

BAIRNCO CORP /DE/
Form 10-Q
August 06, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended **June 30, 2001**

or

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

For the transition period from to

Commission File Number **1-8120**

BAIRNCO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 13-3057520

(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

300 Primera Boulevard, Suite 432, Lake Mary, FL 32746

(Address of principal executive offices) (Zip Code)

(407) 875-2222

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDING DURING THE PRECEDING FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

(APPLICABLE ONLY TO CORPORATE ISSUERS)

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date.

7,325,525

shares of Common Stock Outstanding as of **July 20, 2001**.

"Safe Harbor" Statement under the Private Securities Reform Act of 1995

Certain of the statements contained in this Quarterly Report (other than the financial statements and statements of historical fact), including, without limitation, statements as to management expectations and beliefs presented under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements. Forward-looking statements are made based upon management's expectations and belief concerning future developments and their potential effect upon the Corporation. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Corporation will be those anticipated by management.

The Corporation wishes to caution readers that the assumptions which form the basis for forward-looking statements with respect to or that may impact earnings for the year ended December 31, 2001 and thereafter include many factors that are beyond the Corporation's ability to control or estimate precisely. These risks and uncertainties include, but are not limited to, changes in US or international economic or political conditions, such as the general level of economic activity, inflation or fluctuations in interest or foreign exchange rates; the costs and other effects of legal and administrative cases and proceedings, settlements and investigations; disruptions in operations due to labor disputes; the market demand and acceptance of the Corporation's existing and new products; changes in the pricing of the products of the Corporation or its competitors; the impact of competitive products; the impact on production output and costs from the availability of energy sources and related pricing; changes in the market for raw or packaging materials which could impact the Corporation's manufacturing costs; changes in the product mix; the loss of a significant customer or supplier; production delays or inefficiencies; the ability to achieve anticipated revenue growth, synergies and other cost savings in connection with acquisitions; the costs and other effects of complying with environmental regulatory requirements; and losses due to natural disasters where the Corporation is self-insured.

While the Corporation periodically reassesses material trends and uncertainties affecting the Corporation's results of operations and financial condition in connection with its preparation of management's discussion and analysis contained in its quarterly reports, the Corporation does not intend to review or revise any particular forward-looking statement referenced herein in light of future events.

PART I - FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

BAIRNCO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE QUARTERS ENDED JUNE 30, 2001 AND JULY 1, 2000

(Unaudited)

| | 2001 | 2000 |
|--|---------------|---------------|
| Net Sales | \$ 39,826,000 | \$ 48,763,000 |
| Cost of sales | 27,849,000 | 32,428,000 |
| Gross Profit | 11,977,000 | 16,335,000 |
| Selling and administrative expenses | 9,771,000 | 11,623,000 |
| Operating Profit | 2,206,000 | 4,712,000 |
| Interest expense, net | 724,000 | 944,000 |
| Income before Income Taxes | 1,482,000 | 3,768,000 |
| Provision for income taxes | 459,000 | 1,244,000 |
| Net Income | \$ 1,023,000 | \$ 2,524,000 |
| | | |
| Earnings per Share of Common Stock (Note 2): | | |
| Basic | \$ 0.14 | \$ 0.33 |
| Diluted | \$ 0.14 | \$ 0.33 |

| | | |
|--|-----------|-----------|
| | | |
| Weighted Average Number of Shares Outstanding: | | |
| Basic | 7,317,000 | 7,595,000 |
| Diluted | 7,390,000 | 7,714,000 |
| | | |
| Dividends per Share of Common Stock | \$ 0.05 | \$ 0.05 |
| | | |
| | | |

The accompanying notes are an integral part of these financial statements.

BAIRNCO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND JULY 1, 2000

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(Unaudited)

| | 2001 | 2000 |
|--|---------------|---------------|
| Net Sales | \$ 84,044,000 | \$ 94,579,000 |
| Cost of sales | 59,533,000 | 62,903,000 |
| Gross Profit | 24,511,000 | 31,676,000 |
| Selling and administrative expenses | 19,883,000 | 22,541,000 |
| Operating Profit | 4,628,000 | 9,135,000 |
| Interest expense, net | 1,672,000 | 1,627,000 |
| Income before Income Taxes | 2,956,000 | 7,508,000 |
| Provision for income taxes | 916,000 | 2,478,000 |
| Net Income | \$ 2,040,000 | \$ 5,030,000 |
| | | |
| Earnings per Share of Common Stock (Note 2): | | |
| Basic | \$ 0.28 | \$ 0.65 |
| Diluted | \$ 0.28 | \$ 0.65 |
| | | |
| Weighted Average Number of Shares Outstanding: | | |
| Basic | 7,314,000 | 7,681,000 |
| Diluted | 7,414,000 | 7,786,000 |
| | | |
| Dividends per Share of Common Stock | \$ 0.10 | \$ 0.10 |
| | | |
| | | |

The accompanying notes are an integral part of these financial statements.

