

BARNES GROUP INC  
Form 10-Q  
April 28, 2014

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

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

For the quarterly period ended March 31, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4801

BARNES GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or  
organization)

06-0247840

(I.R.S. Employer Identification No.)

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

06010  
(Zip Code)

Registrant's telephone number, including area code

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The registrant had outstanding 54,205,461 shares of common stock as of April 24, 2014.

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This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See “FORWARD-LOOKING STATEMENTS” under Part I - Item 2 “Management's Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|   | Three months ended March 31, |            |
|---|------------------------------|------------|
|   | 2014                         | 2013       |
| Net sales   | \$312,099                    | \$263,545  |
| Cost of sales   | 214,557                      | 177,715    |
| Selling and administrative expenses                             | 62,418                       | 60,875     |
|   | 276,975                      | 238,590    |
| Operating income  | 35,124                       | 24,955     |
| Interest expense  | 3,319                        | 4,357      |
| Other expense (income), net                                     | 234                          | 966        |
| Income from continuing operations before income taxes           | 31,571                       | 19,632     |
| Income taxes  | 8,819                        | 4,199      |
| Income from continuing operations                               | 22,752                       | 15,433     |
| Loss from discontinued operations, net of income taxes (Note 2) | —                            | (1,961)    |
| Net income  | \$22,752                     | \$13,472   |
| Per common share:   |                              |            |
| Basic:  |                              |            |
| Income from continuing operations                               | \$0.42                       | \$0.29     |
| Loss from discontinued operations, net of income taxes          | —                            | (0.04)     |
| Net income  | \$0.42                       | \$0.25     |
| Diluted:  |                              |            |
| Income from continuing operations                               | \$0.41                       | \$0.28     |
| Loss from discontinued operations, net of income taxes          | —                            | (0.04)     |
| Net income  | \$0.41                       | \$0.24     |
| Dividends   | \$0.11                       | \$0.10     |
| Weighted average common shares outstanding:                     |                              |            |
| Basic   | 54,650,481                   | 54,739,465 |
| Diluted   | 55,972,753                   | 55,524,560 |

See accompanying notes.

BARNES GROUP INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Dollars in thousands)  
 (Unaudited)

|   | Three months ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2014                            | 2013        |
| Net income  | \$22,752                        | \$13,472    |
| Other comprehensive (loss) income, net of tax                             |                                 |             |
| Unrealized (loss) income on hedging activities, net of tax (1)            | (27                             | ) 427       |
| Foreign currency translation adjustments, net of tax (2)                  | (5,948                          | ) (14,505 ) |
| Defined benefit pension and other postretirement benefits, net of tax (3) | (5,870                          | ) 2,410     |
| Total other comprehensive loss, net of tax                                | (11,845                         | ) (11,668 ) |
| Total comprehensive income  | \$10,907                        | \$1,804     |

(1) Net of tax of \$14 and \$188 for the three months ended March 31, 2014 and 2013, respectively.

(2) Net of tax of \$(198) and \$(101) for the three months ended March 31, 2014 and 2013, respectively.

(3) Net of tax of \$(3,787) and \$2,838 for the three months ended March 31, 2014 and 2013, respectively.

See accompanying notes.

BARNES GROUP INC.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share data)  
(Unaudited)

|  | March 31, 2014 | December 31,<br>2013 |
|--|----------------|----------------------|
| Assets   |                |                      |
| Current assets   |                |                      |
| Cash and cash equivalents  | \$61,411       | \$70,856             |
| Accounts receivable, less allowances (2014 - \$2,729; 2013 - \$3,438)      | 291,703        | 258,664              |
| Inventories  | 210,212        | 211,246              |
| Deferred income taxes  | 14,874         | 18,226               |
| Prepaid expenses and other current assets                                  | 19,958         | 18,204               |
| Total current assets   | 598,158        | 577,196              |
| Deferred income taxes  | 869            | 2,314                |
| Property, plant and equipment  | 699,195        | 686,537              |
| Less accumulated depreciation  | (392,026)      | (383,979)            |
|  | 307,169        | 302,558              |
| Goodwill   | 645,604        | 649,697              |
| Other intangible assets, net   | 523,002        | 534,293              |
| Other assets   | 59,865         | 57,615               |
| Total assets   | \$2,134,667    | \$2,123,673          |
| Liabilities and Stockholders' Equity                                       |                |                      |
| Current liabilities  |                |                      |
| Notes and overdrafts payable   | \$1,636        | \$1,074              |
| Accounts payable   | 98,421         | 88,721               |
| Accrued liabilities  | 129,589        | 154,514              |
| Long-term debt - current   | 56,615         | 56,009               |
| Total current liabilities  | 286,261        | 300,318              |
| Long-term debt   | 503,076        | 490,341              |
| Accrued retirement benefits  | 90,319         | 80,884               |
| Deferred income taxes  | 91,250         | 94,506               |
| Other liabilities  | 15,058         | 16,210               |
| Commitments and contingencies (Note 15)                                    |                |                      |
| Stockholders' equity   |                |                      |
| Common stock - par value \$0.01 per share                                  |                |                      |
| Authorized: 150,000,000 shares   | 607            | 603                  |
| Issued: at par value (2014 - 60,742,629 shares; 2013 - 60,306,128 shares)  |                |                      |
| Additional paid-in capital   | 401,675        | 390,347              |
| Treasury stock, at cost (2014 - 6,622,624 shares; 2013 - 6,389,267 shares) | (165,501)      | (156,649)            |
| Retained earnings  | 897,823        | 881,169              |
| Accumulated other non-owner changes to equity                              | 14,099         | 25,944               |
| Total stockholders' equity   | 1,148,703      | 1,141,414            |

|  |             |             |
|--|-------------|-------------|
| Total liabilities and stockholders' equity | \$2,134,667 | \$2,123,673 |
|--|-------------|-------------|

See accompanying notes.

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

|   | Three months ended March 31, |          |
|---|------------------------------|----------|
|   | 2014                         | 2013     |
| Operating activities:   |                              |          |
| Net income  | \$22,752                     | \$13,472 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |          |
| Depreciation and amortization   | 20,782                       | 16,499   |
| Amortization of convertible debt discount   | 731                          | 582      |
| Loss (gain) on disposition of property, plant and equipment                       | 78                           | (54)     |
| Stock compensation expense  | 1,865                        | 12,657   |
| Withholding taxes paid on stock issuances   | (463)                        | (720)    |
| Changes in assets and liabilities:  |                              |          |
| Accounts receivable   | (32,802)                     | (16,347) |
| Inventories   | 802                          | (968)    |
| Prepaid expenses and other current assets   | (2,763)                      | (235)    |
| Accounts payable  | 9,676                        | 7,144    |
| Accrued liabilities   | (3,131)                      | (16,679) |
| Deferred income taxes   | 3,834                        | 485      |
| Long-term retirement benefits   | (4,964)                      | 801      |
| Other   | 580                          | 1,020    |
| Net cash provided by operating activities   | 16,977                       | 17,657   |
| Investing activities:   |                              |          |
| Proceeds from disposition of property, plant and equipment                        | 382                          | 44       |
| Capital expenditures  | (15,074)                     | (10,050) |
| Other   | (467)                        | (1,420)  |
| Net cash used by investing activities   | (15,159)                     | (11,426) |
| Financing activities:   |                              |          |
| Net change in other borrowings  | 559                          | 8,737    |
| Payments on long-term debt  | (26,151)                     | (6,245)  |
| Proceeds from the issuance of long-term debt                                      | 39,283                       | 21,000   |
| Payment of assumed liability to Otto Männer Holding AG                            | (19,796)                     | —        |
| Proceeds from the issuance of common stock  | 7,262                        | 2,677    |
| Common stock repurchases  | (8,389)                      | (12,856) |
| Dividends paid  | (5,971)                      | (5,443)  |
| Excess tax benefit on stock awards  | 2,246                        | 506      |
| Other   | (76)                         | (53)     |
| Net cash (used) provided by financing activities                                  | (11,033)                     | 8,323    |
| Effect of exchange rate changes on cash flows                                     | (230)                        | (1,038)  |
| (Decrease) increase in cash and cash equivalents                                  | (9,445)                      | 13,516   |
| Cash and cash equivalents at beginning of period                                  | 70,856                       | 86,356   |
| Cash and cash equivalents at end of period  | \$61,411                     | \$99,872 |



See accompanying notes.

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BARNES GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2013 has been derived from the 2013 financial statements of Barnes Group Inc. (the "Company"). For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included. Operating results for the three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

In the fourth quarter of 2013, the Company and two of its subsidiaries (collectively with the Company, the "Purchaser") completed the acquisition of the Männer Business (defined below) pursuant to the terms of the Share Purchase and Assignment Agreement dated September 30, 2013 ("Share Purchase Agreement") among the Purchaser, Otto Männer Holding AG, a German company based in Bahlingen, Germany (the "Seller"), and the three shareholders of the Seller ("the Männer Business"). The acquisition has been integrated into the Industrial segment. See Note 3 of the Consolidated Financial Statements.

In the second quarter of 2013, the Company completed the sale of its Barnes Distribution North America business ("BDNA") to MSC Industrial Direct Co., Inc. ("MSC"). The results of these operations are segregated and presented as discontinued operations in the Consolidated Financial Statements. See Note 2.

