BARNES GROUP INC
Form 10-K
February 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4801

BARNES GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0247840
(State of incorporation)	(I.R.S. Employer Identification No.)
123 Main Street, Bristol, Connecticut	06010
(Address of Principal Executive Office)	(Zip Code)

(860) 583-7070
Registrant's telephone number, including area code

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting stock (Common Stock) held by non-affiliates of the registrant as of the close of business on June 30, 2014 was approximately $1,968,076,394 based on the closing price of the Common Stock on the New York Stock Exchange on that date. The registrant does not have any non-voting common equity.

The registrant had outstanding 54,628,975 shares of common stock as of February 18, 2015.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 8, 2015 are incorporated by reference into Part III.

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This Annual Report on Form 10-K 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 1 "Business" of this Annual Report on Form 10-K.

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PART I

Item 1. Business

BARNES GROUP INC. [1]

Founded in 1857, Barnes Group Inc. (the Company") is an international industrial and aerospace manufacturer and service provider, serving a wide range of end markets and customers. The highly engineered products, differentiated industrial technologies, and innovative solutions delivered by the Company are used in far-reaching applications that provide transportation, manufacturing, healthcare products, and technology to the world. The Company's approximately 4,500 skilled and dedicated employees, at more than 60 locations worldwide, are committed to achieving consistent and sustainable profitable growth. We operate under two global business segments: Industrial and Aerospace.

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") pursuant to the terms of the Asset Purchase Agreement dated February 22, 2013 (the "APA") between the Company and MSC. See Note 2 of the Consolidated Financial Statements.

In the first quarter of 2013, the Company realigned its reportable business segments by transferring the Associated Spring Raymond business ("Raymond"), its remaining business within the former Distribution segment, to the Industrial segment. Raymond sells, among other products, springs that are manufactured by one of the Industrial businesses.

In the fourth quarter of 2011, the Company completed the sale of its Barnes Distribution Europe businesses (the "BDE" business). The BDE business was comprised of the Company's European KENT, Toolcom and BD France distribution businesses that were reported within the Company's former Distribution segment. See Note 2 of the Consolidated Financial Statements.

All previously reported financial information has been adjusted on a retrospective basis to reflect the segment realignment and the discontinued operations for all years presented.

INDUSTRIAL

Industrial 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 customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. 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 mechanical springs and nitrogen gas products. Industrial 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.

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. The Männer Business serves as a leader in the development and manufacture of high precision molds, valve gate hot runner systems, and system solutions for the medical/ pharmaceutical, packaging, and personal care/health care industries. The Männer Business includes manufacturing locations in Germany, Switzerland and the United States, and sales and service offices in Europe, the United States, Hong Kong/China and Japan. See Note 3 of the Consolidated Financial Statements.

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(1) As used in this annual report, “Company,” “Barnes Group,” “we” and “ours” refer to the registrant and its consolidated subsidiaries except where the context requires otherwise, and “Industrial” and “Aerospace” refer to the registrant’s segments, not to separate corporate entities.

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During the third quarter of 2012, the Company completed the acquisition of Synventive Molding Solutions ("Synventive"), a leading designer and manufacturer of highly engineered and customized hot runner systems and components. See Note 3 of the Consolidated Financial Statements.

Industrial competes with a broad base of large and small companies engaged in the manufacture and sale of custom metal components and assemblies, precision molds, and hot runner systems. Industrial competes on the basis of quality, service, reliability of supply, engineering and technical capability, geographic reach, product breadth, innovation, design, and price. Industrial has manufacturing, distribution and assembly operations in the United States, Brazil, China, Germany, Mexico, Singapore, Sweden and Switzerland. Industrial also has sales and service operations in the United States, Brazil, Canada, China/Hong Kong, France, India, Italy, Japan, Mexico, the Netherlands, Portugal, Singapore, Slovakia, South Korea, Spain, Thailand and the United Kingdom. Sales by Industrial to its three largest customers accounted for approximately 10% of its sales in 2014.

AEROSPACE

Aerospace is a global provider of precision-machined and fabricated components and assemblies for original equipment manufacturer ("OEM") turbine engine, airframe and industrial gas turbine builders, and the military. The Aerospace aftermarket business provides jet engine component maintenance overhaul and repair ("MRO") services, including our Component Repair Programs (“CRPs”), for many of the world's major turbine engine manufacturers, commercial airlines and the military. The Aerospace aftermarket activities also include the manufacture and delivery of aerospace aftermarket spare parts, including the revenue sharing programs (“RSPs”) under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program.

Aerospace's OEM business supplements the leading jet engine OEM capabilities and competes with a large number of machining and fabrication companies. Competition is based mainly on quality, engineering and technical capability, product breadth, new product introduction, timeliness, service and price. Aerospace's machining and fabrication operations, with facilities in Arizona, Connecticut, Michigan, Ohio, Utah and Singapore, produce critical engine and airframe components through technically advanced manufacturing processes.

The Aerospace aftermarket business supplements jet engine OEMs' maintenance, repair and overhaul capabilities, and competes with the service centers of major commercial airlines and other independent service companies for the repair and overhaul of turbine engine components. The manufacture and supply of aerospace aftermarket spare parts, including those related to the RSPs, are dependent upon the reliable and timely delivery of high-quality components. Aerospace's aftermarket facilities, located in Connecticut, Ohio and Singapore, specialize in the repair and refurbishment of highly engineered components and assemblies such as cases, rotating life limited parts, rotating air seals, turbine shrouds, vanes and honeycomb air seals. Sales by Aerospace to its largest customer, General Electric, accounted for approximately 54% of its sales in 2014. Sales to its next two largest customers in 2014 collectively accounted for approximately 16% of its total sales.

FINANCIAL INFORMATION

The backlog of the Company’s orders believed to be firm at the end of 2014 was $729 million as compared with $758 million at the end of 2013. Of the 2014 year-end backlog, $523 million was attributable to Aerospace and $206 million was attributable to Industrial. Approximately 41% of the Company's year-end backlog is scheduled to be shipped after 2015. The remainder of the Company’s backlog is scheduled to be shipped during 2015.

We have a global manufacturing footprint to service our worldwide customer base. The global economies have a significant impact on the financial results of the business as we have significant operations outside of the United States. For an analysis of our revenue from sales to external customers, operating profit and assets by business

segment, as well as revenues from sales to external customers and long-lived assets by geographic area, see Note 20 of the Consolidated Financial Statements. For a discussion of risks attendant to the global nature of our operations and assets, see Item 1A. Risk Factors.

RAW MATERIALS

The principal raw materials used to manufacture our products are various grades and forms of steel, from rolled steel bars, plates and sheets to high-grade valve steel wires and sheets, various grades and forms (bars, sheets, forgings and castings) of stainless steels, aluminum alloys, titanium alloys, copper alloys, graphite, and iron-based, nickel-based (Inconels) and cobalt-based (Hastelloys) superalloys for complex aerospace applications. Prices for steel, titanium, Inconel, Hastelloys as well as
other specialty materials have periodically increased due to higher demand and, in some cases, reduction of the availability of materials. If this occurs, the availability of certain raw materials used by us or in products sold by us may be negatively impacted.

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RESEARCH AND DEVELOPMENT

Many of the products manufactured by us are custom parts made to customers' specifications. We are also engaged in continuing efforts aimed at discovering and implementing new knowledge that is critical to developing new products, processes and services, significantly improving existing products and services, and developing new applications for existing products and services. Investments in research and development are important to our long-term growth, enabling us to keep pace with changing customer and marketplace needs. We spent approximately $16 million, $15 million and $9 million in 2014, 2013 and 2012, respectively, on research and development activities.

PATENTS AND TRADEMARKS

The Company is a party to certain licenses of intellectual property and holds numerous patents, trademarks, and trade names which are important to certain business units and enhance our competitive position. The Company does not believe, however, that any of these licenses, patents, trademarks or trade names is individually significant to the Company or either of our segments. We maintain procedures to protect our intellectual property (including patents and trademarks) both domestically and internationally. Risk factors associated with our intellectual property are discussed in Item 1A. Risk Factors.

EXECUTIVE OFFICERS OF THE COMPANY

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

ENVIRONMENTAL

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

AVAILABLE INFORMATION

Our Internet address is www.BGInc.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available without charge on our website as soon as reasonably practicable after they are filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC"). In addition, we have posted on our website, and will make available in print to any stockholder who makes a request, our Corporate Governance Guidelines, our Code of Business Ethics and Conduct and the charters of the Audit Committee, Compensation and Management Development Committee and Corporate Governance Committee (the responsibilities of which include serving as the nominating committee) of the Company's Board of Directors. References to our website addressed in this Annual Report are provided as a convenience and do not constitute, and should not be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this Annual Report.

FORWARD-LOOKING STATEMENTS

Certain of the statements in this Annual Report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements 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; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; 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 this Annual Report including, 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; restructuring costs or savings; the

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continuing impact of prior acquisitions and divestitures and any other future strategic actions, including acquisitions, joint ventures, 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 its forward-looking statements.

Item 1A. Risk Factors

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

RISKS RELATED TO OUR BUSINESS

We depend on revenues and earnings from a small number of significant customers. Any bankruptcy of or loss, cancellation, reduction or delay in purchases by these customers could harm our business. In 2014, our net sales to General Electric and its subsidiaries accounted for 19% of our total sales and approximately 54% of Aerospace's net sales. Additionally, approximately 16% of Aerospace's sales in 2014 were to its next two largest customers. Approximately 10% of Industrial's sales in 2014 were to its three largest customers. Some of our success will depend on the business strength and viability of those customers. We cannot assure you that we will be able to retain our largest customers. A tightening in the credit markets may affect our customers' ability to raise debt or equity capital. This may reduce the amount of liquidity available to our customers which may limit their ability to purchase products. Some of our customers may in the future reduce their purchases due to economic conditions or shift their purchases from us to our competitors, in-house or to other sources. Some of our long-term sales agreements provide that until a firm order is placed by a customer for a particular product, the customer may unilaterally reduce or discontinue its projected purchases without penalty, or terminate for convenience. The loss of one or more of our largest customers, any reduction, cancellation or delay in sales to these customers (including a reduction in aftermarket volume in our RSPs), our inability to successfully develop relationships with new customers, or future price concessions we make to retain customers could significantly reduce our sales and profitability.

We have significant indebtedness that could affect our operations and financial condition. At December 31, 2014, we had consolidated debt obligations of $504.7 million, representing approximately 31% of our total capital (indebtedness plus stockholders' equity) as of that date. Our level of indebtedness, proportion of variable rate debt obligations and the significant debt servicing costs associated with that indebtedness may adversely affect our operations and financial condition. For example, our indebtedness could require us to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing the amount of our cash flows available for working capital, capital expenditures, investments in technology and research and development, acquisitions, dividends and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in the industries in which we compete; place us at a competitive disadvantage compared to our competitors, some of whom have lower debt service obligations and greater financial resources than we do; limit our ability to borrow additional funds; or increase our vulnerability to general adverse economic and industry conditions. In addition, conditions in the worldwide credit markets may limit our ability to expand our credit lines beyond current bank commitments.

