

# BURNHAM HOLDINGS, INC.

## REPORT TO STOCKHOLDERS

Six Months Ended  
June 30, 2013

### To Our Shareholders:

Our residential businesses performed well during the first-half as compared to 2012. As discussed in our 2012 Annual Report and the first quarter release, first-half sales of residential boilers were favorably influenced by carry-over demand resulting from the October, 2012 Super Storm Sandy. While we believe this recovery effort will continue throughout 2013, the level of demand in the second quarter was lower than that experienced in late 2012 and early 2013. The commercial portion of our business has been challenged in 2013 as certain sectors of this market have yet to show signs of rebounding from their prior lows. As we approach the upcoming heating season, we are scheduling our manufacturing facilities for the normal pattern of higher demand in the second half.

As announced in our June 19, 2013 press release, second quarter and year-to-date (“YTD”) results include a non-recurring charge of \$5.0 million (\$0.71 per share) relating to a new union agreement at the Bryan Steam, LLC subsidiary (“Pension Charge”). The Pension Charge is included in the “Other income (expense)” section of the Statement of Operations, and is explained further in the Notes to the Financial Statements (Note 3 and Note 7). This one-time, non-operational charge, while material to the current year results, is not material to the balance sheet. The Pension Charge will eliminate all future contributions to the underfunded, multi-employer Boilermaker-Blacksmith National Pension Trust and should position Bryan Steam, LLC to be more cost competitive in the aggressive commercial market, while also lowering future risk to the Burnham Holdings shareholders through the elimination of this unknown, uncontrollable liability.

### Financial Results

Second quarter and YTD sales were \$36.1 million and \$77.2 million, respectively; as compared to 2012 second quarter and YTD sales of \$41.4 million and \$78.0 million, respectively. We are reporting a second quarter loss of \$(3.8) million or \$(0.84) per share, and a YTD loss of \$(3.1) million or \$(0.70) per share. This is compared to the 2012 sec-

ond quarter gain of \$181 thousand or \$0.04 per share and a YTD loss of \$(766) thousand or \$(0.17) per share. The 2013 reported results include the \$5 million adverse impact of the Pension Charge discussed above. Excluding the impacts of the Pension Charge, YTD results would be a gain of \$71 thousand or \$0.01 per share despite lower YTD sales versus a loss for the same period in 2012. YTD cost of goods sold (“COGS”) as a percentage of sales for 2013 was 78.7%, better than last year’s first half of 79.7%. This 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, as well as a favorable product mix. Selling, administrative, and general expenses were favorably lower in both dollars and as a percentage of sales from the prior year, 20.6% versus the prior year’s 21.0%. Our interest expense for the quarter and YTD was lower because of the lower borrowing levels.

### Balance Sheet Condition

The Company’s balance sheet has appropriate levels of working capital consistent with current business activity. Our long-term debt of \$27.5 million was \$4.2 million lower than last year. The Statement of Cash Flows presents net cash used in operations of \$17.3 million compared to prior year’s cash use of \$12.7 million. This increase in the use of funds for the half results from the payment of higher income taxes (from the strong 2012 results) and other normal changes in working capital levels. Inventory levels have increased from the prior year as we optimize manufacturing schedules in light of the current market estimates, which are regularly evaluated and adjusted as needed.

### Dividends

At its meeting on July 18, 2013, the Board of Directors declared a quarterly common stock dividend of \$0.20 per share payable August 27, 2013 with a record date of August 20, 2013.

**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 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net sales	\$ 36,087	\$ 41,386	\$ 77,220	\$ 77,983
Cost of goods sold	29,306	32,608	60,749	62,139
Gross profit	6,781	8,778	16,471	15,844
Selling, administrative and general expenses	7,350	8,149	15,881	16,392
Operating income (loss)	(569)	629	590	(548)
Other income (expense):				
Non-recurring expense (3)	(5,000)	-	(5,000)	-
Mark-to-market (4)	17	35	38	63
Interest income	12	7	62	22
Interest expense	(322)	(388)	(579)	(733)
Other income (expense)	(5,293)	(346)	(5,479)	(648)
(Loss) income before income taxes	(5,862)	283	(4,889)	(1,196)
Income tax (benefit) expense	(2,110)	102	(1,760)	(430)
NET (LOSS) INCOME	\$ (3,752)	\$ 181	\$ (3,129)	\$ (766)
BASIC & DILUTED (LOSS) INCOME PER SHARE	\$ (0.84)	\$ 0.04	\$ (0.70)	\$ (0.17)
DIVIDENDS PAID	\$ 0.20	\$ 0.18	\$ 0.40	\$ 0.36

