BARNES GROUP INC

FORM 10-Q
(Quarterly Report)

Filed 05/14/01 for the Period Ending 03/31/01

Address	123 MAIN ST BRISTOL, CT 06010
Telephone	8605837070
CIK	0000009984
Symbol	B
SIC Code	3490 - Miscellaneous Fabricated Metal Products
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

BARNES GROUP INC

FORM 10-Q
(Quarterly Report)

Filed 5/14/2001 For Period Ending 3/31/2001

Address	123 MAIN ST
	BRISTOL, Connecticut 06010
Telephone	860-583-7070
CIK	0000009984
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM l0-Q

(Mark One)

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 31, 2001

or

( ) Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For transition period from to

Commission File Number 1-4801

BARNES GROUP INC.

(a Delaware Corporation)

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

123 Main Street, Bristol, Connecticut 06010

Telephone Number (860) 583-7070

Number of common shares outstanding at

May 10, 2001 - 18,480,646

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 X No

BARNES GROUP INC.
FORM 10-Q INDEX

For the Quarterly period ended March 31, 2001

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
Three months ended March 31, 2001 and 2000
(Dollars in thousands, except per share data)

(Unaudited)

	2001	2000
Net sales	$199,250	$173,007
Cost of sales	132,562	116,318
Selling and administrative expenses	52,935	40,933
	185,497	157,251
Operating income	13,753	15,756
Other income	1,405	1,318
Interest expense	4,233	2,778
Other expenses	1,173	673
Income before income taxes	9,752	13,623
Income taxes	2,438	4,223
Net income	$ 7,314	$ 9,400
Per common share:		
Net income:		
Basic	$ .39	$ .51
Diluted	.39	.50
Dividend	.20	.19
Average common shares outstanding		
Basic	18,620,760	18,598,578
Diluted	18,937,924	18,753,019

See accompanying notes.

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

ASSETS	March 31, 2001 (Unaudited)	December 31, 2000
Current assets		
Cash and cash equivalents	$ 31,180	$ 23,303
Accounts receivable, less allowances (2001-$2,610; 2000-$2,720)	117,950	107,434
Inventories		
Finished goods	51,155	59,665
Work-in-process	18,540	13,605
Raw materials and supplies	12,905	15,244
	82,600	88,514
Deferred income taxes and prepaid expenses	20,812	22,097
Total current assets	252,542	241,348
Deferred income taxes	14,135	15,010
Property, plant and equipment	402,595	400,319
Less accumulated depreciation	239,852	236,553
	162,743	163,766
Goodwill	155,673	155,667
Other assets	53,003	61,150
Total assets	$638,096	$636,941

See accompanying notes.

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2001 (Unaudited)	December 31, 2000
Current liabilities		
Notes payable	$ 8,990	$ 6,896
Accounts payable	63,118	59,767
Accrued liabilities	53,388	60,183
Total current liabilities	125,496	126,846
Long-term debt	230,000	230,000
Accrued retirement benefits	68,326	67,686
Other liabilities	10,138	11,076
Stockholders' equity		
Common stock-par value $0.01 per share Authorized: 60,000,000 shares Issued: 22,037,769 shares stated at par value	220	220
Additional paid-in capital	51,885	51,845
Treasury stock at cost, 2001-3,388,965 shares 2000-3,430,411 shares	(69,638)	(69,181)
Retained earnings	242,849	239,266
Accumulated other comprehensive income	(21,180)	(20,817)
Total stockholders' equity	204,136	201,333

Total liabilities and stockholders' equity	$638,096	$636,941

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three months ended March 31, 2001 and 2000
(Dollars in thousands)

(Unaudited)

