same periods, respectively. Capital spending in 2017 was higher due mainly to a significant expenditure to purchase the operating facility of our Thermal Solutions subsidiary in Lancaster that was previously leased from a third party. The total outlay for the project was $4.75 million and accounted for almost the entire amount of the difference in capital expenditures in 2017 compared to 2016 ($5.2 million). Other capital spending projects completed in 2017 included continual 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, along with upgrades of existing machinery and equipment.

Capital expenditures for 2018 are budgeted at approximately $4.9 million. The 2018 capital spending plan includes various projects that will enhance productivity, improve product quality, reduce energy consumption, increase the development and introduction of new products, and maintain our existing machinery, equipment, and facilities.

BOARD ACTIONS

On February 22, 2018, the Company announced a quarterly dividend of $0.22 per common share. This would be an annual dividend rate of $0.88 per share. The annual dividend rate for Preferred stock is $3.00 per share. At its February 2018 meeting, the Board of Directors authorized the repurchase of 60,000 shares of either class of common stock at market prices during 2018. The Board may authorize additional repurchases from time to time. Management also has authority to repurchase preferred stock. There were no shares of preferred stock repurchased in 2017 and 27 shares repurchased in 2016.

PERSONNEL

The Company has recently announced several important executive changes that will become effective as of the Annual Meeting, April 23, 2018. Albert Morrison, III, Chairman of the Board, will retire after more than 45 years of service to the Company. Mr. Morrison served as a Director of the Company for more than 26 years, including more than 16 years as Board Chairman. In addition to his many contributions as a Director, Mr. Morrison retired as an employee of the Company in 2012, after almost 40 years, serving 24 years as President and CEO. We are very appreciative of the countless contributions Mr. Morrison has made to the success of the Company; and we will always be indebted to him for his steady guidance as we continue to execute against the long term strategies he has helped develop. Robert P. Newcomer has been elected the new Chairman of the Board, effective April 23, 2018. Mr. Newcomer has served as a director of the Company since 2002, serving on numerous Board committees, including the Employee Benefits Committee and Chairman of the Strategic Review Committee since its development in 2012.

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 defined 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 mid-2018, 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 2017, 2016, and 2015, for all uninsured litigation of every kind, was $108,000, $(30,000), and $254,000, respectively. Each of these years includes a self-insured asbestos claim. While it is rare for an asbestos suit not to be covered by insurance, a few such 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 2017, 2016, and 2015 were $108,000, $105,000, and $150,000, 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, 2017 and 2016, 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, 2017 and 2016, 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 2, 2018

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31 (In thousands, except per share data)	
	2017	2016
Net sales	$ 176,660	$ 172,447
Cost of goods sold	139,296	135,972
Gross profit	37,364	36,475
Selling, general, and administrative expenses	30,343	30,179
Goodwill impairment loss (Note 2 — other assets)	6,000	—
Operating income	1,021	6,296
Other income (expense):		
(Loss) gain on sale of property (Note 4)	(50)	1,107
Interest and investment income	414	236
Interest expense	(1,020)	(1,014)
Other income (expense):	(656)	329
Income before income taxes	365	6,625
Income tax (benefit) expense	(605)	1,988
NET INCOME	$ 970	$ 4,637
BASIC EARNINGS PER SHARE	$ 0.21	$ 1.02
DILUTED EARNINGS PER SHARE	$ 0.21	$ 1.02

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31 (In thousands)	
	2017	2016
Components of comprehensive income:		
Net income for the year	$ 970	$ 4,637
Other comprehensive income:		
Change in fair value of derivatives, hedges, and investments	195	177
Pension liability adjustment	4,083	2,819
Post-retirement medical liability adjustment	147	252
Other comprehensive income	4,425	3,248
TOTAL COMPREHENSIVE INCOME	$ 5,395	$ 7,885