### Consolidated Balance Sheets

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

	June 30, 2013	July 1, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,799	\$ 5,084
Trade accounts receivable, less allowances	20,008	20,600
Inventories	54,370	52,266
Prepaid expenses and other current assets	4,225	3,416
TOTAL CURRENT ASSETS	83,402	81,366
PROPERTY, PLANT AND EQUIPMENT, net	47,028	48,541
DEFERRED INCOME TAXES (5)	3,497	3,300
OTHER ASSETS, net	21,688	22,353
TOTAL ASSETS	\$ 155,615	\$ 155,560
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts and taxes payable & accrued expenses	\$ 27,679	\$ 24,521
Current portion of long-term liabilities	287	357
TOTAL CURRENT LIABILITIES	27,966	24,878
LONG-TERM DEBT	27,547	31,681
OTHER POSTRETIREMENT LIABILITIES (5)(6)	35,631	36,826
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock	530	530
Class A Common Stock	3,451	3,418
Class B Convertible Common Stock	1,493	1,523
Additional paid-in capital	14,941	14,722
Retained earnings	96,350	93,917
Accumulated other comprehensive income (loss) (5)	(34,345)	(33,977)
Treasury stock, at cost	(17,949)	(17,958)
TOTAL STOCKHOLDERS' EQUITY	64,471	62,175
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 155,615	\$ 155,560

## Consolidated Statements of Cash Flows

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

	Six months ended	
	2013	2012
Net loss	\$ (3,129)	\$ (766)
Non-recurring expense (3)	5,000	-
Depreciation and amortization	2,343	2,338
Pension and postretirement liabilities expense	828	611
Contributions to pension trust (6)	(2,513)	(2,513)
Other net adjustments	(61)	(784)
Changes in operating assets and liabilities	(19,743)	(11,609)
NET CASH USED IN OPERATING ACTIVITIES	(17,275)	(12,723)
Net cash used in the purchase of assets	(1,574)	(734)
Proceeds from borrowings	20,500	15,500
Proceeds from stock option exercise and (purchase) of Treasury stock	227	229
Principal payments on debt and lease obligations	(12)	(57)
Dividends paid	(1,807)	(1,620)
INCREASE IN CASH AND CASH EQUIVALENTS	59	595
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,740	4,489
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,799	\$ 5,084

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

**Retirement Plans:** The Company maintains a non-contributory defined benefit pension plan covering substantially all employees. Steps have been taken over the past years to protect benefits for retirees and eligible employees. 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.

**Warranty Litigation, Class Action:** In 2010, two of the Company's subsidiaries were served with a class action lawsuit related generally to boiler products manufactured and sold by a predecessor to one of the Company's subsidiaries more than 10 years ago. This matter has now been discontinued as a class action and the litigation has been resolved.

**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. The Company believes, based upon its understanding of the insurance policies available 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.

**Subsequent Event:** On July 23, 2013, a New York City state court jury found numerous defendant companies responsible for asbestos-related damages in cases involving multiple plaintiffs. One of the defendants was a subsidiary of the Company, whose share of the verdicts amounts to \$42 million before offsets. The products alleged to have caused injury were manufactured decades ago. The jury's verdicts will be subject to post-trial motions to overturn the verdicts, to grant a new trial, or to substantially reduce the damages. Based on the advice of legal counsel, the Company believes the verdicts to be excessive under New York appellate case law, and we are optimistic that post-trial proceedings and the application of offsets will significantly reduce the ultimate award. In any event, the Company anticipates that any responsibility in connection with this verdicts will be fully covered by insurance policies available to the Company and/or its subsidiaries.

**Litigation Expense, Settlements, and Defense:** The 2013 six-month charges for all uninsured litigation of every kind, was \$103 thousand. That amount included two asbestos claims, 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. Expenses for legal counsel, consultants, etc., in defending these various actions and claims for the current six months were \$117 thousand. Prior year's settlements and expenses are disclosed in the 2012 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 2012 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.

For further information contact:

Elisa Ranck, Financial Services

Administrator, or Douglas B. Springer,

Vice President, Chief Financial Officer.

## Transfer Agent

Fulton Financial Advisors, N.A.

One Penn Square

Lancaster, PA 17602

(717) 291-2562

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

### 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 30, 2013 includes 3,005,895 of Class A shares and 1,493,415 of Class B shares.
- (3) On June 18, 2013 the Company incurred a non-recurring expense of \$5 million as a result of a new union agreement at its subsidiary, Bryan Steam LLC in Peru, Indiana (previously announced on June 19th). This one-time, non-operational charge is 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 results 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.
- (4) 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.
- (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, 2012 and 2011, 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 2012 Annual Report for more details).
- (6) In both 2013 and 2012, the Company made voluntary pre-tax contributions of \$2.5 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 Statement of Operations.
- (7) Interim periods, forward looking statements, and certain significant estimates and risks. This note has been expanded to include items discussed in detail within the Annual Report.

**Interim Periods and Forward Looking Statements.** The accompanying unaudited financial statements contain all adjustments that are necessary for a fair presentation of the interim results, and these adjustments are applied consistently for the periods covered. The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the Annual Report for the period ended December 31, 2012. 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 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 2012 Annual Report.

(Note 7 continued on following page)

**BURNHAM HOLDINGS, INC.**