Economic weakness and uncertainty could adversely affect our operations and financial condition. Prolonged slow growth or a downturn, worsening or broadening of adverse conditions in the worldwide and domestic economies could affect purchases of our products, and create or exacerbate credit issues, cash flow issues and other financial hardships for us and for our suppliers and customers. Depending upon their severity and duration, these conditions

could have a material adverse impact on our business, liquidity, financial condition and results of operations.

Our failure to meet certain financial covenants required by our debt agreements may materially and adversely affect our assets, financial position and cash flows. A majority of our debt arrangements require us to maintain certain debt and interest coverage ratios and limit our ability to incur debt, make investments or undertake certain other business activities. These requirements could limit our ability to obtain future financing and may prevent us from taking advantage of attractive business opportunities. Our ability to meet the financial covenants or requirements in our debt arrangements may be affected by events beyond our control, and we cannot assure you that we will satisfy such covenants and requirements. A breach of these covenants or our inability to comply with the restrictions could result in an event of default under our debt arrangements which, in turn, could result in an event of default under the terms of our other indebtedness. Upon the occurrence of an event of default under our debt arrangements, after the expiration of any grace periods, our lenders could elect to declare all amounts outstanding under our debt arrangements, together with accrued interest, to be immediately due and payable. If this were to

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happen, we cannot assure you that our assets would be sufficient to repay in full the payments due under those arrangements or our other indebtedness or that we could find alternative financing to replace that indebtedness.

Our operations depend on our manufacturing, sales, and service facilities and information systems in various parts of the world which are subject to physical, financial, regulatory, environmental, operational and other risks that could disrupt our operations. We have a significant number of manufacturing facilities and technical service, and sales centers both within and outside the U.S. The international scope of our business subjects us to increased risks and uncertainties such as threats of war, terrorism and instability of governments; compliance with U.S. laws affecting operations outside of the U.S., such as the Foreign Corrupt Practices Act; and economic, regulatory and legal systems in countries in which we or our customers conduct business.

Some of our facilities are located in areas that may be affected by natural disasters, including earthquakes or tsunamis, which could cause significant damage and disruption to the operations of those facilities and, in turn, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, some of our manufacturing equipment and tooling is custom-made and is not readily replaceable. Loss of such equipment or tooling could have a negative impact on our manufacturing business, financial condition, results of operations and cash flows.

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

Any disruption or failure in the operation of our information systems, including from conversions or integrations of information technology or reporting systems, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Our information technology (IT) systems are an integral part of our business. We depend upon our IT systems to help process orders, manage inventory and collect accounts receivable. Our IT systems also allow us to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations, and to help provide superior service to our customers. We are currently in the process of implementing enterprise resource planning (ERP) platforms across certain of our businesses, and we expect that we will need to continue to improve and further integrate our IT systems, on an ongoing basis in order to effectively run our business. If we fail to successfully manage and integrate our IT systems, including these ERP platforms, it could adversely affect our business or operating results.

Further, in the ordinary course of our business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our employees, in our data centers and on our networks. The secure maintenance and transmission of this information is critical to our business operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations, and damage our reputation, which could adversely affect our business, revenues and competitive

position.

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

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

Our ability to recover deferred tax assets depends on future income. From time to time, we may have significant deferred tax assets. The realization of these assets is dependent on our ability to generate future taxable income. In the event we do not generate sufficient taxable income, there could be a material adverse effect on our financial condition and results of operations.

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

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC established disclosure and reporting requirements regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries. These requirements could adversely affect the sourcing and availability of minerals used in the manufacture of certain of our products. As a result, we may not be able to obtain certain materials or products at competitive prices. We have and expect to continue to incur costs to comply with these new requirements, including

for due diligence to identify the sources of any conflict minerals used in our products. Further, we may face reputational risk and other challenges with our customers and suppliers if we are unable to verify sufficiently that the minerals used in our products are conflict free.

We maintain pension and other postretirement benefit plans in the U.S. and certain international locations. Our costs of providing defined benefit plans are dependent upon a number of factors, such as the rates of return on the plans' assets, exchange rate fluctuations, future governmental regulation, global equity prices, and our required and/or voluntary contributions to the plans. Declines in the stock market, prevailing interest rates, declines in discount rates, improvements in mortality rates and rising medical costs may cause an increase in our pension and other postretirement benefit expenses in the future and result in reductions in our pension fund asset values and increases in our pension and other postretirement benefit obligations. These changes have caused and may continue to cause a significant reduction in our net worth and without sustained growth in the pension investments over time to increase the value of the plans' assets, and depending upon the other factors listed above, we could be required to increase funding for some or all of these pension and postretirement plans.

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Our cash is highly concentrated with certain financial institutions. At various times we have a concentration of cash in accounts with financial institutions in the U.S. and around the globe. Our holdings in certain of these institutions significantly exceeded the insured limits of the Federal Deposit Insurance Corporation or their equivalent outside the U.S. at December 31, 2014.

We carry significant inventories and a loss in net realizable value could cause a decline in our net worth. At December 31, 2014, our inventories totaled $212.0 million. Inventories are valued at the lower of cost or market based on management's judgments and estimates concerning future sales levels, quantities and prices at which such inventories will be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of future sales potential may necessitate future reduction to inventory values. The Company's inventories include certain parts related to specific engines within the aftermarket repair and overhaul business. The demand for these parts and our ability to utilize these parts depends on the frequency and scope of repair and maintenance of aircraft engines and our ability to effectively access that market, and a decline in demand could require us to write off a portion of our inventory. See “Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies”.

We have significant goodwill and an impairment of our goodwill could cause a decline in our net worth. Our total assets include substantial goodwill. At December 31, 2014, our goodwill totaled $594.9 million. The goodwill results from our prior acquisitions, representing the excess of the purchase price we paid over the net assets of the companies acquired. We assess whether there has been an impairment in the value of our goodwill during each calendar year or sooner if triggering events warrant. If future operating performance at one or more of our reporting units does not meet expectations or fair values fall due to significant stock market declines, we may be required to reflect a non-cash charge to operating results for goodwill impairment. The recognition of an impairment of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material. See “Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies”.

We could be adversely affected by changes in interest rates. Our profitability may be adversely affected as a result of increases in interest rates. At December 31, 2014, we and our subsidiaries had approximately $504.7 million aggregate principal amount of consolidated debt obligations outstanding, of which approximately 60% had interest rates that float with the market (not hedged against interest rate fluctuations). A 100 basis point increase in the interest rate on the floating rate debt in effect at December 31, 2014 would result in an approximate $3.0 million annualized increase in interest expense.

We may not realize all of the sales expected from our existing backlog or anticipated orders. At December 31, 2014, we had $728.6 million of order backlog, the majority of which related to aerospace OEM customers. There can be no assurances that the revenues projected in our backlog will be realized or, if realized, will result in profits. We consider backlog to be firm customer orders for future delivery. From time to time, OEM customers provide projections of components and assemblies that they anticipate purchasing in the future under new and existing programs. Such projections are not included in our backlog unless we have received a firm order from our customers. Our customers may have the right under certain circumstances or with certain penalties or consequences to terminate, reduce or defer firm orders that we have in backlog. If our customers terminate, reduce or defer firm orders, we may be protected from certain costs and losses, but our sales will nevertheless be adversely affected. Although we strive to maintain ongoing relationships with our customers, there is an ongoing risk that orders may be cancelled or rescheduled due to fluctuations in our customers’ business needs or purchasing budgets.

Also, our realization of sales from new and existing programs is inherently subject to a number of important risks and uncertainties, including whether our customers execute the launch of product programs on time, or at all, the number of units that our customers actually produce, the timing of production and manufacturing insourcing decisions made

by our customers. In addition, until firm orders are placed, our customers generally have the right to discontinue a program or replace us with another supplier at any time without penalty. Our failure to realize sales from new and existing programs could have a material adverse effect on our net sales, results of operations and cash flows.

We may not recover all of our up-front costs related to new or existing programs. New programs may require significant up-front investments for capital equipment, engineering, inventory, design and tooling. As OEMs in the transportation and aerospace industries have looked to suppliers to bear increasing responsibility for the design, engineering and manufacture of systems and components, they have increasingly shifted the financial risk associated with those responsibilities to the suppliers as well. This trend may continue and is most evident in the area of engineering cost reimbursement. We cannot assure you that we will have adequate funds to make such up-front investments or to recover such costs from our customers as part of our product pricing. In the event that we are unable to make such investments, or to recover them through sales or direct reimbursement from our customers, our profitability, liquidity and cash flows may be adversely affected. In addition, we incur costs and make capital expenditures for new program awards based upon certain estimates of

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production volumes and production complexity. While we attempt to recover such costs and capital expenditures by appropriately pricing our products, the prices of our products are based in part upon planned production volumes. If the actual production is significantly less than planned or significantly more complex than anticipated, we may be unable to recover such costs. In addition, because a significant portion of our overall costs is fixed, declines in our customers' production levels can adversely affect the level of our reported profits even if our up-front investments are recovered.

We may not realize all of the intangible assets related to the Aerospace aftermarket businesses. Our total investments in participation fees under our Revenue Sharing Programs (RSPs) as of December 31, 2014 equaled $293.7 million, all of which have been paid. At December 31, 2014, the remaining unamortized balance of these participation fees was $220.7 million. We participate in aftermarket RSPs under which we receive an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program to our customer, General Electric. As consideration, we pay participation fees, which are recorded as intangible assets and are recognized as a reduction of sales over the estimated useful life of the related engine programs which range up to 30 years.

We entered into Component Repair Programs ("CRPs"), also with General Electric, during the fourth quarter of 2013 ("CRP 1") and the second quarter of 2014 ("CRP 2"). The CRPs provide for, among other items, the right to sell certain aftermarket component repair services for CFM56, CF6 and LM engines directly to other customers as one of a few GE licensed suppliers. In addition, the CRPs extend certain existing contracts under which the Company currently provides these services directly to GE.

We agreed to pay $26.6 million as consideration for the rights related to CRP 1. Of this balance, we paid $16.6 million in the fourth quarter of 2013 and $9.1 million in the fourth quarter of 2014. The remaining payment of $0.9 million has been included within accrued liabilities in the Consolidated Financial Statements. We agreed to pay $80.0 million as consideration for the rights related to CRP 2. We paid $41.0 million in the second quarter of 2014, $20.0 million in the fourth quarter of 2014 and the remaining payment of $19.0 million, also included within accrued liabilities, will be paid in the second quarter of 2015. We recorded the CRP payments as an intangible asset which is recognized as a reduction of sales over the remaining useful life of these engine programs.