	2001	2000
Operating Activities:		
Net income	$ 7,314	$ 9,400
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	9,615	8,304
Gain on sale of property, plant and equipment	(82)	(36)
Changes in assets and liabilities:		
Accounts receivable	(12,049)	(14,950)
Inventories	4,957	(2,298)
Accounts payable	3,886	(2,076)
Accrued liabilities	(8,985)	(600)
Deferred income taxes	1,757	58
Other	(3,143)	(2,592)
Net Cash Provided (Used) by Operating Activities	3,270	(4,790)
Investing Activities:		
Proceeds from sale of property, plant and equipment	66	166
Capital expenditures	(5,832)	(6,120)
Other	(1,746)	(382)
Net Cash Used by Investing Activities	(7,512)	(6,336)
Financing Activities:		
Net increase in notes payable	1,964	21,793
Proceeds from the issuance of common stock	606	334
Common stock repurchases	(1,014)	(6,582)
Dividends paid	(3,730)	(3,534)
Proceeds from sale of debt swap	13,766	--
Net Cash Provided by Financing Activities	11,592	12,011
Effect of exchange rate changes on cash flows	527	(644)
Increase in cash and cash equivalents	7,877	241
Cash and cash equivalents at beginning of period	23,303	43,632
Cash and cash equivalents at end of period	$31,180	$43,873

See accompanying notes.

Notes to Consolidated Financial Statements:

1. Summary of Significant Accounting Policies The accompanying unaudited consolidated financial statements 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. They do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. For additional information, please refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. 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-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying item.

2. Accounting Change The Company adopted Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended, on January 1, 2001. The standard requires that all derivative instruments be recorded on the balance sheet at fair value. The accounting for changes in the fair value depends on how the derivative is used and designated. In accordance with the transition provisions of FAS 133, the Company recorded a $0.4 million gain which was entirely offset by a loss recorded on the re-measurement of underlying balance sheet items. There was no transition adjustment to other comprehensive income.

The Company is exposed to fluctuations in interest rates, foreign currency exchange rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program. The Company uses financial instruments to mitigate fluctuations in its cost of debt and to hedge its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives to manage commodity exposures or for speculative or trading purposes.

Notes to Consolidated Financial Statements Continued:

Interest Rate Exposures: The Company's long-term debt portfolio consists of fixed rate and variable rate instruments and is managed to mitigate fluctuations in interest rates. Interest rate fluctuations result in changes in the market value of the Company's fixed rate debt. As part of managing its debt portfolio, the Company maintains an interest rate exchange agreement to convert a portion of its 9.47% fixed rate Senior Notes to variable rate debt. This interest rate contract is a fair value hedge, which is effective in offsetting fluctuations in the fair value of the hedged portion of the debt instrument. The gains and losses on the interest rate contract are recorded to earnings and are offset by gains and losses recorded on the re-measurement of the underlying debt.

In March 2001, the Company sold its $70 million cross- currency debt swap. The accumulated adjustment to the carrying value of the debt will be recognized in accordance with terms of the underlying debt.

Foreign Currency Exposures: The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. Foreign currency commitment and transaction exposures are managed at the operating units as an integral part of their businesses in accordance with corporate policy that addresses acceptable levels of foreign currency risk. The Company uses foreign currency forward exchange contracts to hedge these risks. These contracts qualify as fair value hedges of unrecognized firm commitments or cash flow hedges of anticipated transactions. The Company does not hedge its foreign currency net investment exposure.

At March 31, 2001, the fair value of derivatives held by the Company was a net asset of $0.2 million. During the quarter ended March 31, 2001, gains or losses related to the hedge ineffectiveness were immaterial.

Notes to Consolidated Financial Statements Continued:

3. Comprehensive Income Comprehensive income includes all changes in equity during a period except those resulting from the investment by, and distributions to, owners. For the Company, comprehensive income includes net income, foreign currency translation adjustments, and deferred gains and losses related to certain derivative instruments. The resulting gains and losses are reflected in accumulated other comprehensive income within stockholders' equity. The net effect reduced comprehensive income by $0.4 million in the first quarter of 2001 and by $1.1 million in the comparative 2000 period.

4. Information on Business Segments The following tables set forth information about the Company's operations by its three reportable business segments:

For the three months ended March 31, (Dollars in thousands)	2001	2000
Revenues		
Associated Spring	$ 75,993	$ 86,313
Barnes Aerospace	46,890	29,290
Barnes Distribution	79,407	61,087
Intersegment sales	(3,040)	(3,683)
Total revenue	$199,250	$173,007
Operating profit		
Associated Spring	$ 7,168	$ 12,336

Barnes Aerospace	3,927	1,109
Barnes Distribution	2,951	2,914
Total operating profit	14,046	16,359
Interest income	160	276
Interest expense	4,233	2,778
Other income (expense)	(221)	(234)
Income before income taxes	$ 9,752	$ 13,623

