BARNES GROUP INC
Form 10-K
February 22, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

¨ **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 of incorporation)	(I.R.S. Employer Identification No.)
123 Main Street, Bristol, Connecticut	**06010**
(Address of Principal Executive Office)	(Zip Code)

(860) 583-7070

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	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 x

The aggregate market value of the voting stock (Common Stock) held by non-affiliates of the registrant as of the close of business on June 30, 2009 was approximately $569,850,032 based on the closing price of the Common Stock on the New York Stock Exchange on that date. The registrant does not have any non-voting common equity.

The registrant had outstanding 54,939,915 shares of common stock as of February 18, 2010.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 7, 2010 are incorporated by reference into Part III.

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Barnes Group Inc.

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PART I

Item 1. Business

BARNES GROUP INC. [1]

Barnes Group Inc. is an international logistical services company and aerospace and industrial components manufacturer serving a wide range of end markets and customers. The products and services provided by Barnes Group are critical components for far-reaching applications that provide transportation, communication, manufacturing and technology to the world. These vital needs are met by our skilled workforce, a critical resource of Barnes Group. Founded in 1857 and headquartered in Bristol, Connecticut, Barnes Group was organized as a Delaware corporation in 1925. We have paid cash dividends to stockholders on a continuous basis since 1934. As of December 31, 2009, we had over 4,800 employees at over 68 locations worldwide. We operate under two global business segments: Logistics and Manufacturing Services, and Precision Components.

LOGISTICS AND MANUFACTURING SERVICES

Logistics and Manufacturing Services provides value-added logistical support and repair services. Value-added logistical support services include inventory management, technical sales, and supply chain solutions for maintenance, repair, operating, and production supplies and services. Repair services provided include the manufacturing of spare parts for the refurbishment and repair of highly engineered components and assemblies for commercial and military aviation.

Logistics and Manufacturing Services has sales, distribution, and manufacturing operations in the United States, Belgium, Brazil, Canada, China, Denmark, France, Germany, Italy, Mexico, Singapore, Spain and the United Kingdom. Products and services are available in more than 32 countries.

The global operations are engaged in supplying, servicing, and manufacturing of maintenance, repair, and operating components. Activities include logistical support through vendor-managed inventory and technical sales for stocked replacement parts and other products, worldwide catalog offerings and custom solutions, and the manufacture and delivery of aerospace aftermarket spare parts, including the Revenue Sharing Programs (RSPs), and component repairs. Key business drivers include a value proposition centered on customer service, delivery, multiple sales channels, procurement systems, and strong customer relationships. In addition, the manufacturing and supplying of aerospace aftermarket spare parts, including the RSPs, are dependent upon the reliable and timely delivery of high-quality components.

Logistics and Manufacturing Services faces active competition throughout the world. The products and services offered are not unique, and its competitors provide substantially similar products and services. Competition comes from local, regional, and national, maintenance and repair supply distributors and specialty manufacturers of springs, gas struts and engineered hardware. The aerospace aftermarket business competes with aerospace original equipment manufacturers (OEMs), service centers of major commercial airlines and other independent service companies for the repair and overhaul of turbine engine components. Service alternatives, timeliness and reliability of supply, price, technical capability, product breadth, quality and overall customer service are important competitive factors. In 2009 sales by Logistics and Manufacturing Services to its largest customer, General Electric Company, accounted for approximately 16% of its total sales and sales to its next two largest customers accounted for approximately 8% of its total sales.

PRECISION COMPONENTS

Precision Components is a global supplier of engineered components for critical applications focused on providing solutions for a diverse industrial, transportation and aerospace customer base. It is equipped to produce

(1) As used in this annual report, Company, Barnes Group, we and ours refer to the registrant and its consolidated subsidiaries except where the context requires otherwise, and Logistics and Manufacturing Services and Precision Components refer to the registrant s segments, not to separate corporate entities.

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virtually every type of precision spring, from fine hairsprings for electronics and instruments to large heavy-duty springs for machinery as well as precision-machined and fabricated components and assemblies for OEM turbine engine, airframe and industrial gas turbine builders throughout the world, and the military. It is also the largest manufacturer and supplier of precision mechanical springs, compressor reed valves and nitrogen gas products based in North America and among the world s largest manufacturers of precision mechanical products and nitrogen gas products. Precision Components also manufactures high-precision punched and fine-blanked components used in transportation and industrial applications, nitrogen gas springs and manifold systems used to precisely control stamping presses, and retention rings that position parts on a shaft or other axis.

Precision Components has a diverse customer base with products purchased by durable goods manufacturers located around the world in industries including transportation, consumer products, farm equipment, telecommunications, medical devices, home appliances and electronics and airframe and gas turbine engine manufacturers for commercial and military jets, business jets, and land-based industrial gas turbines. Long-standing customer relationships enable Precision Components to participate in the design phase of components and assemblies through which customers receive the benefits of manufacturing research, testing and evaluation. Products are sold primarily through Precision Components direct sales force and a global distribution channel.

Precision Components competes with a broad base of large and small companies engaged in the manufacture and sale of custom metal components and assemblies while the aerospace manufacturing business competes with both the leading jet engine OEMs and a large number of machining and fabrication companies. Precision Components competes on the basis of quality, service, reliability of supply, engineering and technical capability, product breadth, innovation, design, and price.

Precision Components has manufacturing, sales and distribution operations in the United States, Brazil, Canada, China, Germany, Korea, Mexico, Singapore, Sweden, Switzerland, Thailand and the United Kingdom. Sales by Precision Components to its largest customer, General Electric, accounted for approximately 27% of its sales in 2009. Sales to its next five largest customers in 2009 accounted for approximately 18% of its total sales.

FINANCIAL INFORMATION

The backlog of the Company s orders believed to be firm at the end of 2009 was $428 million as compared with $454 million at the end of 2008. Of the 2009 year-end backlog, $399 million was attributable to the Precision Components segment and the balance was attributable to the Logistics and Manufacturing Services segment. Precision Components backlog included $123 million which is scheduled to be shipped after 2010. The remainder of the Company s backlog is scheduled to be shipped during 2010. General Electric and its affiliates accounted for 21% of the Company s total sales in 2009.

We continue to have a global manufacturing footprint to service our worldwide customer base. The global economies have a significant impact on the financial results of the business as we have significant operations outside of the United States. Logistics and Manufacturing Services has significant manufacturing locations in Singapore and has distribution centers and sales offices as well as a significant amount of business in Europe, Canada and Asia. Precision Components has manufacturing operations in Europe, Canada, Asia, Mexico and South America. For an analysis of our revenue from sales to external customers, and operating profit and assets by business segment as well as revenues from sales to external customers and long-lived assets by geographic area, see Note 21 of the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K (Annual Report).

RAW MATERIALS

The principal raw materials used to manufacture our products are high-grade steel spring wire and flat rolled steel, titanium and inconel as well as special materials such as cobalt and other complex aerospace alloys. Many of the products distributed by our business are made of steel, copper or brass. Prices for steel, titanium and

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inconel, as well as other specialty materials, have periodically increased due to higher demand and, in some cases, reduction of the availability of materials. If this combination of events occurs, the availability of certain raw materials used by us or products sold by us may be negatively impacted.

RESEARCH AND DEVELOPMENT

Although most of the products manufactured by us are custom parts made to customers specifications, we are engaged in continuing efforts aimed at discovering and implementing new knowledge that is useful in developing new products or services and significantly improving existing products or services. We spent approximately $4 million in 2009 and approximately $6 million in each of 2008 and 2007 on research and development activities.

PATENTS AND TRADEMARKS

Patents, trademarks, licenses, franchises and concessions are not significant to any of our businesses.

EXECUTIVE OFFICERS OF THE COMPANY

For information regarding the Executive Officers of the Company, see Part III, Item 10 of this Annual Report.

ENVIRONMENTAL

Compliance with federal, state, and local laws, as well as those of other countries, which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment has not had a material effect, and is not expected to have a material effect, upon our capital expenditures, earnings, or competitive position.

AVAILABLE INFORMATION

Our Internet address for our website is www.BGInc.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available without charge on our website as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission. In addition, we have posted on our website, and will make available in print to any stockholder who makes a request, our corporate governance guidelines, our code of business ethics and conduct and the charters of the Audit Committee, Compensation and Management Development Committee and Corporate Governance Committee (the responsibilities of which include serving as the nominating committee) of the Company s Board of Directors.

FORWARD-LOOKING STATEMENTS

Certain of the statements in this Annual Report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are made based upon management s good faith expectations and beliefs concerning future developments and their potential effect upon the Company and can be identified by the use of words such as anticipated, believe, expect, plans, strategy, estimate, project, and other words of similar meaning in connection with a discussion of future operating or financial performance. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. The risks and uncertainties, which are described in this Annual Report, include, among others, uncertainties arising from the behavior of financial markets; future financial performance of the industries or customers that we serve; changes in market demand for our products and services; integration of acquired businesses; changes in raw material prices and availability; our dependence upon revenues and earnings from a small number of significant

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customers; uninsured claims; and numerous other matters of global, regional or national scale, including those of a political, economic, business, competitive, regulatory and public health nature. The Company assumes no obligation to update our forward-looking statements.

Item 1A. Risk Factors

Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us may also materially impact our business and operations.

RISKS RELATED TO OUR BUSINESS

We depend on revenues and earnings from a small number of significant customers. Any bankruptcy of or loss, cancellation, reduction or delay in purchases by these customers could harm our business. In 2009, our net sales to General Electric and its subsidiaries accounted for 21% of our total sales and approximately 16% and 27% of sales at Logistics and Manufacturing Services and Precision Components, respectively. Additionally, approximately 18% of Precision Components sales in 2009 were to its next five largest customers. Some of our success will depend on the economic viability of those customers. We cannot assure you that we will be able to retain our largest customers. A tightening in the credit markets may affect our customers ability to raise debt or equity capital. This may reduce the amount of liquidity available to our customers which may limit their ability to purchase products. Some of our customers may in the future reduce their purchases due to economic conditions or shift their purchases from us to our competitors, in-house or to other sources. Some of our long-term sales agreements provide that until a firm order is placed by a customer for a particular product, the customer may unilaterally reduce or discontinue its projected purchases without penalty, or terminate for convenience. The loss of one or more of our largest customers, any reduction or delay in sales to these customers, our inability to successfully develop relationships with new customers, or future price concessions we make to retain customers could significantly reduce our sales and profitability.