The realizability of each asset is dependent upon future revenues related to the programs' aftermarket parts and services and is subject to impairment testing if circumstances indicate that its carrying amount may not be recoverable. The potential exists that actual revenues will not meet expectations due to a change in market conditions, including, for example, the replacement of older engines with new, more fuel-efficient engines or our ability to capture additional market share within the aftermarket business. A shortfall in future revenues may result in the failure to realize the net amount of the investments, which could adversely affect our financial condition and results of operations. In addition, future growth and profitability could be impacted by the amortization of the participation fees and licenses, and the expiration of the international tax incentives on these programs.

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

The departure of existing management and key personnel, a shortage of skilled employees or a lack of qualified sales professionals could materially affect our business, operations and prospects. Our executive officers are important to the management and direction of our business. Our future success depends, in large part, on our ability to retain or replace these officers and other capable management personnel. Although we believe we will be able to attract and retain talented personnel and replace key personnel should the need arise, our inability to do so could have a material

adverse effect on our business, financial condition, results of operations or cash flows. Because of the complex nature of many of our products and services, we are generally dependent on an educated and highly skilled workforce, including, for example, our engineering talent. In addition, there are significant costs associated with the hiring and training of sales professionals. We could be adversely affected by a shortage of available skilled employees or the loss of a significant number of our sales professionals.

If we are unable to protect our intellectual property rights effectively, our financial condition and results of operations could be adversely affected. We own or are licensed under various intellectual property rights, including patents, trademarks and trade secrets. Our intellectual property rights may not be sufficiently broad or otherwise may not provide us a significant competitive advantage, and patents may not be issued for pending or future patent applications owned by or licensed to us. In addition, the steps that we have taken to maintain and protect our intellectual property may not prevent it from being challenged, invalidated, circumvented or designed-around, particularly in countries where intellectual property rights are not

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highly developed or protected. In some circumstances, enforcement may not be available to us because an infringer has a dominant intellectual property position or for other business reasons, or countries may require compulsory licensing of our intellectual property. We also rely on nondisclosure and noncompetition agreements with employees, consultants and other parties to protect, in part, confidential information, trade secrets and other proprietary rights. There can be no assurance that these agreements will adequately protect these intangible assets and will not be breached, that we will have adequate remedies for any breach, or that others will not independently develop substantially equivalent proprietary information. Our failure to obtain or maintain intellectual property rights that convey competitive advantage, adequately protect our intellectual property or detect or prevent circumvention or unauthorized use of such property and the cost of enforcing our intellectual property rights could adversely impact our competitive position, financial condition and results of operations.

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

From time to time, we receive product warranty claims, under which we may be required to bear costs of repair or replacement of certain of our products. Warranty claims may range from individual customer claims to full recalls of all products in the field. We vigorously defend ourselves in connection with these matters. We cannot, however, assure you that the costs, charges and liabilities associated with these matters will not be material, or that those costs, charges and liabilities will not exceed any amounts reserved for them in our consolidated financial statements.

Our business, financial condition, results of operations and cash flows could be adversely impacted by strikes or work stoppages. Approximately 15% of our U.S. employees are covered by collective bargaining agreements and more than 32% of our non-U.S. employees are covered by collective bargaining agreements or statutory trade union agreements. The Company is currently in the process of negotiating a collective bargaining agreement (“CBA”) with certain unionized employees at the Bristol, Connecticut and Corry, Pennsylvania facilities, which are located within the Associated Spring business unit, and which covers approximately 233 employees. The current CBA expired on November 30, 2014, and we continue to negotiate a successor agreement. In 2015, we are also scheduled to conduct local negotiations with our unionized employees at our Corry, Pennsylvania facility, which covers approximately 130 employees. In addition, we have annual negotiations in Brazil and Mexico and, collectively, these negotiations cover approximately 329 employees in those two countries. We also expect to have negotiations in 2015 with two of our German locations, a Singapore location, and our Sweden location, which collectively cover over 500 employees. Although we believe that our relations with our employees are good, we cannot assure you that we will be successful in negotiating new collective bargaining agreements or that such negotiations will not result in significant increases in the cost of labor, including healthcare, pensions or other benefits. Any potential strikes or work stoppages, and the resulting adverse impact on our relationships with customers, could have a material adverse effect on our business, financial condition, results of operations or cash flows. Similarly, a protracted strike or work stoppage at any of our major customers, suppliers or other vendors could materially adversely affect our business.

Changes in accounting guidance and taxation requirements could affect our financial results. New accounting guidance that may become applicable to us from time to time, or changes in the interpretations of existing guidance, could have a significant effect on our reported results for the affected periods. For example, the Financial Accounting

Standards Board issued a new accounting standard for revenue recognition in May 2014 - Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)". Although we are currently in the process of evaluating the impact of ASU 2014-09 on our consolidated financial statements, it could change the way we account for certain of our sales transactions. Adoption of the standard could have a significant impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption. In addition, our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions in which we operate. Increases in indirect taxes could affect our products' affordability and therefore reduce our sales. We are also subject to income tax in numerous jurisdictions in which we generate revenues. Changes in tax laws, tax rates or tax rulings may have a significant adverse impact on our effective tax rate. Among other things, our tax liabilities are affected by the mix of pretax income or loss among the tax jurisdictions in which we operate and the repatriation of foreign earnings to the U.S. We must exercise judgment in determining our worldwide provision for income taxes, interest and penalties; accordingly, future events could change management's assessment of these amounts.

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RISKS RELATED TO THE INDUSTRIES IN WHICH WE OPERATE

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

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

Our customers' businesses are generally cyclical. Weaknesses in the industries in which our customers operate could impact our revenues and profitability. The industries to which we sell tend to decline in response to overall declines in industrial production. Aerospace is heavily dependent on the commercial aerospace industry, which is cyclical and a long cycle industry. Industrial is dependent on the transportation industry, and general industrial and tooling markets, all of which are also cyclical. Many of our customers have historically experienced periodic downturns, which often have had a negative effect on demand for our products.

Original equipment manufacturers in the aerospace and transportation industries have significant pricing leverage over suppliers and may be able to achieve price reductions over time. Additionally, we may not be successful in our efforts to raise prices on our customers. There is substantial and continuing pressure from OEMs in the transportation industries, including automotive and aerospace, to reduce the prices they pay to suppliers. We attempt to manage such downward pricing pressure, while trying to preserve our business relationships with our customers, by seeking to reduce our production costs through various measures, including purchasing raw materials and components at lower prices and implementing cost-effective process improvements. Our suppliers have periodically resisted, and in the future may resist, pressure to lower their prices and may seek to impose price increases. If we are unable to offset OEM price reductions, our profitability and cash flows could be adversely affected. In addition, OEMs have substantial leverage in setting purchasing and payment terms, including the terms of accelerated payment programs under which payments are made prior to the account due date in return for an early payment discount. OEMs can unexpectedly change their purchasing policies or payment practices, which could have a negative impact on our

short-term working capital.

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

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

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

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

We use and generate hazardous substances and wastes in our operations. In addition, many of our current and former properties are or have been used for industrial purposes. Accordingly, we monitor hazardous waste management and applicable environmental permitting and reporting for compliance with applicable laws at our locations in the ordinary course of our business. We may be subject to potential material liabilities relating to any investigation and clean-up of our locations or properties where we delivered hazardous waste for handling or disposal that may be contaminated or which may have been contaminated prior to our purchase, and to claims alleging personal injury.

Fluctuations in jet fuel and other energy prices may impact our operating results. Fuel costs constitute a significant portion of operating expenses for companies in the aerospace industry. Fluctuations in fuel costs could impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the value associated with new fuel efficient technologies. Widespread disruption to oil production, refinery operations and pipeline capacity in certain areas of the U.S. can impact the price of jet fuel significantly. Conflicts in the Middle East, an important source of oil for the U.S. and other countries where we do business, cause prices for fuel to be volatile. Because we and many of our customers are in the aerospace industry, these fluctuations could have a material adverse effect on our financial condition or results of operations.

Our products and services may be rendered obsolete by new products, technologies and processes. Our manufacturing operations focus on highly engineered components which require extensive engineering and research and development

time. Our competitive advantage may be adversely impacted if we cannot continue to introduce new products ahead of our competition, or if our products are rendered obsolete by other products or by new, different technologies and processes. The success of our new products will depend on a number of factors, including innovation, customer acceptance, the efficiency of our suppliers in providing materials and component parts, and the performance and quality of our products relative to those of our competitors. We cannot predict the level of market acceptance or the amount of market share our new products will achieve. Additionally, we may face increased or unexpected costs associated with new product introduction including the use of additional resources such as personnel. We cannot assure that we will not experience new product introduction delays in the future.

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RISKS RELATED TO RESTRUCTURING, ACQUISITIONS, DIVESTITURES AND JOINT VENTURES

Our acquisition and divestiture strategies and our restructuring activities may not be successful. We have made a number of acquisitions in the past and we anticipate that we may, from time to time, acquire additional businesses, assets or securities of companies that we believe would provide a strategic fit with our businesses. Acquisitions expose the Company to a number of risks and uncertainties, the occurrence of any of which could materially adversely affect our business, cash flows, financial condition and results of operations. A portion of the industries that we serve are mature industries. As a result, our future growth may depend in part on the successful acquisition and integration of acquired businesses into our existing operations. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approvals or otherwise complete acquisitions in the future.

We could have difficulties integrating acquired businesses with our existing operations. Difficulties of integration can include coordinating and consolidating separate systems, integrating the management of the acquired business, retaining market acceptance of acquired products and services, maintaining employee morale and retaining key employees, and implementing our enterprise resource planning systems and operational procedures and disciplines. Any such difficulties may make it more difficult to maintain relationships with employees, customers, business partners and suppliers. In addition, even if integration is successful, the financial performance of acquired business may not be as expected and there can be no assurance we will realize anticipated benefits from our acquisitions. We cannot assure you that we will effectively assimilate the business or product offerings of acquired companies into our business or product offerings or realize anticipated operational synergies. In connection with the integration of acquired operations or the conduct of our overall business strategies, we may periodically restructure our businesses and/or sell assets or portions of our business. Integrating the operations and personnel of acquired companies into our existing operations may result in difficulties, significant expense and accounting charges, disrupt our business or divert management’s time and attention.

Acquisitions involve numerous other risks, including potential exposure to unknown liabilities of acquired companies and the possible loss of key employees and customers of the acquired business. In connection with acquisitions or joint venture investments outside the U.S., we may enter into derivative contracts to purchase foreign currency in order to hedge against the risk of foreign currency fluctuations in connection with such acquisitions or joint venture investments, which subjects us to the risk of foreign currency fluctuations associated with such derivative contracts. Additionally, our final determinations and appraisals of the fair value of assets acquired and liabilities assumed in our acquisitions may vary materially from earlier estimates. We cannot assure you that the fair value of acquired businesses will remain constant.

