

BURNHAM HOLDINGS, INC.

REPORT TO STOCKHOLDERS

Six Months Ended
June 29, 2014

To Our Shareholders:

Our businesses performed well through the first half. The residential businesses managed through the first-half challenges caused by the unusual weather conditions, with sales unit activity consistent with industry percentages and lower COGS percentages as mentioned below. The commercial businesses continue to see increased backlogs versus the corresponding period of last year, also indicating general improvement to overall business conditions. As we approach the upcoming heating season, we are scheduling our manufacturing facilities for the normal pattern of higher demand in the second half.

Financial Results

Second quarter and Year-To-Date (“YTD”) sales were \$38.1 million and \$73.8 million, respectively; as compared to 2013 second quarter and YTD sales of \$36.1 million and \$77.2 million, respectively. We are reporting a second quarter net income of \$867 thousand or \$0.19/share, and a YTD net income of \$81 thousand or \$0.02/share. This is compared to the 2013 second quarter net loss of \$(3.8) million or \$(0.84)/share and a YTD net loss of \$(3.1) million or \$(0.70)/share. The 2013 reported results include a pre-tax \$5 million pension charge, and reported as a separate line item within the Statement of Operations. The 2014 reported results include a favorable \$451 thousand adjustment from the final payment of this liability (see footnote 3 for more details). 2014 YTD cost of goods sold (“COGS”) as a percentage of sales was 78.2%, better than 2013’s first half of 78.7%, and the second quarter percentage (75.9%) was substantially better than the comparative percentage from 2013 (81.2%). Unusual sales variations for any one quarter can impact these percentage relationships, as evidenced by these

individual quarters which were impacted in early 2013 by the high carry-over demand created by Super Storm Sandy compared to the slow 2014 residential first quarter sales resulting from the abnormally harsh winter experienced in the Northeast. However, the overall YTD COGS percentage decline reflects our efforts to continually and systematically match our product pricing and our cost structure to remain competitive in the market, while maintaining our gross profit margins. YTD selling, administrative and general expenses were equal in dollars and only slightly higher as a percentage of sales from the prior year and interest expenses for the two periods were consistent with the prior year.

Balance Sheet Condition

The Company’s balance sheet has appropriate levels of working capital consistent with current business activity. The Statement of Cash Flows presents net cash used in operations of \$18.7 million compared to prior year’s cash use of \$17.3 million. This slight increase in the use of funds for the half results mainly from the payment of the previously mentioned pension liability in April offset by lower income tax payments and other normal changes in working capital levels. Burnham Holdings is financially and operationally strong.

Dividends

At its meeting on July 17, 2014, the Board of Directors declared a quarterly common stock dividend of \$0.21 per share payable August 26, 2014, with a record date of August 19, 2014.

Douglas S. Brossman
President and CEO

Consolidated Statements of Operations

(In thousands, except per share data) (Data is unaudited (see Notes))	Three Months Ended		Six Months Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Net sales	\$ 38,094	\$ 36,087	\$ 73,762	\$ 77,220
Cost of goods sold	28,929	29,306	57,673	60,749
Gross profit	9,165	6,781	16,089	16,471
Selling, administrative and general expenses	7,517	7,350	15,877	15,881
Operating income (loss)	1,648	(569)	212	590
Other income (expense):				
Non-recurring expense (3)	-	(5,000)	451	(5,000)
Mark-to-market (4)	-	17	-	38
Interest income	15	12	28	62
Interest expense	(308)	(322)	(565)	(579)
Other income (expense)	(293)	(5,293)	(86)	(5,479)
Income (loss) before income taxes	1,355	(5,862)	126	(4,889)
Income tax expense (benefit)	488	(2,110)	45	(1,760)
NET INCOME (LOSS)	\$ 867	\$ (3,752)	\$ 81	\$ (3,129)
BASIC & DILUTED INCOME (LOSS) PER SHARE	\$ 0.19	\$ (0.84)	\$ 0.02	\$ (0.70)
DIVIDENDS PAID	\$ 0.21	\$ 0.20	\$ 0.42	\$ 0.40