2. Discontinued Operations

Barnes Distribution North America

In April 2013, the Company completed the sale of BDNA to MSC pursuant to the terms of an Asset Purchase Agreement between the Company and MSC. The total cash consideration received for BDNA through March 31, 2014 was \$538,942, net of transaction costs and closing adjustments paid. The net after-tax proceeds were \$420,190 after consideration of certain post closing adjustments, transaction costs and income taxes. The Company made estimated income tax payments related to the gain on sale during 2013 and has recorded an income tax receivable of \$12,608 in the Consolidated Balance Sheet as of March 31, 2014 and December 31, 2013.

Barnes Distribution Europe

In December 2011, the Company sold substantially all of the assets of its Barnes Distribution Europe ("BDE") business to Berner SE (the "Purchaser") in a cash transaction pursuant to the terms of a Share and Asset Purchase Agreement ("SPA") among the Company, the Purchaser, and their respective relevant subsidiaries dated November 17, 2011. The Company received gross proceeds of \$33,358, which represents the initial stated purchase price, and yielded net cash proceeds of \$22,492 after consideration of cash sold, transaction costs paid and closing adjustments. The final amount of proceeds from the sale of the BDE business was subject to post-closing adjustments that were

reflected in discontinued operations in periods subsequent to the disposition. The income from operations of discontinued businesses for 2013 includes a final settlement of a retained liability related to BDE.

As required by the terms of the SPA, the Company was required to place €9,000 of the proceeds in escrow to be used for any settlement of general representation and warranty claims. Absent a breach of warranty claim, the funds would be released from escrow on August 31, 2012 unless there were any then pending claims. Cash related to a pending claim would remain in escrow until a final determination of the claim had been made. On August 17, 2012, the Purchaser provided a notice of breach of various warranties to the Company. The Company rejected the Purchaser's notice and demanded release of the full escrow effective August 31, 2012. The Purchaser refused to release the full escrow, and only €3,900 plus interest was released whereas €5,100 (\$7,014 at March 31, 2014) plus interest remains in escrow. The Company objected to the retention of the escrow and

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expects to prevail in this matter. The Company has recorded the restricted cash in other assets at March 31, 2014 and December 31, 2013.

The below amounts related to the BDE business and BDNA were derived from historical financial information. The amounts have been segregated from continuing operations and reported as discontinued operations within the consolidated financial statements.

|  | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2014                         | 2013       |
| Net sales  | \$—                          | \$75,821   |
| Loss before income taxes   | —                            | (1,778 )   |
| Income tax expense   | —                            | 183        |
| Loss from operations of discontinued businesses, net of income taxes | —                            | (1,961 )   |
| (Loss) gain on transaction   | —                            | —          |
| Income tax (expense) benefit on sale                                 | —                            | —          |
| (Loss) gain on the sale of businesses, net of income taxes           | —                            | —          |
| Loss from discontinued operations, net of income taxes               | \$—                          | \$(1,961 ) |

### 3. Acquisitions

During 2013, the Company completed the acquisition of the Männer Business, a German company based in Bahlingen, Germany. The following table reflects the unaudited pro forma operating results of the Company for the three months ended March 31, 2013, which gives effect to the acquisition of the Männer Business as if it had occurred on January 1, 2012. The pro forma results are based on assumptions that the Company believes are reasonable under the circumstances. The pro forma results are not necessarily indicative of the operating results that would have occurred had the acquisition been effective January 1, 2012, nor are they intended to be indicative of results that may occur in the future. The underlying pro forma information includes the historical financial results of the Company and the Männer Business adjusted for certain items including depreciation and amortization expense associated with the assets acquired and the Company's expense related to financing arrangements, with the related tax effects. The pro forma information does not include the effects of any synergies or cost reduction initiatives related to the acquisition.

|                                   | (Unaudited Pro Forma)<br>Three months ended<br>March 31, 2013 |
|-----------------------------------|---|
| Net sales                         | \$286,834   |
| Income from continuing operations | 17,929  |
| Net income                        | 15,968  |
| Per common share:                 |   |
| Basic:                            |   |
| Income from continuing operations | \$0.32  |
| Net income                        | \$0.29  |
| Diluted:                          |   |
| Income from continuing operations | \$0.32  |
| Net income                        | \$0.28  |

### 4. Net Income Per Common Share

For the purpose of computing diluted income from continuing operations and net income per common share, the weighted-average number of common shares outstanding is increased for the potential dilutive effects of stock-based incentive plans and convertible senior subordinated notes. For the purpose of computing diluted income from

continuing operations and net

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income per common share, the weighted-average number of common shares outstanding was increased by 1,322,272 and 785,095 for the three-month periods ended March 31, 2014 and 2013, respectively, to account for the potential dilutive effect of stock-based incentive plans and convertible senior subordinated notes. There were no adjustments to income from continuing operations or net income for the purposes of computing income available to common stockholders for those periods.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three-month periods ended March 31, 2014 and 2013, the Company excluded 92,049 and 366,349 stock options, respectively, from the calculation of weighted average diluted shares outstanding as the stock options would have been anti-dilutive.

The Company granted 86,300 stock options, 93,989 restricted stock unit awards and 84,654 performance share awards in February 2014 as part of its annual grant awards. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic average common shares outstanding as they contain nonforfeitable rights to dividend payments. The performance share awards are part of a long-term Relative Measure program, which is designed to assess the Company's performance relative to the performance of companies included in the Russell 2000 Index over the three-year term of the program ending December 31, 2016. The performance goals are independent of each other and based on three metrics: the Company's total shareholder return ("TSR"), basic earnings per share growth and operating income before depreciation and amortization growth (weighted equally). The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR portion of the performance share awards was determined using a Monte Carlo valuation method as the award contains a market condition.

In the first quarter of 2013, the Board of Directors of the Company approved a Transition and Resignation Agreement (the "Agreement") for its former Chief Executive Officer ("Former CEO") in connection with his resignation of the CEO role and his assumption of a Vice Chairman role. The Agreement provided that, in exchange for the Former CEO's delivery of an effective release of claims, his adherence to certain restrictive covenants, and the successful provision of transition services, including with regard to certain equity grants, the successful sale of the BDNA business, the Former CEO's outstanding equity awards were modified to increase the post-termination exercise period for stock options until the earlier of ten years from the date of grant or five years from the retirement date and made non-forfeitable all outstanding stock options, restricted stock unit awards and performance share awards that remained unvested on the day of his agreed to resignation date from the Company. The original vesting dates of the equity awards serve as the delivery dates and the performance metrics continue to apply to the performance share awards. The Company recorded \$10,492 of stock compensation expense in the first quarter of 2013 as a result of the modifications.

The 3.375% convertible senior subordinated notes due in March 2027 (the "Notes") are convertible, under certain circumstances, into a combination of cash and common stock of the Company. The conversion price as of March 31, 2014 was \$28.31 per share of common stock. The dilutive effect of the Notes is determined based on the average closing price of the Company's stock for the last 30 trading days of the quarter as compared to the conversion price of the Notes. Under the net share settlement method, there were 512,453 potential shares issuable under the Notes that were considered dilutive for the three-month period ended March 31, 2014. There were no potential shares issuable under the Notes for the three-month period ended March 31, 2013 as the Notes would have been anti-dilutive.

## 5. Inventories

The components of inventories consisted of:

March 31, 2014

|                           |           | December 31,<br>2013 |
|---------------------------|-----------|----------------------|
| Finished goods            | \$81,406  | \$85,033             |
| Work-in-process           | 76,152    | 71,982               |
| Raw material and supplies | 52,654    | 54,231               |
|                           | \$210,212 | \$211,246            |

## 6. Goodwill and Other Intangible Assets

## Goodwill:

The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company as of and for the period ended March 31, 2014:

|                              | Industrial | Aerospace | Total Company |
|------------------------------|------------|-----------|---------------|
| January 1, 2014              | \$618,911  | \$30,786  | \$649,697     |
| Foreign currency translation | (4,093     | ) —       | (4,093        |
| March 31, 2014               | \$614,818  | \$30,786  | \$645,604     |

## Other Intangible Assets:

Other intangible assets consisted of:

|                                    | Range of<br>Life -Years | March 31, 2014 |                             | December 31, 2013 |                             |
|------------------------------------|-------------------------|----------------|-----------------------------|-------------------|-----------------------------|
|                                    |                         | Gross Amount   | Accumulated<br>Amortization | Gross Amount      | Accumulated<br>Amortization |
| Amortized intangible assets:       |                         |                |                             |                   |                             |
| Revenue sharing programs<br>(RSPs) | Up to 30                | \$293,700      | \$(66,393                   | ) \$293,700       | \$(64,220                   |
| Component Repair Program           | Up to 15                | 26,639         | (247                        | ) 26,639          | —                           |
| Customer lists/relationships       | 10-15                   | 183,406        | (21,515                     | ) 183,406         | (18,293                     |
| Patents and technology             | 7-14                    | 62,972         | (16,296                     | ) 62,972          | (14,210                     |
| Trademarks/trade names             | 5-30                    | 11,950         | (7,868                      | ) 11,950          | (7,628                      |
| Other                              | Up to 15                | 19,292         | (11,736                     | ) 19,292          | (9,868                      |
|                                    |                         | 597,959        | (124,055                    | ) 597,959         | (114,219                    |
| Unamortized intangible asset:      |                         |                |                             |                   |                             |
| Trade name                         |                         | 36,900         |                             | 36,900            |                             |
| Foreign currency translation       |                         | 12,198         | —                           | 13,653            | —                           |
| Other intangible assets            |                         | \$647,057      | \$(124,055                  | ) \$648,512       | \$(114,219                  |

Estimated amortization of intangible assets for future periods is as follows: 2014 - \$39,000; 2015 - \$33,000; 2016 - \$32,000; 2017 - \$32,000 and 2018 - \$33,000.