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

CONSOLIDATED BALANCE SHEETS

	December 31 (In thousands)	
ASSETS	**2017**	2016
CURRENT ASSETS		
Cash, cash equivalents and restricted cash	$ 5,515	$ 7,563
Trade accounts receivable, less allowances (2017 — $321 and 2016 — $290)	22,461	23,016
Inventories:		
Materials, in process and supplies	33,086	31,296
Finished goods	9,748	8,289
Total inventory	42,834	39,585
Prepaid expenses and other current assets	1,338	1,293
TOTAL CURRENT ASSETS	72,148	71,457
PROPERTY, PLANT, AND EQUIPMENT, net	49,532	45,752
OTHER ASSETS, net of goodwill impairment charge of $6,000 and $0	16,725	22,433
TOTAL ASSETS	$ 138,405	$ 139,642

LIABILITIES AND STOCKHOLDERS' EQUITY	**2017**	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 21,068	$ 16,230
Income taxes payable	1,081	897
Current portion of other Post-retirement liabilities	134	157
TOTAL CURRENT LIABILITIES	22,283	17,284
LONG-TERM DEBT	15,342	15,582
OTHER POST-RETIREMENT LIABILITIES	10,221	18,243
DEFERRED INCOME TAXES	3,830	3,289
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
Preferred Stock	530	530
Class A Common Stock	3,500	3,486
Class B Convertible Common Stock	1,444	1,458
Additional paid-in capital	15,798	15,684
Retained earnings	109,019	112,081
Accumulated other comprehensive loss	(25,572)	(29,997)
Treasury stock, at cost	(17,990)	(17,998)
TOTAL STOCKHOLDERS' EQUITY	86,729	85,244
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 138,405	$ 139,642

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31, 2017 and 2016 (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, 2016	**$ 530**	**$ 3,478**	**$ 1,466**	**$ 15,551**	**$ 111,469**	**$ (33,245)**	**$ (18,005)**	**$ 81,244**
Exercise of stock options:								
8,650 shares of common stock	—	—	—	133	—	—	7	140
Conversion of common stock	—	8	(8)	—	—	—	—	—
Cash dividends declared:								
Preferred stock—6%	—	—	—	—	(18)	—	—	(18)
Common stock— ($0.88 per share)	—	—	—	—	(4,007)	—	—	(4,007)
Net income for the year	—	—	—	—	4,637	—	—	4,637
Change in fair value of derivatives, hedges, and investments, net of $(100) of tax	—	—	—	—	—	177	—	177
Pension liability adjustment, net of $(1,585) of tax	—	—	—	—	—	2,819	—	2,819
Post-retirement medical liability adjustment, net of $(141) of tax	—	—	—	—	—	252	—	252
Balance at December 31, 2016	**$ 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**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 (In thousands)	
	2017	2016
OPERATING ACTIVITIES		
Net income	$ 970	$ 4,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss/(gain) on sale of property (Note 4)	50	(1,107)
Depreciation and amortization	3,942	4,245
Goodwill impairment loss	6,000	—
Deferred income taxes	(1,971)	1,595
Pension credit	(507)	(527)
Post-retirement liabilities	178	275
Reserves and other allowances	177	(956)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	524	(2,389)
(Increase) decrease in inventories	(2,980)	4,114
(Increase) decrease in prepaid expenses and other current assets	(45)	153
Contributions to pension trust	(1,300)	(3,750)
Increase (decrease) in accounts payable and accrued expenses	4,327	(713)
Increase (decrease) in income taxes payable	184	(534)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,549	5,043
INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(8,283)	(3,153)
Proceeds from sale of assets and property, net (Note 4)	532	2,254
Purchase of other assets	(8)	(8)
NET CASH USED IN INVESTING ACTIVITIES	(7,759)	(907)
FINANCING ACTIVITIES		
Proceeds from borrowings	72	3,664
Proceeds from exercise of stock options	114	133
Principal payments on long-term debt	—	(1,264)
Purchase of treasury stock	8	7
Dividends paid	(4,032)	(4,025)
NET CASH USED IN FINANCING ACTIVITIES	(3,838)	(1,485)
(DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(2,048)	2,651
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	7,563	4,912
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	$ 5,515	$ 7,563