Consolidated Balance Sheets

(in thousands and data is unaudited (see Notes))	June 29, 2014	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,370	\$ 4,799
Trade accounts receivable, less allowances	19,462	20,008
Inventories	54,026	54,370
Prepaid expenses and other current assets	4,765	4,225
TOTAL CURRENT ASSETS	83,623	83,402
PROPERTY, PLANT AND EQUIPMENT, net	46,891	47,028
DEFERRED INCOME TAXES (5)	-	3,497
OTHER ASSETS, net	22,285	21,688
TOTAL ASSETS	\$ 152,799	\$ 155,615
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and taxes payable & accrued expenses	\$ 23,289	\$ 27,679
Current portion of long-term liabilities	255	287
TOTAL CURRENT LIABILITIES	23,544	27,966
LONG-TERM DEBT	29,256	27,547
OTHER POSTRETIREMENT LIABILITIES (5)(6)	16,500	35,631
DEFERRED INCOME TAXES	3,540	-
STOCKHOLDERS' EQUITY		
Preferred Stock	530	530
Class A Common Stock	3,463	3,451
Class B Convertible Common Stock	1,481	1,493
Additional paid-in capital	15,130	14,941
Retained earnings	101,154	96,350
Accumulated other comprehensive income (loss) (5)	(23,861)	(34,345)
Treasury stock, at cost	(17,938)	(17,949)
TOTAL STOCKHOLDERS' EQUITY	79,959	64,471
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 152,799	\$ 155,615

Consolidated Statements of Cash Flows

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

	Six Months ended June	
	2014	2013
Net income (loss)	\$ 81	\$ (3,129)
Non-recurring income (3)	(451)	5,000
Depreciation and amortization	2,181	2,343
Pension and postretirement liabilities expense	329	828
Contributions to pension trust (6)	(1,589)	(2,513)
Other net adjustments	(630)	(61)
Changes in operating assets and liabilities	(18,572)	(19,743)
NET CASH USED IN OPERATING ACTIVITIES	(18,651)	(17,275)
Net cash used in the purchase of assets	(1,537)	(1,574)
Proceeds from borrowings	22,500	20,500
Proceeds from stock option exercise and Treasury activity, net	83	227
Principal payments on debt and lease obligations	-	(12)
Dividends paid	(1,911)	(1,807)
INCREASE IN CASH AND CASH EQUIVALENTS	484	59
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,886	4,740
CASH AND CASH EQUIVALENTS AT END OF QUARTER	\$ 5,370	\$ 4,799

Notes To Financial Statements:

- (1) Basic earnings per share are based upon weighted average shares outstanding for the period. Diluted earnings per share assume the conversion of outstanding rights into common stock.
- (2) Common stock outstanding at June 29, 2014 includes 3,030,543 of Class A shares and 1,480,751 of Class B shares.
- (3) On June 18, 2013 the Company recorded a non-recurring expense of \$5 million as a result of a new collective bargaining agreement at its subsidiary, Bryan Steam LLC in Peru, Indiana. This non-manufacturing charge was a result of an agreement to withdraw from a multi-employer pension plan which had provided a defined benefit for these union employees. This decision resulted in what's called a "withdrawal liability expense" that accounting rules require to be expensed immediately regardless of benefit period covered or period over which the liability is actually paid. In 2014, the final lump-sum payment to the Boilermakers Trust was lower than estimated resulting in a return to income of \$451 thousand.
- (4) The 2013 Mark-to-Market adjustments were a result of changes (non-cash) in the fair value of interest rate agreements. These agreements are used to exchange the interest rate stream on variable rate debt for payments indexed to a fixed interest rate. These non-operational, non-cash charges reversed themselves over the term of the agreements.
- (5) Accounting rules require that the funded status of pension and other postretirement benefits be recognized as a non-cash asset or liability, as the case may be, on the balance sheet. For December 31, 2013 and 2012, projected benefit obligations exceeded plan assets. The resulting non-cash presentation on the balance sheet is reflected in "Deferred income taxes, "Other postretirement liabilities", and "Accumulated other comprehensive income (loss)", a non-cash sub-section of "Stockholders' Equity" (See Note 10 of the 2013 Annual Report for more details).
- (6) In the six months of 2014 and 2013, the Company made voluntary pre-tax contributions of \$1.6 million and \$2.5 million, respectively, to its defined benefit pension plan. These payments increased the trust assets available for benefit payments reducing "Other postretirement liabilities", and did not impact the Statement of Operations.
- (7) Unaudited results, forward looking statements, and certain significant estimates and risks. This note has been expanded to include items discussed in detail within the Annual Report.