## 7. Debt

The Company's debt agreements contain financial covenants that require the maintenance of interest coverage and leverage ratios. The Company is in compliance with its financial covenants as of March 31, 2014, and continues to monitor its future compliance based on current and anticipated future economic conditions.

Long-term debt and notes and overdrafts payable at March 31, 2014 and December 31, 2013 consisted of:



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|  | March 31, 2014  |            | December 31, 2013 |            |
|--|-----------------|------------|-------------------|------------|
|  | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| 3.375% Convertible Notes                             | \$55,636        | \$76,114   | \$55,636          | \$76,569   |
| Unamortized debt discount – 3.375% Convertible Notes | —               | —          | (731)             | ) —        |
| Revolving credit agreement                           | 500,845         | 503,798    | 487,920           | 482,431    |
| Borrowings under lines of credit and overdrafts      | 1,636           | 1,636      | 1,074             | 1,074      |
| Other foreign bank borrowings                        | 270             | 273        | 405               | 410        |
| Capital leases                                       | 2,940           | 3,264      | 3,120             | 3,402      |
|  | 561,327         | 585,085    | 547,424           | 563,886    |
| Less current maturities                              | (58,251)        | )          | (57,083)          | )          |
| Long-term debt                                       | \$503,076       |            | \$490,341         |            |

As of March 20, 2014, the 3.375% Convertible Notes (Notes") are subject to redemption at their par value at any time, at the option of the Company. The note holders had the option to require the Company to redeem some or all of the Notes on April 11, 2014. As such, the balance of these Notes of \$55,636 (par value) and the related deferred tax balances are classified as current in the accompanying balance sheet as of March 31, 2014. None of the Notes were redeemed by the note holders on April 11, 2014. The note holders may also require the Company to redeem some or all of the notes at their par value on March 15<sup>th</sup> of 2017 and 2022. The 3.375% Convertible Notes are also eligible for conversion upon meeting certain conditions as provided in the indenture agreement including the closing stock price for 20 of the last 30 trading days in the preceding quarter being greater than or equal to 130% of the conversion price (the "conversion price eligibility requirement"). The eligibility for conversion is determined quarterly. During the first quarter of 2014, the 3.375% Convertible Notes were not eligible for conversion. During the second quarter of 2014, the 3.375% Convertible Notes will be eligible for conversion due to meeting the conversion price eligibility requirement and on March 20, the Company formally notified the note holders that they are entitled to convert the Notes. The first \$1 of the conversion value of each note would be paid in cash and the additional conversion value, if any, would be paid in cash or common stock, at the option of the Company. The fair value of the Notes was determined using quoted market prices that represent Level 2 observable inputs.

In September 2013, the Company entered into a second amendment to its fifth amended and restated revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as Administrative Agent for the lenders. The Amended Credit Agreement extended the maturity date of the debt facility by two years from September 2016 to September 2018 and includes an option to extend the maturity date for an additional year, subject to certain conditions. The Amended Credit Agreement added a new foreign subsidiary borrower in Germany, Barnes Group Acquisition GmbH, maintained the borrowing availability of the Company at \$750,000 and adds an accordion feature to increase this amount to \$1,000,000. The Company may exercise the accordion feature upon request to the Administrative Agent as long as an event of default has not occurred or is continuing. The borrowing availability of \$750,000, pursuant to the terms of the Amended Credit Agreement, allows for Euro-denominated borrowings equivalent to \$500,000. Euro-denominated borrowings are subject to foreign currency translation adjustments that are included within accumulated other non-owner changes to equity. Borrowings under the Amended Credit Agreement continue to bear interest at LIBOR plus a spread ranging from 1.10% to 1.70% depending on the Company's leverage ratio at prior quarter end. The Company paid fees and expenses of \$1,261 in conjunction with executing the Amended Credit Agreement in 2013; such fees will be deferred and amortized into interest expense on the accompanying Consolidated Statements of Income through its maturity.

Borrowings and availability under the Amended Credit Agreement were \$500,845 and \$249,155, respectively, at March 31, 2014 and \$487,920 and \$262,080, respectively, at December 31, 2013. Borrowings included Euro-denominated borrowings of €109,100 (\$150,045) at March 31, 2014 and €114,000 (\$157,320) at December 31, 2013. The interest rate on these borrowings was 1.30% and 1.36% on March 31, 2014 and December 31, 2013,

respectively. The fair value of the borrowings is based on observable Level 2 inputs. The borrowings are valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

The Company's borrowing capacity remains limited by various debt covenants in the Amended Credit Agreement, certain of which were amended in September 2013. The Amended Credit Agreement requires the Company to maintain a ratio of Consolidated Senior Debt, as defined in the Amended Credit Agreement, to Consolidated EBITDA, as defined, of not more than 3.25 times at the end of each fiscal quarter ("Senior Debt Ratio"), a ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA of not more than 4.00 times at the end of each fiscal quarter, and a ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25 times at the end of each fiscal quarter. The Amended Credit Agreement also provides that in connection with certain permitted acquisitions with aggregate consideration in excess of

\$150,000, the Consolidated Senior Debt to EBITDA ratio and the Consolidated Total Debt to EBITDA ratio are permitted to increase to 3.50 times and 4.25 times, respectively, for a period of the four fiscal quarters ending after the closing of the acquisition. In October 2013, the Company completed the acquisition of the Männer Business, a permitted transaction pursuant to the terms of the Amended Credit Agreement. At March 31, 2014, the Company was in compliance with all financial covenants under the Amended Credit Agreement.

In addition, the Company has available approximately \$15,000 in uncommitted short-term bank credit lines ("Credit Lines"), of which \$1,000 was borrowed at March 31, 2014 at an interest rate of 2.12% and \$1,000 was borrowed at December 31, 2013 at an interest rate of 2.13%. The Company had also borrowed \$636 and \$74 under overdraft facilities at March 31, 2014 and December 31, 2013, respectively. Repayments under the Credit Lines are due within seven days. Repayments of the overdrafts are generally due within two days. The carrying amounts of the Credit Lines and overdrafts approximate fair value due to the short maturities of these financial instruments.

The Company also has other foreign bank borrowings. The fair value of the foreign bank borrowings are based on observable Level 2 inputs. These instruments are valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

The Company holds capital leases within the Männer Business that was acquired in October 2013. The fair value of the capital leases are based on observable Level 2 inputs. These instruments are valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

## 8. Business Reorganization

On March 14, 2014, the Company authorized the closure of production operations ("Saline operations") at its Associated Spring facility located in Saline, Michigan ("the Closure"). Saline operations, which include approximately 50 employees, primarily manufacture certain automotive engine valve springs, a highly commoditized product. Based on changing market dynamics and increased customer demands for commodity pricing, several customers advised the Company of their intent to transition these specific springs to other suppliers, which led to the decision of the Closure. The Closure is expected to be completed mid-year 2014. The Company recorded restructure and related costs of \$2,750. This balance included \$2,112 of employee termination costs, primarily severance expense of \$1,174 and defined benefit pension and other postretirement plan ("the "Plans") costs related to the accelerated recognition of actuarial losses and special termination benefits, and \$638 of other Closure costs, primarily related to asset write-downs. The severance liability of \$1,174 was included within accrued liabilities as of March 31, 2014. See Note 11 of the Consolidated Financial Statements for costs associated with the Plans that were impacted by the Closure. The Company also expects to incur additional costs of approximately \$5,000 in 2014 related to the Closure. Closure costs are recorded primarily within Cost of Sales in the accompanying Consolidated Statements of Income and are reflected in the results of the Industrial segment.

The following table sets forth the change in the liability for the 2014 employee termination actions:

|   |         |
|---|---------|
| January 1, 2014                             | \$—     |
| Employee termination benefit costs          | 1,174   |
| Payments                                    | —       |
| March 31, 2014                              | \$1,174 |
| The balance is expected to be paid in 2014. |         |

## 9. Derivatives

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

Financial instruments have been used by the Company to hedge its exposure to fluctuations in interest rates. In 2012, the Company entered into five-year interest rate swap agreements transacted with three banks which together convert the interest

on the first \$100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.03% plus the borrowing spread. These interest rate swap agreements were accounted for as cash flow hedges.

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

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

Changes in the fair market value of derivatives that qualify as fair value hedges or cash flow hedges are recorded directly to earnings or accumulated other non-owner changes to equity, depending on the designation. Amounts recorded to accumulated other non-owner changes to equity are reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Any ineffective portion, or amounts related to contracts that are not designated as hedges, are recorded directly to earnings.