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 whom 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 74% and 72% of 2017 and 2016 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 2017 and 2016 amounted to 1.9% and 1.8% of reported sales, respectively. Sales to the 10 largest customers amounted to $65,800 and $58,400 in 2017 and 2016, respectively. The Company and its subsidiaries have approximately 740 employees nationwide, of which approximately 47% 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 21% 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: The Company recognizes revenue pursuant to applicable accounting standards. Net sales are recognized upon the transfer of title and risk of ownership to customers, and are recorded net of discounts, customer-based incentives, and returns. Transfer of title and risk of ownership are based upon shipment under FOB shipping point contract terms. Provisions for sales discounts earned and customer-based incentives are based on contractual obligations with customers. Returns are estimated at the time of sale based on historical experience.

Advertising: Costs are expensed as incurred.

Trade Accounts Receivable: Trade accounts receivable are recorded at the invoice price, net of allowances for doubtful accounts, discounts, and returns, 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, 2017 and 2016, these receiving and shipping costs were $7,988 and $7,395, 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 $584 and $721 at December 31, 2017 and 2016, 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 $4,639 and $4,537 at December 31, 2017 and 2016, respectively.

A portion of the Company's cash may be restricted from time to time because of insurance regulatory requirements. As of December 31, 2017 and 2016, restricted cash in each year totaled $3,500. Also, as of December 31, 2016, an additional $1,986 was restricted cash. This amount represented the proceeds from a sale of a subsidiary company property in 2016 (See Note 4) and was used in 2017 to complete a 1031 Like-Kind exchange.

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 $2 and $0 were included in accounts payable as of December 31, 2017 and 2016, 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 a 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, 2017 and 2016, was $606 and $918, 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, 2017 and 2016, 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% and 81% of the inventories are valued using the last-in, first-out method (LIFO) as of the end of 2017 and 2016, respectively. If the subsidiaries had used the first-in, first-out method (FIFO) of inventory accounting, inventories would have been $19,268 and $19,112 higher than reported at December 31, 2017 and 2016, 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 2017 and 2016, 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 2017 and 2016 purchases, the effect of which increased cost of goods sold by approximately $8 in 2017 and decreased cost of goods sold by $71 in 2016. These changes decreased profits in 2017 by approximately $6, or $0.00 per share, and increased profits in 2016 by approximately $47, or $0.01 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 2017 or 2016.

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 2017 and 2016 was $3,921 and $4,224, respectively.

Other Assets: Other assets primarily include goodwill and other intangible assets. Goodwill of $9,783 (net of accumulated impairment charges of $6,000) as of December 31, 2017 and $15,783 (net of $0 of accumulated impairment charges) as of December 31, 2016 and other indefinite-lived intangible assets of $3,640 as of December 31, 2017 and 2016 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 utilized 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. Based on the results of the impairment testing showing 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. There was no impairment charge recorded in 2016. No other impairment charges were recorded related to goodwill or other indefinite-lived intangible assets for 2017 or 2016.

Other intangible assets (primarily customer lists, non-compete agreements, and patents and trademarks) amounted to $42 and $55 at December 31, 2017, and 2016, respectively, net of accumulated amortization of $3,657 and $3,644 at December 31, 2017 and 2016, respectively, and are being amortized over 3 to 20 years using the straight-line method. Total amortization expense for 2017 and 2016 was $21 in each year. Future amortization expense is expected to be: $13 – 2018; $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, 2017 and 2016.