BAIRNCO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTERS ENDED JUNE 30, 2001 AND JULY 1, 2000

(Unaudited)

Note 3

| | 2001 | 2000 |
|------------|--------------|--------------|
| Net income | \$ 1,023,000 | \$ 2,524,000 |

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| | | |
|---|------------|--------------|
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustment | (40,000) | (129,000) |
| Comprehensive income | \$ 983,000 | \$ 2,395,000 |
| | | |
| | | |

The accompanying notes are an integral part of these financial statements.

BAIRNCO CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND JULY 1, 2000

(Unaudited)

Note 3

| | 2001 | 2000 |
|---|--------------|--------------|
| Net income | \$ 2,040,000 | \$ 5,030,000 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustment | (467,000) | (356,000) |
| Comprehensive income | \$ 1,573,000 | \$ 4,674,000 |
| | | |
| | | |

The accompanying notes are an integral part of these financial statements.

BAIRNCO CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

| | Unaudited | |
|---|--------------|--------------|
| | 2001 | 2000 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,332,000 | \$ 945,000 |
| Accounts receivable, less allowances of \$2,098,000 and \$1,717,000, respectively | 28,271,000 | 32,504,000 |
| Inventories | 26,240,000 | 29,471,000 |
| Deferred income taxes | 3,945,000 | 3,945,000 |
| Other current assets | 2,085,000 | 3,438,000 |
| Total current assets | 61,873,000 | 70,303,000 |
| Plant and equipment, at cost | 117,113,000 | 116,211,000 |
| Accumulated depreciation and amortization | (71,971,000) | (68,870,000) |
| Plant and equipment, net | 45,142,000 | 47,341,000 |
| Cost in excess of net assets of purchased businesses, net | 12,856,000 | 12,828,000 |
| Other assets | 5,446,000 | 5,297,000 |

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| | | |
|---|----------------|----------------|
| | \$ 125,317,000 | \$ 135,769,000 |
| LIABILITIES & STOCKHOLDERS' INVESTMENT | | |
| Current Liabilities: | | |
| Short-term debt | \$ 3,762,000 | \$ 5,734,000 |
| Current maturities of long-term debt | 3,500,000 | 3,000,000 |
| Accounts payable | 11,244,000 | 11,479,000 |
| Accrued expenses | 10,830,000 | 15,164,000 |
| Total current liabilities | 29,336,000 | 35,377,000 |
| Long-term debt | 32,785,000 | 37,456,000 |
| Deferred income taxes | 6,957,000 | 6,967,000 |
| Other liabilities | 2,645,000 | 3,260,000 |
| Commitments and contingencies | | |
| | | |
| Stockholders' Investment: | | |
| Preferred stock, par value \$.01, 5,000,000 shares authorized, none issued | -- | -- |
| Common stock, par value \$.01, 30,000,000 shares authorized, 11,360,474 and 11,251,899 issued, respectively | 114,000 | 112,000 |
| Paid-in capital | 50,140,000 | 49,504,000 |
| Retained earnings | 37,753,000 | 36,445,000 |
| Accumulated Other Comprehensive Income- | | |
| Currency translation adjustment | 314,000 | 781,000 |
| Treasury stock, at cost, 4,034,949 and 3,943,565 shares, respectively | (34,727,000) | (34,133,000) |
| Total stockholders' investment | 53,594,000 | 52,709,000 |
| | \$ 125,317,000 | \$ 135,769,000 |

The accompanying notes are an integral part of these financial statements.