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

|  | March 31, 2014       |                          | December 31, 2013    |                          |
|--|----------------------|--------------------------|----------------------|--------------------------|
|  | Asset<br>Derivatives | Liability<br>Derivatives | Asset<br>Derivatives | Liability<br>Derivatives |
| Derivatives designated as hedging instruments:     |                      |                          |                      |                          |
| Interest rate contracts                            | \$—                  | \$(258 )                 | \$—                  | \$(370 )                 |
| Foreign exchange contracts                         | —                    | (443 )                   | —                    | (318 )                   |
| Derivatives not designated as hedging instruments: |                      |                          |                      |                          |
| Foreign exchange contracts                         | 37                   | (296 )                   | 543                  | (67 )                    |
| Total derivatives                                  | \$37                 | \$(997 )                 | \$543                | \$(755 )                 |

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

The following table sets forth the gain (loss), net of tax, recorded in accumulated other non-owner changes to equity for the three-month periods ended March 31, 2014 and 2013 for derivatives held by the Company and designated as hedging instruments.

|                            | Three months ended March 31, |         |
|----------------------------|------------------------------|---------|
|                            | 2014                         | 2013    |
| Cash flow hedges:          |                              |         |
| Interest rate contracts    | \$71                         | \$156   |
| Foreign exchange contracts | (98 )                        | ) 271   |
|                            | \$(27 )                      | ) \$427 |

Amounts included within accumulated other non-owner changes to equity that were reclassified to expense during the first three months of 2014 and 2013 related to the interest rate swaps resulted in a fixed rate of interest of 1.03% plus the borrowing spread for the first \$100,000 of one-month LIBOR borrowings. The amounts reclassified for the foreign exchange contracts were not material in any period presented. Additionally, there were no amounts recognized in income for hedge ineffectiveness during the three-month periods ended March 31, 2014 and 2013.

The following table sets forth the (losses) recorded in other expense (income), net in the consolidated statements of income for the three- month periods ended March 31, 2014 and 2013 for non-designated derivatives held by the Company. Such amounts were substantially offset by gains (losses) recorded on the underlying hedged asset or liability.

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|                            |                              |            |
|----------------------------|------------------------------|------------|
|                            | Three months ended March 31, |            |
|                            | 2014                         | 2013       |
| Foreign exchange contracts | \$(747                       | ) \$(3,906 |

## 10. Fair Value Measurements

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

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

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

Level 3 Unobservable inputs for the asset or liability

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

| Description           | Total   | Fair Value Measurements Using                                  |   |   |
|-----------------------|---------|--|---|---|
|                       |         | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) |
| March 31, 2014        |         |  |   |   |
| Asset derivatives     | \$37    | \$—  | \$37                                    | \$—   |
| Liability derivatives | (997    | ) —  | (997                                    | ) —   |
| Bank acceptances      | 5,174   | —  | 5,174                                   | —   |
| Rabbi trust assets    | 2,053   | 2,053  | —                                       | —   |
|                       | \$6,267 | \$2,053  | \$4,214                                 | \$—   |
| December 31, 2013     |         |  |   |   |
| Asset derivatives     | \$543   | \$—  | \$543                                   | \$—   |
| Liability derivatives | (755    | ) —  | (755                                    | ) —   |
| Bank acceptances      | 6,461   | —  | 6,461                                   | —   |
| Rabbi trust assets    | 1,975   | 1,975  | —                                       | —   |
|                       | \$8,224 | \$1,975  | \$6,249                                 | \$—   |

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based and U.S. treasury interest rates and foreign currency spot and forward rates. Bank acceptances represent financial instruments accepted from certain Chinese customers in lieu of cash paid on receivables, generally range from three to six months in maturity and are guaranteed by banks. The carrying amounts of the bank acceptances, which are included within prepaid expenses and other current assets, approximate fair value due to their short maturities. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.





## 11. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

|                                      | Three months ended<br>March 31, |          |
|--------------------------------------|---------------------------------|----------|
|                                      | 2014                            | 2013     |
| Pensions                             |                                 |          |
| Service cost                         | \$1,255                         | \$1,984  |
| Interest cost                        | 5,438                           | 4,987    |
| Expected return on plan assets       | (8,570 )                        | (8,276 ) |
| Amortization of prior service cost   | 177                             | 203      |
| Amortization of actuarial losses     | 1,962                           | 4,075    |
| Curtailment loss                     | 219                             | 199      |
| Special termination benefits         | 715                             | —        |
| Net periodic benefit cost            | \$1,196                         | \$3,172  |
|                                      |                                 |          |
|                                      | Three months ended<br>March 31, |          |
|                                      | 2014                            | 2013     |
| Other Postretirement Benefits        |                                 |          |
| Service cost                         | \$52                            | \$77     |
| Interest cost                        | 559                             | 543      |
| Amortization of prior service credit | (217 )                          | (395 )   |
| Amortization of actuarial losses     | 216                             | 290      |
| Curtailment loss                     | 4                               | —        |
| Net periodic benefit cost            | \$614                           | \$515    |

Curtailment losses and special termination benefits during the first three months of 2014 and 2013 relate to certain defined benefit pension and other postretirement benefit plans that were impacted by the closure of production operations at the Associated Spring facility located in Saline, Michigan and the completed sale of Barnes Distribution North America ("BDNA"), respectively. Amounts related to BDNA have been segregated from continuing operations and reported as discontinued operations within the Consolidated Financial Statements during the first three months of 2013.

The Company contributed to a multi-employer defined benefit pension plan under the terms of a collective bargaining agreement. This multi-employer plan provides pension benefits to certain former union-represented employees of the Edison, New Jersey facility at BDNA. The Company determined that a withdrawal from this multi-employer plan, following its entry into a definitive agreement to sell BDNA in February 2013, was probable. The Company estimated its assessment of a withdrawal liability, on a pre-tax discounted basis, and recorded a liability of \$2,788 during the first quarter of 2013. The expense was recorded within discontinued operations. The Company completed the sale of BDNA and ceased making contributions into the multi-employer plan during the second quarter of 2013. The Company settled the withdrawal liability in the fourth quarter of 2013, with the agreed-upon settlement payment being made during the first quarter of 2014.

## 12. Income Taxes

The Company's effective tax rate from continuing operations for the first quarter of 2014 was 27.9% compared with 21.4% in the first quarter of 2013 and 32.8% for the full year 2013 which includes the impact of \$16,428 of tax expense related to the April 16, 2013 U.S. Court Decision (see Note 15 of the Consolidated Financial Statements). Excluding the impact of the U.S. Tax Court Decision, the Company's effective tax rate from continuing operations for full year 2013 was 17.5%. The increase in the first quarter 2014 effective tax rate from the full year 2013 rate, as

adjusted for the U.S. Tax Court Decision, is primarily due to the a change in the mix of earnings attributable to higher-taxing jurisdictions or jurisdictions where losses cannot be benefited in 2014, the expiration of certain tax holidays and the increase in planned repatriation of a portion of current foreign earnings to the U.S.

The Aerospace and Industrial segments were previously awarded international tax holidays. All of the tax holidays for which the Company currently receives benefit are expected to expire in 2014 through 2016.

## 13. Changes in Accumulated Other Comprehensive Income by Component

The following table sets forth the changes in accumulated other comprehensive income, net of tax, by component for the three-month periods ended March 31, 2014 and March 31, 2013:

|  | Gains and<br>Losses on Cash<br>Flow Hedges | Pension and<br>Other<br>Postretirement<br>Benefit Items | Foreign<br>Currency<br>Items | Total     |
|--|--|---|------------------------------|-----------|
| January 1, 2014  | \$(519                                     | ) \$(73,273   | ) \$99,736                   | \$25,944  |
| Other comprehensive income before<br>reclassifications to consolidated statements of<br>income                         | (146                                       | ) (7,419  | ) (5,948                     | ) (13,513 |
| Amounts reclassified from accumulated other<br>comprehensive (loss) income to the consolidated<br>statements of income | 119  | 1,549   | —                            | 1,668     |
| Net current-period other comprehensive loss  | (27  | ) (5,870  | ) (5,948                     | ) (11,845 |
| March 31, 2014   | \$(546                                     | ) \$(79,143   | ) \$93,788                   | \$14,099  |
|  | Gains and<br>Losses on Cash<br>Flow Hedges | Pension and<br>Other<br>Postretirement<br>Benefit Items | Foreign<br>Currency<br>Items | Total     |
| January 1, 2013  | \$(432                                     | ) \$(146,441  | ) \$80,121                   | \$(66,752 |
| Other comprehensive income before<br>reclassifications to consolidated statements of<br>income                         | 525  | (388  | ) (14,505                    | ) (14,368 |
| Amounts reclassified from accumulated other<br>comprehensive income to the consolidated<br>statements of income        | (98  | ) 2,798   | —                            | 2,700     |
| Net current-period other comprehensive income<br>(loss)  | 427  | 2,410   | (14,505                      | ) (11,668 |
| March 31, 2013   | \$(5                                       | ) \$(144,031  | ) \$65,616                   | \$(78,420 |

The following table sets forth the reclassifications out of accumulated other comprehensive income by component for the three- periods ended March 31, 2014 and March 31, 2013:

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| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income |                                   | Affected Line Item in the Consolidated Statements of Income |
|---|---|-----------------------------------|---|
|   | Three months ended March 31, 2014                               | Three months ended March 31, 2013 |   |
| Gains and losses on cash flow hedges                            |   |                                   |   |
| Interest rate contracts   | \$ (217   | ) \$ (199                         | ) Interest expense  |
| Foreign exchange contracts                                      | 22  | 284                               | Net sales   |
|   | (195  | ) 85                              | Total before tax  |
|   | 76  | 13                                | Tax benefit   |
|   | (119  | ) 98                              | Net of tax  |
| Pension and other postretirement benefit items                  |   |                                   |   |
| Amortization of prior-service credits, net                      | \$40  | \$192                             | (A)   |
| Amortization of actuarial losses                                | (2,178  | ) (4,365                          | ) (A)   |
| Curtailment loss (net)  | (223  | ) (199                            | ) (A)   |
|   | (2,361  | ) (4,372                          | ) Total before tax  |
|   | 812   | 1,574                             | Tax benefit   |
|   | (1,549  | ) (2,798                          | ) Net of tax  |
| Total reclassifications in the period                           | \$ (1,668   | ) \$ (2,700                       | )   |

(A) These accumulated other comprehensive income components are included within the computation of net periodic pension cost. See Note 11.

