BARNES GROUP INC
Form 10-Q
July 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-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 June 30, 2011

OR

o 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	06-0247840
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
123 Main Street, Bristol, Connecticut	06010
(Address of Principal Executive Offices)	(Zip Code)

(860) 583-7070
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 x No o

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 x No o

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 S	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

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

Barnes Group Inc.
Index to Form 10-Q
For the Quarterly Period Ended June 30, 2011

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

Total liabilities and stockholders' equity	$1,485,704	$1,403,257

See accompanying notes.

4

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.

5

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	December 31, 2010
Finished goods	$133,180	$127,254
Work-in-process	60,685	57,784
Raw material and supplies	36,064	31,344
	$229,929	$216,382

7

5. Goodwill and Other Intangible Assets

Goodwill:
The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company as of and for the period ended June 30, 2011:

	Logistics and Manufacturing Services	Precision Components	Total Company
January 1, 2011	$163,988	$220,253	$384,241
Foreign currency translation	3,301	18,430	21,731
June 30, 2011	$167,289	$238,683	$405,972

In the second quarter of 2011, management performed its annual impairment testing. Based on this assessment, there was no goodwill impairment through June 30, 2011.

Other Intangible Assets:
Other intangible assets consisted of:

		June 30, 2011		December 31, 2010	
	Range of Life -Years	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue sharing programs (RSPs)	Up to 30	$293,700	$(40,955)	$293,700	$(36,318)
Customer lists/relationships	10	28,578	(19,535)	28,578	(17,974)
Patents, trademarks/trade names	5-30	22,746	(13,229)	22,746	(12,120)
Other	Up to 15	11,936	(3,749)	10,405	(3,099)
		356,960	(77,468)	355,429	(69,511)
Foreign currency translation		6,668	—	4,880	—
Other intangible assets		$363,628	$(77,468)	$360,309	$(69,511)

Amortization of intangible assets is expected to increase from approximately $15,500 in 2011 to $18,500 in 2015.

6. Debt

The Company's debt agreements contain financial covenants that require the maintenance of interest coverage and leverage ratios. The Company is in compliance with its debt covenants as of June 30, 2011, and closely monitors its future compliance based on current and anticipated future economic conditions.

Effective April 5, 2011, the Company exercised its right to redeem the remaining $92,500 principal amount of the 3.75% Convertible 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 Company used borrowings under its senior credit facility to finance the redemption of the 3.75% Convertible Notes.

The 3.375% Convertible Notes are subject to redemption at their par value at any time, at the option of the Company, on or after March 20, 2014. The note holders may also require the Company to redeem some or all of the notes at their par value on March 15th of 2014, 2017 and 2022. The 3.375% Convertible Notes are also eligible for conversion upon meeting certain conditions as provided in the indenture agreement. The eligibility for conversion is determined quarterly. During the second quarter of 2011, the 3.375% Convertible Notes were not eligible for conversion. During the third quarter of 2011, the 3.375% Convertible Notes will not be eligible for conversion.

7. Derivatives

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is also exposed to fluctuations in interest rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program.

Financial instruments have been used by the Company to hedge its exposures to fluctuations in interest rates. The Company previously had two, three-year interest rate swap agreements which together converted the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 2.947% plus the borrowing spread and were accounted for as cash flow hedges. These agreements matured in the first quarter of 2011.

The Company also uses financial instruments to hedge its exposures to fluctuations in foreign currency exchange rates. The Company has various contracts outstanding which primarily hedge recognized assets or liabilities, and anticipated transactions in various currencies including the British pound sterling, Canadian dollar, Euro, Singapore dollar, Swedish krona and Swiss franc. Certain foreign currency derivative instruments are treated as cash flow hedges of forecasted transactions. All foreign exchange contracts are due within one year.

Net investment hedges have been used by the Company to mitigate exposure to foreign currency volatility on its future return on capital; however, the Company did not have any net investment hedges outstanding for any periods presented.

The Company does not use derivatives for speculative or trading purposes or to manage commodity exposures.