We have also in the past divested assets and businesses and we may in the future seek to sell certain of our assets or businesses in order to meet our strategic objectives, and we cannot be certain that our business, operating results and financial condition will not be materially and adversely affected. A successful divestiture depends on various factors, including our ability to effectively transfer liabilities, contracts, facilities and employees to any purchaser, identify and separate the intellectual property to be divested from the intellectual property that we wish to retain, reduce fixed costs previously associated with the divested assets or business, and collect the proceeds from any divestitures. In addition, if customers of the divested business do not receive the same level of service from the new owners, this may adversely affect our other businesses to the extent that these customers also purchase other products offered by us. All of these efforts require varying levels of management resources, which may divert our attention from other business operations. If we do not realize the expected benefits or synergies of any divestiture transaction, our consolidated financial position, results of operations and cash flows could be negatively impacted. In addition, divestitures of businesses involve a number of risks, including the diversion of management and employee attention, significant costs and expenses, the loss of customer relationships, and a decrease in revenues and earnings associated with the divested business. Furthermore, divestitures potentially involve significant post-closing separation activities, which could

involve the expenditure of material financial resources and significant employee resources. Any divestiture may result in a dilutive impact to our future earnings if we are unable to offset the dilutive impact from the loss of revenue associated with the divestiture, as well as significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition.

We may not achieve expected cost savings from restructuring activities and actual charges, costs and adjustments due to restructuring activities may vary materially from our estimates. Our ability to realize anticipated cost savings, synergies and revenue enhancements may be affected by a number of factors, including the following: our ability to effectively eliminate duplicative back office overhead and overlapping sales personnel, rationalize manufacturing capacity, synchronize information technology systems, consolidate warehousing and distribution facilities and shift production to more economical facilities; significant cash and non-cash integration and implementation costs or charges in order to achieve those cost savings, which could offset any such savings and other synergies resulting from our acquisitions or divestitures; and our ability to avoid labor disruption in connection with integration efforts or divestitures.

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Any joint ventures or teaming arrangements we enter into may not be successful. We may enter into joint ventures or teaming arrangements. Partners with whom we share control may at any time have economic, business or legal interests or goals that are inconsistent with our goals or the goals of the joint venture or arrangement. Our joint venture or teaming arrangements may require us to pay certain costs or to make certain capital investments and we may have little control over the amount or the timing of these payments and investments. In addition, our joint venture or teaming partners may be unable to meet their economic or other obligations and we may be required to fulfill those obligations alone. Our failure or the failure of an entity in which we have a joint venture interest or teaming arrangement to adequately manage the risks associated with any acquisitions, joint ventures or teaming arrangements could have a material adverse effect on our financial condition or results of operations. We cannot assure you that any of our joint ventures or teaming arrangements will be profitable or that forecasts regarding joint venture or teaming activities will be accurate. In particular, risks and uncertainties associated with our joint ventures and teaming arrangements include, among others, the joint venture's or teaming partner's ability to operate its business successfully, to develop appropriate standards, controls, procedures and policies for the growth and management of the joint venture or teaming arrangement and the strength of their relationships with employees, suppliers and customers.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We operate 32 manufacturing facilities throughout the world, 21 of which are part of the Industrial segment and 11 of which are part of the Aerospace segment. Fifteen of the facilities are in the United States; the balance are located in Asia, Brazil, Europe and Mexico. Nineteen of the facilities are owned; the balance are leased.

In addition to its manufacturing facilities, Industrial has 37 facilities engaged in activities related to its manufacturing operations, including sales, assembly, development and distribution, all but one of which are leased. Three of these facilities are located in the United States; the balance are located in Asia, Brazil, Canada, Europe and Mexico. Aerospace also leases a warehouse in Canada.

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

Item 3. Legal Proceedings

The Company was named in a lawsuit arising out of an alleged breach of contract and implied warranty by a customer of Toolcom Suppliers Limited ("Toolcom"), a business previously included within the former Logistics and Manufacturing Services segment, related to the sale of certain products prior to the Company's 2005 acquisition of Toolcom. In 2006, the plaintiff filed the lawsuit in civil court in Scotland and asserted that certain products sold were not fit for a particular use. The Company settled the lawsuit during the first quarter of 2013 with an outcome that did not have a material effect on the consolidated financial statements. The final settlement expense was included within the loss from operations of discontinued businesses in the consolidated statements of income for the year ended December 31, 2013.

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 $16.5 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 opening brief with the United States Court of Appeals for the Second Circuit on February 13, 2014 and presented its oral arguments on October 1, 2014.

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On November 5, 2014, the Second Circuit upheld the Tax Court Decision. The Company has decided not to litigate this matter further.

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 such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

(a) Market Information

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

	2014		
	Low	High	Dividends
Quarter ended March 31	$35.34	$40.92	$0.11
Quarter ended June 30	36.27	40.01	0.11
Quarter ended September 30	30.35	39.07	0.11
Quarter ended December 31	29.47	37.88	0.12

	2013		
	Low	High	Dividends
Quarter ended March 31	$21.84	$29.20	$0.10
Quarter ended June 30	26.33	32.35	0.10
Quarter ended September 30	30.14	35.71	0.11
Quarter ended December 31	34.48	38.56	0.11

Stockholders

As of February 10, 2015, there were approximately 3,705 holders of record of the Company's common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals or entities are registered in the name of a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. The Company believes that there are approximately 11,913 beneficial owners of its common stock.

Dividends

Payment of future dividends will depend upon the Company's financial condition, results of operations and other factors deemed relevant by the Company's Board of Directors, as well as any limitations resulting from financial covenants under the Company's credit facilities or debt indentures. See the table above for dividend information for 2014 and 2013.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Performance Graph

A stock performance graph based on cumulative total returns (price change plus reinvested dividends) for $100 invested on December 31, 2009 is set forth below.

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	2009	2010	2011	2012	2013	2014
BGI	$100.00	$124.61	$147.48	$139.72	$241.58	$236.26
S&P 600	$100.00	$126.30	$127.55	$148.35	$209.60	$221.62
Russell 2000	$100.00	$126.82	$121.51	$141.40	$196.27	$205.87

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

(c) Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[2]
October 1-31, 2014	—	$—	—	2,428,509
November 1-30, 2014	—	$—	—	2,428,509
December 1-31, 2014	284	$37.18	—	2,428,509
Total	284 [1]	$37.18	—	

(1) All acquisitions of equity securities during the fourth 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 pursuant to those plans to pay for the related income tax upon issuance of shares. The purchase price of a share of stock used for tax withholding is the market price on the date of issuance.

(2) The program was publicly announced on 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.

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Item 6. Selected Financial Data

	2014	2013 (5)(7)	2012 (6) (7)	2011 (7)	2010 (7)
Per common share (1)					
Income from continuing operations					
Basic	$2.20	$1.34	$1.46	$1.36	$0.86
Diluted	2.16	1.31	1.44	1.34	0.85
Net income					
Basic	2.16	5.02	1.74	1.17	0.96
Diluted	2.12	4.92	1.72	1.16	0.95
Dividends declared and paid	0.45	0.42	0.40	0.34	0.32
Stockholders' equity (at year-end)	20.40	21.17	14.76	13.29	13.23
Stock price (at year-end)	37.01	38.31	22.46	24.11	20.67
For the year (in thousands)					
Net sales	$1,262,006	$1,091,566	$928,780	$865,078	$741,741
Operating income	179,974	123,201	107,131	101,579	76,446
As a percent of net sales	14.3 %	11.3 %	11.5 %	11.7 %	10.3 %
Income from continuing operations	$120,541	$72,321	$79,830	$74,955	$47,784
As a percent of net sales	9.6 %	6.6 %	8.6 %	8.7 %	6.4 %
Net income	$118,370	$270,527	$95,249	$64,715	$53,278
As a percent of net sales	9.4 %	24.8 %	10.3 %	7.5 %	7.2 %
As a percent of average stockholders' equity(2)	10.3 %	28.3 %	12.6 %	8.4 %	7.7 %
Depreciation and amortization	$81,395	$65,052	$57,360	$58,904	$52,770
Capital expenditures	57,365	57,304	37,787	37,082	28,759
Weighted average common shares outstanding – basic	54,791	53,860	54,626	55,215	55,260
Weighted average common shares outstanding – diluted	55,723	54,973	55,224	55,932	55,925
Year-end financial position (in thousands)					
Working capital	$323,306	$276,878	$418,645	$332,316	$167,344
Goodwill	594,949	649,697	579,905	366,104	384,241
Other intangible assets, net	554,694	534,293	383,972	272,092	290,798
Property, plant and equipment, net	299,435	302,558	233,097	210,784	218,434
Total assets	2,073,885	2,123,673	1,868,596	1,440,365	1,403,257
Long-term debt and notes payable	504,734	547,424	646,613	346,052	357,718
Stockholders' equity	1,111,793	1,141,414	800,118	722,400	712,119
Debt as a percent of total capitalization (3)	31.2 %	32.4 %	44.7 %	32.4 %	33.4 %
Statistics					
Employees at year-end (4)	4,515	4,331	3,795	3,019	2,797

(1) Income from continuing operations and net income per common share are based on the weighted average common shares outstanding during each year. Stockholders' equity per common share is calculated based on actual common shares outstanding at the end of each year.

(2) Average stockholders' equity is calculated based on the month-end stockholders equity balances between December 31, 2013 and December 31, 2014 (13 month average).

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

(4) The number of employees at each year-end includes employees of continuing operations and excludes prior employees of the discontinued operations.

(5) During 2013, the Company completed the acquisition of the Männer Business. The results of the Männer Business, from the acquisition on October 31, 2013, have been included within the Company's Consolidated Financial Statements for the period ended December 31, 2013.

(6) During 2012, the Company completed the acquisition of Synventive. The results of Synventive, from the acquisition on August 27, 2012, have been included within the Company's Consolidated Financial Statements for the period ended December 31, 2012.

(7) During 2013, the Company sold the BDNA business within the segment formerly referred to as Distribution. During 2011, the Company sold the BDE business within the segment formerly referred to as Logistics and Manufacturing Services. The results of the BDNA and the BDE businesses, including any (loss) gain on the sale of businesses, have been reported through discontinued operations during the respective periods.

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

You should read the following discussion in conjunction with our consolidated financial statements and related notes in this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences include those described in the section titled "Risk Factors" and elsewhere in this report. We undertake no obligation to update any of the forward-looking statements.

OVERVIEW

2014 Highlights

Barnes Group Inc. (the "Company") achieved sales of $1,262.0 million in 2014, an increase of $170.4 million, or 15.6%, from 2013. In Industrial, the acquisition of the Männer Business on October 31, 2013 provided sales of $113.7 million during the January through October 2014 period. In Aerospace, sales increased as a result of growth in the OEM manufacturing business, whereas sales within the aftermarket business remained flat. Organic sales increased by $64.1 million, or 5.9%, with growth in both the Industrial and Aerospace segments.