We have significant indebtedness that could affect our operations and financial condition. At December 31, 2009, we had consolidated debt and capitalized lease obligations of $351.5 million, representing approximately 34% of our total capital (indebtedness plus stockholders equity) as of that date. Our level of indebtedness and the significant debt servicing costs associated with that indebtedness could have important effects on our operations and financial condition and may adversely affect the value or trading price of our outstanding equity securities and debt securities. For example, our indebtedness could require us to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing the amount of our cash flows available for working capital, capital expenditures, investments in technology and research and development, acquisitions, dividends and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in the industries in which we compete; place us at a competitive disadvantage compared to our competitors, some of whom have lower debt service obligations and greater financial resources than we do; limit our ability to borrow additional funds; or increase our vulnerability to general adverse economic and industry conditions. In addition, current conditions in the worldwide credit markets place significant limitations on our ability to expand our credit lines beyond current bank commitments. Also, the fragile nature of the worldwide banking industry raises concerns that even current bank commitments may be at risk.

Our failure to meet certain financial covenants required by our debt agreements may materially and adversely affect our assets, financial position and cash flows. Some of our debt arrangements require us to maintain certain interest coverage and leverage ratios and a minimum net worth and limit our ability to incur debt, make investments or undertake certain other business activities. These requirements could limit our ability to obtain future financing and may prevent us from taking advantage of attractive business opportunities. Our ability to meet the financial covenants or requirements in our debt arrangements may be affected by events beyond our control, and we cannot assure you that we will satisfy such covenants and requirements. A breach of these covenants or our inability to comply with the restrictions could result in an event of default under our debt

arrangements which, in turn, could result in an event of default under the terms of our other indebtedness. Upon the occurrence of an event of default under our debt arrangements, after the expiration of any grace periods, our lenders could elect to declare all amounts outstanding under our debt arrangements, together with accrued interest, to be immediately due and payable. If this were to happen, we cannot assure you that our assets would be sufficient to repay in full the payments due under those arrangements or our other indebtedness.

Our operations depend on our manufacturing, distribution, sales and service facilities, and information systems in various parts of the world which are subject to physical, financial, regulatory, operational and other risks that could disrupt our operations. During 2009, approximately 40% of our sales were from facilities outside of the United States. Also, we have a number of manufacturing facilities and distribution/sales centers outside the United States. The international scope of our business subjects us to risks such as threats of war, terrorism and instability of governments, and economic and legal systems in countries in which we or our customers conduct business. In addition, because we depend upon our information systems to help process orders, to manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations, and to help provide superior service to our customers, any disruption or failure in the operation of our information systems, including from conversions or integrations, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Some of our facilities are located in areas that may be affected by natural disasters, including earthquakes or tsunamis, which could cause significant damage and disruption to the operations of those facilities and, in turn, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, some of our manufacturing equipment and tooling is custom-made and is not readily replaceable. Loss of such equipment or tooling could have a negative impact on our manufacturing business, financial condition, results of operations and cash flows.

Although we have obtained property damage and business interruption insurance, a major catastrophe such as an earthquake, hurricane, flood, tsunami or other natural disaster at any of our sites, or significant labor strikes, work stoppages, political unrest, or any of the events described above, some of which may not be covered by our insurance, in any of the areas where we conduct operations could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in the manufacture or shipment of products or the provision of repair and other services that may result in our loss of sales and customers. Our insurance will not cover all potential risks, and we cannot assure you that we will have adequate insurance to compensate us for all losses that result from any insured risks. Any material loss not covered by insurance could have a material adverse effect on our financial condition, results of operations and cash flows. We cannot assure you that insurance will be available in the future at a cost acceptable to us or at a cost that will not have a material adverse effect on our profitability, net income and cash flows.

The global nature of our business exposes us to foreign currency fluctuations that may affect our future revenues and profitability. We have manufacturing, sales and distribution facilities around the world, and the majority of our foreign operations use the local currency as their functional currency. These include, among others, the Brazilian real, British pound sterling, Canadian dollar, Chinese yuan, Euro, Korean won, Mexican peso, Singapore dollar, Swedish krona, Swiss franc and Thai baht. Since our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies expose us to translation risk when the local currency financial statements are translated to U.S. dollars. Changes in currency exchange rates may also expose us to transaction risk. We may buy protecting or offsetting positions or hedges in certain currencies to reduce our exposure to currency exchange fluctuations; however, these transactions may not be adequate or effective to protect us from the exposure for which they are purchased. We have not engaged in any speculative hedging activities. Currency fluctuations may impact our revenues and profitability in the future.

Our operations and assets subject us to additional financial and regulatory risks. We have operations and assets in various parts of the world. In addition, we sell our products and services to the U.S. government and in foreign countries. Accordingly, we are subject to various risks, including: U.S.-imposed embargoes of sales to specific countries; foreign import controls (which may be arbitrarily imposed or enforced); import regulations and duties; export regulations (which require us to comply with stringent licensing regimes); anti-dumping regulations; price and currency controls; exchange rate fluctuations; dividend remittance restrictions; expropriation of assets; war, civil uprisings and riots; government instability; requirements to provide certifications to the government with respect to compliance with government requirements; the necessity of obtaining governmental approval for new and continuing products and operations; legal systems or decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied; and difficulties in managing a global enterprise. We have experienced inadvertent violations of some of these regulations, including export regulations, product labeling regulations, and regulations prohibiting air transport of aerosol products, in the past, none of which has had or, we believe, will have a material adverse effect on our business. However, any significant violations of these regulations in the future could result in civil or criminal sanctions, and the loss of export or other licenses which could have a material adverse effect on our business. We may also be subject to unanticipated income taxes, excise duties, import taxes, export taxes or other governmental assessments, and taxes may be impacted by changes in legislation in the tax jurisdictions in which we operate. In addition, our organizational structure may limit our ability to transfer funds between countries, particularly into and out of the United States, without incurring adverse tax consequences. Any of these events could result in a loss of business or other unexpected costs that could reduce sales or profits and have a material adverse effect on our financial condition, results of operations and cash flows.

Our ability to recover our significant deferred tax assets related to tax operating loss carryforwards depends on future income. We have significant deferred tax assets related to operating loss carryforwards. The realization of these assets is dependent on our ability to generate future taxable income during the operating loss carryforward period. Failure to realize this tax benefit could have a material adverse effect on our financial condition and results of operations.

Changes in the availability or price of materials, products and energy resources could adversely affect our costs and profitability. We may be adversely affected by the availability or price of raw materials, products and energy resources, particularly related to certain manufacturing operations that utilize high-grade steel spring wire and titanium. The availability and price of raw materials and energy resources may be subject to curtailment or change due to, among other things, new laws or regulations, global economic or political events including strikes, terrorist attacks and war, suppliers allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. In some instances there are limited sources for raw materials and a limited number of primary suppliers for some of our products for resale. Although we are not dependent upon any single source for any of our principal raw materials or products for resale, and such materials and products have, historically, been readily available, we cannot assure you that such raw materials and products will continue to be readily available. Disruption in the supply of raw materials, products or energy resources or our inability to come to favorable agreements with our suppliers could impair our ability to manufacture, sell and deliver our products and require us to pay higher prices. Any increase in prices for such raw materials, products or energy resources could materially adversely affect our costs and our profitability.

We maintain pension and other postretirement benefit plans in the U.S. and certain international locations. Declines in the stock market, prevailing interest rates and rising medical costs may cause an increase in our pension and other postretirement benefit expenses in the future and result in reductions in our pension fund asset values and increases in our pension and other postretirement benefit obligations. These changes have caused and may continue to cause a significant reduction in our net worth and may require us to make higher cash contributions to our pension and postretirement plans in the future.

We have significant goodwill and an impairment of our goodwill could cause a decline in our net worth. Our total assets include substantial goodwill. At December 31, 2009, our goodwill totaled $373.6 million. The goodwill results from our acquisitions, representing the excess of the purchase price we paid over the net assets of the companies acquired. We assess whether there has been an impairment in the value of our goodwill

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during each calendar year or sooner if triggering events warrant. If future operating performance at one or more of our reporting units does not meet expectations or fair values fall due to significant stock market declines, we may be required to reflect a non-cash charge to operating results for goodwill impairment. The recognition of an impairment of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material.

We could be adversely affected by changes in interest rates. Our profitability may be adversely affected as a result of increases in interest rates. At December 31, 2009, we and our subsidiaries had approximately $351.5 million aggregate principal amount of consolidated debt and capitalized lease obligations outstanding, of which approximately 54% had interest rates that float with the market. A 100 basis point increase in the interest rate on the floating rate debt in effect at December 31, 2009 would have resulted in an approximate $2.5 million annualized increase in interest expense.

We may not realize all of the sales expected from our existing backlog or anticipated orders. At December 31, 2009, we had $428 million of order backlog. There can be no assurances that the revenues projected in our backlog will be realized or, if realized, will result in profits. We consider backlog to be firm customer orders for future delivery. From time to time, OEM customers of Precision Components provide projections of components and assemblies that they anticipate purchasing in the future under new and existing programs. Such projections are not included in our backlog unless we have received a firm release from our customers. Our customers may have the right under certain circumstances and with certain penalties or consequences to terminate, reduce or defer firm orders that we have in backlog. If our customers terminate, reduce or defer firm orders, we may be protected from certain costs and losses, but our sales will nevertheless be adversely affected. Although we strive to maintain ongoing relationships with our customers, there is an ongoing risk that orders may be cancelled or rescheduled due to fluctuations in our customers business needs or purchasing budgets.

Also, our realization of sales from new and existing programs is inherently subject to a number of important risks and uncertainties, including whether our customers will execute the launch of product programs on time, or at all, the number of units that our customers will actually produce and the timing of production. In addition, until firm orders are placed, our customers generally have the right to discontinue a program or replace us with another supplier at any time without penalty. Our failure to realize sales from new and existing programs could have a material adverse effect on our net sales, results of operations and cash flows.

We may not recover all of our up-front costs related to new or existing programs. New programs require significant up-front investments for capital equipment, engineering, design and tooling. As OEMs in the transportation and aerospace industries have looked to suppliers to bear increasing responsibility for the design, engineering and manufacture of systems and components, they have increasingly shifted the financial risk associated with those responsibilities to the suppliers as well. This trend is likely to continue and is most evident in the area of engineering cost reimbursement. Historically, these investments have been fully reimbursed by OEMs, but in the future there may be other mechanisms established by OEMs that could result in less than full reimbursement or no reimbursement. We cannot assure you that we will have adequate funds to make such up-front investments. In the event that we are unable to make such investments, or to recover them through sales or direct reimbursement from our customers, our profitability, liquidity and cash flows may be adversely affected. In addition, we incur costs and make capital expenditures for new program awards based upon certain estimates of production volumes. While we attempt to recover such costs and capital expenditures by appropriately pricing our products, the prices of our products are based in part upon planned production volumes. If the actual production is significantly less than planned, we may be unable to recover such costs. In addition, because a significant portion of our overall costs is fixed, declines in our customers production levels can adversely affect the level of our reported profits even if our up-front investments are recovered.