Changes in the fair market value of derivatives that qualify as fair value hedges or cash flow hedges are recorded directly to earnings or accumulated other non-owner changes to equity, depending on the designation. Amounts recorded to accumulated other non-owner changes to equity are reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Any ineffective portion, or amounts related to contracts that are not designated as hedges, are recorded directly to earnings. For a derivative used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the foreign currency translation component of accumulated other non-owner changes to equity.

The following table sets forth the fair value amounts of derivative instruments held by the Company.

	June 30, 2011		December 31, 2010	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:				
Interest rate contracts	$—	$—	$—	$(667)
Foreign exchange contracts	—	(175)	327	—
	—	(175)	327	(667)
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	520	(141)	1,290	—
Total derivatives	$520	$(316)	$1,617	$(667)

Asset derivatives are recorded in prepaid expenses and other current assets in the accompanying consolidated balance sheets. Liability derivatives related to interest rate contracts and foreign exchange contracts are recorded in other liabilities and accrued liabilities, respectively, in the accompanying consolidated balance sheets.

The following table sets forth the gain (loss), net of tax, recorded in accumulated other non-owner changes to equity for the three- and six-month periods ended June 30, 2011 and 2010 for derivatives held by the Company and designated as hedging instruments.

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Cash flow hedges:				
Interest rate contracts	$—	$390	$422	$522
Foreign exchange contracts	(238)	39	(372)	26
	$(238)	$429	$50	$548

Amounts included within accumulated other non-owner changes to equity that were reclassified to income during the first six months of 2011 related to the interest rate swaps resulted in a fixed rate of interest of 2.947% plus the borrowing spread for the first $100,000 of one-month LIBOR borrowings through the date of maturity. The amounts reclassified for the foreign exchange contracts were not material. Additionally, there were no amounts recognized in income for hedge ineffectiveness during the three- or six-month periods ended June 30, 2011.

The following table sets forth the (gain) loss recorded in other expense (income), net in the consolidated statements of income for the three- and six-month periods ended June 30, 2011 and 2010 for non-designated derivatives held by the Company. Such amounts were substantially offset by (gains) losses recorded on the underlying hedged asset or liability.

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Foreign exchange contracts	$(147)	$2,013	$911	$185

8. Fair Value Measurements

The provisions of the accounting standard for fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

The following table provides the financial assets and financial liabilities reported at fair value and measured on a recurring basis:

Description	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Asset derivatives	$520	$—	$520	$—
Liability derivatives	(316)	—	(316)	—
Rabbi trust assets	1,337	1,337	—	—
	$1,541	$1,337	$204	$—
December 31, 2010				
Asset derivatives	$1,617	$—	$1,617	$—
Liability derivatives	(667)	—	(667)	—
Rabbi trust assets	1,350	1,350	—	—
	$2,300	$1,350	$950	$—

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based and U.S. treasury interest rates and foreign currency spot and forward rates. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.

As disclosed within the Company's Annual Report on Form 10-K for the year ended December 31, 2010, the fair value of the 3.375% Convertible Notes was approximately $57,244. As of June 30, 2011, the fair value of the 3.375% Convertible Notes was approximately $60,780. The par value for both periods was $55,636.

9. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

	For the three months ended June 30,		For the six months ended June 30,	
Pensions	2011	2010	2011	2010
Service cost	$1,375	$1,399	$2,944	$3,106
Interest cost	5,668	5,709	11,240	11,389
Expected return on plan assets	(8,130)	(7,660)	(16,030)	(15,365)
Amortization of prior service cost	287	239	562	459
Recognized losses	1,543	643	2,875	1,222
Net periodic benefit cost	$743	$330	$1,591	$811

	For the three months ended June 30,		For the six months ended June 30,	
Other Postretirement Benefits	2011	2010	2011	2010
Service cost	$48	$61	$143	$187
Interest cost	685	796	1,424	1,632
Amortization of prior service cost	(485)	(246)	(771)	(491)
Recognized losses	240	105	404	215
Curtailment gain	—	—	—	(987)
Net periodic benefit cost	$488	$716	$1,200	$556

The Company recorded a curtailment gain in one of its other postretirement benefit plans during the first quarter of 2010 in connection with the closure of a facility within the Precision Components segment.