Operating income increased 46.1% from $123.2 million in 2013 to $180.0 million in 2014 and operating margin improved from 11.3% in 2013 to 14.3% in 2014. Operating income primarily benefited from the profit contribution of the acquired Männer business and increased organic sales, partially offset by $8.5 million of short-term purchase accounting adjustments related to the acquisition of the Männer business and charges of $6.0 million related to the closure of production operations at its Associated Spring facility located in Saline, Michigan (the "Closure"). Operating income during 2013 included a $8.6 million pre-tax inventory valuation charge related to a specific family of spare parts within the Aerospace MRO business, $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") and $7.3 million in short-term purchase accounting adjustments and transaction costs related to the acquisition of the Männer business.

In the second quarter of 2014, the Company entered into a Component Repair Program ("CRP") with its customer, General Electric ("GE"). This CRP provides for, among other items, the right to sell certain aftermarket component repair services for CFM56 engines directly to other customers as one of a few GE licensed suppliers. In addition, this CRP extends existing contracts under which the Company currently provides these services directly to GE. As consideration for these rights, the Company agreed to pay $80.0 million. The Company has paid $41.0 million in the second quarter of 2014, $20.0 million in the fourth quarter of 2014 and the remaining payment of $19.0 million will be paid in the second quarter of 2015.

The Company focused on profitable sales growth both organically and through acquisition, in addition to productivity improvements, as key strategic objectives in 2014. Management continued its focus on cash flow and working capital management in 2014 and generated $186.9 million in cash flow from operations. The Company continued to make significant investments in working capital during 2014 to support sales growth, primarily as a result of improving business conditions in certain end-markets.

Business Transformation

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 Männer Business is a leader in the development and manufacture of high precision molds, valve gate hot runner systems, and system solutions for the medical/pharmaceutical, packaging, and personal care/health care industries. The Männer Business includes manufacturing locations in Germany, Switzerland and the United States, and sales and service offices in Europe, the United States, Hong Kong/China and Japan. Pursuant to the terms of the Share Purchase Agreement, the Company acquired all the shares of capital stock of the Männer Business for an aggregate purchase price of €280.7 million ($380.7 million). 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") pursuant to the terms of the Asset Purchase Agreement dated February 22, 2013 (the "APA") between the Company and MSC. The total cash consideration received for BDNA was $537.8 million, net of transaction costs and closing adjustments paid. See Note 2 of the Consolidated Financial Statements.

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In the first quarter of 2013, the Company realigned its reportable business segments by transferring the Associated Spring Raymond business ("Raymond"), its remaining business within the former Distribution segment, to the Industrial segment. Raymond sells, among other products, springs that are manufactured by one of the Industrial businesses. Accordingly, the Company reports under two global business segments: Industrial and Aerospace. See Note 20 of the Consolidated Financial Statements.

During the third quarter of 2012, the Company completed its acquisition of Synventive Molding Solutions ("Synventive") for an aggregate purchase price of $351.5 million. Synventive is a leading designer and manufacturer of highly engineered and customized hot runner systems and components and provides related services. The acquisition has been integrated into the Industrial segment. See Note 3 of the Consolidated Financial Statements.

All previously reported financial information has been adjusted on a retrospective basis to reflect the segment realignment and the discontinued operations for all years presented.

Management Objectives

Management continues to focus on three key areas of development: employees, processes and results which, in combination, are expected to generate long-term value for the Company's stockholders and our customers. The Company's strategies for growth include both organic growth from new products, services, markets and customers, and growth from acquisitions. The Company's strategies for profitability include employee engagement and empowerment to drive productivity and process initiatives, such as the application of new technologies, automation and innovation, intensified focus on intellectual property as a core differentiator, and efficiency and cost-saving measures. A key component of the Company's culture is the Barnes Enterprise System (BES), the Company's operating system which drives alignment and fosters continuous improvement, collaboration and innovation throughout the global organization.

Acquisitions and strategic relationships with our customers have been a key growth driver for the Company, and it continues to seek alliances which foster long-term business relationships. In addition, the Company looks to grow from expanding its geographic reach, commercializing new products and services, and extending into new or adjacent markets. The Company continually evaluates its existing portfolio to optimize product offerings and maximize value.

Our Business

The Company consists of two operating segments: Industrial and Aerospace. In both of these businesses, the Company is among the leaders in the market niches served.

Key Performance Indicators

Management evaluates the performance of its reportable segments based on the sales, operating profit and operating margins of the respective businesses, which includes net sales, cost of sales, selling and administrative expenses and certain components of other income and other expenses, as well as the allocation of corporate overhead expenses. All segments have standard key performance indicators (“KPIs”), a number of which are focused on customer metrics (on-time-delivery and quality), internal effectiveness and efficiency metrics (sales per employee, productivity, cost of quality, days working capital and controllable expenses), employee safety-related metrics (total recordable incident rate and lost time incident rate), and specific KPIs on profitable growth.

Key Industry Data

In both segments, management tracks a variety of economic and industry data as indicators of the health of a particular sector.

At Industrial, key data for the manufacturing operations include the Institute for Supply Management's manufacturing PMI Composite Index (and similar indices for European and Asian-based businesses); the Federal Reserve's Industrial Production Index ("the IPI"); the production of light vehicles, both in the U.S. and globally; worldwide light vehicle new model introductions and existing model refreshes; North American medium and heavy duty vehicle production; compressor build forecasts; and global GDP growth forecasts.

At Aerospace, management of the aftermarket aerospace operations monitors the number of aircraft in the active fleet, the number of planes temporarily or permanently taken out of service, aircraft utilization rates for the major airlines, engine shop visits, airline profitability, aircraft fuel costs and traffic growth. The Aerospace OEM business regularly tracks orders and

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deliveries for each of the major aircraft manufacturers, as well as engine purchases made for new aircraft. Management also monitors annual appropriations for the U.S. military related to purchases of new or used aircraft and engine components.

RESULTS OF OPERATIONS

Sales

($ in millions)	2014	2013	$ Change	% Change		2012
Industrial	$822.1	$687.6	$134.5	19.6	%	$538.3
Aerospace	440.0	404.0	35.9	8.9	%	390.5
Total	$1,262.0	$1,091.6	$170.4	15.6	%	$928.8

2014 vs. 2013:

The Company reported net sales of $1,262.0 million in 2014, an increase of $170.4 million, or 15.6%, from 2013. The Männer Business, acquired on October 31, 2013, provided sales of $113.7 million during the January through October 2014 period. In Aerospace, sales increased as a result of growth in the OEM manufacturing and the aftermarket MRO business, partially offset by declines within the aftermarket spare parts business. Organic sales increased by $64.1 million, or 5.9%. Organic growth within the Industrial segment benefited from favorable light vehicle and tool and die end-markets, whereas Aerospace growth within the OEM business resulted from continued strength in demand for new engines, driven by increased commercial aircraft production. The strengthening of the U.S. dollar against foreign currencies as compared to 2013 decreased net sales by $7.3 million in 2014. The Company’s international sales increased 29.3% year-over-year, primarily due to the acquisition of the Männer Business, while domestic sales increased 4.3%. Excluding the impact of foreign currency translation on sales, the Company's international sales in 2014 increased 30.7% from 2013.

2013 vs. 2012:

The Company reported net sales of $1,091.6 million in 2013, an increase of $162.8 million, or 17.5%, from 2012. The acquisition of Synventive on August 27, 2012 provided an incremental $108.5 million of sales during the January through August 2013 period. The Männer Business, acquired on October 31, 2013, provided sales of $18.9 million during the November through December 2013 period. In Aerospace, sales increased as a result of growth in the OEM manufacturing business, partially offset by declines within the aftermarket business. Organic sales increased by $35.3 million, or 3.8%, with growth in both the Industrial and Aerospace segments, resulting primarily from increased global automotive production and strengthening within the geographic markets into which the Company sells. The weakening of the U.S. dollar against foreign currencies as compared to 2012 increased net sales by $0.1 million in 2013. The Company’s international sales increased 24.3% year-over-year while domestic sales increased 12.0%.

Expenses and Operating Income

($ in millions)	2014		2013		$ Change	% Change		2012	
Cost of sales	$829.6		$738.2		$91.5	12.4	%	$655.7	
% sales	65.7	%	67.6	%				70.6	%
Gross profit [1]	$432.4		$353.4		$79.0	22.3	%	$273.1	
% sales	34.3	%	32.4	%				29.4	%
Selling and administrative expenses	$252.4		$230.2		$22.2	9.6	%	$166.0	
% sales	20.0	%	21.1	%				17.9	%
Operating income	$180.0		$123.2		$56.8	46.1	%	$107.1	
% sales	14.3	%	11.3	%				11.5	%

(1) Sales less cost of sales

2014 vs. 2013:

Cost of sales in 2014 increased 12.4% from 2013, while gross profit margin increased from 32.4% in 2013 to 34.3% in 2014. Gross margins improved at Industrial and at Aerospace. Cost of sales in 2013 included a third quarter $8.6 million pre-tax inventory valuation charge related to a specific family of spare parts within the repair and overhaul business at Aerospace. The acquisition of the Männer Business also resulted in a higher percentage of sales being driven by Industrial during 2014.

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Gross profit benefits from the Männer Business in 2014 were partially offset by $4.5 million of short-term purchase accounting adjustments related to the acquisition of the Männer Business and charges of $5.4 million related to the Closure of the Saline operations. During 2013, gross profit was partially offset by $3.6 million in short-term purchase accounting adjustments related the Männer Business. Selling and administrative expenses increased 9.6% from 2013 due primarily to the incremental operations of the Männer business, $4.0 million of short-term purchase accounting adjustments related to the acquisition of the Männer Business and $0.6 million of charges related to the closure of the Saline operations. During 2013, selling and administrative expenses also included $3.7 million in short-term purchase accounting adjustments and transaction costs related to the Männer Business and CEO transition costs of $10.5 million. As a percentage of sales, selling and administrative costs decreased from 21.1% in 2013 to 20.0% in 2014. Operating margin was 14.3% in 2014 compared to 11.3% in 2013.

2013 vs. 2012:

Cost of sales in 2013 increased 12.6% from 2012, while gross profit margin increased from 29.4% in 2012 to 32.4% in 2013. Gross margins improved at Industrial and declined at Aerospace. During both 2013 and 2012, gross margins were negatively impacted by the short-term purchase accounting adjustments related to the acquisitions of the Männer and the Synventive businesses, respectively. The acquisitions of the Männer and Synventive businesses also resulted in a higher percentage of sales, as well as higher gross profit as a percentage of sales, being driven by Industrial during 2013. Gross margin benefits from the Männer and Synventive businesses were partially offset by an $8.6 million pre-tax inventory valuation charge related to a specific family of spare parts within the Aerospace repair and overhaul business. Selling and administrative expenses increased 38.7% from 2012 due primarily to the incremental operations of the Männer and Synventive businesses and CEO transition costs of $10.5 million. As a percentage of sales, selling and administrative costs increased from 17.9% in 2012 to 21.1% in 2013. Operating margin was 11.3% in 2013 compared to 11.5% in 2012.

