

BARNES GROUP INC
Form 10-Q
July 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended June 30, 2011

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission file number 1-4801

BARNES GROUP INC.
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or
organization)

06-0247840
(I.R.S. Employer Identification No.)

123 Main Street, Bristol, Connecticut
(Address of Principal Executive Offices)
(860) 583-7070

06010
(Zip Code)

Registrant's telephone number, including area code

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

The registrant had outstanding 55,639,099 shares of common stock as of July 27, 2011.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net sales	\$327,950	\$281,892	\$646,703	\$560,029
Cost of sales	207,361	177,821	410,537	355,844
Selling and administrative expenses	87,067	80,389	173,196	160,836
	294,428	258,210	583,733	516,680
Operating income	33,522	23,682	62,970	43,349
Interest expense	2,364	4,978	6,032	10,097
Other expense (income), net	298	1,065	802	1,387
Income before income taxes	30,860	17,639	56,136	31,865
Income taxes	8,528	2,815	14,732	5,213
Net income	\$22,332	\$14,824	\$41,404	\$26,652
Per common share:				
Net income:				
Basic	\$0.40	\$0.27	\$0.75	\$0.48
Diluted	0.40	0.26	0.74	0.47
Dividends	0.08	0.08	0.16	0.16
Weighted average common shares outstanding:				
Basic	55,414,347	55,546,969	55,067,079	55,470,721
Diluted	56,288,447	56,339,770	55,948,098	56,152,953

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$16,577	\$13,450
Accounts receivable, less allowances (2011 - \$5,108; 2010 - \$5,026)	233,337	197,715
Inventories	229,929	216,382
Deferred income taxes	27,260	10,449
Prepaid expenses and other current assets	12,720	12,212
Total current assets	519,823	450,208
Deferred income taxes	29,027	42,722
Property, plant and equipment	632,065	611,055
Less accumulated depreciation	(404,864	) (392,621
	227,201	218,434
Goodwill	405,972	384,241
Other intangible assets, net	286,160	290,798
Other assets	17,521	16,854
Total assets	\$1,485,704	\$1,403,257
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	\$3,873	\$4,930
Accounts payable	106,769	98,191
Accrued liabilities	96,194	86,602
Long-term debt - current	781	93,141
Total current liabilities	207,617	282,864
Long-term debt	327,730	259,647
Accrued retirement benefits	99,942	112,886
Other liabilities	38,220	35,741
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock - par value \$0.01 per share		
Authorized: 150,000,000 shares	584	565
Issued: at par value (2011 - 58,353,562 shares; 2010 - 56,518,417 shares)		
Additional paid-in capital	305,316	278,287
Treasury stock, at cost (2011 - 2,723,337 shares; 2010 - 2,691,215 shares)	(45,043	) (44,379
Retained earnings	546,759	514,240
Accumulated other non-owner changes to equity	4,579	(36,594
Total stockholders' equity	812,195	712,119

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Total liabilities and stockholders' equity	\$1,485,704	\$1,403,257
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See accompanying notes.

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six months ended June 30,	
	2011	2010
Operating activities:		
Net income	\$41,404	\$26,652
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	28,822	26,082
Amortization of convertible debt discount	1,117	2,805
(Gain) loss on disposition of property, plant and equipment	(607	) 422
Stock compensation expense	4,294	3,546
Withholding taxes paid on stock issuances	(664	) (89
Changes in assets and liabilities:		
Accounts receivable	(24,875	) (26,779
Inventories	(9,822	) (8,674
Prepaid expenses and other current assets	22	(2,680
Accounts payable	8,051	12,353
Accrued liabilities	6,305	5,351
Deferred income taxes	1,650	(1,396
Long-term retirement benefits	(13,762	) (7,389
Other	(1,593	) 2,627
Net cash provided by operating activities	40,342	32,831
Investing activities:		
Proceeds from disposition of property, plant and equipment	2,243	157
Capital expenditures	(19,342	) (15,060
Other	(4,236	) (1,726
Net cash used by investing activities	(21,335	) (16,629
Financing activities:		
Net change in other borrowings	(1,363	) (2,565
Payments on long-term debt	(275,074	) (137,493
Proceeds from the issuance of long-term debt	249,490	131,400
Premium paid on convertible debt redemption	(9,803) —
Proceeds from the issuance of common stock	26,086	3,522
Common stock repurchases	—	(4,059
Dividends paid	(8,765	) (8,787
Excess tax benefit on stock awards	3,102	—
Other	(131	) (108
Net cash used by financing activities	(16,458	) (18,090
Effect of exchange rate changes on cash flows	578	(1,194
Increase (decrease) in cash and cash equivalents	3,127	(3,082
Cash and cash equivalents at beginning of period	13,450	17,427
Cash and cash equivalents at end of period	\$16,577	\$14,345

See accompanying notes.