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, 2017 and 2016, basic and diluted earnings per share are computed as follows:

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
For the Year Ended December 31, 2016	**Net Income**	**Weighted Average Shares***
Income	$ 4,637	
Less Preferred Stock Dividends	(18)	
Income Available to Common Stockholders	$ 4,619	4,534
Basic Earnings per Share	$ 1.02	
Dilutive Options		3
Diluted Earnings per Share	$ 1.02	4,537

*Shares stated in thousands.

In accordance with financial accounting standards related to EPS, basic earnings per share is computed by dividing the net income 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 2017 and 2016, 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 2017 and 2016, 138,153 and 113,388 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, 2016	**$ 31,719**	**$ 675**	**$ 773**	**$ 78**	**$ 33,245**	
Unrealized (Gains)/Losses	(2,359)	(220)	87	14	(2,478)	
Tax Effect	849	79	(31)	(5)	892	
Net Unrealized (Gains)/Losses	(1,510)	(141)	56	9	(1,586)	
Amounts Reclassified from AOCI (c)						
Realized Gains/(Losses)	—	—	(378)	—	(378)	Interest Expense
Amortization of Prior Service Costs	(10)	(111)	—	—	(121)	(a)
Amortization of Actuarial Loss	(2,035)	(62)	—	—	(2,097)	(a)
Tax (Expense) Benefit	736	62	136	—	934	(b)
Net Realized Reclassification Adjustments	(1,309)	(111)	(242)	—	(1,662)	
Balance December 31, 2016	**$ 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**	

(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.

Note: Deferred tax assets related to the unrealized pension liability, post-retirement medical liability and interest rate swap liability adjustments that were revalued as of December 31, 2017 created "stranded tax effects" in AOCI due to enactment of the Tax Cuts and Jobs Act. The issue arose due to the nature of U.S. GAAP recognition of the tax rate change effects on the revaluation of deferred tax assets as an adjustment to the income tax provision. In February 2018, the FASB issued ASU 2018-02, Reclassification of *Certain Tax Effects from Accumulated Other Comprehensive Income.* The Company has elected not to early-adopt the provisions of this guidance and will retrospectively record a one-time reclassification from AOCI to retained earnings for stranded tax effects resulting from the newly enacted corporate tax rate upon adoption. The amount of the reclassification will represent the difference between the 34 percent historical corporate tax rate and the newly enacted 21 percent corporate tax rate. The accounting for the effects of the tax rate change on deferred tax balances is complete and no provisional amounts were recorded for this item.

Recent Accounting Pronouncements: During May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During 2015 and 2016, the FASB also issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09; ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in Topic 606; ASU No. 2016-10, "Identifying Performance Obligations and Licensing", which clarifies the identification of performance obligations and the licensing implementation guidance; ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients" and ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606", which both affect narrow aspects of Topic 606. Topic 606 (as amended) is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The company may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The company is in the process of adopting the provisions of Topic 606, effective January 1, 2018. The Company has identified certain changes to the revenue recognition accounting policies believed to be required and that will be implemented going forward; however the Company is currently still assessing the actual quantitative effect that Topic 606 will have on its results of operations, financial position, and cash flows. The Company is also analyzing whether all accounting policies that will be impacted have been identified and the impact of Topic 606 on disclosures that will be required in the December 31, 2018 consolidated financial statements.

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "Leases (Topic 842)." ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. 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. ASU No. 2016-02 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the actual quantitative and qualitative effects that ASU No. 2016-02 will have on its consolidated financial statements.

During March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2017-07—Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU No. 2017-07 improves the presentation of net periodic pension and postretirement costs by requiring that employers report the service cost component in the same line item or items as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item is not used in the income statement the other components of net benefit cost must be disclosed. The amendment also only allows the service cost component to be eligible for capitalization when applicable. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2017. The company is currently assessing the effect that ASU No. 2017-07 will have on its results of operations, financial position and cash flows.

During August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities." ASU No. 2017-12 improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU No. 2017-12 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. The company is currently assessing the effect that ASU No. 2017-12 will have on its results of operations, financial position and cash flows.