We may not recover all of our up-front costs related to RSPs. Our total investments in RSP participation fees as of December 31, 2009 equaled $293.7 million, all of which have been paid. We participate in aftermarket RSPs under which we receive an exclusive right to supply designated aftermarket parts to a large aerospace

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manufacturer over the life of an aircraft engine program. As consideration, we pay participation fees, which are recorded as long-lived intangible assets and are recognized as a reduction to sales over the life of the program. The recoverability of the asset is dependent upon future revenues related to the program s aftermarket parts and is subject to impairment testing whenever events or circumstances indicate that its carrying amount may not be recoverable. The potential exists that actual revenues will not meet expectations. A shortfall in future revenues may result in the failure to recover the total amount of the investments, which could adversely affect our financial condition and results of operations and cash flows.

We face risks of cost overruns and losses on fixed-price contracts. We sell certain of our products under firm, fixed-price contracts providing for a fixed price for the products regardless of the production or purchase costs incurred by us. The cost of producing products may be adversely affected by increases in the cost of labor, materials, fuel, outside processing, overhead and other factors, including manufacturing inefficiencies. Increased production costs may result in cost overruns and losses on contracts.

The departure of existing management and key personnel, a shortage of skilled employees or a lack of qualified sales professionals could materially affect our business, operations and prospects. Our executive officers are important to the management and direction of our business. Our future success depends, in large part, on our ability to retain or replace these officers and other capable management personnel. Although we believe we will be able to attract and retain talented personnel and replace key personnel should the need arise, our inability to do so could have a material adverse effect on our business, financial condition, results of operations or cash flows. Because of the complex nature of many of our products and services, we are generally dependent on an educated and highly skilled workforce. In addition, there are significant costs associated with the hiring and training of sales professionals. We could be adversely affected by a shortage of available skilled employees or the loss of a significant number of our sales professionals.

Any product liability claims in excess of insurance may adversely affect our financial condition. Our operations expose us to potential product liability risks that are inherent in the design, manufacture and sale of our products and the products we buy from third parties and sell to our customers. For example, we may be exposed to potential liability for personal injury or death as a result of the failure of a spring or other part in a vehicle or an aircraft component designed, manufactured or sold by us, or the failure of an aircraft component that has been serviced by us or of the components themselves, including potentially hazardous substances in a product purchased by us and sold by us to one of our customers. While we believe that our liability insurance is adequate to protect us from these liabilities, our insurance may not cover all liabilities. Additionally, insurance coverage may not be available in the future at a cost acceptable to us. Any material liability not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our financial condition, results of operations and cash flows.

Our business, financial condition, results of operations and cash flows could be adversely impacted by strikes or work stoppages. As of December 31, 2009, approximately 13% of our U.S. employees are covered by collective bargaining agreements and 45% of our non-U.S. employees are covered by collective bargaining agreements or statutory trade union agreements. In 2010, the National Healthcare and Pension Agreement, which covers approximately 300 employees at our Bristol, Connecticut; Corry, Pennsylvania; and Saline, Michigan facilities, as well as the collective bargaining agreement covering approximately 30 employees at our Burlington, Canada facility, will be open for bargaining. Although we believe that our relations with our employees are good, we cannot assure you that we will be successful in our bargaining position, or that such bargaining will not result in significant increases in the cost of labor, including healthcare, pensions or other benefits. Any potential strikes or work stoppages, and the resulting adverse impact on our relationships with customers, could have a material adverse effect on our business, financial condition, results of operations or cash flows. Similarly, a protracted strike or work stoppage at any of our major customers, suppliers or other vendors could materially adversely affect our business.

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RISKS RELATED TO THE INDUSTRIES IN WHICH WE OPERATE

A general economic downturn could adversely affect our business and financial results. All of our businesses are impacted by the health of the economies in which they operate. A decline in economies in which we operate could reduce demand for our products and services or increase pricing pressures, thereby having an adverse impact on our business, financial condition, results of operations and cash flows. We derive a large portion of our sales from the transportation industry. This industry has suffered from financial pressures which have had negative consequences for companies in, and companies with customers in, the transportation industry. The transportation industry has generally suffered from unfavorable pricing pressures in North America and other regions. The operation of our business within that industry subjects us to the pressures applicable to all companies operating in it. While the precise effects of such instability on the transportation industry are difficult to determine, they may negatively impact our business, financial condition, results of operations and cash flows.

We operate in very competitive markets. We may not be able to compete effectively with our competitors, and competitive pressures could adversely affect our business, financial condition and results of operations. Our two global business segments compete with a number of larger and smaller companies in the markets we serve. Some of our competitors have greater financial, production, research and development, or other resources than we do. Within the aerospace aftermarket business unit, certain of our OEM customers compete with our repair and overhaul business. Some of our OEM customers in the aerospace industry also compete with us where they have the ability to manufacture the components and assemblies that we supply to them but have chosen, for capacity limitations, cost considerations or other reasons, to outsource the manufacturing to us. Our two business segments compete on the basis of price, service, quality, reliability of supply, technology, innovation and design. The products sold by Logistics and Manufacturing Services are not unique, and its competitors carry substantially similar products. We must continue to make investments to maintain and improve our competitive position. We cannot assure you that we will have sufficient resources to continue to make such investments or that we will be successful in maintaining our competitive position. Our competitors may develop products or services, or methods of delivering those products or services, that are superior to our products, services or methods. Our competitors may also adapt more quickly than we to new technologies or evolving customer requirements. Pricing pressures could cause us to adjust the prices of certain of our products to stay competitive. We cannot assure you that we will be able to compete successfully with our existing or future competitors. Also, if consolidation of our existing competitors occurs, we expect the competitive pressures we face to increase. Our failure to compete successfully could adversely affect our business, financial condition, results of operations and cash flows.

Our customers businesses are generally cyclical. Weaknesses in the industries in which our customers operate could impact our revenues and profitability. The industries to which we sell tend to decline in response to overall declines in industrial production. The OEM aerospace unit of Precision Components and the aftermarket aerospace unit of Logistics and Manufacturing Services are heavily dependent on the commercial aerospace industry, which is cyclical. In addition, parts of both Precision Components, and Logistics and Manufacturing Services are dependent on the transportation industry, and general industrial and tooling markets, all of which are also cyclical. Many of our customers have historically experienced periodic downturns, which often have had a negative effect on demand for our products.

Original equipment manufacturers in the transportation and aerospace industries have significant pricing leverage over suppliers and may be able to achieve price reductions over time. There is substantial and continuing pressure from OEMs in the transportation, including automotive and aerospace, industries to reduce the prices they pay to suppliers. We attempt to manage such downward pricing pressure, while trying to preserve our business relationships with our customers, by seeking to reduce our production costs through various measures, including purchasing raw materials and components at lower prices and implementing cost-effective process improvements. Our suppliers have periodically resisted, and in the future may resist, pressure to lower their prices and may seek to impose price increases. In the past, our efforts to convince our key transportation OEM customers to share in raw material price increases were met with partial success. If we are

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unable to offset OEM price reductions through these measures, our profitability and cash flows could be adversely affected. In addition, OEMs have substantial leverage in setting purchasing and payment terms, including the terms of accelerated payment programs under which payments are made prior to the account due date in return for an early payment discount. OEMs can unexpectedly change their purchasing policies or payment practices, which could have a negative impact on our short-term working capital.

Demand for our defense-related products depends on government spending. A portion of the Precision Components aerospace units sales are derived from the military market. The military market is largely dependent upon government budgets and is subject to governmental appropriations. Although multi-year contracts may be authorized in connection with major procurements, funds are generally appropriated on a fiscal year basis even though a program may be expected to continue for several years. Consequently, programs are often only partially funded and additional funds are committed only as further appropriations are made. We cannot assure you that an increase in defense spending will be allocated to programs that would benefit our business. Moreover, we cannot assure you that new military aircraft programs in which we participate will enter full-scale production as expected. A decrease in levels of defense spending or the government s termination of, or failure to fully fund, one or more of the contracts for the programs in which we participate could have a material adverse effect on our financial position and results of operations.

The consolidation occurring in the industries in which we operate could adversely affect our business and financial results. The industries in which we operate have been experiencing consolidation. There has been consolidation of both suppliers and the customers we serve. Supplier consolidation is in part attributable to OEMs more frequently awarding long-term sole source or preferred supplier contracts to the most capable suppliers in an effort to reduce the total number of suppliers from whom components and systems are purchased. We cannot assure you that our business, financial condition, results of operations or cash flows will not be adversely impacted as a result of consolidation by our competitors or customers.

The aerospace industry is highly regulated. Complications related to aerospace regulations may adversely affect the Company. A substantial portion of our income is derived from our aerospace businesses. The aerospace industry is highly regulated in the United States by the Federal Aviation Administration, or FAA, and in other countries by similar regulatory agencies. We must be certified by these agencies and, in some cases, by individual OEMs in order to engineer and service systems and components used in specific aircraft models. If material authorizations or approvals were delayed, revoked or suspended, our business could be adversely affected. New or more stringent governmental regulations may be adopted, or industry oversight heightened, in the future, and we may incur significant expenses to comply with any new regulations or any heightened industry oversight.

Environmental regulations impose costs and regulatory requirements on our operations. Environmental compliance may be more costly than we expect, and we may be subject to material environmental-based claims in the future. Our past and present business operations and past and present ownership and operations of real property and the use, sale, storage and handling of chemicals and hazardous products subject us to extensive and changing U.S. federal, state and local environmental laws and regulations, as well as those of other countries, pertaining to the discharge of materials into the environment, enforcement, disposition of wastes (including hazardous wastes), the use, shipping, labeling, and storage of chemicals and hazardous materials, or otherwise relating to protection of the environment. We have experienced, and expect to continue to experience, costs to comply with environmental laws and regulations. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become subject to new or increased liabilities that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We use and generate hazardous substances and wastes in our operations. In addition, many of our current and former properties are or have been used for industrial purposes. Accordingly, we monitor hazardous waste management and applicable environmental permitting and reporting for compliance with applicable laws at our

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locations in the ordinary course of our business. We may be subject to potential material liabilities relating to any investigation and clean-up of our locations or properties where we delivered hazardous waste for handling or disposal that may be contaminated, and to claims alleging personal injury.