Interest expense

2014 vs. 2013:

Interest expense in 2014 decreased $1.7 million to $11.4 million from 2013, primarily a result of lower average borrowing rates, partially offset by higher average borrowings under the Amended Credit Facility, as defined below.

2013 vs. 2012:

Interest expense in 2013 increased $0.9 million to $13.1 million from 2012, primarily a result of higher average borrowing rates, partially offset by lower average borrowings under the Amended Credit Facility.

Other expense (income), net

2014 vs. 2013:

Other expense (income), net in 2014 was $2.1 million compared to $2.5 million in 2013.

2013 vs. 2012:

Other expense (income), net in 2013 was $2.5 million compared to $2.6 million in 2012.

Income Taxes

2014 vs. 2013:

The Company’s effective tax rate from continuing operations was 27.6% in 2014 compared with 32.8% in 2013 which includes the impact of $16.4 million of tax expense related to the April 16, 2013 U.S. Court Decision (Note 14 of the Consolidated Financial Statements and below). Excluding the impact of the U.S. Tax Court Decision, the Company's effective tax rate from continuing operations for 2013 was 17.5%. The remaining increase in the 2014 effective tax rate from continuing operations is primarily due to a change in the mix of earnings attributable to higher-taxing jurisdictions (principally in the U.S. and Germany) or jurisdictions where losses cannot be benefited in 2014, the expiration of certain international tax holidays and the increase in the repatriation of a portion of current year foreign earnings to the U.S. During 2014, the Company repatriated a dividend from a portion of the current year foreign earnings to the U.S. in the amount of $12.5 million compared to $5.0 million in 2013. This increase in the dividend increased tax expense by $3.2 million and increased the annual effective tax rate by 1.9 percentage points compared to 2013.

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In 2015, the Company expects the effective tax rate from continuing operations to increase to approximately 30% primarily due the expiration of a portion of its international tax holidays.

2013 vs. 2012:

The Company’s effective tax rate from continuing operations was 32.8% in 2013 compared with 13.5% in 2012 and includes the impact of $16.4 million of tax expense related to the April 16, 2013 U.S. Tax Court Decision (Note 14 of the Consolidated Financial Statements and below). Excluding the impact of the Tax Court Decision, the Company's effective tax rate from continuing operations for 2013 was 17.5%. The remaining increase in the 2013 effective tax rate from continuing operations is due to the absence of the 2012 reversal of certain foreign valuation allowances and tax rate decreases in certain foreign jurisdictions, an increase in the Company's Swedish effective tax rate and the change in the mix of earnings attributable to higher-taxing jurisdictions or jurisdictions where losses cannot be benefited in 2013. During 2013, the Company repatriated a dividend from a portion of the current year foreign earnings to the U.S. in the amount of $5.0 million compared to $8.0 million in 2012. This decrease in the dividend reduced tax expense by $0.9 million and decreased the annual effective tax rate by 0.8 percentage points compared to 2012.

See Note 14 of the Consolidated Financial Statements for a reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate.

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 $16.5 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 opening brief with the United States Court of Appeals for the Second Circuit on February 13, 2014 and presented its oral arguments on October 1, 2014.

On November 5, 2014, the Second Circuit upheld the Tax Court Decision. The Company has decided not to litigate this matter further.

Discontinued Operations

In April 2013, the Company completed the sale of BDNA to MSC pursuant to the terms of the APA between the Company and MSC. The total cash consideration received for BDNA was $537.8 million, net of transaction costs and closing adjustments paid. The net after-tax proceeds were $419.1 million after consideration of certain post closing adjustments, transaction costs and income taxes. The Company made estimated income tax payments of $130.0

million related to the gain on sale during 2013 and recorded an income tax receivable of $12.6 million in the Consolidated Balance Sheet as of December 31, 2013. The Company has since elected to apply the income tax receivable to future tax filings.

In December 2011, the Company completed the sale of its BDE business to Berner SE (the "Purchaser"), headquartered in Kunzelsau, Germany, in a cash transaction pursuant to a Share and Asset Purchase Agreement ("SPA"). The Company received gross proceeds of $33.4 million, which represented the initial stated purchase price, and which yielded net cash proceeds of $22.5 million after transaction costs, employee transaction related costs, closing adjustments and net cash sold, of which €9.0 million was placed in escrow. 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.

In August 2012, the Purchaser of BDE 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 on August 31, 2012. The Purchaser refused to release

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the full escrow, and only €3.9 million plus interest was released whereas €5.1 million plus interest remained in escrow. The cash was restricted and recorded in other assets at December 31, 2013. The Company settled the pending claim on September 24, 2014 and entered into an agreement to pay the Purchaser €1.25 million of the proceeds that were held in escrow. The remaining funds of €3.85 million were no longer restricted within escrow effective September 24, 2014 and were subsequently released from escrow on October 6, 2014.

The results of BDNA and the BDE business have been segregated and presented as discontinued operations. See Note 2 of the Consolidated Financial Statements.

Income and Income Per Share (in millions, except per share)	2014	2013	Change	% Change	2012
Income from continuing operations	$120.5	$72.3	$48.2	66.7 %	$79.8
(Loss) income from discontinued operations, net of income taxes	(2.2)	198.2	(200.4)	NM	15.4
Net income	$118.4	$270.5	$(152.2)	(56.2)%	$95.2
Per common share:					
Basic:					
Income from continuing operations	$2.20	$1.34	$0.86	64.2 %	$1.46
(Loss) income from discontinued operations, net of income taxes	(0.04)	3.68	(3.72)	NM	0.28
Net income	$2.16	$5.02	$(2.86)	(57.0)%	$1.74
Diluted:					
Income from continuing operations	$2.16	$1.31	$0.85	64.9 %	$1.44
(Loss) income from discontinued operations, net of income taxes	(0.04)	3.61	(3.64)	NM	0.28
Net income	$2.12	$4.92	$(2.80)	(56.9)%	$1.72
Weighted average common shares outstanding:					
Basic	54.8	53.9	0.9	1.7 %	54.6
Diluted	55.7	55.0	0.7	1.4 %	55.2

NM - Not Meaningful

In 2014, basic and diluted income from continuing operations per common share increased 64.2% and 64.9%, respectively. The increases were directly attributable to the increase in income from continuing operations year over year. Basic weighted average common shares outstanding increased due to the issuance of additional shares for employee stock plans and the issuance of 1,032,493 shares in connection with the acquisition of the Männer Business in 2013. The impact of these issuances was partially offset by the repurchase of 220,794 shares during 2014 as part of the publicly announced repurchase program. Diluted weighted average common shares outstanding increased as a result of the increase in basic weighted average common shares outstanding, partially offset by a decrease in potentially issuable shares.

Financial Performance by Business Segment

Industrial

($ in millions)	2014	2013	$ Change	% Change	2012
Sales	$822.1	$687.6	$134.5	19.6 %	$538.3
Operating profit	108.4	71.9	36.5	50.7 %	49.3

Operating margin	13.2	%	10.5	%	9.1	%

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2014 vs. 2013:

Sales at Industrial were $822.1 million in 2014, an increase of 19.6% from 2013. The Männer Business, acquired on October 31, 2013, provided sales of $113.7 million during the January through October 2014 period, and segment organic sales increased by $28.1 million, or 4.1%, during 2014. Organic growth resulted from favorable light vehicle and tool and die end-markets and strengthening within the geographic markets into which the Company sells. The impact of foreign currency translation decreased sales by approximately $7.3 million as the U.S. dollar strengthened against foreign currencies.

Operating profit in 2014 at Industrial was $108.4 million, an increase of 50.7% from 2013. Operating profit benefited from the profit contributions of the acquired Männer Business and increased organic sales, and was partially offset by charges of $6.0 million related to the closure of the Saline operations and $8.5 million of short-term purchase accounting adjustments related to the acquisition of the Männer Business. During 2013, operating profits were partially offset by $7.3 million in short-term purchase accounting adjustments and transaction costs related the Männer Business and CEO transition costs of $6.6 million that were allocated to the segment during the year.

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, adds innovative products and services and has expanded the Company's global marketplace presence. The Männer Business, acquired in 2013, further provides 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 and may be impacted by fluctuations in foreign currencies. 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. The Company is currently in the process of negotiating a collective bargaining agreement (“CBA”) with certain unionized employees at the Bristol, CT and Corry, PA facilities, which are located within the Associated Spring business unit. The current CBA expired on November 30, 2014, and we continue to negotiate a successor agreement.

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.

2013 vs. 2012:

Sales at Industrial were $687.6 million in 2013, an increase of 27.7% from 2012. The acquisition of Synventive on August 27, 2012 provided an incremental $108.5 million of sales during the January through August 2013 period. The Männer Business, acquired on October 31, 2013, provided sales of $18.9 million during the November through December 2013 period, and organic sales increased by $21.8 million, or 4.0%, during 2013. Organic growth resulted from increased global automotive production and strengthening within the geographic markets into which the Company sells. The impact of foreign currency translation increased sales by approximately $0.1 million as the U.S. dollar weakened against foreign currencies.

Operating profit in 2013 at Industrial was $71.9 million, an increase of 46.0% from 2012. Operating profit primarily benefited from the profit contributions of the acquired Synventive and Männer businesses, the profit contribution of increased organic sales, favorable pricing and improved productivity. Operating income during 2012 included $5.9 million of short-term purchase accounting adjustments and transaction costs resulting from the acquisition of Synventive. During 2013, operating profit results were partially offset by $7.3 million in short-term purchase accounting adjustments and transaction costs related to the acquisition of the Männer Business during the fourth quarter and CEO transition costs of $6.6 million that were allocated to the segment during the first quarter.

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Aerospace

($ in millions)	2014	2013	$ Change	% Change	2012
Sales	$440.0	$404.0	$35.9	8.9 %	$390.5
Operating profit	71.6	51.3	20.3	39.6 %	57.9
Operating margin	16.3 %	12.7 %			14.8 %

2014 vs. 2013:

Aerospace recorded sales of $440.0 million in 2014, a 8.9% increase from 2013. A sales increase in the OEM business and the aftermarket MRO business was partially offset by slightly lower sales in the aftermarket spare parts business. Increased sales within the OEM business reflected continued strength in demand for new engines, driven by increased aircraft production. Sales in the MRO business benefited primarily from the Component Repair Programs ("CRPs") that were executed in December 2013 and June 2014.

Operating profit at Aerospace increased 39.6% from 2013 to $71.6 million. Operating profit benefited from increased sales in the OEM business and increased sales in the MRO business, primarily due to the profit impact of the CRPs. These benefits were partially offset by an increase in employee related costs, primarily due to incentive compensation. Operating profit in 2013 also included a $8.6 million pre-tax inventory valuation charge related to a specific family of spare parts within the MRO business and CEO transition costs of $3.9 million allocated to the segment.