#### 14. Information on Business Segments

The Company is organized based upon the nature of its products and services. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has not aggregated operating segments for purposes of identifying reportable segments.

The Industrial segment is a global manufacturer of highly-engineered, high-quality precision parts, products and systems for critical applications serving a diverse customer base in end-markets such as transportation, industrial equipment, consumer products, packaging, electronics, medical devices, and energy. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby the customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Industrial designs and manufactures customized hot runner systems and precision mold assemblies - the enabling technologies for many complex injection molding applications. It is a leading manufacturer and supplier of precision mechanical products, including precision mechanical springs and nitrogen gas products. Industrial 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. Industrial is equipped to produce virtually every type of precision spring, from fine hairsprings for electronics and instruments to large heavy-duty springs for machinery.

The Aerospace segment produces precision-machined and fabricated components and assemblies for original equipment manufacturer ("OEM") turbine engine, airframe and industrial gas turbine builders throughout the world, and the military. Aerospace also provides jet engine component overhaul and repair ("MRO") services for many of the world's major turbine engine manufacturers, commercial airlines and the military. MRO activities include the manufacture and delivery of aerospace aftermarket spare parts, including the RSPs under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program, and

component repairs.

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The following tables set forth information about the Company's operations by its two reportable segments:

|   | Three months ended March 31, |                   |
|---|------------------------------|-------------------|
|   | 2014                         | 2013              |
| Net sales   |                              |                   |
| Industrial  | \$203,888                    | \$165,502         |
| Aerospace   | 108,212                      | 98,045            |
| Intersegment sales                                    | (1                           | ) (2              |
| Total net sales                                       | \$312,099                    | \$263,545         |
| Operating profit                                      |                              |                   |
| Industrial  | \$19,374                     | \$14,609          |
| Aerospace   | 15,750                       | 10,346            |
| Total operating profit                                | 35,124                       | 24,955            |
| Interest expense                                      | 3,319                        | 4,357             |
| Other expense (income), net                           | 234                          | 966               |
| Income from continuing operations before income taxes | \$31,571                     | \$19,632          |
|   | March 31, 2014               | December 31, 2013 |
| Assets  |                              |                   |
| Industrial  | \$1,421,029                  | \$1,410,400       |
| Aerospace   | 576,336                      | 567,080           |
| Other <sup>(A)</sup>                                  | 137,302                      | 146,193           |
| Total assets  | \$2,134,667                  | \$2,123,673       |

(A) "Other" assets include corporate-controlled assets, the majority of which are cash and deferred tax assets.

## 15. Commitments and Contingencies

### Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. Product warranty liabilities were not material as of March 31, 2014 and December 31, 2013.

### Income Taxes

On April 16, 2013, the United States Tax Court rendered an unfavorable decision in the matter Barnes Group Inc. and Subsidiaries v. Commissioner of Internal Revenue ("Tax Court Decision"). The Tax Court rejected the Company's objections and imposed penalties. The case involved IRS proposed adjustments of approximately \$16,500, plus a 20% penalty and interest for the tax years 1998, 2000 and 2001.

The case arose out of an Internal Revenue Service ("IRS") audit for the tax years 2000 through 2002. 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. Subsequently, in November 2009, the Company filed a petition against the IRS in the United States Tax Court, contesting the tax assessment. A trial was held and all briefs were filed in 2012. In April 2013 the Tax Court Decision was then issued rendering an unfavorable decision against the Company and imposing penalties. As a result of the unfavorable Tax Court Decision, the Company

recorded an additional tax charge during 2013 for \$16,428.

In November 2013, the Company made a cash payment of approximately \$12,700 related to tax, interest and penalties and utilized a portion of its net operating losses. The Company also submitted a notice of appeal of the Tax Court Decision to the United States Court of Appeals for the Second Circuit. The Company filed its formal appeal with the United States Court of Appeals for the Second Circuit on February 13, 2014. The Company does not expect a decision until 2015.

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## 16. Accounting Changes

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance related to the financial statement presentation of an unrecognized tax benefit when certain tax losses or tax credit carryforwards exist. This guidance requires that companies present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The provisions of the amended guidance were effective for the Company, and adopted, in the first quarter of 2014. The provisions did not have a material impact on the presentation of the Company's consolidated financial statements.

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With respect to the unaudited consolidated financial information of Barnes Group Inc. for the three-month periods ended March 31, 2014 and 2013, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated April 28, 2014 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.



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

We have reviewed the accompanying consolidated balance sheet of Barnes Group Inc. and its subsidiaries as of March 31, 2014 and the related consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2014 and March 31, 2013 and the consolidated statements of cash flows for the three-month periods ended March 31, 2014 and March 31, 2013. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of income and comprehensive income, of changes in stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 25, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP  
Hartford, Connecticut  
April 28, 2014

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

## OVERVIEW

Please refer to the Overview in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Annual Report on Form 10-K and other documents related to the Company are located on the Company's website: [www.bginc.com](http://www.bginc.com).

## First Quarter 2014 Highlights

In the first quarter of 2014, sales increased by \$48.6 million, or 18.4% from the first quarter of 2013, to \$312.1 million. This increase was driven primarily by a \$38.0 million sales contribution from the Männer Business. Organic sales, driven by the Aerospace segment, increased by \$9.8 million, or 3.7%. Organic growth within the Industrial segment declined slightly.

Operating income in the first quarter of 2014 increased 40.7% to \$35.1 million from the first quarter of 2013 and operating margin increased from 9.5% to 11.3%. Operating income benefited from the profit contribution of both the Männer Business and increased organic sales, partially offset by \$4.9 million of short-term purchase accounting adjustments related to the acquisition of the Männer Business and \$2.8 million of pre-tax restructuring charges related to the closure of production operations at the facility in Saline, Michigan. Operating income during the first quarter of 2013 included \$10.5 million of non-recurring stock compensation expenses related to the modification of outstanding equity awards granted to the former Chief Executive Officer ("CEO transition costs").

In March 2014, the Company authorized the closure of production operations ("Saline operations") at its Associated Spring facility located in Saline, Michigan ("the Closure"). The Saline operations primarily manufacture certain automotive engine valve springs. The Closure is expected to be completed mid-year 2014.

## RESULTS OF OPERATIONS

## Net Sales

| (in millions)      | Three months ended March 31, |         |        |      |   |
|--------------------|------------------------------|---------|--------|------|---|
|                    | 2014                         | 2013    | Change |      |   |
| Industrial         | 203.9                        | 165.5   | 38.4   | 23.2 | % |
| Aerospace          | \$108.2                      | \$98.0  | \$10.2 | 10.4 | % |
| Intersegment sales | —                            | —       | —      | —    | % |
| Total              | \$312.1                      | \$263.5 | \$48.6 | 18.4 | % |

The Company reported net sales of \$312.1 million in the first quarter of 2014, an increase of \$48.6 million or 18.4%, from the first quarter of 2013. The acquisition of the Männer Business in 2013 provided \$38.0 million of net sales during the first quarter of 2014. Organic sales increased by \$9.8 million, as \$10.2 million of organic growth at Aerospace was partially offset by a decline of \$0.4 million at Industrial. The weakening of the U.S. dollar against foreign currencies increased net sales by approximately \$0.8 million.



## Expenses and Operating Income

| (in millions)                       | Three months ended March 31, |         |        |      |   |
|-------------------------------------|------------------------------|---------|--------|------|---|
|                                     | 2014                         | 2013    | Change |      |   |
| Cost of sales                       | \$214.6                      | \$177.7 | \$36.8 | 20.7 | % |
| % sales                             | 68.8                         | % 67.4  | %      |      |   |
| Gross profit <sup>(1)</sup>         | \$97.5                       | \$85.8  | \$11.7 | 13.6 | % |
| % sales                             | 31.2                         | % 32.6  | %      |      |   |
| Selling and administrative expenses | \$62.4                       | \$60.9  | \$1.5  | 2.5  | % |
| % sales                             | 20.0                         | % 23.1  | %      |      |   |
| Operating income                    | \$35.1                       | \$25.0  | \$10.2 | 40.7 | % |
| % sales                             | 11.3                         | % 9.5   | %      |      |   |

(1) Sales less cost of sales.

Cost of sales in the first quarter of 2014 increased 20.7% from the 2013 period, while gross profit margin decreased from 32.6% in the 2013 period to 31.2% in the 2014 period. Gross margins declined at both Industrial and Aerospace. The acquisition of the Männer Business resulted in a higher percentage of sales being driven by Industrial during the 2014 period. Gross profit benefits from the Männer Business were partially offset by the \$3.3 million of short-term purchase accounting adjustments related to the acquisition of the Männer Business and charges of \$2.3 million related to the Closure of the Saline operations. Selling and administrative expenses in the first quarter of 2014 increased 2.5% from the 2013 period due primarily to the incremental operations of the Männer Business, \$1.6 million of short-term purchase accounting adjustments related to the acquisition of the Männer Business and \$0.5 million of charges related to the Closure of the Saline operations. As a percentage of sales, selling and administrative costs decreased from 23.1% in the first quarter of 2013 to 20.0% in the 2014 period as the 2013 period included CEO transition costs of \$10.5 million. Operating income in the first quarter of 2014 increased 40.7% to \$35.1 million from the first quarter of 2013 and operating income margin increased from 9.5% to 11.3%.