High fuel prices may impact our operating results. Fuel costs constitute a significant portion of operating expenses for companies in the aerospace industry. Widespread disruption to oil production, refinery operations and pipeline capacity in certain areas of the United States can increase the price of jet fuel significantly. Conflicts in the Middle East, an important source of oil for the U.S. and other countries where we do business, cause prices for fuel to be volatile and often significantly higher than historic levels. Because many of our customers and we are in the aerospace industry, increased fuel costs could have a material adverse effect on our financial condition or results of operations. The price of fuel generally impacts the cost of operating our manufacturing and distribution operations. Additionally, higher fuel costs may increase our freight expenses.

Products and services of the mature industries in which we operate may be rendered obsolete by new products, technologies and processes. Our manufacturing operations focus on highly engineered components which require extensive engineering and research and development time. Our competitive advantage may be adversely impacted if we cannot continue to introduce new products ahead of our competition, or if our products are rendered obsolete by other products or by new, different technologies and processes.

RISKS RELATED TO ACQUISITIONS

We may not be able to effectively integrate acquired companies into our operations. We completed 15 acquisitions between 1999 and 2006. We seek acquisition opportunities that complement and expand our operations and that will help create stockholder value over the long term. We cannot assure you that we will be able to effectively integrate our acquisitions into our operations. We may not be able to do so successfully without substantial costs, delays or other difficulties. We could face significant challenges in consolidating functions and integrating procedures, information technology systems, personnel, product lines and operations in a timely and efficient manner. We may encounter difficulties in training our sales forces to work with new products and customers.

The integration process is complex and time-consuming, may be disruptive to our businesses, and may cause an interruption of, or a loss of momentum in, our businesses as a result of a number of obstacles, such as: the loss of significant customers; the need to retrain skilled engineering, sales and other personnel resulting from the loss of key employees; the failure to maintain the quality of customer service that each business has historically provided; the need to coordinate geographically diverse organizations; retooling and reprogramming of equipment and information technology systems; and the resulting diversion of management s attention from our day-to-day business and the need to hire additional management personnel to address integration obstacles.

If we are not successful in integrating our acquisitions into our operations, if the integration takes longer than anticipated, if the companies or assets we acquire do not perform as we anticipate, or if the integrated product and service offerings fail to achieve market acceptance, our business, financial position, results of operations and cash flows could be adversely affected.

We may not be able to realize the anticipated cost savings, synergies or revenue enhancements from acquisitions, and we may incur significant costs to achieve these savings. Even if we are able to integrate successfully our operations and the operations of our acquisitions, we may not be able to realize the cost savings, synergies or revenue enhancements that we anticipate from these acquisitions, either as to amount or in the time frame that we expect. Our ability to realize anticipated cost savings, synergies and revenue enhancements may be affected by a number of factors, including the following: our ability to effectively eliminate duplicative back office overhead and overlapping sales personnel, rationalize manufacturing capacity, synchronize information technology systems, consolidate warehousing and distribution facilities and shift production to more economical facilities; significant cash and non-cash integration and implementation costs or charges in order to achieve those cost savings, which could offset any such savings and other synergies resulting from our acquisitions; and our ability to avoid labor disruption in connection with integration efforts. In addition, our growth to date has placed, and future acquisitions could continue to place, significant demand on our administrative, operational, information technology and financial resources.

Future acquisitions and strategic alliances are a key component of our anticipated growth. We may not be able to identify or complete future acquisitions or strategic alliances. Turmoil in the equity and credit markets may limit our ability to undertake acquisitions. A significant portion of the industries that we serve are mature industries. As a result, our future growth may depend in part on the successful acquisition and integration of businesses into our existing operations. While we are focused on adding strategic pieces to our operations by acquiring companies, manufacturing and service assets and technologies that complement our existing businesses, we may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval or otherwise complete acquisitions in the future. In addition, opportunities to enter into additional aftermarket RSPs or alliances may be limited. Aftermarket RSPs will have an impact on the rate of future growth and profitability as a result of the business mix, the number of new RSPs entered into, the level of aftermarket volume, increasing management fees, the amortization of the participation fees, and the expiration of the Singapore Pioneer tax incentives on these programs.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We operate 26 manufacturing facilities throughout the world, 21 of which are part of the Precision Components segment, and the balance are part of Logistics and Manufacturing Services. Fifteen of the facilities are in the United States; the balance are located in Europe, Asia, Mexico, Brazil and Canada. Eighteen of the facilities are owned; the balance are leased.

In addition to its manufacturing facilities, Precision Components has seven facilities engaged in activities related to its manufacturing operations, including sales, assembly, development and distribution.

Logistics and Manufacturing Services operates 16 distribution centers: eight in the United States, and the balance in Europe and Canada. Five of the distribution centers are owned; the balance are leased. Logistics and Manufacturing Services also has 18 sales and support facilities, 16 of which are leased. Three of the facilities are in the United States; the balance are located in Europe, Canada, Mexico, Brazil and China. Logistics and Manufacturing Services also has one global sourcing office in Asia.

The Company s corporate office in Bristol, Connecticut is owned.

Item 3. Legal Proceedings

We are subject to litigation from time to time in the ordinary course of business. There are no material pending legal proceedings to which we or any of our subsidiaries is a party, or of which any of our or their property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

The Company s common stock is traded on the New York Stock Exchange under the symbol B . The following table sets forth, for the periods indicated, the low and high sales price per share, as reported by the New York Stock Exchange, and dividends declared and paid.

	2009		
	Low	High	Dividends
Quarter ended March 31	**$ 7.69**	**$ 16.04**	**$ 0.16**
Quarter ended June 30	**10.33**	**16.94**	**0.16**
Quarter ended September 30	**10.85**	**17.87**	**0.08**
Quarter ended December 31	**15.01**	**19.11**	**0.08**

	2008		
	Low	High	Dividends
Quarter ended March 31	$ 20.39	$ 34.15	$ 0.14
Quarter ended June 30	22.77	32.33	0.16
Quarter ended September 30	18.56	25.35	0.16
Quarter ended December 31	8.51	20.25	0.16

Stockholders

As of February 9, 2010, there were approximately 5,950 holders of record of the Company s common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals or entities are registered in the name of a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. The Company believes that there are approximately 11,989 beneficial owners of its common stock as of February 9, 2010.

Dividends

Payment of future dividends will depend upon the Company s financial condition, results of operations and other factors deemed relevant by the Company s Board of Directors, as well as any limitations resulting from financial covenants on net worth under the Company s credit facilities. See the table above for dividend information for 2009 and 2008.

Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding Securities Authorized for Issuance Under Equity Compensation Plans, see Part III, Item 12 of this Annual Report.

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Performance Graph

A stock performance graph based on cumulative total returns (price change plus reinvested dividends) for $100 invested on December 31, 2004 is set forth below.

	2004	2005	2006	2007	2008	2009
BGI	$ 100.0	$ 127.9	$ 173.0	$ 270.7	$ 121.5	$ 147.0
S&P 600	$ 100.0	$ 107.7	$ 124.0	$ 123.6	$ 85.2	$ 107.0
Russell 2000	$ 100.0	$ 104.6	$ 123.8	$ 121.8	$ 80.7	$ 102.6

The performance graph does not include a published industry or line-of-business index or peer group of similar issuers because the Company is in multiple lines of business and does not believe a meaningful published index or peer group can be reasonably identified. Accordingly, as permitted by Securities and Exchange Commission (SEC) rules, the graph includes the S&P 600 Small Cap Index and the Russell 2000 Index, which are comprised of issuers with generally similar market capitalizations to that of the Company.

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
October 1-31, 2009	319	$ 18.155		2,492,683
November 1-30, 2009	419	$ 16.460		2,492,683
December 1-31, 2009				2,492,683
Total	738 (1)	$ 17.193		

(1) All acquisitions of equity securities during the fourth quarter of 2009 were the result of the operation of the terms of the Company s stockholder-approved equity compensation plans and the terms of the equity rights granted pursuant to those plans to pay for the related income tax upon issuance of shares. The purchase price of a share of stock used for tax withholding is the market price on the date of issuance.

(2) The program was publicly announced on May 8, 2008 authorizing repurchase of up to 5.0 million shares of its common stock. This program replaced a previous authorization for the repurchase of up to 1.0 million shares of its common stock that was approved on April 12, 2001.

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Item 6. Selected Financial Data

	2009	2008 (6)	2007 (5)(6)	2006 (4)(5)(6)	2005 (3)(4)(5)(6)
Per common share (1)					
Income from continuing operations					
Basic	**$ 0.72**	$ 1.72	$ 1.87	$ 1.44	$ 1.15
Diluted	**0.72**	1.66	1.74	1.38	1.10
Net income					
Basic	**0.72**	1.53	1.83	1.42	1.13
Diluted	**0.72**	1.48	1.70	1.36	1.09
Dividends declared and paid	**0.48**	0.62	0.545	0.485	0.42
Stockholders equity (at year-end)	**12.50**	11.46	12.24	10.09	8.58
Stock price (at year-end)	**16.90**	14.50	33.39	21.75	16.50
For the year *(in thousands)*					
Net sales	**$ 1,034,159**	$ 1,362,091	$ 1,418,151	$ 1,239,395	$ 1,081,455
Operating income	**60,515**	147,940	155,163	118,121	77,028
As a percent of net sales	**5.9%**	10.9%	10.9%	9.5%	7.1%
Income from continuing operations	**$ 39,001**	$ 92,681	$ 99,917	$ 73,079	$ 54,071
As a percent of net sales	**3.8%**	6.8%	7.0%	5.9%	5.0%
Net income	**$ 39,001**	$ 82,578	$ 97,612	$ 72,080	$ 53,453
As a percent of net sales	**3.8%**	6.1%	6.9%	5.8%	4.9%
As a percent of average stockholders equity	**6.2%**	11.6%	16.3%	15.0%	13.9%
Depreciation and amortization	**$ 51,487**	$ 52,403	$ 50,607	$ 42,226	$ 34,858
Capital expenditures	**30,502**	51,869	50,197	41,712	26,097
Weighted average common shares outstanding basic	**53,880**	53,989	53,295	50,703	47,198
Weighted average common shares outstanding diluted	**54,206**	55,813	57,526	52,943	49,018
Year-end financial position *(in thousands)*					
Working capital	**$ 213,392**	$ 288,351	$ 177,047	$ 166,154	$ 120,808
Goodwill	**373,564**	361,930	380,486	358,600	235,299
Other intangible assets, net	**303,689**	316,817	330,458	236,561	163,849
Property, plant and equipment, net	**224,963**	235,035	230,545	209,645	157,056
Total assets	**1,351,990**	1,435,355	1,532,495	1,330,379	993,128
Long-term debt and notes payable	**351,468**	465,961	400,558	412,178	268,112
Stockholders equity	**684,713**	598,574	661,870	528,626	411,752
Debt as a percent of total capitalization (2)	**33.9%**	43.8%	37.7%	43.8%	39.4%
Statistics					
Employees at year-end	**4,884**	5,643	6,375	6,522	6,057
Sales per average number of employees	**$ 201,386**	$ 223,982	$ 221,908	$ 200,212	$ 184,844

(1) Net income per common share is based on the weighted average common shares outstanding during each year. Stockholders equity per common share is calculated based on actual common shares outstanding at the end of each year.