Unaudited Results and Forward Looking Statements. The accompanying unaudited financial statements contain all adjustments that are necessary for a fair presentation of results for such periods and are consistent with policies and procedures employed in the audited year-end financial statements. These consolidated financial statement should be read in conjunction with the Annual Report for the period ended December 31, 2013. Statements other than historical historical facts included or referenced in this Report are forward-looking statements subject to certain risks, trends, and uncertainties that could cause actual results to differ materially from those projected. We undertake no duty to update or revise these forward-looking statements.

Certain Significant Estimates and Risks. Certain estimates are determined using historical information along with assumptions about future events. Changes in assumptions for such items as warranties, pension assumptions, medical cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Specific risks, such as those included below, are discussed in the Company's Quarterly and Annual Reports to provide regular knowledge of relevant matters. Estimates and related reserves are more fully explained in the 2013 Annual Report.

(Note 7 continued on following page)

Note (7) Certain Significant Estimates and Risks (continued from previous page)

Retirement Plans: The Company maintains a non-contributory defined benefit pension plan, covering both union and non-union employees, that has been closed to new hires for a number of years. Benefit accrual ceased in 2009, or earlier depending on the employee group, with the exception of a limited, closed group of union production employees. While not 100% frozen, these actions were taken to protect benefits for retirees and eligible employees, and have materially reduced the growth of the pension liability. Lancaster Metal Manufacturing, a Company subsidiary, also contributes to a separate union-sponsored multiemployer-defined benefit pension plan that covers its collective bargaining employees (Bryan Steam, LLC had a similar plan but has withdrawn from the plan as noted in Note 3). Variables such as future market conditions, investment returns, and employee experience could affect results.

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

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

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

General Litigation, including Asbestos: In the normal course of business, certain subsidiaries of the Company have been named, and may in the future be named, as defendants in various legal actions including claims related to property damage and/or personal injury allegedly arising from products of the Company's subsidiaries or their predecessors. A number of these claims allege personal injury arising from exposure to asbestos-containing material allegedly contained in certain boilers manufactured many years ago, or through the installation of heating systems. The Company's subsidiaries, directly 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 appeal, any set-off rights and/or issues involving allocation of liability among various defendants. For example, on July 23, 2013, a New York City State Court jury found numerous defendant companies, including a subsidiary of the Company, responsible for asbestos-related damages in cases involving multiple plaintiffs. The subsidiary, whose share of the verdict amounted to \$42 million before offsets, has filed post-trial motions seeking to overturn the verdict, granting of a new trial, and /or reduction of the verdict. 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 2014 six-month charges for all uninsured litigation of every kind, was \$19 thousand. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the six-months were approximately \$63 thousand. Prior year's settlements and expenses, including amounts for self-insured asbestos cases, are disclosed in the 2013 Annual Report.

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

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

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for response actions at disposal areas containing waste materials from their operations. In the past five years, the Company has not received any notice that it or its subsidiaries might be responsible for remedial clean-up actions under government supervision. However, two pre-2008 issues covered by insurance policies remain open as of this date and are fully disclosed in the year-end 2013 Annual Report. While it is not possible to be certain whether or how any new or old matters will proceed, the Company does not presently have reason to anticipate incurring material costs in connection with any matters.

Corporate Data

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Common Stock

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

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

BURNHAM HOLDINGS, INC.