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	2017	2016
Balance at January 1	$ 1,176	$ 1,467
Accruals Related to Product Warranty and Product Matters	1,729	1,556
Settlements Made (in Cash or in Kind)	$ (1,743)	$ (1,847)
Balance at December 31	$ 1,162	$ 1,176

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 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	2017	2016
Land and Land Improvements	$ 6,694	$ 8,120
Buildings and Improvements	44,226	39,089
Machinery and Equipment	103,361	99,504
Total Property, Plant, and Equipment	154,281	146,713
Accumulated Depreciation	(104,749)	(100,961)
Net Property, Plant, and Equipment	$49,532	$45,752

Future minimum payments, by year, under non-cancelable operating leases as of December 31, 2017, are: $1,016 – 2018; $981 – 2019; $300 – 2020; $110 – 2021 and $0 thereafter. For 2017 and 2016, external rental expense for property (principally warehouse space) that was included in the Statements of Income totaled $1,283 and $1,402, 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 $328 and $321 are included in the Statements of Income for 2017 and 2016, respectively.

6. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

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

December 31	2017	2016
North Carolina Industrial Revenue Bond Due November 9, 2019	$ 4,000	$ 4,000
Revolving Line of Credit through August 1, 2019	10,736	10,664
Fair Value of Swaps	606	918
Total Long-term Debt	15,342	15,582
Less Current Portion	—	—
Long-term Debt	$15,342	$15,582

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 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 2017, these agreements were extended until August 1, 2019. 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, 2017, be at least $118,000 using the FIFO method of inventory valuation and excluding non-cash adjustments to AOCI. Stockholders' Equity on December 31, 2017, was $131,568 on this basis ($ 86,729 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, 2017 and 2016, the Company was in compliance with all financial covenants. Interest rates as of December 31, 2017 and 2016, were 2.79% and 1.90%, 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, 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 two board members of the bank holding company are Directors of the Company and one Director of the Company is 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 and cross-collateralized with the Pennsylvania Industrial Revenue Bond.

On December 31, 2001, a $1,000 Industrial Revenue Bond was signed with a lending institution to finance construction at the Lancaster, Pennsylvania location. The bond had a 15-year maturity with the principal due at maturity in 2016 (principal on this bond was repaid on December 30, 2016). The rate on the tax-exempt bond was fixed at 6.05% and was payable quarterly. The bond was collateralized by a lien on the building constructed and cross-collateralized with the North Carolina Industrial Revenue Bonds.

Future maturities of long-term debt (including interest rate swap obligations) by year are: $0 – 2018; $14,736 – 2019; $0 – 2020; $0 – 2021; and $606 – 2023.

Total interest incurred in 2017 and 2016 was $1,020 and $1,014, respectively. Interest paid during 2017 and 2016 was $1,002 and $1,016, 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 (1.38% and 0.63% at December 31, 2017 and 2016, 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 2017 and 2016 was $287 and $378, respectively. An estimate, based on the December 31, 2017, interest rate, of amounts to be reclassified in 2018 out of AOCI and expensed through the Statement of Income is $240.

The following table presents the interest rate swap agreements

	Notional Amount	Liability	Fair Value Change	Income (Expense) Impact to AOCI [(2)]
December 31, 2017				
1)	$15,000	$ (606)	$ 312	$ 200
December 31, 2016				
1)	15,000	(918)	290	186

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	2017	2016
Current:		
Federal	$ 1,149	$ 109
State	217	284
Total Current	$ 1,366	$ 393
Deferred:		
Federal	(1,988)	1,462
State	17	133
Total Deferred	(1,971)	1,595
Total Income Tax (Benefit) Expense	$ (605)	$ 1,988
Income Taxes Paid	$ 922	$ 61

In 2017, the Company's effective tax rate experienced a significant favorable impact due to the recently enacted changes to U.S. corporate tax law. The major component of the new law, the reduction in the statutory rate to 21%, caused a sizeable favorable change in 2017 tax expense. Accounting standards require that deferred tax liabilities and assets outstanding at December 31, 2017 be restated to reflect tax rates that are expected to be in effect in the future. As a result, deferred tax liabilities were reduced at December 31, 2017 by $2.2 million with the amount being included in the current year income tax benefit as reflected on the Consolidated Statement of Income. Also, the goodwill impairment charge of $6.0 million recorded in 2017 had an impact on the effective tax rate.