## Interest expense

Interest expense decreased by \$1.0 million in the first quarter of 2014 compared to the prior year amount, primarily the result of lower average borrowings under the Amended Credit Agreement.

## Other expense (income), net

Other expense (income), net in the first quarter of 2014 was \$0.2 million compared to \$1.0 million in the first quarter of 2013. The decrease was primarily due to changes in foreign exchange net transaction losses during the period.

## Income Taxes

The Company's effective tax rate from continuing operations for the first quarter of 2014 was 27.9% compared with 21.4% in the first quarter of 2013 and 32.8% for the full year 2013 which includes the impact of \$16.4 million of tax expense related to the April 16, 2013 U.S. Tax Court Decision (see below). Excluding the impact of the U.S. Tax Court Decision, the Company's effective tax rate from continuing operations for full year 2013 was 17.5%. The increase in the first quarter 2014 effective tax rate from the full year 2013 rate, as adjusted for the U.S. Tax Court Decision, is primarily due to the a change in the mix of earnings attributable to higher-taxing jurisdictions or jurisdictions where losses cannot be benefited in 2014, the expiration of certain tax holidays and the increase in planned repatriation of a portion of current foreign earnings to the U.S.

The Aerospace and Industrial segments were previously awarded international tax holidays. All of the tax holidays for which the Company currently receives benefit are expected to expire in 2014 through 2016.

On April 16, 2013, the United States Tax Court rendered an unfavorable decision in the matter Barnes Group Inc. and Subsidiaries v. Commissioner of Internal Revenue ("Tax Court Decision"). The Tax Court rejected the Company's

objections and imposed penalties. The case involved IRS proposed adjustments of approximately \$16.4 million, plus a 20% penalty and interest for the tax years 1998, 2000 and 2001.

The case arose out of an Internal Revenue Service (“IRS”) audit for the tax years 2000 through 2002. 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. Subsequently, in November 2009, the Company filed a petition against the IRS in

the United States Tax Court, contesting the tax assessment. A trial was held and all briefs were filed in 2012. In April 2013 the Tax Court Decision was then issued rendering an unfavorable decision against the Company and imposing penalties. As a result of the unfavorable Tax Court Decision, the Company recorded an additional tax charge during 2013 for \$16.4 million.

In November 2013, the Company made a cash payment of approximately \$12.7 million related to tax, interest and penalties and utilized a portion of its net operating losses. The Company also submitted a notice of appeal of the Tax Court Decision to the United States Court of Appeals for the Second Circuit. The Company filed its formal appeal with the United States Court of Appeals for the Second Circuit on February 13, 2014. The Company does not expect a decision until 2015.

#### Discontinued Operations

In April 2013, the Company completed the sale of its Barnes Distribution North America business ("BDNA") to MSC Industrial Direct Co., Inc. ("MSC"). The results of BDNA were segregated and presented as discontinued operations during the first quarter of 2013. The Company recorded a \$2.0 million loss from discontinued operations during the 2013 period. The loss relates to the income generated by the operations of BDNA, more than offset by transaction expenses associated with the BDNA sale, charges related to the pension plans held by BDNA and a final adjustment related to a retained liability at the Barnes Distribution Europe businesses. See Note 2 of the Consolidated Financial Statements.

#### Income and Income per Share

| (in millions, except per share)                        | Three months ended March 31, |         |        |        |   |
|--|------------------------------|---------|--------|--------|---|
|  | 2014                         | 2013    | Change |        |   |
| Income from continuing operations                      | \$22.8                       | \$15.4  | \$7.3  | 47.4   | % |
| Loss from discontinued operations, net of income taxes | —                            | (2.0 )  | 2.0    | NM     |   |
| Net income   | \$22.8                       | \$13.5  | \$9.3  | 68.9   | % |
| Per common share:                                      |                              |         |        |        |   |
| Basic:   |                              |         |        |        |   |
| Income from continuing operations                      | \$0.42                       | \$0.29  | \$0.13 | 44.8   | % |
| Loss from discontinued operations, net of income taxes | —                            | (0.04 ) | 0.04   | NM     |   |
| Net income   | \$0.42                       | \$0.25  | \$0.17 | 68.0   | % |
| Diluted:   |                              |         |        |        |   |
| Income from continuing operations                      | \$0.41                       | \$0.28  | \$0.13 | 46.4   | % |
| Loss from discontinued operations, net of income taxes | —                            | (0.04 ) | 0.04   | NM     |   |
| Net income   | \$0.41                       | \$0.24  | \$0.17 | 70.8   | % |
| Weighted average common shares outstanding:            |                              |         |        |        |   |
| Basic  | 54.7                         | 54.7    | —      | (0.2 ) | % |
| Diluted  | 56.0                         | 55.5    | 0.4    | 0.8    | % |

NM - Not meaningful

In the first quarter of 2014, basic and diluted income from continuing operations per common share increased 44.8% and 46.4%, respectively, from the first quarter of 2013. The increases were directly attributable to the increase in income from continuing operations for the period. Basic weighted average common shares outstanding decreased slightly due to the repurchase of 220,794 and 2,350,697 shares during 2014 and 2013, respectively, as part of the repurchase program. Diluted weighted average common shares outstanding increased as a result of an increase in the dilutive effect of potentially issuable shares given an increase in the Company's stock price and the modification of outstanding equity awards granted to the former Chief Executive Officer in the first quarter of 2013.



## Financial Performance by Business Segment

## Industrial

| (in millions)    | Three months ended March 31, |         |        |      |   |
|------------------|------------------------------|---------|--------|------|---|
|                  | 2014                         | 2013    | Change |      |   |
| Sales            | \$203.9                      | \$165.5 | \$38.4 | 23.2 | % |
| Operating profit | 19.4                         | 14.6    | 4.8    | 32.6 | % |
| Operating margin | 9.5                          | % 8.8   | %      |      |   |

Sales at Industrial were \$203.9 million in the first quarter of 2014, a \$38.4 million increase from the first quarter of 2013. The acquisition of the Männer Business in 2013 provided \$38.0 million of sales. Organic sales declined by \$0.4 million during the 2014 period. Sales benefited from foreign currency translation which increased sales by approximately \$0.8 million as the U.S. dollar weakened against foreign currencies.

Operating profit in the first quarter of 2014 at Industrial was \$19.4 million, an increase of \$4.8 million from the first quarter of 2013. Operating profit benefited primarily from the profit contribution of the Männer Business, partially offset by \$4.9 million of short-term purchase accounting adjustments related to the acquisition and \$2.8 million of pre-tax restructuring charges related to the Closure of the Saline operations. Operating income during the first quarter of 2013 included CEO transition costs of \$6.6 million that were allocated to the Industrial segment.

Outlook: In the Industrial manufacturing businesses, management is focused on generating organic sales growth through the introduction of new products and by leveraging the benefits of the diversified products and industrial end-markets in which its businesses have a global presence. The Company also remains focused on sales growth through acquisition and expanding geographic reach. Synventive, acquired in 2012, added new innovative products and services and has expanded the Company's global marketplace presence. The Männer Business, acquired in 2013, is expected to further provide additional differentiated products and services through the manufacture of high precision molds, valve gate hot runner systems, and system solutions for the medical/pharmaceutical, packaging, and personal care/health care industries. Our ability to generate sales growth is subject to economic conditions in the global markets served by all of our businesses. Order activity in certain end-markets may provide extended sales growth. Strategic investments in new technologies, manufacturing processes and product development are expected to provide incremental benefits in the long term.

Operating profit is largely dependent on the sales volumes and mix within all businesses of the segment. Management continues to focus on improving profitability through leveraging organic sales growth, acquisitions, pricing initiatives, and productivity and process improvements. Costs associated with increases in new product and process introductions, strategic investments and the integration of acquisitions may negatively impact operating profit.

## Aerospace

| (in millions)    | Three months ended March 31, |        |        |      |   |
|------------------|------------------------------|--------|--------|------|---|
|                  | 2014                         | 2013   | Change |      |   |
| Sales            | \$108.2                      | \$98.0 | \$10.2 | 10.4 | % |
| Operating profit | 15.8                         | 10.3   | 5.4    | 52.2 | % |
| Operating margin | 14.6                         | % 10.6 | %      |      |   |

The Aerospace segment reported sales of \$108.2 million in the first quarter of 2014, a 10.4% increase from the first quarter of 2013. Sales increased within the original equipment manufacturing ("OEM") business and the aftermarket business. Within aftermarket, a sales increase within the repair and overhaul business ("MRO") was partially offset by lower sales in the spare parts business. Increased sales within the OEM business reflected continued strength in demand for new engines, driven by increased commercial aircraft production. The aftermarket repair and overhaul



sales growth was driven by increased levels of commercial engine maintenance.

Operating profit at Aerospace in the first quarter of 2014 increased 52.2% from the first quarter of 2013 to \$15.8 million, driven primarily by the profit contributions of increased sales in the OEM and MRO businesses, partially offset by lower profits in the spare parts business. Operating income during the first quarter of 2013 included CEO transition costs of \$3.9 million that were allocated to the segment. Operating margin increased from 10.6% in the 2013 period to 14.6% in the 2014 period.