BAIRNCO CORPORATION AND SUBSIDIARIES

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND JULY 1, 2000

(Unaudited)

| | <u>2001</u> | | <u>2000</u> |
|--|--------------|--|--------------|
| Cash Flows from Operating Activities: | | | |
| Net income | \$ 2,040,000 | | \$ 5,030,000 |
| Adjustments to reconcile to net cash provided by | | | |
| Operating activities: | | | |
| Depreciation and amortization | 4,574,000 | | 4,502,000 |
| (Gain) on disposal of plant and equipment | (69,000) | | (6,000) |
| Deferred income taxes | (10,000) | | 1,136,000 |
| Change in current assets and liabilities, net of effect of acquisitions: | | | |
| Decrease (increase) in accounts receivable | 4,793,000 | | (4,506,000) |
| Decrease (increase) decrease in inventories | 3,794,000 | | (3,382,000) |
| Decrease in other current assets | 1,321,000 | | 1,206,000 |
| (Decrease) increase in accounts payable | (241,000) | | 1,472,000 |
| (Decrease) in accrued expenses | (4,910,000) | | (591,000) |
| Other | 133,000 | | (826,000) |
| Net cash provided by operating activities | 11,425,000 | | 4,035,000 |
| | | | |
| Cash Flows from Investing Activities: | | | |
| Capital expenditures | (1,269,000) | | (3,710,000) |
| Proceeds from sale of plant and equipment | 341,000 | | 50,000 |
| Payment for purchased businesses, net of cash acquired | (3,434,000) | | (13,337,000) |

| | | | |
|---|--------------|--|--------------|
| Net cash (used in) investing activities | (4,362,000) | | (16,997,000) |
| | | | |
| Cash Flows from Financing Activities: | | | |
| Net (decrease) in short-term debt | (1,889,000) | | (447,000) |
| Proceeds from long-term debt | 9,500,000 | | 19,322,000 |
| Long-term debt repayments | (13,582,000) | | (3,410,000) |
| Payment of dividends | (732,000) | | (767,000) |
| Purchase of treasury stock | -- | | (2,014,000) |
| Exercise of stock options | 43,000 | | 250,000 |
| Net cash (used in) provided by financing activities | (6,660,000) | | 12,934,000 |
| | | | |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (16,000) | | (60,000) |
| Net increase in cash and cash equivalents | 387,000 | | (88,000) |
| Cash and cash equivalents, beginning of period | 945,000 | | 660,000 |
| Cash and cash equivalents, end of period | \$ 1,332,000 | | \$ 572,000 |

The accompanying notes are an integral part of these financial statements.

BAIRNCO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

JUNE 30, 2001

(Unaudited)

(1) Basis of Presentation

The accompanying consolidated condensed financial statements include the accounts of Bairnco Corporation and its subsidiaries ("Bairnco" or the "Corporation") after the elimination of all material intercompany accounts and transactions.

The unaudited consolidated condensed financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Certain financial information and note disclosures which are normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although management believes that the disclosures made are adequate to make the information presented not misleading. Management believes the financial statements include all adjustments of a normal and recurring nature necessary to present fairly the results of operations for all interim periods presented.

The quarterly financial statements should be read in conjunction with the December 31, 2000 audited consolidated financial statements. The consolidated results of operations for the quarter and six-month period ended June 30, 2001 are not necessarily indicative of the results of operations for the full year.

(2) Earnings per Common Share

Earnings per share data is based on net income and not comprehensive income. Computations of earnings per share for the quarters and six-month periods ended June 30, 2001 and July 1, 2000 are included as Exhibit 11.1 and Exhibit 11.2, respectively, to this Quarterly Report on Form 10-Q.

Basic earnings per common share were computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the effect of all dilutive stock options.

(3) Comprehensive Income

Comprehensive income includes net income as well as certain other transactions shown as changes in stockholders' investment. For Bairnco, comprehensive income includes net income plus the change in net asset values of foreign divisions as a result of translating the local currency values of net assets to US dollars at varying exchange rates. Accumulated other comprehensive income consists solely of foreign currency translation adjustments. There are currently no tax expenses or benefits associated with the foreign currency translation adjustments.

4. Accounting for Derivatives

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires the Corporation to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either (1) offset against the change in fair value of the hedged asset, liability or firm commitment through income or (2) held in equity until the hedged item is recognized in income. The ineffective portion of a hedge's change in fair value is immediately recognized in income. SFAS 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS 133," is effective for all fiscal years beginning after June 15, 2000. SFAS 133 should not be applied retroactively to financial statements of prior periods.

The Corporation adopted SFAS 133, as amended, on January 1, 2001. The implementation of SFAS 133 had no impact on the Corporation's results of operations and financial position for the quarter or six-month period ended June 30, 2001.