The Company's effective tax rate for 2016 was below the federal statutory rate as deductions for domestic manufacturing and research and development credits along with other exemptions more than offset state income taxes and lowered the effective tax rate to 30%.

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. The prior year deferred tax assets and deferred tax liabilities have been reclassified to conform to this presentation.

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

December 31	2017	2016
Deferred Tax Assets	3,966	9,056
Less: Valuation Allowance[1]	(335)	(241)
Net Deferred Tax Assets	3,631	8,815
Deferred Tax Liabilities	(7,461)	(12,104)
Net Deferred Tax Liability	$ (3,830)	$ (3,289)

1) The valuation allowance as of December 31, 2015 was ($307).

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

December 31	2017	2016
Depreciation	$ (6,206)	$ (9,769)
Vacation	515	852
Employee Benefits	231	407
Workers' Compensation	221	225
Pension	1,074	4,629
Inventory	(886)	(1,519)
Warranty	381	611
Fair Value of Swap	139	330
Other	701	945
Net Deferred Tax Liability	$ (3,830)	$ (3,289)

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	2017	2016
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, 2017 and 2016, 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 2014 to 2017 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, 2017 and 2016, of 4,626 in both years.

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	2017	2016
Class A Stock Issued	3,500,373	3,486,486
Treasury Shares	(399,917)	(407,305)
Class A Stock Outstanding	3,100,456	3,079,181
Class B Stock Outstanding	1,443,838	1,457,725
Total Stock Outstanding	4,544,294	4,536,906

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 five 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 expense related to the Company's share-based awards recorded for the years ended December 31, 2017 and 2016, were $166 and $100, respectively. The estimated compensation expense for non-vested share-based awards as of December 31, 2017, is $157 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	2017	2016
Dividend Yield	4.5%	4.5%
Volatility Rate	19.0%	19.0%
Risk-free Interest Rate	3.4%	3.7%
Expected Option Life (years)	8.0	8.0

Transactions for 2017 and 2016 were as follows:

Options & Rights Awards	2017 Shares	2017 Weighted Average Exercise Price	2016 Shares	2016 Weighted Average Exercise Price
Outstanding January 1	181,907	$ 17.69	199,223	$ 17.87
Granted	36,100	16.38	33,550	16.29
Exercised	—	—	(15,732)	15.11
Lapsed	(10,500)	16.97	(35,134)	18.56
Outstanding December 31	207,507	$ 17.50	181,907	$ 17.69
Exercisable December 31	139,208	$ 17.65	116,557	$ 17.26

Restricted Stock	2017 Shares	2017 Weighted Average Grant Price	2016 Shares	2016 Weighted Average Grant Price
Outstanding January 1	18,877	$ 18.47	18,887	$ 20.12
Granted	10,953	16.38	9,919	16.29
Vested	(9,325)	18.85	(9,189)	19.52
Forfeited	—	—	(740)	18.47
Outstanding December 31	20,505	$ 17.18	18,877	$ 18.47

Options and Rights outstanding and exercisable at December 31, 2017, have exercise prices between $21.70 and $8.20. The weighted-average remaining contractual life of Options and Rights outstanding was 6.65 years and Options and Rights exercisable was 5.62 years. Shares available for grant at December 31, 2017 and 2016, were 517,395 and 553,948, 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, 2016, the Company did not have a minimum contribution required for 2017. However, in 2017, the Company made a voluntary pre-tax contribution of $1,300 into the Plan. In 2016, the Company made voluntary pre-tax contributions of $3,750. Minimum contributions for 2018 are indeterminable at this time, but will be based on actuarial certifications to be received by August 2018 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% of the plan's total contributions, and there were no surcharges assessed for either of the years 2017 or 2016. 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) 2017	Plan Funded Status(1) 2016	Company Contributions 2017	Company Contributions 2016
Steelworkers Pension Trust	**23-6648508-499**	81.7%	81.5%	$ 62	$ 54

1) The plan was valued as of January 1 of the preceding year, with the 2016 information being the most recently available.