(2) Debt includes all interest-bearing debt and total capitalization includes interest-bearing debt and stockholders equity.

(3) The 2005 results include $391, or $0.01 per share, of charges related to the cumulative effect of a change in accounting principle, net of taxes. These charges resulted from the adoption of an accounting standard related to conditional asset retirement obligations.

(4) Effective December 31, 2006, the Company adopted a newly issued accounting standard related to employers accounting for defined benefit pension and other postretirement plans which required the Company to recognize the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in the funded status in comprehensive income in the year in which the changes occur.

(5) During 2008, the Company exited certain non-core businesses within its Logistics and Manufacturing Services segment in the United Kingdom. These actions included selling certain assets of the operation and exiting the businesses. The results of these businesses have been segregated and treated as discontinued operations. All previously reported financial information has been adjusted on a retrospective basis to reflect the discontinued operations.

(6)

During 2009, the Company retroactively adopted the provisions of a newly issued accounting standard for certain convertible debt instruments. All previously reported financial information has been adjusted on a retrospective basis to reflect the adoption of this standard. See Note 10 of the Notes to the Consolidated Financial Statements.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Effective January 1, 2009, the Company retroactively adopted the provisions of a newly issued accounting standard for certain convertible debt instruments. See Note 10 of the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K for further discussion of the impact of adoption. All previously reported financial information has been adjusted on a retrospective basis to reflect this change in accounting for all periods presented.

2009 Highlights

In 2009, the economic challenges which started during 2008 continued and, in some cases, increased in many of our end-markets. The Logistics and Manufacturing Services segment was negatively affected by lower demand across the end-markets of its distribution business and by deferred maintenance in its aerospace aftermarket business. Precision Components industrial manufacturing business was impacted by the declines in end-markets it serves, including the transportation-related market, while its aerospace OEM business was affected by reduced customer inventory and production levels. As a result, sales decreased in both business segments and were down 24.1% to $1,034.2 million Company-wide.

During 2009, the Company took further actions primarily at Precision Components to restructure its operations which consisted primarily of workforce reductions and moving the operations of certain facilities and resulted in charges in 2009 of approximately $8.3 million. Additionally, as a result of actions taken in 2008, the Company recorded additional costs of $2.4 million in 2009 related to transfer of work and facility exits. The 2009 actions, along with the actions taken by the Company in the fourth quarter of 2008 in anticipation of the economic downturn, improved the Company s cost structure and its manufacturing footprint, thereby strengthening its global competitive position and readiness for improving economic conditions.

Cash generation and working capital management were a primary focus of the Company s efforts in 2009. Particular attention on collecting receivables from customers, reducing inventory and managing payment terms with vendors contributed to the generation of $143.5 million of cash from operating activities in 2009. The additional cash generation was used primarily to reduce overall debt levels and in part to fund a $9.5 million cash contribution to the Company s pension plans. The Company also repurchased certain of its convertible notes in exchange for treasury shares during 2009. These actions to reduce overall debt levels contributed to the Company s ability to comply with its debt covenants.

Management Objectives

Management is focused on three areas of development: employees, processes and strategy which, in combination, are expected to generate long-term value for its stockholders. The Company s strategies for growth include both organic growth from new products, services, markets and customers, and growth from acquisitions. The Company s strategies for profitability include productivity and process initiatives, such as production realignment, and efficiency and cost-saving measures.

Our Business

Barnes Group consists of two operating segments: Logistics and Manufacturing Services, and Precision Components. In both of these businesses, Barnes Group is among the leaders in the market niches served, and has highly recognized brands for many of the products it sells or manufactures.

The Logistics and Manufacturing Services segment provides value-added logistical support and repair services. Value-added logistical support services include inventory management, technical sales, and supply chain solutions for maintenance, repair, operating, and production supplies and services. Repair services provided include the manufacturing of spare parts for the refurbishment and repair of highly engineered components and assemblies for commercial and military aviation.

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Precision Components is a global supplier of engineered components for critical applications focused on providing solutions for a diverse industrial, transportation and aerospace customer base. It is equipped to produce virtually every type of precision spring, from fine hairsprings for electronics and instruments to large heavy-duty springs for machinery as well as precision-machined and fabricated components and assemblies for OEM turbine engine, airframe and industrial gas turbine builders throughout the world, and the military. It is also the largest manufacturer and supplier of precision mechanical springs, compressor reed valves and nitrogen gas products based in North America and among the world s largest manufacturers of precision mechanical products and nitrogen gas products. Precision Components also manufactures high-precision punched and fine-blanked components used in transportation and industrial applications, nitrogen gas springs and manifold systems used to precisely control stamping presses, and retention rings that position parts on a shaft or other axis.

Key Performance Indicators

Management evaluates the performance of its reportable segments based on the operating profit of the respective businesses, which includes net sales, cost of sales, selling and administrative expenses and certain components of other income and other expenses, as well as the allocation of corporate overhead expenses. Management also uses an internal measurement tool called PPAT, or Performance Profit After Tax. PPAT is an economic value added (EV®) -like metric that calculates operating profit after tax, less a charge for the capital employed by the business. Management utilizes PPAT in economic decision-making, such as capital expenditures, investments in growth initiatives, customer pricing decisions, and evaluation of acquisitions. The goal of utilizing PPAT is to create a mindset among all employees to use capital in the most efficient way possible and to link decisions to stockholder value creation.

In addition to PPAT, which is a measurement tool common in each operating unit, both segments have standard key performance indicators (KPIs), a number of which are focused on customer metrics (customer satisfaction score, on-time-delivery and quality), internal effectiveness and efficiency metrics (sales per employee, scrap and rework, days working capital and controllable expenses), employee-related metrics (total recordable incident rate and lost time incident rate), and unique KPIs on organic growth.

Key Industry Data

In each segment, management also tracks a variety of economic and industry data as indicators of the health of a particular sector.

At Logistics and Manufacturing Services, the distribution business reviews data supplied by the Institute for Supply Management s PMI Composite Index (the PMI) and the Federal Reserve s Industrial Production Index (the IPI), which are monthly indicators of the health of U.S. manufacturing activity. Management tracks similar indices in Canada and for the European-based businesses. Management of the aftermarket aerospace operations monitors the number of aircraft in the active fleet, the number of planes temporarily or permanently taken out of service, aircraft utilization rates for the major airlines, shop visits, and traffic growth.

At Precision Components, key data for the industrial manufacturing operations include the IPI; the production of light vehicles, both in the U.S. and globally; tooling build schedules; durable goods orders; compressor build forecasts; and global industrial capital expenditures. The aerospace OEM business regularly tracks orders and deliveries for each of the major aircraft manufacturers, as well as engine purchases made for new aircraft. Management also monitors annual appropriations for the U.S. military related to new aircraft purchases and maintenance.

Acquisitions and Strategic Relationships

Acquisitions and strategic relationships have been a key growth driver for the Company in both of its business segments. The Company has acquired a number of businesses in the past, the most recent of which was in 2006. The Company continues to evaluate potential acquisitions that could broaden product line offerings and expand geographic reach, and provide synergistic opportunities. The Company continues to seek business alliances which foster long-term business relationships, such as the aftermarket RSP agreements and strategic supply agreements.

RESULTS OF OPERATIONS

Sales

($ in millions)	**2009**	**2008**	**$ Change**	**% Change**	**2007**
Logistics and Manufacturing Services	**$ 539.1**	$ 691.8	$ (152.7)	(22.1)%	$ 703.0
Precision Components	**501.5**	683.0	(181.5)	(26.6)%	728.5
Intersegment sales	**(6.4)**	(12.7)	6.3	49.1%	(13.3)
Total	**$ 1,034.2**	$ 1,362.1	$ (327.9)	(24.1)%	$ 1,418.2

Barnes Group reported net sales of $1,034.2 million in 2009, a decrease of $327.9 million, or 24.1%, from 2008. The sales decrease reflected $309.0 million of organic sales declines, $140.7 million at Logistics and Manufacturing Services and $174.6 million at Precision Components. Additionally, the sale of Spectrum Plastics Molding Resources, Inc. (Spectrum Plastics) in 2008 resulted in a reduction in sales of $1.3 million at Precision Components as compared to 2008. The strengthening of the U.S. dollar against foreign currencies as compared to 2008, primarily in Europe and Canada, decreased net sales by $17.6 million in 2009. Geographically, the Company s international sales decreased 28.2% year-over-year while domestic sales decreased 21.5%. The Company s international sales in 2009 decreased 25.1% from 2008 excluding the impact of foreign currency translation on sales.

In 2008, the Company reported net sales of $1,362.1 million, a decrease of $56.1 million, or 4.0%, over 2007 net sales of $1,418.2 million. The sales decrease reflected $67.8 million of organic sales declines, $18.9 million at Logistics and Manufacturing Services and $49.5 million at Precision Components. Additionally, the sale of Spectrum Plastics resulted in a reduction in sales of $11.7 million as compared to 2007. These declines were offset by the favorable impact on sales of foreign currency translation of $23.4 million in 2008 as foreign currencies strengthened against the U.S. dollar, primarily in Europe. Geographically, the Company s international sales increased 2.7% year-over-year, but domestic sales decreased 7.6%. Excluding the positive impact of foreign currency translation on sales, the Company s international sales decreased 1.5% in 2008 from 2007.