(5) Inventories

Inventories consisted of the following as of June 30, 2001 and December 31, 2000:

| | 2001 | 2000 |
|----------------------------|---------------|---------------|
| Raw materials and supplies | \$ 6,212,000 | \$ 6,702,000 |
| Work in process | 8,077,000 | 8,372,000 |
| Finished goods | 11,951,000 | 14,397,000 |
| Total inventories | \$ 26,240,000 | \$ 29,471,000 |
| | | |

(6) Cost in Excess of Net Assets of Purchased Businesses

Cost in excess of net assets of purchased businesses acquired prior to 1971 of approximately \$3.5 million is not being amortized since, in the opinion of management, there has been no diminution in value. For businesses acquired subsequent to 1970, the cost in excess of net assets of purchased businesses, aggregating \$11,950,000 and \$11,709,000 at June 30, 2001 and December 31, 2000, respectively, is being amortized over periods of 15 to 40 years. Accumulated amortization at June 30, 2001 and December 31, 2000, was \$2,579,000 and \$2,367,000, respectively.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*. SFAS 141 is effective for all business combinations initiated after June 30, 2001, and requires that all business combinations be accounted for using the purchase method.

Also in July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 is effective beginning January 1, 2002; however, goodwill and intangible assets acquired after June 30, 2001, are immediately subject to SFAS 142's provisions. SFAS 142 provides for the nonamortization of goodwill. Goodwill will now be subject to at least an annual assessment for impairment by applying a fair-value based test. Other intangible assets will be amortized over their useful lives (other than indefinite life assets). Intangible assets with indefinite lives will be subject to a lower of cost or market impairment test. The Company has not yet determined the impact of SFAS 142.

(7) Accrued Expenses

Accrued expenses consisted of the following as of June 30, 2001 and December 31, 2000:

| | 2001 | 2000 |
|--------------------|--------------|--------------|
| Salaries and wages | \$ 1,230,000 | \$ 2,978,000 |

| | | |
|------------------------|---------------|---------------|
| Income taxes | 369,000 | 262,000 |
| Insurance | 2,846,000 | 3,475,000 |
| Litigation | 1,593,000 | 2,226,000 |
| Other accrued expenses | 4,792,000 | 6,223,000 |
| Total accrued expenses | \$ 10,830,000 | \$ 15,164,000 |
| | | |

Accrued expenses-litigation:

The Corporation accrues for the estimated costs to defend existing lawsuits, claims and proceedings where it is probable that it will incur such costs in the future. These non-discounted accruals are management's best estimate of the most likely cost to defend the litigation based on discussions with counsel. Such estimates are reviewed and evaluated in light of ongoing experiences and expectations and could substantially exceed the current best estimates which would have a material impact on the results of operations of the period in which the change in estimate was recorded. Any changes in estimates from this review process are reflected in operations currently.

In the fourth quarter of 1998, Bairnco recorded a \$7,500,000 pre-tax provision for litigation costs. After recognition of related tax benefits, the litigation provision reduced net income in 1998 by \$4.7 million or approximately \$.54 diluted earnings per common share. In the fourth quarter of 2000, Bairnco recorded an additional \$1,000,000 pre-tax provision for litigation costs. After recognition of related tax benefits, the litigation provision reduced net income in 2000 by \$640,000 or approximately \$.09 diluted earnings per common share. The litigation provisions added to the existing reserves for asbestos-related litigation expenditures due to changes in the estimates to defend the Transaction Lawsuit (refer to Part II, Item 1 ("Legal Proceedings") of this filing). Through June 30, 2001, approximately \$8.0 million of the litigation reserve had been spent. The remaining reserves are included in accrued expenses and other long-term liabilities in the Corporation's consolidated balance sheet. The level of reserves assumes a vigorous defense of the case through discovery, summary judgment motions and trial at the end of 2002.

Accrued expenses-insurance:

Accrued expenses-insurance represents the estimated costs of known and anticipated claims under the Corporation's general liability, automobile liability, property and workers compensation insurance policies for all of its US operations. The Corporation provides reserves on reported claims and claims incurred but not reported at each balance sheet date based upon the estimated amount of the probable claim or the amount of the deductible, whichever is lower. Such estimates are reviewed and evaluated in light of emerging claim experience and existing circumstances. Any changes in estimates from this review process are reflected in operations currently.

