

To Our Shareholders:

Highlights of our second quarter and year-to-date (YTD) operating performance include the following:

- Net sales in the second quarter were up \$5.7 million (17.0%) versus last year. Sales YTD were up \$11.0 million (15.9%).
- Residential product sales increased by 16.8% in the first half of 2018 compared to 2017; while commercial product sales were up 13.8%.
- Long-term debt was \$24.4 million; \$1.0 million lower than at the end of the first half of 2017. Interest expense was slightly lower in 2018 despite higher interest rates compared to last year.
- In total, sales of residential and commercial high efficiency condensing products in the first half were up more than 10% versus the same period in 2017.
- YTD net loss in 2018 of (\$372) thousand was an improvement of \$872 thousand from 2017.

Financial Results

Net sales in the second quarter and YTD were \$39.5 million and \$80.3 million, respectively, compared to \$33.8 million and \$69.3 million in the same periods in 2017. Sales of residential products increased by 16.8% in the first half of 2018 versus 2017, helped by favorable seasonal weather patterns in our key markets, sales of new high efficiency condensing boilers and overall favorable economic conditions. Sales of commercial products also increased by 13.8% in the first half as we continue to see our new condensing boiler products gain market acceptance.

Cost of goods sold ("COGS") as a percentage of sales for the second quarter and YTD in 2018 was 80.8% and 81.0%, respectively, compared to 81.2% and 82.4% for the same periods in 2017. Favorable impacts to COGS included higher overall sales volume, a more profitable mix of product sales and higher plant utilization compared to last year. The favorable impacts were offset

by higher prices paid for key materials. In particular, we paid significantly higher prices for steel, and certain other component parts in the first half of 2018 as a result of actual and/or threatened import tariffs. Product pricing actions were implemented in the first half of the year to address the impacts of higher raw material prices. We will continue to monitor the tariff situation to assess the need for any additional pricing actions. Selling, general and administrative expenses were higher in the second quarter and YTD in terms of total dollars spent, however, they were lower than 2017 on a percentage of sales basis.

Net loss in the second quarter of 2018 was (\$137) thousand compared to a net loss of (\$376) thousand in 2017. On a YTD basis, 2018 results reflect a net loss of (\$372) thousand compared to a 2017 net loss of (\$1,244) thousand, an improvement of \$872 thousand. All manufacturing operations are scheduled to handle the normal pattern of increased demand typically experienced in the second half of the year.

Balance Sheet Condition

The Company's balance sheet has appropriate levels of working capital to adequately support our current level of business activity. Long-term debt was lower this year at the end of the first half compared to last year (\$24.4 million vs. \$25.4 million), and continues to be at a favorable level in comparison to total capital. Net cash used in operations was higher this year in the first half by \$1.7 million due to the higher levels of accounts receivable and inventory needed to support the increased sales volume experienced in 2018.

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	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net sales	\$ 39,540	\$ 33,801	\$ 80,310	\$ 69,294
Cost of goods sold	31,955	27,449	65,089	57,077
Gross profit	7,585	6,352	15,221	12,217
Selling, general and administrative expenses	7,774	7,019	15,807	14,393
Operating income	(189)	(667)	(586)	(2,176)
Other income (expense):				
(Loss) on sale of property		(50)		(50)
Interest income	28	20	52	32
Non-service related pension credit	220	345	473	682
Interest expense	(236)	(235)	(422)	(431)
Other income (expense)	12	80	103	233
Income before income taxes	(177)	(587)	(483)	(1,943)
Income tax expense (benefit)	(40)	(211)	(111)	(699)
NET INCOME	\$ (137)	\$ (376)	\$ (372)	\$ (1,244)
BASIC & DILUTED INCOME (LOSS) PER SHARE	\$ (0.03)	\$ (0.09)	\$ (0.08)	\$ (0.28)
DIVIDENDS PAID	\$ 0.22	\$ 0.22	\$ 0.44	\$ 0.44

Consolidated Balance Sheets

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

	July 1, 2018	July 2, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,469	\$ 5,418
Trade accounts receivable, less allowances	18,445	17,438
Inventories	52,292	50,596
Prepaid expenses and other current assets	1,855	1,992
TOTAL CURRENT ASSETS	78,061	75,444
PROPERTY, PLANT AND EQUIPMENT, net	49,239	49,488
DEFERRED INCOME TAXES (4)		
OTHER ASSETS, net	16,672	22,277
TOTAL ASSETS	\$ 143,972	\$ 147,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and taxes payable & accrued expenses	\$ 21,456	\$ 19,204
Current portion of long-term liabilities	134	157
TOTAL CURRENT LIABILITIES	21,590	19,361
LONG-TERM DEBT	24,387	25,358
OTHER POSTRETIREMENT LIABILITIES (4)(5)	9,342	17,006
DEFERRED INCOME TAXES	3,917	3,323
STOCKHOLDERS' EQUITY		
Preferred Stock	530	530
Class A Common Stock	3,501	3,487
Class B Convertible Common Stock	1,443	1,457
Additional paid-in capital	15,912	15,798
Retained earnings	111,795	108,814
Accumulated other comprehensive income (loss) (4)	(30,463)	(29,935)
Treasury stock, at cost	(17,982)	(17,990)
TOTAL STOCKHOLDERS' EQUITY	84,736	82,161
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 143,972	\$ 147,209