Expenses and Operating Income

($ in millions)	**2009**	**2008**	**$ Change**	**% Change**	**2007**
Cost of sales	**$ 671.1**	$ 847.6	$ (176.5)	(20.8)%	$ 881.0
% sales	**64.9%**	62.2%			62.1%
Gross profit [(1)]	**$ 363.0**	$ 514.5	$ (151.4)	(29.4)%	$ 537.2
% sales	**35.1%**	37.8%			37.9%
Selling and administrative expenses	**$ 302.5**	$ 366.5	$ (64.0)	(17.5)%	$ 382.0
% sales	**29.3%**	26.9%			26.9%
Operating income	**$ 60.5**	$ 147.9	$ (87.4)	(59.1)%	$ 155.2

% sales	**5.9%**	10.9%	10.9%

(1) Sales less cost of sales

Cost of sales in 2009 decreased 20.8% from 2008 primarily as a result of lower sales. The decrease in cost of sales was less than the percentage decrease in sales and resulted in a reduction in gross profit margin of 2.7 percentage points. Selling and administrative expenses decreased 17.5% from 2008. The decreases in cost of

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sales and selling and administrative expenses resulted primarily from the significantly lower sales volumes in each of the businesses of Logistics and Manufacturing Services and Precision Components and, to a lesser extent, from the benefits of discrete cost reduction actions taken in 2008 and 2009. The costs of $10.7 million recorded in 2009 which related to the 2009 and 2008 actions taken primarily at Precision Components to restructure its operations were recorded primarily in selling and administrative expenses. See further discussion of the 2009 actions below. As a result, operating income in 2009 decreased 59.1% from 2008 and operating margin decreased from 10.9% to 5.9%.

Operating income in 2008 decreased 4.7% from 2007 to $147.9 million and operating margin remained at 10.9%. The decrease in operating income was due primarily to lower profitability at Precision Components and the impact on both segments of the costs associated with the discrete fourth quarter 2008 charges. See further discussion of the 2008 actions below. Cost of sales decreased 3.8% in 2008 primarily as a result of lower sales. The decrease in cost of sales was in line with the decrease in sales, resulting in a gross profit margin at 37.8% which approximated the 2007 margin. Selling and administrative expenses as a percentage of sales remained flat at 26.9% in 2008 and 2007. The discrete costs of the fourth quarter 2008 actions included in selling and administrative expenses were partially offset by lower additional compensation and the positive impacts of expense reduction and lean initiatives.

During 2009, the Company authorized the restructuring of certain operations of the Precision Components segment by moving the operations of two facilities. As a result, the Company recorded restructuring and related costs of $4.9 million in 2009 which included $2.1 million of employee termination costs, $1.1 million of asset write-downs, $0.5 million of equipment transfer costs, $1.0 million of facility use termination costs and $0.2 million of pension curtailment costs. Also during 2009, the Company implemented other workforce reduction actions at Precision Components and recorded severance expense of $3.4 million. In addition, as a result of actions taken in 2008, the Company recorded additional costs of $2.4 million related to transfer of work and facility exits. These costs are primarily recorded in selling and administrative expenses in the accompanying Consolidated Statements of Income. The actions are expected to generate cost savings in 2010 and beyond.

During 2008, the Company took a number of actions within each of the businesses primarily in the fourth quarter to reduce overhead costs as the Company aggressively addressed economic conditions, the state of end markets served and structural complexities within certain geographies. The cost of these discrete actions totaled $19.6 million after-tax in 2008 including $5.4 million included in loss from discontinued operations. The pre-tax charges in 2008 totaled $15.5 million and included $10.9 million of severance and related employee termination costs, a $1.4 million loss on sale of assets related to discontinued businesses and $3.2 million of other costs including contract terminations, asset impairment charges and other associated costs. Of the charges, $0.4 million were recorded in cost of sales, $12.4 million were recorded in selling and administrative expenses and $2.7 million were recorded in discontinued operations. The $4.1 million tax expense includes the valuation and write-off of certain deferred tax assets.

These 2008 and 2009 actions improved the Company s cost structure and its manufacturing footprint, and strengthened its global competitive position.

Other Income/Expense

Other income, net of other expenses, in 2009 was $2.0 million and included a $3.8 million gain on the repurchase of certain convertible notes. Other expenses in 2009 included $1.3 million in net foreign currency transaction losses. Interest expense decreased $4.0 million in 2009 from 2008 as a result of lower interest rates and borrowings.

Other expenses, net of other income, in 2008 were $2.3 million and included the $1.2 million loss on the sale of Spectrum Plastics. Other expenses in 2008 included $0.6 million in net foreign currency transaction losses. Interest expense decreased $4.6 million in 2008 from 2007 as a result of lower interest rates.

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Income Taxes

The Company s effective tax rate from continuing operations was 2.4% in 2009 compared with 22.1% in 2008. The decrease in the 2009 effective tax rate from 2008 was due primarily to the higher concentration of profits in lower taxing jurisdictions and the absence of profitability in higher tax jurisdictions.

The Company s effective tax rate from continuing operations was 22.1% in 2008 compared with 19.4% in 2007. The 2008 effective tax rate included additional tax expense of $4.1 million for the valuation of certain deferred tax assets in France and the United Kingdom. These discrete items in 2008 increased the 2008 effective tax rate 3.4 percentage points.

See Note 15 of the Notes to the Consolidated Financial Statements for a reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate. Among other items which could impact the future tax rate is the mix of income between taxing jurisdictions where the Company operates.

In connection with an Internal Revenue Service (IRS) audit for the tax years 2000 through 2002, the IRS proposed adjustments to these tax years of approximately $16.5 million, 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 in the U.S. Tax Court against 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.

Discontinued Operations

In the fourth quarter of 2008, the Company exited certain non-core businesses within its Logistics and Manufacturing Services segment in the United Kingdom. These exit activities included the sale of certain assets and transfer of related employees, liquidation of assets, termination of related contracts, and severing of employees. The results of these businesses have been segregated and treated as discontinued operations for all years reported. In 2008, the $10.1 million loss included a $2.7 million loss related to the exit activities. Of this amount approximately $1.4 million reflected the loss on the sales, approximately $0.6 million were employee-related costs, including severance and other termination benefits, and approximately $0.7 million related to other costs including contract termination charges. In addition, a tax expense of approximately $2.7 million included in discontinued operations related to the valuation and write-off of certain deferred tax assets. The results for 2007 represent the operating loss on the discontinued operations. The losses for all years are reported net of tax. See Note 3 of the Notes to the Consolidated Financial Statements.

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Income and Income Per Share

(in millions, except per share)	2009	2008	$ Change	% Change	2007
Income from continuing operations	**$ 39.0**	$ 92.7	$ (53.7)	(57.9)%	$ 99.9
Net income	**39.0**	82.6	(43.6)	(52.8)%	97.6
Per common share:					
Basic:					
Income from continuing operations	**$ 0.72**	$ 1.72	$ (1.00)	(58.1)%	$ 1.87
Loss from discontinued operations, net of tax		(0.19)	0.19	NM	(0.04)
Net income	**$ 0.72**	$ 1.53	$ (0.81)	(52.9)%	$ 1.83
Diluted:					
Income from continuing operations	**$ 0.72**	$ 1.66	$ (0.94)	(56.6)%	$ 1.74
Loss from discontinued operations, net of tax		(0.18)	0.18	NM	(0.04)
Net income	**$ 0.72**	$ 1.48	$ (0.76)	(51.4)%	$ 1.70
Average common shares outstanding:					
Basic	**53.9**	54.0		(0.2)%	53.3
Diluted	**54.2**	55.8		(2.9)%	57.5

NM not meaningful

In 2009, basic and diluted income from continuing operations per common share decreased 58.1% and 56.6%, respectively. The decreases were directly attributable to the decline in income from continuing operations. Basic weighted average shares outstanding decreased slightly as a result of the impact of stock repurchases in 2008 offset in large part by 737,463 shares of treasury stock contributed to the Company s pension plans and 1,154,265 shares of treasury stock used to repurchase certain of the Company s convertible notes in 2009. Diluted average shares outstanding decreased as a result of the decrease in basic weighted average shares outstanding and the decrease in the dilutive effect of potentially issuable shares under the employee stock plans and the convertible notes which was driven by a decline in the Company s stock price.

Financial Performance by Business Segment

Logistics and Manufacturing Services

($ in millions)	2009	2008	$ Change	% Change	2007
Sales	**$ 539.1**	$ 691.8	$ (152.7)	(22.1)%	$ 703.0
Operating profit	**44.0**	79.1	(35.2)	(44.5)%	70.5
Operating margin	**8.2%**	11.4%			10.0%

2009 vs. 2008:

The Logistics and Manufacturing Services business segment reported sales of $539.1 million in 2009, a 22.1% decrease from 2008. The lower sales were primarily the result of weak global economic conditions and included a reduction in organic sales in all businesses of $140.7 million. Lower organic sales in 2009 resulted primarily from softness in the distribution business primarily in North America due to continued weakness in the transportation-related and industrial markets and, to a lesser extent, a reduced distribution sales force compared to 2008. In addition, sales declines in the aerospace aftermarket were driven by lower aircraft utilization, deferred maintenance activities and an increase in the RSP management fees. The negative impact of foreign currency translation decreased sales by approximately $12.0 million in 2009 as the U.S. dollar strengthened against foreign currencies, primarily in Europe and Canada, as compared to 2008.

Operating profit at Logistics and Manufacturing Services in 2009 decreased 44.5% from 2008 to $44.0 million. The decline in operating profit was driven by the profit impact of the lower sales volumes in each of its businesses due to the impact of economic conditions on the end-markets served. Partially offsetting these declines was the positive impact of operational and productivity initiatives, including the lower operating costs resulting from the discrete actions taken in 2008 to address the deteriorating market conditions and geographical complexities, and to align the segment s cost structure with its declining sales.

Outlook:

Organic sales levels in the distribution businesses of the Logistics and Manufacturing Services segment are largely dependent upon the economy in the regions served, the retention of its customers and continuation of existing sales volumes to such customers, and the effectiveness and size of its sales force. Near-term economic conditions are expected to challenge these businesses as customers continue to actively manage costs and inventory levels. Management believes future sales growth will result from improvements in economic and end-market conditions, further market penetration and sales force productivity initiatives, including increasing the sales force size. Near-term sales levels in the aerospace aftermarket business are expected to continue to be impacted by deferred maintenance activities and lower capacity usage within the industry. Management believes its aerospace aftermarket business is favorably positioned based on strong customer relationships, including long-term maintenance and repair contracts in the overhaul and repair business, and expected improvement in demand in the aftermarket spare parts business.