Outlook: Sales in the Aerospace OEM business are based on the general state of the aerospace market driven by the worldwide economy and are supported by its order backlog through participation in certain strategic commercial and military engine and airframe programs. Backlog in this business was \$544.9 million at March 31, 2014, of which approximately 61% is expected to be shipped in the next 12 months. The Aerospace OEM business may be impacted by adjustments of customer inventory levels, commodity availability and pricing, changes in the content levels on certain platforms, including insourcing, changes in production schedules of specific engine and airframe programs, as well as the pursuit of new programs. Sales levels in the Aerospace aftermarket repair and overhaul business are expected to be impacted by fluctuations in end-market demand and changes in customer insourcing. Management continues to believe its Aerospace aftermarket business is competitively positioned based on well-established long-term customer relationships, including maintenance and repair contracts in the repair and overhaul business and long-term RSP and Component Repair Program ("CRP"), expanded capabilities and current capacity levels.

Management is focused on growing operating profit at Aerospace primarily through leveraging organic sales growth, productivity initiatives, new product and process introductions and continued cost management. Operating profit is expected to be affected by the impact of changes in sales volume, mix and pricing, particularly as it relates to the highly profitable aftermarket RSP spare parts business, and investments made in each of its businesses. Management actively manages commodity price increases through pricing actions and other productivity initiatives. Costs associated with increases in new product and process introductions and the physical transfer of work to lower cost manufacturing regions may negatively impact operating profit.

#### 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. Management continues to focus on cash flow and working capital management, and anticipates that operating activities in 2014 will generate adequate cash. The Company closely monitors its cash generation, usage and preservation including the management of working capital to generate cash.

As of March 20, 2014, the 3.375% Convertible Notes ("Notes") are subject to redemption at their par value at any time, at the option of the Company. The note holders had the option to require the Company to redeem some or all of the Notes on April 11, 2014. As such, the balance of these Notes of \$55,636 (par value) and the related deferred tax balances are classified as current in the accompanying balance sheet as of March 31, 2014. None of the Notes were redeemed by the note holders on April 11, 2014. The note holders may also require the Company to redeem some or all of the notes at their par value on March 15<sup>th</sup> of 2017 and 2022. The 3.375% Convertible Notes are also eligible for conversion upon meeting certain conditions as provided in the indenture agreement including the closing stock price for 20 of the last 30 trading days in the preceding quarter being greater than or equal to 130% of the conversion price (the "conversion price eligibility requirement"). The eligibility for conversion is determined quarterly. During the first quarter of 2014, the 3.375% Convertible Notes were not eligible for conversion. During the second quarter of 2014, the 3.375% Convertible Notes will be eligible for conversion due to meeting the conversion price eligibility requirement and on March 20, the Company formally notified the note holders that they are entitled to convert the Notes. The first \$1 of the conversion value of each note would be paid in cash and the additional conversion value, if any, would be paid in cash or common stock, at the option of the Company. Payment on the 3.375% Convertible Notes, if required by note holders, is expected to be financed through internal cash, borrowings under its Credit Facility and the sale of debt securities, or a combination thereof.

In September 2013, the Company entered into a second amendment to its fifth amended and restated revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as Administrative Agent for the lenders. The Amended Credit Agreement extends the maturity date of the debt facility by two years from September 2016 to September 2018 and includes an option to extend the maturity date for an additional year, subject to certain conditions. The Amended Credit Agreement added a new foreign subsidiary borrower in Germany, Barnes Group Acquisition GmbH, maintained the borrowing availability of the Company at \$750.0 million and adds an accordion feature to increase this amount to \$1,000.0 million. The borrowing availability of \$750.0 million, pursuant to the terms of the Amended Credit Agreement, allows for Euro-denominated borrowings equivalent to \$500.0 million. Euro-denominated borrowings are subject to foreign currency translation adjustments that are included within accumulated other non-owner changes to equity. The Company may exercise the accordion feature upon request to the Administrative Agent as long as an event of default has not occurred or is continuing. Borrowings under the Amended Credit Agreement continue to bear interest at LIBOR plus a spread ranging from 1.10% to

1.70%. The Company paid fees and expenses of \$1.3 million in conjunction with executing the Amended Credit Agreement; such fees will be deferred and amortized into interest expense on the accompanying Consolidated Statements of Income through its maturity.

The Company's borrowing capacity remains limited by various debt covenants in the Amended Credit Agreement, certain of which were amended in September 2013. The Amended Credit Agreement requires the Company to maintain a ratio of Consolidated Senior Debt, as defined in the Amended Credit Agreement, to Consolidated EBITDA, as defined, of not more than 3.25 times at the end of each fiscal quarter ("Senior Debt Ratio"), a ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA of not more than 4.00 times at the end of each fiscal quarter, and a ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25 times at the end of each fiscal quarter. The Amended Credit Agreement also provides that in connection with certain permitted acquisitions with aggregate consideration in excess of \$150.0 million, the Consolidated Senior Debt to EBITDA ratio and the Consolidated Total Debt to EBITDA ratio are permitted to increase to 3.50 times and 4.25 times, respectively, for a period of the four fiscal quarters ending after the closing of the acquisition. In October 2013, the Company completed the acquisition of the Männer Business, a permitted transaction pursuant to the terms of the Amended Credit Agreement. At March 31, 2014, the Company was in compliance with all financial covenants under the Amended Credit Agreement. The Company's most restrictive financial covenant is the Senior Debt Ratio which requires the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.50 times at March 31, 2014. The actual ratio at March 31, 2014 was 2.10 times.

Operating cash flow may be supplemented with external borrowings to meet near-term business expansion needs and the Company's current financial commitments. The Company has assessed its credit facilities in conjunction with the September 27, 2013 refinancing and currently expects that its bank syndicate, comprised of 17 banks, will continue to support its Amended Credit Agreement which matures in September 2018. At March 31, 2014, the Company had \$249.2 million unused and available for borrowings under its \$750.0 million Amended Credit Facility, subject to covenants in the Company's debt agreements. At March 31, 2014, additional borrowings of \$464.0 million of Total Debt and \$338.7 million of Senior Debt would have been allowed under the financial covenants. Additional funds may be used, as needed, to support the Company's ongoing growth initiatives. The Company believes its credit facilities and access to capital markets, coupled with cash generated from operations, are adequate for its anticipated future requirements.

In 2012, the Company entered into five-year interest rate swap agreements transacted with three banks which together convert the interest on the first \$100.0 million of borrowings under the Company's Credit Agreement from a variable rate plus the borrowing spread to a fixed rate of 1.03% plus the borrowing spread for the purpose of mitigating its exposure to variable interest rates.

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, under a Rule 10b5-1 trading plan, 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)        | Three months ended March 31, |        |         |
|----------------------|------------------------------|--------|---------|
|                      | 2014                         | 2013   | Change  |
| Operating activities | \$17.0                       | \$17.7 | \$(0.7) |
| Investing activities | (15.2)                       | (11.4) | (3.7)   |
| Financing activities | (11.0)                       | 8.3    | (19.4)  |
| Exchange rate effect | (0.2)                        | (1.0)  | 0.8     |



Investing activities in the 2014 and 2013 periods primarily consisted of capital expenditures of \$15.1 million and \$10.1 million, respectively. The Company expects capital spending in 2014 to approximate \$60 million.

Financing activities in the first three months of 2014 included a net increase in borrowings of \$13.7 million compared to \$23.5 million in the comparable 2013 period. In addition, financing activities in the 2014 period included the payment of an assumed liability to the seller in connection with the acquisition of the Männer Business. Proceeds from the issuance of common stock were \$7.3 million and \$2.7 million in the 2014 and 2013 periods, respectively. During the three months ended March 31, 2014 and March 31, 2013, the Company repurchased 0.2 million and 0.5 million shares, respectively, of the Company's stock. The cost of the repurchases was \$8.4 million in the 2014 period and \$12.9 million in the 2013 period. Total cash used to pay dividends was \$6.0 million in the 2014 period compared to \$5.4 million in the 2013 period.

At March 31, 2014, the Company held \$61.4 million in cash and cash equivalents, the majority of which was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and are expected to primarily fund international investments. The Company has not repatriated any portion of current year foreign earnings to the U.S. during the first three months of 2014; however, repatriations of a portion of current year foreign earnings are planned during the remainder of 2014.

The Company maintains borrowing facilities with banks to supplement internal cash generation. At March 31, 2014, \$500.8 million was borrowed at an interest rate of 1.30% under the Company's amended \$750.0 million Credit Facility which matures in September 2018. In addition, as of March 31, 2014, the Company had \$1.0 million in borrowings under short-term bank credit lines. At March 31, 2014, the Company's total borrowings were comprised of approximately 28% fixed rate debt and approximately 72% variable rate debt. The interest payments on approximately \$100.0 million of the variable rate interest debt have been converted into payment of fixed interest plus the borrowing spread under the terms of the respective interest rate swaps that were executed in April 2012.