Notes to Consolidated Financial Statements Continued:

5. Stock Plans

Most U.S. salaried and non-union hourly employees are eligible to participate in the Company's Guaranteed Stock Plan (GSP). The GSP provides for the investment of employer and employee contributions in the Company's common stock. The Company guarantees a minimum rate of return on certain GSP assets. This guarantee will only become a liability for the Company if, and to the extent that, the value of the related Company stock does not cover the guaranteed asset value on the day an employee withdraws from the plan. At March 31, 2001, the Company's guarantee was $0.7 million based on the Company's March 31, 2001 stock closing price of $19.00 per share. This compares to a guarantee of $0.4 million at December 31, 2000 when the closing price per share was $19.88.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales for the first quarter 2001 were a record $199.3 million, up 15.2% from $173.0 million last year. Net sales growth in the first quarter reflected the Company's recent acquisitions and a sharp increase in sales at Barnes Aerospace, which more than offset a decline in the transportation and electronics related sales at Associated Spring.

First quarter 2001 operating income was $13.8 million compared to $15.8 million in the comparable 2000 period. These results reflect period-over-period sales and earnings growth in the Barnes Aerospace and Barnes Distribution segments and sharply lower sales and earnings in Associated Spring. Operating income margin was 6.9% compared to 9.1% a year ago. Although gross margin improved to 33.5% compared to 32.8% a year ago, it was more than offset by higher selling and administrative expenses as a percentage of sales. This increase in selling and administrative expenses reflects both a strategic investment in sales and marketing for the purpose of stimulating sales growth as well as a shift in the Barnes Group's overall sales mix to Barnes Distribution, reflecting the May 2000 acquisition of Curtis Industries, which maintains a higher level of selling expense than do the manufacturing businesses.

Management's Discussion and Analysis of Financial Condition and Results of Operations Continued:

Segment Review - Sales and Operating Profit

Associated Spring's sales for first quarter 2001 were $76.0 million, down 12.0% from $86.3 million a year ago. Sales during the quarter were negatively impacted by the industry-wide slowdown in the domestic transportation sector. In addition the electronics market, which has been a focus for sales growth at Associated Spring, experienced weakness in the first quarter. This was partially offset by continued strong growth of the company's nitrogen gas spring products business. Operating profit for the segment decreased to $7.2 million in the first quarter of 2001 compared to $12.3 million for the same period a year ago, reflecting the sales volume decline and severance costs incurred as a result of cost containment measures undertaken during the most recent quarter.

Barnes Aerospace's first quarter 2001 sales were $46.9 million, up 60.1% from $29.3 million in 2000. Organic sales grew 21.2%, reflecting penetration of new accounts and sales of new products to existing customers, while sales from the Kratz-Wilde/Apex business, acquired in September 2000, totaled $11.4 million in the first quarter of 2001. Orders were $60.2 million for the quarter and order backlog increased to a record $157.1 million from $144.9 million at December 31, 2000. First quarter 2001 operating profit of $3.9 million increased from the $1.1 million profit reported last year, primarily as a result of the higher sales volume, as well as a solid contribution from the Kratz- Wilde/Apex acquisition.

Barnes Distribution's sales in the first three months of 2001 were $79.4 million, up 30.0% from $61.1 million in 2000. This included sales of $21.0 million from Curtis Industries, which Barnes Group acquired in May 2000. Operating profit for the first quarter 2001 was $3.0 million, up from $2.9 million a year ago. Operating profit improved on the higher sales volume and aggressive expense controls, partially offset by

lower sales and operating profit from Barnes Distribution's Raymond division.

Non-Operating Income/Expense

Higher other income for the first quarter 2001 compared to 2000 resulted from foreign exchange transaction gains of $0.9 million compared to $0.2 million. This increase was partially offset by lower income from the Company's NASCO joint venture.

The increase in other expenses in 2001 compared to 2000 was largely attributable to higher goodwill amortization, a result of two acquisitions made in 2000. Interest expense also increased substantially due to the debt service on acquisition-related debt.

Income Taxes

The Company's effective tax rate for first quarter 2001 was 25.0% compared to 31.0% in 2000's first quarter. The lower rate in 2001 is due to a higher percentage of foreign income in jurisdictions with tax rates lower than the U.S. statutory tax rate.