(8) Reportable Segment Data

Bairnco's segment disclosures are prepared in accordance with Statement of Financial Accounting Standards No. 131. There are no differences to the 2000 annual report in the basis of segmentation or in the basis of measurement of segment profit or loss included herein. Financial information about the Corporation's operating segments for the quarters and six-month periods ended June 30, 2001 and July 1, 2000 as required under SFAS 131 is as follows:

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| | <u>Quarters</u> | | <u>Six Month Periods</u> | |
|----------------------|-----------------|----------------------------|--------------------------|----------------------------|
| | Net Sales | Operating Profit (Loss) | Net Sales | Operating Profit (Loss) |
| <u>June 30, 2001</u> | | | | |
| Arlon | \$ 31,344,000 | \$ 3,473,000 | \$ 66,509,000 | \$ 7,316,000 |
| Kasco | 8,482,000 | (321,000) | 17,535,000 | (957,000) |
| Headquarters | -- | (946,000) | -- | (1,731,000) |
| | \$ 39,826,000 | \$ 2,206,000 | \$ 84,044,000 | \$ 4,628,000 |
| | | | | |
| <u>July 1, 2000</u> | | | | |
| Arlon | \$ 37,790,000 | \$ 5,264,000 | \$ 72,093,000 | \$ 10,148,000 |
| Kasco | 10,973,000 | 518,000 | 22,486,000 | 889,000 |
| Headquarters | -- | (1,070,000) | -- | (1,902,000) |
| | \$ 48,763,000 | \$ 4,712,000 | \$ 94,579,000 | \$ 9,135,000 |

The total assets of the segments as of June 30, 2001 and December 31, 2000 are as follows:

| | 2001 | 2000 |
|--------------|----------------|----------------|
| | | |
| Arlon | \$ 83,695,000 | \$ 88,529,000 |
| Kasco | 31,511,000 | 35,333,000 |
| Headquarters | 10,111,000 | 11,907,000 |
| | \$ 125,317,000 | \$ 135,769,000 |

9. Acquisition

On January 10, 2001, Bairnco purchased selected net assets ("Viscor") of Viscor, Inc. Viscor's engineered, coated products include transfer adhesives, single and double-coated foam and film tapes, and other custom coated products. Viscor's sales for the six months ended December 31, 2000 were approximately \$3.4 million. The transaction was accounted for as a purchase and was financed with long-term debt. The preliminary purchase price exceeded the fair

value of net assets acquired by approximately \$0.4 million and the resultant goodwill is being amortized on a straight-line basis over 15 years. The terms of Viscor's asset purchase agreement provide for additional consideration to be paid by Bairnco if Viscor's results of operations exceed certain targeted levels. Such additional consideration will be paid semi-annually in cash and is recorded when earned as additional purchase price. The maximum amount of contingent consideration is approximately \$4.5 million payable over the 5-year period ended December 31, 2005.

(10) Contingencies

Bairnco Corporation and its subsidiaries are defendants in certain legal actions which are discussed more fully in Part II, Item 1 ("Legal Proceedings") of this filing.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying Consolidated Condensed Financial Statements and related notes and with Bairnco's Audited Consolidated Financial Statements and related notes for the year ended December 31, 2000.

Bairnco Corporation is a diversified multinational company that operates two distinct businesses under the names Arlon and Kasco.

Engineered materials and components are designed, manufactured and sold under the Arlon brand identity to electronic, industrial and commercial markets. These products are based on common technologies in coating, laminating, polymers and dispersion chemistry. Arlon's principal products include high performance materials for the printed circuit board industry, cast and calendered vinyl film systems, custom-engineered laminates, and calendered and extruded silicone rubber insulation products used in a broad range of industrial, consumer and commercial products.

Replacement products and services are manufactured and distributed under the Kasco name principally to retail food stores and meat, poultry and fish processing plants throughout the United States, Canada and Europe. The principal products include replacement band saw blades for cutting meat, fish, wood and metal, and on site maintenance services primarily in the meat and deli departments. Kasco also distributes equipment to the food industry in Canada and France. These products are sold under a number of brand names including Kasco in the United States and Canada, Atlantic Service in the United Kingdom, and Bertram & Graf and Biro in Continental Europe.

Comparison of Second Quarter 2001 to Second Quarter 2000

Sales in the second quarter 2001 were \$39,826,000, a decrease of 18.3% from \$48,763,000 in 2000. Arlon's sales decreased 17.1% from last year. There were widespread and varying declines in all markets served. Demand from the wireless and telecommunication markets continued to weaken in the second quarter and accounted for 58% of the decline in Arlon's sales as compared to last year. The strong US dollar continued to have an adverse impact on Arlon's export sales and prices. Kasco's sales decreased 22.7% as compared to the second quarter last year due to lower seasoning sales as a major chain shifted its ready-to-cook meat products to central processors at the end of last year, and lost revenues and lower prices from competitive pressures. The strong US dollar also negatively impacted the currency translation of Kasco's foreign sales. Finally, Kasco's European operations were impacted by reduced meat consumption due to "mad cow" and "hoof and mouth" disease outbreaks in Europe.