Consolidated Statements of Cash Flows

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

	Six Months ended	
	July 1, 2018	July 2, 2017
Net income	\$ (372)	\$ (1,244)
Loss on sale of property		50
Depreciation and amortization	2,013	2,045
Pension and postretirement liabilities expense	120	(197)
Contributions to pension trust (Note 5)	(979)	(975)
Other net adjustments	285	123
Changes in operating assets and liabilities	(6,984)	(4,052)
NET CASH USED IN OPERATING ACTIVITIES	(5,917)	(4,250)
Net cash used in the purchase of assets	(1,717)	(5,828)
Proceeds from borrowings	9,494	9,834
Proceeds from stock option exercise and Treasury activity, net	122	122
Dividends paid	(2,028)	(2,023)
DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(46)	(2,145)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	5,515	7,563
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 5,469	\$ 5,418

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 July 1, 2018 includes 3,109,350 of Class A shares and 1,443,150 of Class B shares.
- (3) Mark-to-Market adjustments are a result of changes (non-cash) in the fair value of interest rate agreements. These agreements are used to exchange the interest rate stream on variable rate debt for payments indexed to a fixed interest rate. These non-operational, non-cash charges reverse themselves over the term of the agreements.
- (4) Accounting rules require that the funded status of pension and other postretirement benefits be recognized as a non-cash asset or liability, as the case may be, on the balance sheet. For December 31, 2017 and 2016, 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 2017 Annual Report for more details).
- (5) In the first halves of 2018 and 2017, the Company made voluntary pre-tax contributions of \$0.98 million to its defined benefit pension plan. These payments increased the trust assets available for benefit payments (reducing "Other postretirement liabilities"), and did not impact the Statements of Income.
- (6) Unaudited results, forward looking statements, and certain significant estimates and risks. This note has been expanded to include items discussed in detail within the Annual Report.

Unaudited Results and Forward Looking Statements. The accompanying unaudited financial statements contain all adjustments that are necessary for a fair presentation of results for such periods and are consistent with policies and procedures employed in the audited year-end financial statements. These consolidated financial statements should be read in conjunction with the Annual Report for the period ended December 31, 2017. Statements other than historical facts included or referenced in this Report are forward-looking statements subject to certain risks, trends, and uncertainties that could cause actual results to differ materially from those projected. We undertake no duty to update or revise these forward-looking statements.

Certain Significant Estimates and Risks. Certain estimates are determined using historical information along with assumptions about future events. Changes in assumptions for items such as warranties, pensions, medical cost trends, employment demographics and legal actions, as well as changes in actual experience, could cause these estimates to change. Specific risks, such as those included below, are discussed in the Company's Quarterly and Annual Reports in order to provide regular knowledge of relevant matters. Estimates and related reserves are more fully explained in the 2017 Annual Report.

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

New Accounting Standards: All of the following accounting standards were adopted in the first quarter of 2018:

Beginning on January 1, 2018, we adopted accounting standard ASC606, Revenue from Contracts with Customers, using the full retrospective adoption method. In the Consolidated Statements of Income for the six month period ended July 2, 2017, the adoption of ASC606 caused a decrease in sales of \$476 and a corresponding decrease of \$476 in selling, general and administrative expenses compared to previously reported results. There was no impact to income before taxes in the 1st half of 2017 and no changes to balance sheet accounts were required as the result of the adoption of ASC606. On an ongoing basis, we expect the impact of the adoption of ASC606 to be immaterial to our reported net income.

Also effective January 1, 2018, we adopted ASU 2017-07 - Compensation - Retirement Benefits (Topic 715). In the Consolidated Statements of Income, the adoption of the standard had the following impacts on previously reported 2017 first half results: increase to cost of goods sold of \$324

(Note 6 continued on following page)

thousand, increase to SG&A expenses of \$358 thousand and increase to the line item titled "non-service related pension credit" in other income of \$682 thousand. The implementation of the standard had no net impact on income before taxes, just the line items where pension expense/credit was previously reported.

We also adopted the requirements of ASU 2018-02, *Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income (AOCI)*. The Company has elected to adopt the policy of reclassifying stranded tax effects caused by the Tax Cut and Jobs Act from AOCI to retained earnings and also to include the full effect of the reclassification in 2018. In the Consolidated Balance Sheets, adoption of the standard increased the balance of retained earnings and AOCI by \$5.176 million in 2018 compared to the ending balances recorded at December 31, 2017.

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

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

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

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

Litigation Expense, Settlements, and Defense: The 2018 first half charges for all uninsured litigation of every kind, were \$8 thousand. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the quarter were approximately \$57 thousand. Prior year's settlements and expenses, including amounts for self-insured asbestos cases, are disclosed in the 2017 Annual Report.

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

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

As with all manufacturing operations in the United States, the Company's subsidiaries can potentially be responsible for response actions at disposal areas containing waste materials from their operations. In the past five years, the Company has not received any notice that it or its subsidiaries might be responsible for remedial clean-up actions under government supervision. However, one issue covered by insurance policies remains open as of this date and is fully disclosed in the 2017 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.