Operating profit at Logistics and Manufacturing Services is expected to continue to be affected by the profit impact of the changes in sales volume in each of its businesses as well as pricing pressures. Profitability is expected to be favorably impacted by structural changes made in the distribution businesses and other cost control efforts. The highly profitable aftermarket RSPs will continue to be impacted by the management fees payable to the customer which generally increase in the fourth or later years of each program. These and other similar fees are deducted from sales and temper sales growth of the aftermarket RSPs and operating margin.

2008 vs. 2007:

The Logistics and Manufacturing Services business segment reported sales of $691.8 million in 2008, a 1.6% decrease from 2007. The decrease was primarily the result of a reduction in organic sales of $18.9 million. Lower organic sales were recorded by the distribution businesses in North America and in Europe due to softness in the transportation-related and certain manufacturing markets combined with the impact of initiatives which created sales force disruption primarily in North America. Partially offsetting these declines was an increase in aerospace aftermarket sales resulting from growth in aftermarket RSPs sales. Additionally, foreign currency translation had a favorable impact of $7.7 million as foreign currencies strengthened against the U.S. dollar, primarily in Europe.

Operating profit at Logistics and Manufacturing Services in 2008 increased 12.3% from 2007 to $79.1 million. Operating profit in 2008 was positively impacted by operational and productivity improvements in the North American distribution business realized from the 2007 initiatives focused on improving the profitability of the business. Discrete costs incurred in 2007 related to these initiatives in North America and Europe were $8.7 million. Additionally, operating profit in 2008 included the positive impact of the profit contribution from the highly profitable aerospace aftermarket RSPs. Partially offsetting these improvements was the profit impact of the lower sales volumes in the North American distribution business, primarily a result of sales force attrition and the impact of the economic conditions on the end-markets served by this business. Additionally, in 2008 the Logistics and Manufacturing Services segment recorded discrete fourth quarter charges including employee terminations, to address deteriorating market conditions and complexities within certain geographies. Costs associated with these actions were $5.3 million.

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Precision Components

($ in millions)	**2009**	**2008**	**$ Change**	**% Change**	**2007**
Sales	**$ 501.5**	$ 683.0	$ (181.5)	(26.6)%	$ 728.5
Operating profit	**16.6**	68.5	(51.9)	(75.8)%	84.9
Operating margin	**3.3%**	10.0%			11.7%

2009 vs. 2008:

Sales at Precision Components in 2009 were $501.5 million, a 26.6% decrease from 2008. The lower sales levels were primarily the result of weak global economic conditions and included a reduction in organic sales of $174.6 million. The industrial manufacturing businesses in North America and Europe reported significant sales declines due to the global recession and its impact on the transportation industry and, in particular, the automotive sector. Additionally, sales decreased in the aerospace OEM business as customers reduced inventory and lowered production levels. The negative impact of foreign currency translation decreased sales by $5.6 million in 2009 as compared to 2008. Spectrum Plastics recorded sales of $1.3 million in 2008, thus the sale of this business in 2008 resulted in a reduction in sales of this amount in 2009.

Operating profit in 2009 at Precision Components was $16.6 million, a decrease of 75.8% from 2008. The decline in operating profits was driven by the impact of the lower sales volumes. Operating profit in 2009 was positively impacted by lower costs resulting from the discrete actions taken in late 2008 to address deteriorating market conditions including personnel reductions and plant consolidations, and initiatives focused on cost savings and cost containment. The favorable impact of these initiatives, however, only partially offset the profit impact of the substantially lower sales levels in 2009 and approximately $10.7 million of costs for actions taken throughout 2009 to address the continued deterioration in the market, including employee termination costs, asset write-downs associated with consolidating certain facilities, and transfer of work costs.

Outlook:

In the industrial manufacturing businesses, management is focused on generating organic sales growth by leveraging the benefits of the diversified products and industrial end markets in which its businesses have a global presence as well as gaining market share. Sales growth in the global markets served by these businesses is expected to remain challenging due to economic conditions. However, increased order activity in certain end markets, including the North American transportation market, may provide incremental benefits in the near-term. Sales in the aerospace OEM business are driven by its commercial engine order backlog through its participation in certain strategic engine programs. Backlog in this business was $325.7 million at December 31, 2009, of which approximately 62% is expected to be shipped in the next 12 months. The aerospace OEM business may be further impacted by downward adjustments of customer inventory levels, production schedule delays or reductions of specific engine programs, and general softness in the aerospace market driven by the worldwide economic recession. However, management believes that strong long-term aerospace industry fundamentals remain which, together with pursuing new programs and increased content levels on certain platforms, will drive future sales growth in this business.

Operating profit is largely dependant on the sales volumes within all businesses of the segment. Management expects a favorable impact on profitability and efficiency from the cost actions taken in these businesses including personnel reductions and facility consolidations, and other cost-saving and cost-containment initiatives. Management continues to focus on improving profitability through organic sales growth, pricing initiatives, and productivity and process improvements.

2008 vs. 2007:

Sales at Precision Components in 2008 were $683.0 million, a 6.2% decrease from 2007. Organic sales were down $49.5 million and were significantly impacted by weaker global economic conditions. The most significant organic sales declines were in the North American industrial manufacturing businesses, primarily related to the transportation and consumer product end-markets. These declines were offset in part by year-over-year growth in the aerospace OEM business on the strength of its sales order backlog which was $460.6 million at January 1, 2008. Impacting the year-over-year growth rate in Precision Components aerospace OEM business was the impact of the Boeing labor strike and order pushouts on the Boeing 787 program. The sale of Spectrum Plastics in 2008 resulted in a reduction in sales of $11.7 million. The favorable impact on sales of foreign currency translation increased sales by approximately $15.7 million as foreign currencies strengthened against the U.S. dollar, primarily in Europe.

Operating profit in 2008 at Precision Components was $68.5 million, a decrease of 19.4% from 2007. Operating profit in 2008 was negatively impacted by lower sales levels and higher material costs. Additionally, in the fourth quarter of 2008 certain businesses within the Precision Components segment took cost reduction actions, including employee terminations and plant consolidations, to address deteriorating market conditions. Costs associated with these actions were $7.5 million. Partially offsetting these decreases was the favorable impact of the 2007 right-sizing actions primarily in the domestic industrial manufacturing businesses, lower additional compensation and other cost-saving initiatives.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company s liquidity in terms of its overall ability to generate cash to fund its operating and investing activities. Of particular importance in the management of liquidity are cash flows generated from operating activities, capital expenditure levels, dividends, capital stock transactions, effective utilization of surplus cash positions overseas and adequate lines of credit.

The Company s ability to generate cash from operations in excess of its internal operating needs is one of its financial strengths. During 2009, management placed significant focus on cash flow and working capital management, and anticipates that operating activities in 2010 will continue to generate significant, positive cash flow. In light of current economic events, the Company continues to monitor its cash generation, usage and preservation with particular emphasis placed on managing working capital.

Management has been very selective when approving capital expenditures and expects discretionary capital spending in 2010 to be slightly higher than the $30.5 million incurred in 2009. Of the Company s $351.5 million in long-term debt, only $30.2 million is due in 2010. The Company s 3.75% Senior Subordinated Convertible Notes (the 3.75% Convertible Notes) are subject to redemption at their par value at any time, at the option of the Company, on or after February 7, 2011. The note holders may also require the Company to redeem some or all of the Notes on February 1st of 2011, 2016 and 2021. The Company s 3.375% Senior Subordinated 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 on March 15th of 2014, 2017 and 2022. If any of the 3.75% Convertible Notes are redeemed on February 1, 2011, the Company intends to finance the redemption through the use of its available credit facilities.

Continued uncertainty in the financial markets has had an adverse impact on, among other things, security prices and investment valuations. The Company s pension plans have been impacted by the 2008 losses in the global equity markets and, together with the requirements set forth by the Federal Pension Protection Act, the Company s 2009 funding requirements increased. The return on plan assets impacts the future funding requirements, pension expense and the Company s balance sheet due to recognition of the funded status of the plans. The Company took specific actions in 2009 to increase the funded status of the plans, to meet the 2009 funding requirements and to mitigate potential required contributions beyond 2009 by making a cash contribution of $9.5 million and an incremental stock contribution of $9.8 million to its qualified pension plans.

The funded status of the Company s pension plans is dependent upon many factors, including returns on invested assets, the level of market interest rates and benefit obligations. The funded status of the pension plans

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improved in 2009 primarily as a result of the increase in the fair value of the Company s pension plan assets due mainly to the gains in the global equity markets. This improvement was partially offset by an increase in the projected benefit obligations of the plans. The Company s other postretirement benefit plans recorded a decline in the projected benefit obligation in 2009. As a result, the Company recorded an $11.7 million non-cash after-tax increase in stockholders equity (through other non-owner changes to equity) to record the current year adjustment for changes in the funded status of its pension and postretirement benefit plans as required under the accounting for defined benefit pension and other postretirement plans. Approximately $25.5 million in contributions were made by the Company to its various pension plans in 2009, $9.8 million in the form of Company stock and the remainder in the form of cash which included the required minimum contributions to its qualified U.S. pension plans. The Company expects to contribute approximately $11.0 million to its various plans in 2010.

Operating cash flow may be supplemented with external borrowings to meet near-term organic business expansion needs and the Company s current financial commitments. The credit markets have presented companies with significant challenges in maintaining or expanding credit facilities. In 2009, the Company entered into a $35.0 million unsecured credit agreement with Wells Fargo Bank, N.A. which could be used for working capital, capital expenditures and general corporate purposes. The drawdown period on this facility expired on December 31, 2009. The Company has assessed its credit facilities and currently expects that its bank syndicate, comprised of 15 banks, will continue to support the $400.0 million credit facility which matures in September 2012 and that Wells Fargo Bank, N.A. will continue to support the $35.0 million credit facility. At December 31, 2009, the Company had $240.5 million of unused and available for borrowings under its $400.0 million credit facility, subject to covenants in the Company s debt agreements. The Company believes its credit facilities, coupled with cash generated from operations, are adequate for its anticipated future requirements.