#### Debt Covenants

Borrowing capacity is limited by various debt covenants in the Company's debt agreements. As of March 31, 2014, the most restrictive financial covenant is included within the Amended Credit Agreement and requires the Company to maintain a maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, of not more than 3.25 times for the four fiscal quarters then ending. The Company's Amended Credit Agreement also contains other financial covenants that require the maintenance of a certain other debt ratio, Consolidated Total Debt, as defined, to Consolidated EBITDA of not more than 4.00 times and a certain interest coverage ratio, Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of at least 4.25 times, at March 31, 2014. The Amended Credit Agreement also provides that in connection with certain permitted acquisitions with aggregate consideration in excess of \$150.0 million, the Consolidated Senior Debt to EBITDA ratio and the Consolidated Total Debt to EBITDA ratio are permitted to increase to 3.50 times and 4.25 times, respectively, for a period of the four fiscal quarters ending after the closing of the acquisition. On October 31, 2013, the Company completed the acquisition of the Männer Business, a permitted transaction pursuant to the terms of the Amended Credit Agreement. Following is a reconciliation of Consolidated EBITDA to the Company's net income (in millions):

|   | Four fiscal quarters ended<br>March 31, 2014 |
|---|--|
| Net income  | \$279.8                                      |
| Add back:   |  |
| Interest expense  | 12.1   |
| Income taxes  | 39.9   |
| Depreciation and amortization   | 69.3   |
| Income from discontinued operations, net of income taxes                      | (200.2)                                      |
| Adjustment for acquired businesses  | 23.8   |
| Adjustment for non-cash stock based compensation                              | 6.8  |
| Amortization of Männer acquisition inventory step-up                          | 6.9  |
| Restructuring charges   | 2.2  |
| Due diligence and transaction expenses  | 1.5  |
| Other adjustments   | (0.9)  |
| Consolidated EBITDA, as defined   | \$241.3                                      |
| <br>  |  |
| Consolidated Senior Debt, as defined, as of March 31, 2014                    | \$505.7                                      |
| Ratio of Consolidated Senior Debt to Consolidated EBITDA<br>Maximum           | 2.10<br>3.50                                 |
| Consolidated Total Debt, as defined, as of March 31, 2014                     | \$561.3                                      |
| Ratio of Consolidated Total Debt to Consolidated EBITDA<br>Maximum            | 2.33<br>4.25                                 |
| Consolidated Cash Interest Expense, as defined, as of March 31, 2014          | \$11.3                                       |
| Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense<br>Minimum | 21.36<br>4.25                                |

The income from discontinued operations, net of income taxes, reflects income associated with BDNA (including gain on sale). The adjustment for acquired businesses reflects the unaudited pre-acquisition operations of the Männer business for the seven-month period ended October 31, 2013. The restructuring charges represent charges recorded in the first quarter of 2014 related to the closure of production operations at the Associated Spring facility located in Saline, Michigan. Other adjustments primarily consist of net gains on the sale of assets. The Company's financial covenants are measured as of the end of each fiscal quarter. At March 31, 2014, additional borrowings of \$464.0 million of Total Debt and \$338.7 million of Senior Debt would have been allowed under the covenants. Senior Debt includes primarily the borrowings under the Credit Facility and the borrowings under lines of credit. The Company's unused credit facilities at March 31, 2014 were \$249.2 million.

## OTHER MATTERS

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 Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The most significant areas involving management judgments and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes to such judgments and estimates. Actual results could differ from those estimates.

## EBITDA

EBITDA for the first three months of 2014 was \$55.7 million compared to \$38.8 million in the first three months of 2013. EBITDA is a measurement not in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Company defines EBITDA as net income plus interest expense, income taxes and depreciation and amortization which the Company incurs in the normal course of business. The Company does not intend EBITDA to represent cash flows from operations as defined by GAAP, and the reader should not consider it as an alternative to net income, net cash



provided by operating activities or any other items calculated in accordance with GAAP, or as an indicator of the Company's operating performance. The Company's definition of EBITDA may not be comparable with EBITDA as defined by other companies. Accordingly, the measurement has limitations depending on its use. The Company believes EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors.

Following is a reconciliation of EBITDA to the Company's net income (in millions):

|                               | Three months ended March 31, |        |
|-------------------------------|------------------------------|--------|
|                               | 2014                         | 2013   |
| Net income                    | \$22.8                       | \$13.5 |
| Add back:                     |                              |        |
| Interest expense              | 3.3                          | 4.4    |
| Income taxes                  | 8.8                          | 4.4    |
| Depreciation and amortization | 20.8                         | 16.5   |
| EBITDA                        | \$55.7                       | \$38.8 |

#### FORWARD-LOOKING STATEMENTS

Certain of the statements in this quarterly report contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "strategy," "estimate," "project," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, including unionized employees, customers, distributors, suppliers, business partners or governmental entities; potential strikes or work stoppages; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect intellectual property rights; introduction or development of new products or transfer of work; higher risks in international operations and markets; the impact of intense competition; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The risks and uncertainties described in our periodic filings with the SEC include, among others, uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including insourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; changes in raw material or product prices and availability; integration of acquired businesses including the Männer business; restructuring costs or savings including those related to the planned closure of production operations at the Company's facility in Saline, Michigan; the continuing impact of strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies and uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, economic, business, competitive, environmental, regulatory and public health nature. The Company assumes no obligation to update our forward-looking statements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the Company's exposure to market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon, and as of the date of, our evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects and designed to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported as and when required and

(ii) is accumulated and communicated to the Company's management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the Company's first fiscal quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

On April 16, 2013, the United States Tax Court rendered an unfavorable decision in the matter Barnes Group Inc. and Subsidiaries v. Commissioner of Internal Revenue (“Tax Court Decision”). The Tax Court rejected the Company's objections and imposed penalties. The case involved IRS proposed adjustments of approximately \$16.4 million, plus a 20% penalty and interest for the tax years 1998, 2000 and 2001.

The case arose out of an Internal Revenue Service (“IRS”) audit for the tax years 2000 through 2002. 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. Subsequently, in November 2009, the Company filed a petition against the IRS in the United States Tax Court, contesting the tax assessment. A trial was held and all briefs were filed in 2012. In April 2013 the Tax Court Decision was then issued rendering an unfavorable decision against the Company and imposing penalties. As a result of the unfavorable Tax Court Decision, the Company recorded an additional tax charge during 2013 for \$16.4 million.

In November 2013, the Company made a cash payment of approximately \$12.7 million related to tax, interest and penalties and utilized a portion of its net operating losses. The Company also submitted a notice of appeal of the Tax Court Decision to the United States Court of Appeals for the Second Circuit. The Company filed its formal appeal with the United States Court of Appeals for the Second Circuit on February 13, 2014. The Company does not expect a decision until 2015.

In addition, we are subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending against us and our subsidiaries. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Issuer Purchases of Equity Securities

| Period              | (a)<br>Total Number of<br>Shares (or Units)<br>Purchased | (b)<br>Average Price<br>Paid Per Share<br>(or Unit) | (c)<br>Total Number<br>of Shares (or<br>Units)<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares (or Units)<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs <sup>(1)</sup> |
|---------------------|--|---|---|---|
| January 1-31, 2014  | 276  | \$38.31   | —   | 2,649,303   |
| February 1-28, 2014 | 12,287   | \$36.82   | —   | 2,649,303   |
| March 1-31, 2014    | 220,794  | \$37.99   | 220,794   | 2,428,509   |

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|       |         |             |         |
|-------|---------|-------------|---------|
| Total | 233,357 | (2) \$37.93 | 220,794 |
|-------|---------|-------------|---------|

(1) The Program was publicly announced on October 20, 2011 (the "2011 Program") authorizing repurchase of up to 5.0 million shares of common stock. At December 31, 2012, 3.8 million shares of common stock had not been purchased under the 2011 Program. On February 21, 2013, the Board of Directors of the Company increased the number of shares authorized for repurchase under the 2011 Program by 1.2 million shares of common stock. The 2011 Program permits open market purchases, purchases under a Rule 10b5-1 trading plan and privately negotiated transactions.

(2) Other than 220,794 shares purchased in the first quarter of 2014, which were purchased as part of the Company's 2011 Program, all acquisitions of equity securities during the first quarter of 2014 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

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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.

Item 6. Exhibits

(a) Exhibits

|                 |  |
|-----------------|--|
| Exhibit 10.1    | Form of Barnes Group Inc. Executive Officer Severance Agreement, effective February 19, 2014.                          |
| Exhibit 10.2    | Offer Letter to Scott A. Mayo, dated January 28, 2014.   |
| Exhibit 15      | Letter regarding unaudited interim financial information.  |
| Exhibit 31.1    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 31.2    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 32      | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 101.INS | XBRL Instance Document.  |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document.   |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| Exhibit 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.  |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.   |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.  |

SIGNATURES

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

Barnes Group Inc.  
(Registrant)

Date: April 28, 2014

/s/ CHRISTOPHER J. STEPHENS, JR.  
Christopher J. Stephens, Jr.  
Senior Vice President, Finance  
Chief Financial Officer  
(Principal Financial Officer)

Date: April 28, 2014

/s/ MARIAN ACKER  
Marian Acker  
Vice President, Controller  
(Principal Accounting Officer)



EXHIBIT INDEX

Barnes Group Inc.

Quarterly Report on Form 10-Q

For the Quarter ended March 31, 2014

| Exhibit No.     | Description  | Reference                   |
|-----------------|--|-----------------------------|
| 10.1            | Form of Barnes Group Inc. Executive Officer Severance Agreement, effective February 19, 2014.                          | Filed with this report.     |
| 10.2            | Offer Letter to Scott A. Mayo, dated January 28, 2014.   | Filed with this report.     |
| 15              | Letter regarding unaudited interim financial information.  | Filed with this report.     |
| 31.1            | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   | Filed with this report.     |
| 31.2            | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   | Filed with this report.     |
| 32              | Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished with this report. |
| Exhibit 101.INS | XBRL Instance Document.  | Filed with this report.     |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document.   | Filed with this report.     |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.   | Filed with this report.     |
| Exhibit 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.  | Filed with this report.     |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.   | Filed with this report.     |
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