Gross profit decreased 26.7% to \$11,977,000 from \$16,335,000 due to the reduced sales, even lower production volumes to reduce inventories, reduced pricing due to competitive pressures in the slowing economy and the impact of the strong dollar on export margins. The gross profit margin as a percent of sales decreased to 30.1% from 33.5%.

Selling and administrative expenses decreased 15.9% to \$9,771,000 from \$11,623,000 as costs were reduced in light of a slowing economy and efforts to improve Kasco's financial performance. As a percent of sales, selling and administrative expenses increased to 24.5% from 23.8%.

Interest expense decreased to \$724,000 in 2001 as compared to \$944,000 in 2000 due to lower overall interest rates and lower average borrowings. No shares were repurchased on the open market during the second quarter of 2001.

Net income decreased 59.5% to \$1,023,000 as compared to \$2,524,000 in the second quarter of 2000. Diluted earnings per common share decreased 57.6% to \$.14 from \$.33 as a result of reduced earnings.

Comparison of First Six Months 2001 to First Six Months 2000

Sales for the first half of 2001 decreased 11.1% to \$84,044,000 from \$94,579,000 in 2000 as all served markets experienced declines with the slowing economy. The strong US dollar and impact of competitive pressures also negatively impacted revenues.

Gross profit decreased 22.6% to \$24,511,000 from \$31,676,000 in the first half of 2000 due to the reduced sales, even lower production volumes to reduce inventories, reduced pricing due to competitive pressures in the slowing economy and the impact of the strong dollar on export margins. The gross profit margin as a percent of sales decreased to 29.2% from 33.5%.

Selling and administrative expenses decreased 11.8% to \$19,883,000 from \$22,541,000 as costs were reduced in light of a slowing economy and efforts to improve Kasco's financial performance. As a percent of sales, selling and administrative expenses decreased slightly to 23.7% from 23.8%.

Net interest expense was up slightly to \$1,672,000 as compared to \$1,627,000 in the first half of 2000 as higher average borrowings during the first half of 2001 were offset by lower average interest rates as compared to 2000. The effective tax rate for the first half of 2001 was 31% versus 33% in 2000. The provision for income taxes in both periods includes all applicable federal, state, local, and foreign income taxes.

Net income decreased 59.4% to \$2,040,000 from \$5,030,000 and diluted earnings per common share decreased 56.9% to \$.28 from \$.65 in 2000.

Acquisition

On January 10, 2001, Bairnco purchased selected net assets ("Viscor") of Viscor, Inc. Viscor's engineered, coated products include transfer adhesives, single and double-coated foam and film tapes, and other custom coated products. Viscor's sales for the six months ended December 31, 2000 were approximately \$3.4 million. The transaction was accounted for as a purchase and was financed with long-term debt. The preliminary purchase price exceeded the fair value of net assets acquired by approximately \$0.4 million and the resultant goodwill is being amortized on a straight-line basis over 15 years. The terms of Viscor's asset purchase agreement provide for additional consideration to be paid by Bairnco if Viscor's results of operations exceed certain targeted levels. Such additional consideration will be paid semi-annually in cash and is recorded when earned as additional purchase price. The maximum amount of contingent consideration is approximately \$4.5 million payable over the 5-year period ended December 31, 2005.

Dividend

The second quarter cash dividend of \$.05 per share was paid on June 29, 2001 to stockholders of record on June 4, 2001.

Liquidity and Capital Resources

At June 30, 2001, Bairnco had working capital of \$32.5 million compared to \$34.9 million at December 31, 2000. The decreases in accounts receivable and inventory reflect the impact of reduced sales and a continuing effort to reduce Bairnco's working capital investment in light of the slowing economy. The decrease in other current assets is due to the collection of the tax receivable in the first quarter of 2001.

During the first six months of 2001 Bairnco repurchased no shares of its common stock on the open market. The Board has authorized management to continue its stock repurchase program subject to market conditions and capital requirements of the business.

At June 30, 2001, Bairnco's total debt outstanding was \$40,047,000 compared to \$46,190,000 at the end of 2000. The decrease was due to strong cash generation from operating activities less reduced capital expenditures. At June 30, 2001 approximately \$29.2 million was available for borrowing under the Corporation's secured revolving credit agreement, as amended (the "Credit Agreement"). In addition, approximately \$4.7 million was available under various short-term domestic and foreign uncommitted credit facilities.

Bairnco made \$438,000 of capital expenditures during the second quarter of 2001 bringing the total capital expenditures for the first half of 2001 to \$1,269,000. Total capital expenditures for 2001 are expected to approximate \$4.5 million.