Outlook:

The Aerospace OEM business is focused on the pursuit of new engine programs and increasing content on existing platforms. Sale growth is driven by its order backlog through participation in certain strategic commercial and military engine and airframe programs. Sales are based on the general state of the aerospace market driven by the worldwide economy. Backlog in the Aerospace OEM business declined to $518.6 million at December 31, 2014 from $549.1 million at December 31, 2013, with approximately 61% 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, and changes in production schedules of specific engine and airframe programs. Sales levels in the Aerospace aftermarket MRO 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 MRO business and long-term RSPs and CRPs, expanded capabilities and current capacity levels.

Management is focused on growing operating profit at Aerospace primarily through organic sales growth, productivity initiatives, new product introductions and continued cost management. Operating profit is expected to be affected by the profit 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 introductions and the physical transfer of work to lower cost manufacturing regions may also negatively impact operating profit.

2013 vs. 2012:

Aerospace recorded sales of $404.0 million in 2013, a 3.5% increase from 2012. A sales increase in the OEM business was partially offset by lower sales in the aftermarket business and unfavorable pricing across the segment. Within aftermarket, sales declined in both the repair and overhaul business and the spare parts business. Increased sales

within the OEM business reflected strengthened demand for new engines, driven by increased aircraft production whereas a decline in sales within the aftermarket business was driven by an unfavorable trend of deferred maintenance.

Operating profit at Aerospace decreased 11.3% from 2012 to $51.3 million. The operating profit benefits of increased sales in the OEM business and lower employee related costs, primarily due to incentive compensation as a result of the level of the Company's pre-established annual performance targets, were more than offset by a third quarter $8.6 million pre-tax inventory valuation charge related to a specific family of spare parts within the repair and overhaul business, the profit impact of lower sales in the aftermarket businesses, increased costs of new product introductions within the OEM and MRO businesses and CEO transition costs of $3.9 million allocated to the segment during the first quarter of 2013. In assessing inventory valuation for the specific family of spare parts used to support its MRO business, management takes into consideration the required level of exchange inventory to meet customer needs, current market pricing and demand, which depend on the

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frequency and scope of repair and maintenance of aircraft engines, the number and age of engines in the installed fleet and the various market channels. During the third quarter, after consideration of the Company's plans to effectively access various markets in the near term, the Company recorded the valuation charge to reduce the carrying value of the inventory to its estimated net realizable value to reflect current market pricing in readily accessible channels.

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 2015 will generate sufficient cash to fund operations. The Company closely monitors its cash generation, usage and preservation including the management of working capital to generate cash.

On October 15, 2014, the Company entered into a Note Purchase Agreement ("Note Purchase Agreement"), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 30C), as purchasers, for the issuance of $100.0 million aggregate principal amount of 3.97% Senior Notes due October 17, 2024 (the "3.97% Senior Notes"). The Company completed funding of the transaction and issued the 3.97% Senior Notes on October 17, 2014. The 3.97% Senior Notes are senior unsecured obligations of the Company and will pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The Note Purchase Agreement contains customary affirmative and negative covenants that are similar to the covenants required under the Amended Credit Agreement, as discussed below. At December 31, 2014, the Company was in compliance with all covenants under the Note Purchase Agreement.

During the second quarter of 2014, the 3.375% Convertible Notes (the "3.375% Notes") were eligible for conversion due to meeting their conversion price eligibility requirement. On June 16, 2014, $0.2 million of the 3.375% Notes (par value) were surrendered for conversion. On June 24, 2014, the Company exercised its right to redeem the remaining $55.4 million principal amount of the 3.375% Notes, effective July 31, 2014. The Company elected to pay cash to holders of the 3.375% Notes surrendered for conversion, including the value of any residual value shares of common stock that might be payable to the holders electing to convert their 3.375% Notes into an equivalent share value. Under the terms of the indenture, the conversion value was measured based upon a 20-day valuation period of the Company's stock price. The Company used borrowings under its Amended Credit Facility to finance the redemption and conversion of the 3.375% Notes. The 3.375% Notes were rendered for conversion during the third quarter of 2014 and the Company paid $70.5 million in cash to the holders, which included a premium of $14.9 million.

In September 2011, the Company entered into an amended and restated revolving credit agreement (the "Amended Credit Agreement" or "Amended Credit Facility") with Bank of America, N.A. as the administrative agent. The Amended Credit Agreement increased the borrowing availability of the Amended Credit Facility from $400,000 to $500,000 and extended the expiration date of the Amended Credit Facility by four years from September 2012 to September 2016. In July 2012, the Company executed a $250,000 accordion feature that was available under the Amended Credit Agreement increasing the available amount under the Amended Credit Facility to $750,000. On

September 27, 2013, the Company entered into a second amendment to the Amended Credit Agreement (the "Second Amendment") and retained Bank of America, N.A. as administrative agent for the lenders. The Second Amendment 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 Second Amendment also adds a new foreign subsidiary borrower in Germany, Barnes Group Acquisition GmbH, maintains 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 Second Amendment, allows for Euro-denominated borrowings equivalent to $500.0 million. 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 Second Amendment 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 Second Amendment; such fees were deferred and are being amortized into interest expense on the accompanying Consolidated Statements of Income through its maturity.

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The Company's borrowing capacity may be limited by various debt covenants in the Amended Credit Agreement and the Note Purchase Agreement, certain of which have been amended in September 2013. The Second Amendment requires the Company to maintain a ratio of Consolidated Senior Debt, as defined in the Second Amendment, 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 Second Amendment 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. At December 31, 2014, the Company was in compliance with all covenants under the Second Amendment. 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 3.25 times at December 31, 2014. The actual ratio at December, 2014 was 1.84 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 amendment 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 December 31, 2014, the Company had $356.5 million unused and available for borrowings under its $750.0 million Amended Credit Facility, subject to covenants in the Company's debt agreements. At December 31, 2014, additional borrowings of $595.3 million of Total Debt and $389.0 million of Senior Debt would have been allowed under the financial covenants. On October 17, 2014 the proceeds of the 3.97% Senior Notes were used to pay down the Amended Credit Facility. The Company intends to use borrowings under its Amended Credit Facility 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.

The Company had $7.6 million in borrowings under short-term bank credit lines at December 31, 2014.

In 2012, the Company entered into five-year interest rate swap agreements (the "2012 interest rate swaps") transacted with three banks which together convert the interest on the first $100.0 million of borrowings under the Company’s Amended Credit Agreement from a variable rate plus the borrowing spread to a fixed rate of 1.03% plus the borrowing spread. The 2012 interest rate swaps mitigate the Company's exposure to variable interest rates. At December 31, 2014, the Company's total borrowings were comprised of approximately 40% fixed rate debt and 60% variable rate debt compared to 29% fixed rate debt and 71% variable rate debt as of December 31, 2013.

The funded status of the Company's pension plans is dependent upon many factors, including actual rates of return that impact the fair value of pension assets and changes in discount rates that impact projected benefit obligations. The funded status of the pension plans declined by $60.6 million in 2014, primarily as a result of an increase in the projected benefit obligations ("PBOs") following an update of certain actuarial assumptions, including assumptions related to lower discount rates and an improvement in mortality rates. At December 31, 2014, the total unfunded status of the defined benefit pension plans was $60.7 million. The Company recorded a $42.0 million non-cash after-tax decrease in stockholders' equity (through other non-owner changes to equity) to record the current year adjustments for changes in the funded status of its pension and postretirement benefit plans as required under the applicable accounting standards for defined benefit pension and other postretirement plans. In 2014, the Company made approximately $7.6 million in contributions to its various defined benefit pension plans. The Company expects to contribute approximately $5.2 million to its various defined benefit pension plans in 2015. See Note 12 of the Consolidated Financial Statements.

At December 31, 2014, the Company held $46.0 million in cash and cash equivalents. The majority of this cash was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and are expected to primarily fund international investments and repay foreign borrowings. During 2014, the Company repatriated $12.5 million of current year foreign earnings to the U.S.

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.

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Cash Flow

($ in millions)	2014	2013	$ Change	% Change	2012
Operating activities	$186.9	$10.1	$176.8	NM	$136.4
Investing activities	(124.2)	157.4	(281.7)	NM	(332.8)
Financing activities	(83.5)	(182.8)	99.3	(54.3)%	219.3
Exchange rate effect	(3.9)	(0.2)	(3.7)	NM	1.0
(Decrease) increase in cash	$(24.8)	$(15.5)	$(9.3)	60.1 %	$23.9

NM – Not meaningful

Operating activities provided $186.9 million in cash in 2014 compared to $10.1 million in 2013. Operating cash flows in the 2013 period were negatively impacted by $130.0 million of income tax payments related to the gain on the sale of BDNA. The cash proceeds from the sale are reflected in investing activities in the 2013 period. Operating cash flows in the 2013 period were also negatively impacted by a cash payment of approximately $12.7 million for tax, interest and penalties related to the Tax Court Decision. In the 2014 period, operating cash flows were positively impacted by improved operating performance as well as an increase in accrued liabilities, as compared to the 2013 period, due in part to an increase in accruals for employee incentive compensation.

Investing activities used $124.2 million in cash in 2014 and provided $157.4 million in 2013. Cash provided by investing activities in 2013 includes proceeds of $538.9 million from the sale of BDNA, net of transaction costs and closing adjustments (see Note 2 of the Consolidated Financial Statements), which were partially offset by a cash outflow of $307.3 million to fund the acquisition of the Männer Business (see Note 3 of the Consolidated Financial Statements). Investing activities in 2014 include the release of $4.9 million of escrow funds related to the 2011 sale of the BDE business (see Note 2 of the Consolidated Financial Statements). Investing activities in 2014 and 2013 also include cash outflows of $70.1 million and $16.6 million, respectively, related to the Component Repair Programs ("CRPs"). See Note 6 of the Consolidated Financial Statements. Capital expenditures in 2014 were $57.4 million compared to $57.3 million in 2013. The Company expects capital spending in 2015 to approximate $60 million.

Cash used by financing activities in 2014 included a net decrease in borrowings of $32.0 million compared to $107.7 million in 2013. Financing activities in the 2014 period include the redemption of the convertible debt which is reflected within payments on long-term debt ($55.6 million par value) and premium paid on convertible debt redemption ($14.9 million) which were financed through borrowings under the Amended Credit Facility. Financing activities in the 2014 period also include the payment of an assumed liability to the seller in connection with the acquisition of the Männer Business. In the 2013 period, the reduction of debt reflects the use of proceeds from the BDNA sale to reduce borrowings. Incremental borrowings of €148.9 million ($202.3 million) were used to fund a portion of the Männer Business acquisition in October 2013.

Proceeds from the issuance of common stock decreased $2.0 million in the 2014 period from the 2013 period primarily as a result of lower stock option exercises in the 2014 period. During the 2014 period, the Company repurchased 0.2 million shares of the Company's stock at a cost of $8.4 million. Stock repurchases of 2.4 million shares during the 2013 period cost $68.6 million. Total cash used to pay dividends increased to $24.5 million in 2014 compared to $22.4 million in 2013 primarily due to dividend rate increases. Cash used by financing activities in the 2014 and 2013 periods was partially offset by $4.9 million and $3.9 million, respectively, in excess tax benefits recorded for current year tax deductions related to employee stock plan activity. Cash used by financing activities in the 2014 and 2013 periods also includes $0.1 million and $1.3 million, respectively, of deferred financing fees paid in connection with the issuance of the 3.97% Senior Notes in 2014 and the Amended Credit Agreement in 2013.