The Steelworkers Pension Trust was considered "Safe" for 2017 per the Pension Protection Act of 2006 because of the 2016 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, $328 and $142 in 2017 and 2016, 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 $2,860 and $2,575 at December 31, 2017 and 2016, 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, 2017 and 2016. Adjustments to this liability caused by changes in the value of the marketable securities, gains of $328 in 2017 and $142 in 2016, 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 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, 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.

At December 31, 2016, pension trust assets were $156,313 and the pension liability was $170,472, with the difference of $14,159 being recorded as a liability on the balance sheet. The liability was increased somewhat in 2016 due to the use of a lower discount rate (3.85% compared to 4.00% in 2015). The increase in the total liability from the lower discount rate was more than offset by increased investment returns on plan assets as well as favorable changes to mortality assumptions in 2016. Included in AOCI at December 31, 2016, are the following before-tax amounts that have not yet been recognized in net periodic Post-retirement benefit costs: unrecognized net actuarial loss of $45,151 and $606 for the Plan and Post-retirement medical benefits, respectively, including amortization of losses for the upcoming fiscal year of $1,900 and $62 for the Plan and Post-retirement medical benefits, respectively, and unrecognized prior service costs of $5 and $55 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, 2017 and 2016:

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Projected Benefit Obligation	$ (176,639)	$ (170,472)	$ (1,522)	$ (1,665)
Fair Value of Plan Assets	170,665	156,313	—	—
Funded Status	$ (5,974)	$ (14,159)	$ (1,522)	$ (1,665)
Benefit Liability Recognized in the Consolidated Balance Sheet at December 31	$ (5,974)	$ (14,159)	$ (1,522)	$ (1,665)
Accumulated Benefit Obligation	$ (174,751)	$ (168,595)		

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, 2017 and 2016. 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, 2017, the asset allocation was approximately 35% equity and 65% fixed income. At December 31, 2016, the asset allocation was approximately 38% equity and 62% 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, 2017 and 2016:

	Fair Value	Level 1	Level 2	Level 3
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	—
December 31, 2016				
Mutual Funds				
Fixed Income	$ 50,971	$ 50,971	$ —	$ —
Domestic Stock	21,279	21,279	—	—
Common Collective Trust Funds:				
U.S. Equity	16,582	—	16,582	—
Interest Rate Management	45,377	—	45,377	—
Other	22,104	10,956	11,148	—

The plan had no Level 3 FMV investments at December 31, 2017 or December 31, 2016.

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

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Discount Rates	3.40%	3.85%	3.40%	3.85%

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

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Discount Rates	3.85%	4.00%	3.85%	4.00%
Expected Return on Assets	7.25%	7.75%	—	—

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 2017 and 2016.

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.

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	
	2017	2016	2017	2016
Benefit (Income) Cost	$ (507)	$ (527)	$ 178	$ 275
Employer Contributions	1,300	3,750	92	169
Participant Contributions	—	—	80	102
Benefits Paid	8,428	8,407	172	271

The following pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid: $9,166 – 2018; $9,559 – 2019; $9,803 – 2020; $10,091 – 2021; $10,234 – 2022; and $52,341 – 2023 to 2027.

The following Post-retirement medical benefit payments, net of plan participants' contributions, are expected to be paid: $134 – 2018; $160 – 2019; $187 – 2020; $180– 2021; $173 – 2022; and $603 – 2023 to 2027.