Cash provided by operating activities plus the amounts available under the existing credit facilities are expected to be sufficient to fulfill Bairnco's anticipated cash requirements in 2001.

Other Matters

Bairnco Corporation and its subsidiaries are defendants in a number of legal actions and proceedings which are discussed in more detail in Part II, Item 1 ("Legal Proceedings") of this filing. Management of Bairnco believes that the disposition of these actions and proceedings will not have a material adverse effect on the consolidated results of operations or the financial position of Bairnco Corporation and its subsidiaries as of June 30, 2001.

Outlook

During the second quarter of 2001 the wireless, telecommunications and electronics markets continued to deteriorate, which more than offset the normal seasonal strength of the second quarter. We have yet to see evidence of any recovery of these markets. Consequently, while our plans assume no further deterioration, we expect no recovery in the domestic industrial economy until 2002. As sales were weaker than expected in the second quarter, we ran our plants at levels to further reduce inventories, which contributed to the strong cash generation but weaker reported profits. We now expect the second half of the year to show continued weakness compared to the same period in 2000.

Bairnco is in strong financial condition and has over \$29,000,000 of available debt capacity under its Credit Agreement. Capital expenditure plans for 2001 have been reduced from \$10 million to about \$4.5 million, and are under continuing review. Bairnco management plans to continue managing staffing, spending and investments prudently to balance the need for short-term profitability and cash generation while supporting the long-term growth of its businesses.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Impact of Interest Rates

The interest on the Corporation's bank debt is floating and based on prevailing market interest rates. For market rate based debt, interest rate changes generally do not affect the market value of the debt but do impact future interest expense and hence earnings and cash flows, assuming other factors remain unchanged. A theoretical one-percentage point change in market rates in effect on June 30, 2001 would change interest expense and hence change net income of the Corporation by approximately \$275,000 per year.

The following table summarizes the principal cash flows of the Corporation's financial instruments outstanding at June 30, 2001, categorized by type of instrument and by year of maturity. There have been no changes in market risk factors for the six-month period ended June 30, 2001.

| | - | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>Total</u> | <u>Fair Value</u> |
|--|-------------|-------------|-------------|-------------|-------------|--------------|-----------------------|
| | <u>2001</u> | | | | | | |
| Short Term Debt | 3,762 | - | - | - | - | 3,762 | 3,762 |
| Long Term Debt: | | | | | | | |
| Term Loan (interest at 5.25%) | 1,500 | 4,000 | 5,000 | 6,000 | - | 16,500 | 16,500 |
| Industrial Revenue Bond (interest at 3.02%) | - | - | 3,000 | - | - | 3,000 | 3,000 |
| Revolving line of credit (interest ranging from 5.375% to 6.98%) | - | - | - | - | 16,785 | 16,785 | 16,785 |

Effect of Inflation

General inflation has had minimal impact on Bairnco's operating results in the last three years. Sales prices and volumes have been more strongly influenced specific market supply and demand and by foreign currency exchange rate fluctuations than by inflationary factors.

Impact of Euro

Each of our European operations has a plan in place to deal with the introduction of the euro. All computer systems will be updated to ensure euro compliance by the end of 2001. All marketing and operational policies and procedures will be reviewed to ensure we continue to successfully conduct all aspects of our business in the euro market. The total cost of the euro conversion is not expected to be material and the conversion from the legacy currencies is not anticipated to have a material adverse effect on Bairnco's consolidated financial position or results of operations.

Impact of Foreign Currency Exchange Rates

The Corporation's sales denominated in a currency other than U.S. dollars were approximately 11.5% of total sales and 12.6% of total sales for the quarter and six month period ended June 30, 2001, respectively. Net assets maintained in a functional currency other than U.S. dollars at June 30, 2001 were approximately 12.6% of total net assets. The effects of changes in foreign currency exchange rates have not historically been significant to the Corporation's operations or net assets.