10. Income Taxes

The Company's effective tax rate for the first half of 2011 was 26.2%. In 2010, the Company's effective tax rate was 16.4% in the first half of the year and 16.8% for the full year. The increase in the first half 2011 effective tax rate from the full year 2010 rate was primarily driven by the projected change in the mix of earnings attributable to higher-taxing jurisdictions or jurisdictions where losses cannot be benefited, the impact of an increase in the planned repatriation of a portion of current year earnings to the U.S. and the recognition of $1,793 of discrete tax expense related to tax adjustments for prior years. The second quarter effective tax rate was 27.6% and includes the impact of the discrete item.

11. Information on Business Segments

The following table sets forth information about the Company's operations by its two reportable business segments:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net sales				
Logistics and Manufacturing Services	$155,291	$138,460	$305,310	$273,742
Precision Components	175,804	146,604	347,376	292,385
Intersegment sales	(3,145)	(3,172)	(5,983)	(6,098)
Total net sales	$327,950	$281,892	$646,703	$560,029
Operating profit				
Logistics and Manufacturing Services	$16,793	$10,173	$29,803	$18,497
Precision Components	16,729	13,509	33,167	24,852
Total operating profit	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

12. Commitments and Contingencies

Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. Product warranty liabilities were not material as of June 30, 2011 and 2010.

The Company was named in a lawsuit arising out of an alleged breach of contract and implied warranty by a customer of Toolcom Suppliers Limited (“Toolcom”), a division of the Logistics and Manufacturing Services segment, related to the sale of certain products prior to the Company’s 2005 acquisition of Toolcom. In 2006, the plaintiff filed the lawsuit in civil court in Scotland and asserted that certain products sold were not fit for a particular use and claims approximately 5,500 pounds sterling (approximately $8,800) in damages, plus interest at the statutory rate of 8% per annum and costs. The court found that Toolcom was in breach of contract and implied warranty, and ordered Toolcom to pay a portion of the plaintiff’s attorneys’ fees. The court has not made determinations as to causation and damages. Although the Company intends to vigorously defend its position with respect to causation and damages, based on a review of the currently available information and acknowledging the uncertainties of litigation, management has provided for what it believes to be a reasonable estimate of loss exposure. While it is currently not possible to determine the ultimate outcome of this matter, the Company believes that any ultimate losses would not be expected to have a material adverse effect on the Company’s consolidated financial position or cash flows, but could be material to the consolidated results of operations of any one period.

Income Taxes

In connection with an IRS audit for the tax years 2000 through 2002, the IRS proposed adjustments to these tax years of approximately $16,500, plus a potential penalty of 20% of the tax assessment plus interest. The adjustment relates to the federal taxation of foreign income of certain foreign subsidiaries. The Company filed an administrative protest of these adjustments. In the third quarter of 2009, the Company was informed that its protest was denied and a tax assessment was received from the Appeals Office of the IRS. In November 2009, the Company filed a petition against the IRS in the U.S. Tax Court contesting the tax assessment received. The Company continues to believe its tax position on the issues raised by the IRS is correct and the Company plans to continue to take appropriate actions to vigorously defend its position. The Company believes it will prevail on this issue. Any additional impact on the Company's liability for income taxes cannot presently be determined, but the Company continues to believe it is adequately provided for and the outcome will not have a material impact on its results of operations, financial position or cash flows.

With respect to the unaudited consolidated financial information of Barnes Group Inc. for the three-month and six-month periods ended June 30, 2011 and 2010, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated July 29, 2011 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a “report” or a “part” of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholders of
Barnes Group Inc.

We have reviewed the accompanying consolidated balance sheet of Barnes Group Inc. and its subsidiaries as of June 30, 2011 and the related consolidated statements of income for the three-month and six-month periods ended June 30, 2011 and June 30, 2010 and the consolidated statements of cash flows for the six-month periods ended June 30, 2011 and 2010. This interim financial information is the responsi