Net Income and Net Income Per Share

Consolidated net income for the first quarter of 2001 and 2000 was $7.3 million and $9.4 million, respectively. Basic and diluted earnings per share for the first quarter of 2001 were $.39 compared to 2000's basic and diluted earnings per share of $.51 and $.50, respectively. For the purposes of computing diluted earnings per share, the weighted average number of shares outstanding was increased for the potential dilutive effects of stock-based incentive plans.

Financial Condition
Cash Flows

Net cash provided by operating activities in the first three months of 2001 was $3.3 million compared to net cash used by operating activities of $4.8 million in 2000's first quarter. In the first quarter of 2001 operating cash flow was positively impacted by improvements in working capital. Management continues to stress the need for more efficient utilization of assets, the impact of which was partially realized in the first quarter with the reduction of inventory and increase in payables.

Net cash used by investing activities in the first quarter of 2001 was $7.5 million compared to $6.3 million in 2000. The overall increase in 2001's investing activities was due in part to a small bolt-on acquisition made in the first quarter, funds for which are included in other investing activities.

Net cash provided by financing activities was $11.6 million in the first three months of 2001 compared to $12.0 million in the comparable period of 2000. In 2001, proceeds from the sale of a cross-currency debt swap combined with cash generated by operating activities were used in part to fund capital expenditures, pay dividends and repurchase the Company's stock. In 2000, higher borrowings were used to finance incremental operating activity requirements, dividends and stock repurchases.

Liquidity and Capital Resources

At March 31, 2001, the Company classified as long-term debt $3.1 million of the current portion of its 9.47% long-term notes. The Company has both the intent and the ability, through its revolving credit agreement, to refinance this amount on a long- term basis.

The Company maintains substantial bank borrowing facilities to supplement internal cash generation. At March 31, 2001, the Company had $150.0 million of borrowing capacity under its long- term revolving credit agreement of which $70.0 million was borrowed.

The Company had $2.5 million in borrowings under uncommitted short-term bank credit lines at March 31, 2001. The interest rate on this borrowing was 6.19%. The Company believes its credit facilities coupled with cash generated from operations are adequate to finance its anticipated future requirements.

Forward-Looking Statements

The Company cautions readers that certain factors may affect the Company's results for future fiscal periods. These factors involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made on behalf of the Company. For this purpose, any statement other than one of historical fact may be considered a forward-looking statement, as

defined in the Public Securities Litigation and Reform Act of 1995. Some factors that could cause actual results to vary materially from those anticipated in forward- looking statements include changes in worldwide economic and political conditions, currency and interest rate fluctuations, regulatory and technological changes, changes in market demand for the types of products and services produced and sold by the Company and the inability to realize projected synergies of acquisitions.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

At March 31, 2001, the result of a hypothetical 1% increase in the average cost of the Company's variable-rate debt would reduce pretax profit of the Company by $0.8 million on an annual basis. For additional information, please refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to Vote of Security Holders

(a) The Annual Meeting of the Company's stockholders was held on April 12, 2001. Proxies for the meeting were solicited pursuant to Regulation 14 A.

(c) (1) The following directors were elected:

Director	Votes in Favor	Votes Withheld	For Terms Expiring
John W. Alden	16,160,101	618,114	2004
George T. Carpenter	16,171,630	606,585	2004
Frank E. Grzelecki	16,238,243	539,972	2004

(2) The stockholders approved the Barnes Group Inc. Performance-Linked Bonus Plan for Selected Executive Officers. The proposal was adopted as 15,348,973 shares voted for, 1,223,190 shares voted against, 206,052 shares abstained and 1,832,111 shares did not vote.

(3) The stockholders approved the selection of PricewaterhouseCoopers LLP as the Company's independent accountants for 2001. The proposal was adopted as 16,511,716 shares voted for, 175,114 shares voted against and 91,385 shares abstained.

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K , Item 5, Other Events, were filed during the quarter ended March 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Barnes Group Inc.
(Registrant)

Date May 14, 2001 By /S/ William C. Denninger
William C. Denninger
Senior Vice President, Finance
and Chief Financial Officer
(the principal financial officer)

Date May 14, 2001 By /s/ Francis C. Boyle, Jr.
Francis C. Boyle, Jr.
Vice President, Controller
(the principal accounting officer)

End of Filing