PART II - OTHER INFORMATION

Item 1: LEGAL PROCEEDINGS

Bairnco and its subsidiaries are among the defendants in a lawsuit pending in the U.S. District Court for the Southern District of New York (the "Transactions Lawsuit") in which it is alleged that Bairnco and others are derivatively liable for the asbestos-related claims against its former subsidiary, Keene Corporation ("Keene"). The plaintiffs in the Transactions Lawsuit are the trustees of Keene Creditors Trust ("KCT"), a successor in interest to Keene. In the Transactions Lawsuit complaint, the KCT alleges that certain sales of assets by Keene to other subsidiaries of Bairnco were fraudulent conveyances and otherwise violative of state law, as well as being violative of the civil RICO statute, 18 U.S.C. Section 1964. The complaint seeks compensatory damages of \$700 million, interest, punitive damages, and trebling of the compensatory damages pursuant to civil RICO. In a series of decisions that remain subject to appeal, the court has dismissed plaintiff's civil RICO claims; dismissed 14 of the 21 defendants named in the complaint; and partially granted defendants' motions for summary judgment on statute of limitations grounds. Discovery is now underway as to the remaining claims and defendants. The court has entered a scheduling order requiring the completion of all discovery (including expert discovery) by February 15, 2002. A trial date has not been set, but the Court has scheduled a conference for February 8, 2002, to determine dates for filing a pretrial order, for trial, and/or for any pretrial motions. These dates remain subject to adjustment based upon the progress of discovery.

Keene was spun off in 1990, filed for relief under Chapter 11 of the Bankruptcy Code in 1993, and emerged from Chapter 11 pursuant to a plan of reorganization approved in 1996 (the "Keene Plan"). The Keene Plan provided for the creation of the KCT, and transferred the authority to prosecute the Transactions Lawsuit from the Official Committee of Unsecured Creditors of Keene (which initiated the lawsuit in the bankruptcy Court in 1995) to the KCT. The Keene

Plan further provided that only the KCT, and no other entity, can sue Bairnco in connection with the claims in the Transactions Lawsuit complaint. Therefore, although a number of other asbestos-related personal injury and property damage cases against Bairnco nominally remain pending in courts around the country, it is expected that the resolution of the Transactions Lawsuit in substance will resolve all such claims.

Bairnco also is the defendant in a separate action by the KCT (the "NOL Lawsuit"), also pending in the United States District Court for the Southern District of New York, in which the KCT seeks the exclusive benefit of tax refunds attributable to the carryback by Keene of certain net operating losses ("NOL Refunds"), notwithstanding certain provisions of applicable tax sharing agreements between Keene and Bairnco. (As with the Transactions Lawsuit, the NOL Lawsuit was commenced during Keene's Chapter 11 case and, pursuant to the Keene Plan, the KCT became the plaintiff in the lawsuit and the lawsuit was moved from the Bankruptcy Court to the District Court.) Pending resolution of the NOL Lawsuit, any refunds actually received are to be placed in escrow. Through June 30, 2001, approximately \$28.5 million of NOL Refunds had been received and placed in escrow. There can be no assurance whatsoever that resolution of the NOL Lawsuit will result in the release of any portion of the NOL Refunds to Bairnco.

Bairnco and its Arlon subsidiary ("Arlon") also are among the defendants in a third action by the KCT (the "Properties Lawsuit"), commenced December 8, 1998 and pending in the United States District Court for the Southern District of New York. In the Properties Lawsuit complaint, the KCT seeks a declaratory judgment that it owns certain patents and real property purchased by Arlon from Keene in 1989, based on the allegations that technical title to these assets was not conveyed at the time of the sale and that no proof of claim specifically referencing these assets was filed during Keene's Chapter 11 case. In an answer and counterclaims, Bairnco and Arlon have denied the KCT's claims and have requested a declaratory judgment that full title to the patents and real property in question in fact was transferred to Arlon at the time of the 1989 asset sale. The Properties Lawsuit has been transferred to the Transactions Lawsuit Judge for consolidated discovery and other proceedings.

Management believes that Bairnco has meritorious defenses to all claims or liability purportedly derived from Keene and that it is not liable, as an alter ego, successor, fraudulent transferee or otherwise, for the asbestos-related claims against Keene or with respect to Keene products.

Bairnco Corporation and its subsidiaries are defendants in a number of other actions. Management of Bairnco believes that the disposition of these other actions, as well as the actions and proceedings described above, will not have a material adverse effect on the consolidated results of operations or the financial position of Bairnco Corporation and its subsidiaries as of June 30, 2001.

Item 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

Item 3: DEFAULTS UPON SENIOR SECURITIES

None.

Item 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the second quarter of 2001.

Item 5: OTHER INFORMATION

None.

Item 6(a): EXHIBITS

Exhibit 11.1 - Calculation of Basic and Diluted Earnings per Share for the Quarters ended June 30, 2001 and July 1, 2000.

Exhibit 11.2 - Calculation of Basic and Diluted Earnings per Share for the Six Months ended June 30, 2001 and July 1, 2000.

SIGNATURES

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

BAIRNCO CORPORATION

(Registrant)

/s/ James W. Lambert

James W. Lambert

Vice President Finance and Treasurer

(Chief Financial Officer)

DATE: August 6, 2001