Current credit lines are closely monitored to ensure compliance with the Company s various debt covenants. The Company s most restrictive financial covenant (the Debt Ratio) requires the Company to maintain a ratio of Consolidated Total Debt to adjusted earnings before interest expense, income taxes, and depreciation and amortization (Adjusted EBITDA) as defined in the amended and restated revolving credit agreement of not more than 3.75 times at December 31, 2009. Any breach of covenant would result in a technical default under the revolving credit agreement and may result in the banks forcing an acceleration of this debt. The consequences of acceleration are that the Company s debt would become callable and other obligations, including the convertible notes, which are subject to the cross-acceleration provisions of the revolving credit agreement, could also become immediately due and payable. The Company has taken and continues to take actions to sustain compliance with the debt covenants primarily through strategies to increase Adjusted EBITDA or reduce debt. The actual ratio at December 31, 2009 was 3.10 times.

Any future acquisitions are expected to be financed through internal cash, borrowings and equity, or a combination thereof. Additionally, we may from time to time seek to retire or repurchase our outstanding debt through cash purchases and / or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

Cash Flow

($ in millions)	**2009**	**2008**	**$ Change**	**% Change**	**2007**
Operating activities	**$ 143.5**	$ 111.8	$ 31.7	28.3%	$ 120.3
Investing activities	**(26.1)**	(106.7)	80.6	75.6%	(128.1)
Financing activities	**(121.9)**	(1.8)	(120.1)	NM	(5.6)
Exchange rate effect	**1.0**	(3.0)	4.0	NM	(1.4)
Increase (decrease) in cash	**$ (3.5)**	$ 0.4	$ (3.9)	NM	$ (14.8)

NM Not meaningful

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Operating activities are the principal source of cash flow for the Company, generating $143.5 million in cash during 2009 compared to $111.8 million in 2008. Compared to 2008, operating cash flows in 2009 were positively impacted by significant reductions in working capital offset in part by lower operating performance and, to a lesser extent, the $9.5 million contribution to the Company s pension plans. The reductions in working capital resulted primarily from significantly lower inventory levels at both business segments reflecting management s efforts to generate cash from working capital improvements as well as reduced customer demand. Improvements in cash flows from receivables and payables resulted from focused efforts in all businesses to collect receivables from customers and manage payment terms with vendors.

Investing activities in 2009 consisted primarily of capital expenditures of $30.5 million compared to $51.9 million in 2008. Participation fee payments related to the aftermarket RSPs of $57.5 million and $73.2 million were paid in 2008 and 2007, respectively. No payments were required under such agreements in 2009. Investing activities in 2008 included the net proceeds of $5.1 million from the sale of Spectrum Plastics.

Cash used in financing activities in 2009 included a net decrease in borrowings of $101.8 million compared to a net increase of $59.5 million in 2008. The 2009 change included the repurchase of $34.7 million par value of convertible notes at a discounted price of $28.7 million which was funded primarily with borrowings under revolving credit lines. Additionally, in 2009 the higher cash generated from operations and the cash on hand were used for capital expenditures and dividends as well as debt reduction. The proceeds in 2008 were used primarily to finance working capital requirements, capital expenditures, dividends and RSP payments. Total cash used to pay dividends decreased in 2009 by $7.7 million to $25.6 million due to a decrease in the number of shares outstanding and a decrease in cash dividends from $0.62 per share in 2008 to $0.48 per share in 2009. During 2008, the Company repurchased 2.5 million shares at an average cost of $13.76 per share under the terms of its publicly announced repurchase program.

At December 31, 2009, the Company held $17.4 million in cash and cash equivalents, the majority of which are held outside the U.S. In general, the repatriation of this cash to the U.S. would have adverse tax consequences and the balances remain outside the U.S. to fund future international investments.

The Company maintains borrowing facilities with banks to supplement internal cash generation. At December 31, 2009, $159.5 million was borrowed at an average interest rate of 1.69% under the Company s $400.0 million borrowing facility which matures in September, 2012. Also, at December 31, 2009, $32.1 million was borrowed at an average interest rate of 4.48% under the Company s $35.0 million borrowing facility which matures in July, 2012. Additionally, the Company had $1.0 million in borrowings under short-term bank credit lines at an interest rate of 2.06% at December 31, 2009. At December 31, 2009, the Company s total borrowings are comprised of approximately 46% fixed rate debt and approximately 54% variable rate debt. The interest payments on approximately 51% of the variable rate interest debt have been converted into payment of fixed interest plus the borrowing spread under the terms of the interest rate swap agreement described in Note 9 of the Notes to the Consolidated Financial Statements.

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Debt Covenants

Borrowing capacity is limited by various debt covenants in the Company s debt agreements. The most restrictive borrowing capacity covenant in any agreement requires the Company to maintain a maximum ratio of Consolidated Total Debt to Adjusted EBITDA, as defined in the amended and restated revolving credit agreement of not more that 3.75 times at December 31, 2009. Following is a reconciliation of Adjusted EBITDA, as defined, to the Company s net income (in millions):

	2009
Net income	$ 39.0
Add back:	
Interest expense	22.6
Income taxes	0.9
Depreciation and amortization	51.5
Other adjustments	3.6
Adjusted EBITDA, as defined	$ 117.6
Consolidated Total Debt, as defined	$ 364.7
Ratio of Consolidated Total Debt to Adjusted EBITDA	3.10

Other adjustments in 2009 primarily relate to the repurchase of certain of the Company s convertible notes discussed in Note 10. Consolidated Total Debt excludes the debt discount related to the change in accounting which is described in Note 10 of the Notes to the Consolidated Financial Statements. The Company s financial covenants are measured as of the end of each fiscal quarter. At December 31, 2009, additional borrowings of $76.4 million would have been allowed under the covenants.

Contractual Obligations and Commitments

At December 31, 2009, the Company had the following contractual obligations and commitments:

($ in millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations [1]	$ 362.1	$ 29.9	$ 275.6	$ 56.6	$
Estimated interest payments under long-term obligations [2]	26.1	11.8	12.0	2.3	
Capital lease obligations	2.6	0.2	0.5	0.5	1.4
Operating lease obligations	53.1	15.6	20.5	11.0	6.0
Purchase obligations [3]	101.0	90.6	7.4	2.5	0.5
Expected pension contributions [4]	11.0	11.0			
Expected benefit payments other postretirement benefit plans [5]	48.1	5.1	10.4	10.4	22.2
Total	$ 604.0	$ 164.2	$ 326.4	$ 83.3	$ 30.1

(1) Long-term debt obligations represent the required principal payments under such agreements and exclude the debt discount related to convertible notes.
(2) Interest payments under long-term debt obligations have been estimated based on the borrowings outstanding and market interest rates as of December 31, 2009.
(3) The amounts do not include purchase obligations already reflected as current liabilities on the consolidated balance sheet. The purchase obligation amount includes all outstanding purchase orders as of the balance sheet date as well as the minimum contractual obligation or termination penalty under other contracts.
(4) The amount included in Less Than 1 Year reflects anticipated contributions to the Company s various pension plans. Anticipated contributions beyond one year are not determinable.
(5) The amounts reflect anticipated future benefit payments under the Company s various other postretirement benefit plans based on current actuarial assumptions. Expected benefit payments do not extend beyond 2019. See Note 13 of the Notes to the Consolidated Financial Statements.

The above table does not reflect unrecognized tax benefits as the timing of the potential payments of these amounts cannot be determined. See Note 15 of the Notes to the Consolidated Financial Statements.

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OTHER MATTERS

Inflation

Inflation generally affects the Company through its costs of labor, equipment and raw materials. Increases in the costs of these items have historically been offset by price increases, operating improvements, and other cost-saving initiatives. The Company has periodically experienced inflation in raw material prices.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies are disclosed in Note 1 of the Notes to the Consolidated Financial Statements. The most significant areas involving management judgments and estimates are described below. Actual results could differ from such estimates.

Inventory Valuation: Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or market. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable value. Loss provisions, if any, on aerospace contracts are established when estimable. Loss provisions are based on the projected excess of manufacturing costs over the net revenues of the products or group of related products under contract. The process for evaluating the value of excess and obsolete inventory often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of future sales potential may necessitate future adjustments to these provisions.

Business Acquisitions and Goodwill: Assets and liabilities acquired in a business combination are recorded at their estimated fair values at the acquisition date. At December 31, 2009, the Company had $373.6 million of goodwill, representing the cost of acquisitions in excess of fair values assigned to the underlying net assets of acquired companies. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to impairment testing annually or earlier if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Management completes their annual impairment assessment during the second quarter of each year. The assessment of goodwill involves the estimation of the fair value of reporting units. Management estimates the fair value of each reporting unit using the income approach, which reflects management s cash flow projections, and/or the market approach in accordance with current accounting standards. Inherent in management s development of cash flow projections are assumptions and estimates, including those related to future earnings and growth and the weighted average cost of capital. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods as a result of both Company-specific and overall economic conditions. In the second quarter of 2009, management performed its annual impairment testing based on the best information available as of the date of the assessment. Based on this assessment, there was no goodwill impairment in 2009. Future cash flows can be affected by changes in the global economy and local economies, industries and markets in which the Company sells products or services, and the execution of management s plans, including integrating acquired companies. There can be no assurance that future events will not result in impairment of goodwill or other intangible assets.

Revenue Sharing Programs: The Company participates in aftermarket RSPs under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program. As consideration, the Company pays participation fees, which are recorded as long-lived intangible assets, and are recognized as a reduction to sales over the life of the program. The recoverability of the intangible asset is subject to significant estimates about future revenues related to the program s aftermarket parts. Management updates revenue projections periodically, which includes comparing actual experience against projected revenue and obtaining industry projections. The potential exists that actual revenues will not meet expectations due to a change in market conditions. A shortfall in future revenues may indicate an impairment of the intangible asset. The Company evaluates the remaining useful life of this asset to determine whether events

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and circumstances warrant a revision to the remaining period of amortization. The intangible asset is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company has not identified any impairment of these intangible assets. See Note 6 of the Notes to the Consolidated Financial Statements.

Reorganization of Businesses: The Company records the cost of reorganization initiatives at the time the liability is incurred. The liability includes those costs that can be reasonably estimated and are probable of payment within a reasonable period of time. These estimates are subject to adjustments based upon actual costs incurred.

Pension and Other Postretirement Benefits: Accounting policies and significant assumptions related to pension and other postretirement benefits are disclosed in Note 13 of the Notes to the Consolidated Financial Statements.

The following table provides a breakout of the current targeted mix of investments, by asset classification, along with the historical rates of return for each asset class and the long-term projected rates of return for the U.S. plans.

		Annual Return %	
	Target Asset Mix %	**Historical** [1]	**Long-Term Projection**
Asset class			