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 $ 690 and $680 in 2017 and 2016, 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 $190 and $162 in 2017 and 2016, 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, 2017 and 2016, 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, 2017 through March 2, 2018, 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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Sales	$ 225,805	$ 183,678	$ 189,707	$ 198,842	$ 204,762	$ 190,181	$ 200,360	$ 190,449	$172,447	$176,660
Income (Loss) Before Income Taxes	9,068	8,346	9,733	7,656	12,796	7,698	12,987	11,392	6,625	365
Income Tax Expense (Benefit)	3,264	3,007	3,524	2,573	4,569	2,384	4,416	3,647	1,988	(605)
Net Income (Loss)	5,804	5,339	6,209	5,083	8,227	5,314	8,571	7,745	4,637	970
Basic Earnings (Loss) per Share of Common Stock	1.30	1.20	1.39	1.13	1.83	1.18	1.90	1.71	1.02	0.21
Cash Flow per Share of Common Stock	2.44	2.25	2.38	2.11	2.88	2.21	2.92	2.63	1.84	2.29
Net Cash Provided By Operating Activities	5,681	14,360	12,388	6,498	13,999	6,480	2,811	7,322	5,043	9,549
Total Dividends Paid	3,046	3,046	3,047	3,055	3,244	3,618	3,815	4,014	4,025	4,032
Dividends per Share of Common Stock	0.68	0.68	0.68	0.68	0.72	0.80	0.84	0.88	0.88	0.88
Net Book Value of Plant and Equipment	48,202	45,720	50,001	50,122	47,785	47,529	45,681	47,969	45,752	49,532
Purchases of Property, Plant and Equipment	3,552	2,056	15,666	4,412	2,274	4,336	3,127	6,572	3,153	8,283
Charges for Depreciation and Amortization	5,041	4,673	4,389	4,355	4,659	4,643	4,655	4,306	4,245	3,942
Current Assets	82,487	69,564	67,940	71,051	74,761	71,952	73,827	71,395	71,486	72,148
Current Liabilities	30,558	23,401	27,425	27,496	34,020	32,068	23,885	20,539	17,284	22,283
Working Capital	51,929	46,163	40,515	43,555	40,741	39,884	49,942	50,856	54,202	49,865
Total Debt	29,460	20,275	14,143	16,320	7,692	6,865	10,514	13,472	15,582	15,342
Net Worth	71,769	73,509	73,940	64,392	68,891	81,599	77,956	81,244	85,244	86,729
Book Value per Share of Common Stock	16.05	16.44	16.52	14.34	15.29	18.04	17.20	17.87	18.72	19.02
Proforma Book Value per Share of Common Stock*	20.28	20.80	21.50	21.93	23.01	23.35	24.40	25.21	25.33	24.64
Outstanding Shares of Common Stock**	4,452	4,452	4,456	4,468	4,486	4,507	4,514	4,528	4,537	4,544

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.
*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, 2017. 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 ten members, eight 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 CEO, and the Company's Executive Vice President and Chief Marketing & 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 23, 2018, 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 Cathleen J. Anderson, Financial Services Administrator, or Dale R. Bowman, Vice President and Chief Financial Officer.

Telephone: (717) 390-7800
Fax: (717) 390-7852

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

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

AUDIT COMMITTEE

George W. Hodges
John W. Lyman
Albert Morrison, III
Philmer H. Rohrbaugh
Donald A. Stern

COMPENSATION COMMITTEE

John W. Lyman
Elizabeth H. McMullan
Albert Morrison, III
Robert P. Newcomer
Donald A. Stern

EMPLOYEE BENEFITS COMMITTEE

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

NOMINATING COMMITTEE

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

STRATEGIC REVIEW COMMITTEE

Robert P. Newcomer
Albert Morrison, III
Elizabeth H. McMullan
Douglas S. Brossman

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

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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