BARNES GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts included in the notes are stated in thousands except per share data.)

(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2010 has been derived from the 2010 financial statements of Barnes Group Inc. (the "Company"). For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included. Operating results for the three- and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. Net Income Per Common Share

For the purpose of computing diluted net income per share, the weighted-average number of shares outstanding is increased for the potential dilutive effects of stock-based incentive plans and convertible senior subordinated notes. For the purpose of computing diluted net income per share, the weighted-average number of shares was increased by 874,100 and 792,801 for the three-month periods ended June 30, 2011 and 2010, respectively, and 881,019 and 682,232 for the six-month periods ended June 30, 2011 and 2010, respectively, to account for the potential dilutive effect of stock-based incentive plans. There were no adjustments to net income for the purposes of computing income available to common stockholders for those periods.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three-month periods ended June 30, 2011 and 2010, the Company excluded 702,958 and 1,561,000 stock options, respectively, from the calculation of weighted average diluted shares outstanding as the stock options would have been anti-dilutive. During the six-month periods ended June 30, 2011 and 2010, the Company excluded 923,821 and 1,783,628 stock options, respectively, from the calculation of weighted average diluted shares outstanding as the stock options would have been anti-dilutive.

The Company granted 379,900 stock options, 109,989 restricted stock unit awards and 79,500 performance share awards in February 2011 as part of its annual grant award. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic average common shares outstanding as they contain nonforfeitable rights to dividend payments. The performance share awards are part of a new long-term Relative Measure Program, which is designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index. The performance goals are independent of each other and based on three metrics, the Company's total shareholder return ("TSR"), basic earnings per share growth and operating income before depreciation and amortization growth (weighted equally). The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR performance awards was determined using a Monte Carlo simulation as the award contains a market condition.

Effective April 5, 2011, the Company, through the trustee of its 3.75% convertible senior subordinated notes due in August 2025 (the "3.75% Convertible Notes"), exercised its right to redeem the remaining \$92,500 principal amount of these notes under their indenture agreement. Of the total \$92,500 principal amount, \$11,865 of these notes were redeemed with accrued interest through the redemption date. The remaining \$80,635 of these notes were surrendered for conversion. The Company elected to pay cash to holders of the notes surrendered for conversion, including the value of any residual shares of common stock that were payable to the holders electing to convert their notes into an equivalent share value, resulting in a total cash payment of \$90,438 including a premium on conversion of \$9,803 which reduced the equity component by \$6,085, net of tax of \$3,718. As a result of this transaction, the Company recaptured \$40,217 of previously deducted contingent convertible debt interest which resulted in a \$15,252 reduction in short-term deferred tax liabilities as well as a reduction of tax loss carryforwards reflected in long-term deferred tax assets. The potential shares issuable for the 3.75% Convertible Notes were not included in either basic or diluted average common shares outstanding for the three- or six-month periods ended June 30, 2011 as the notes were settled in cash. For the three- and six-month periods ended June 30, 2010, there were no potential

shares issuable under the notes as the notes would have been anti-dilutive under the net share settlement method.

The 3.375% convertible senior subordinated notes due in March 2027 (the “3.375% Convertible Notes”) are convertible, under certain circumstances, into a combination of cash and common stock of the Company. The conversion price as of June 30, 2011 was approximately \$28.31 per share of common stock. The dilutive effect of the notes is determined based on the average closing price of the Company’s stock for the last 30 trading days of the quarter as compared to the conversion price of the notes. Under the net share settlement method, there were no potential shares issuable under the notes as the notes would have been anti-dilutive for the three- and six-month periods ended June 30, 2011 and 2010.

3. Comprehensive Income

Comprehensive income (loss) includes all changes in equity during a period except those resulting from the investments by, and distributions to, stockholders. For the Company, comprehensive income (loss) for the period includes net income and other non-owner changes to equity, net of taxes.

Statements of Comprehensive Income

(Unaudited)

For the three months ended June 30,	2011	2010
Net income	\$22,332	\$14,824
Unrealized (loss) gain on hedging activities, net of tax of \$(85) and \$251, respectively	(238	) 429
Foreign currency translation adjustments, net of tax of \$(53) and \$(1,688), respectively	21,647	(17,410)
Defined benefit pension and other postretirement plans, net of tax of \$466 and \$175, respectively	1,008	452
Comprehensive income (loss)	\$44,749	\$(1,705)
For the six months ended June 30,	2011	2010
Net income	\$41,404	\$26,652
Unrealized gain on hedging activities, net of tax of \$113 and \$349, respectively	50	548
Foreign currency translation adjustments, net of tax of \$1,440 and \$(1,922), respectively	39,793	(28,546)
Defined benefit pension and other postretirement plans, net of tax of \$891 and \$320, respectively	1,330	1,556
Comprehensive income	\$82,577	\$210

4. Inventories

The components of inventories consisted of:

June 30, 2011