Debt Covenants

Borrowing capacity is limited by various debt covenants in the Company's debt agreements. As of December 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 December 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

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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. Following is a reconciliation of Consolidated EBITDA, as defined, to the Company's net income (in millions):

	2014
Net income	$118.4
Add back:	
Interest expense	11.4
Income taxes	46.0
Depreciation and amortization	81.4
Adjustment for non-cash stock based compensation	7.5
Amortization of Männer acquisition inventory step-up	3.6
Restructuring charges	4.3
Other adjustments	2.5
Consolidated EBITDA, as defined	$275.0
Consolidated Senior Debt, as defined, as of December 31, 2014	$504.7
Ratio of Consolidated Senior Debt to Consolidated EBITDA	1.84
Maximum	3.25
Consolidated Total Debt, as defined, as of December 31, 2014	$504.7
Ratio of Consolidated Total Debt to Consolidated EBITDA	1.84
Maximum	4.00
Consolidated Cash Interest Expense, as defined, as of December 31, 2014	$10.7
Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense	25.80
Minimum	4.25

The Amended Credit Agreement allows for certain adjustments within the calculation of the financial covenants. The restructuring charges represent charges recorded during 2014 related to the closure of production operations at the Associated Spring facility located in Saline, Michigan. Other adjustments consist of net losses on the sale of assets, net losses from discontinued operations and due diligence and transaction expenses as permitted under the Amended Credit Agreement. The Company's financial covenants are measured as of the end of each fiscal quarter. At December 31, 2014, additional borrowings of $595.3 million of Total Debt and $389.0 million of Senior Debt would have been allowed under the covenants. Senior Debt includes primarily the borrowings under the Credit Facility, the 3.97% Senior Notes and the borrowings under the lines of credit. The Company's unused credit facilities at December 31, 2014 were $356.5 million.

Contractual Obligations and Commitments

At December 31, 2014, the Company had the following contractual obligations and commitments:

($ in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations [1]	$504.7	$8.9	$1.9	$393.9	$100.0
Estimated interest payments under long-term obligations [2]	58.9	9.4	18.6	11.8	19.0
Operating lease obligations	27.4	7.7	6.6	2.7	10.4
Purchase obligations [3]	130.2	123.8	6.3	0.1	—
Expected pension contributions [4]	5.2	5.2	—	—	—
Expected benefit payments – other postretirement benefit plans [5]	36.8	4.5	8.1	8.0	16.1

Total	$763.1	$159.5	$41.5	$416.6	$145.6

(1) Long-term debt obligations represent the required principal payments under such agreements.

(2) Interest payments under long-term debt obligations have been estimated based on the borrowings outstanding and market interest rates as of December 31, 2014.

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The amounts do not include purchase obligations reflected as current liabilities on the consolidated balance sheet.

(3) The purchase obligation amount includes all outstanding purchase orders as of the balance sheet date as well as the minimum contractual obligation or termination penalty under other contracts.

(4) The amount included in “Less Than 1 Year” reflects anticipated contributions to the Company’s various pension plans. Anticipated contributions beyond one year are not determinable.

(5) The amounts reflect anticipated future benefit payments under the Company’s various other postretirement benefit plans based on current actuarial assumptions. Expected benefit payments do not extend beyond 2024. See Note 12 of the Consolidated Financial Statements.

The above table does not reflect unrecognized tax benefits as the timing of the potential payments of these amounts cannot be determined. See Note 13 of the Consolidated Financial Statements.

OTHER MATTERS

Inflation

Inflation generally affects the Company through its costs of labor, equipment and raw materials. Increases in the costs of these items have historically been offset by price increases, commodity price escalator provisions, operating improvements, and other cost-saving initiatives.

Critical Accounting Policies

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

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

Business Acquisitions, Indefinite-Lived Intangible Assets and Goodwill: Assets and liabilities acquired in a business combination are recorded at their estimated fair values at the acquisition date. At December 31, 2014, the Company had $594.9 million and $36.9 million of goodwill and indefinite-lived intangible assets, respectively. Goodwill represents the cost of acquisitions in excess of fair values assigned to the underlying net assets of acquired companies. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to impairment testing annually or earlier if an event or change in circumstances indicates that the fair value of a reporting unit may have been reduced below its carrying value. Management completes its annual impairment assessments for goodwill and indefinite-lived intangible assets during the second and third quarters of each year, respectively. The Company uses the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment tests in accordance with applicable accounting standards.

Under the qualitative goodwill assessment, management considers relevant events and circumstances including but not limited to macroeconomic conditions, industry and market considerations, overall unit performance and events directly affecting a unit. If the Company determines that the two-step quantitative impairment test is required, management estimates the fair value of the reporting unit primarily using the income approach, which reflects management's cash flow projections, and also evaluates the fair value using the market approach. Inherent in management's development of cash flow projections are assumptions and estimates, including those related to future earnings and growth and the weighted average cost of capital. Based on the second quarter 2014 assessment, the estimated fair values of the Synventive and Männer reporting units, which were acquired in August 2012 and October 2013, respectively, exceeded their carrying values and the estimated fair value of the remaining reporting units significantly exceeded their carrying values. There was no goodwill impairment at any reporting units through June 30, 2014. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods as a result of both Company-specific and overall economic conditions. Management's quantitative assessment during the second quarter of 2014 included a review of the potential impacts of current and projected market conditions from a market participant's perspective on reporting units' projected cash flows, growth rates and cost of capital to assess the likelihood of whether the fair value would be less than the carrying value. While management expects future operating improvements at certain reporting units to result from improving end-market conditions, new product

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introductions and further market penetration, there can be no assurance that such expectations will be met or that the fair value of the reporting units will continue to exceed their carrying values. If the fair values were to fall below the carrying values, a non-cash impairment charge to income from operations could result. Management also performed its annual impairment testing of its trade names, indefinite-lived intangible assets, during the third quarter of 2014. Based on this assessment, there was no trade name impairment recognized.

Aerospace Aftermarket Programs: The Company participates in aftermarket RSPs under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program. As consideration, the Company has paid participation fees, which are recorded as intangible assets. The carrying value of these intangible assets was $220.7 million at December 31, 2014. The Company records amortization of the related asset as sales dollars are being earned based on a proportional sales dollar method. Specifically, this method amortizes each asset as a reduction to revenue based on the proportion of sales under a program in a given period to the estimated aggregate sales dollars over the life of that program which reflects the pattern in which economic benefits are realized.

The Company entered into Component Repair Programs ("CRPs") with General Electric during the fourth quarter of 2013 ("CRP 1") and the second quarter of 2014 ("CRP 2"). The CRPs provide for, among other items, the right to sell certain aftermarket component repair services for CFM56, CF6 and LM engines directly to other customers as one of a few GE licensed suppliers. In addition, the CRPs extend certain existing contracts under which the Company currently provides these services directly to GE. The Company agreed to pay $26.6 million and $80.0 million as consideration for the rights related CRP1 and CRP 2, respectively. The Company recorded the CRP payments as an intangible asset which is recognized as a reduction of sales over the remaining useful life of these engine programs. This method reflects the pattern in which the economic benefits of the CRPs are realized.

The recoverability of each asset is subject to significant estimates about future revenues related to the program’s aftermarket parts and services. The Company evaluates these intangible assets for recoverability and updates amortization rates on an agreement by agreement basis for the RSPs and on an individual asset basis for the CRPs. The assets are reviewed for recoverability periodically including whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Annually, the Company evaluates the remaining useful life of these assets to determine whether events and circumstances warrant a revision to the remaining periods of amortization. Management updates revenue projections, which includes comparing actual experience against projected revenue and industry projections. The potential exists that actual revenues will not meet expectations due to a change in market conditions, including, for example, the replacement of older engines with new, more fuel-efficient engines or the Company's ability to capture additional market share within the aftermarket business. A shortfall in future revenues may indicate a triggering event requiring a write down or further evaluation of the recoverability of the assets or require the Company to accelerate amortization expense prospectively dependent on the level of the shortfall. The Company has not identified any impairment of these assets. See Note 6 of the Consolidated Financial Statements.

Pension and Other Postretirement Benefits: Accounting policies and significant assumptions related to pension and other postretirement benefits are disclosed in Note 12 of the Consolidated Financial Statements. As discussed further below, the significant assumptions that impact pension and other postretirement benefits include discount rates, mortality rates and expected long-term rates of return on invested pension assets.

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

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	Target Asset Mix %	Annual Return %	
		Historical [1]	Long-Term Projection
Asset class			
U.S. large cap growth equity	6	10.1	8.2
U.S. large cap value equity	5	11.1	8.2
U.S. mid cap equity	4	12.5	8.5
U.S. small cap - growth equity	2	8.8	9.1
U.S. small cap - value equity	2	11.8	9.1
Global equity	13	7.9	9.3
International Developed market equity	20	5.3	9.7
Emerging market equity	13	11.4	12.4
Fixed income - long government credit	15	8.9	5.6
Fixed income - long credit	15	8.9	5.9
Cash	5	3.6	3.0
Weighted average		9.1	8.25

(1) Historical returns based on the life of the respective index, or approximately 30 years.

The historical rates of return for the Company's defined benefit plans were calculated based upon compounded average rates of return of published indices. During the fourth quarter of 2014, the Company approved a change in the targeted mix of assets. The revised target mix reflects a 65% equity investment target and a 35% aggregate target for fixed income and cash investments (in aggregate). This represents a strategic investment shift from a 75% equity investment target and 25% aggregate target for fixed income and cash investments (in aggregate). Within the equity investment of 65%, the Company has changed its targeted sub-class asset mix from 15% international investments to 45% international equity investments. Based on the historical and projected rates of return of the revised target asset mix, management selected a long-term expected rate of return on its U.S. pension assets of 8.25%. The long-term rates of return for non-U.S. plans were selected based on actual historical rates of return of published indices that were used to measure the plans' target asset allocations. Historical rates were then discounted to consider fluctuations in the historical rates as well as potential changes in the investment environment.

The discount rate used for the Company's U.S. pension plans reflects the rate at which the pension benefits could be effectively settled. At December 31, 2014, the Company selected a discount rate of 4.25% based on a bond matching model for its U.S. pension plans. Market interest rates have decreased in 2014 as compared with 2013 and, as a result, the discount rate used to measure pension liabilities decreased from 5.20% at December 31, 2013. The discount rates for non-U.S. plans were selected based on bond matching models or on indices of high-quality bonds using criteria applicable to the respective countries.

A one-quarter percentage point change in the assumed long-term rate of return on the Company's U.S. pension plans as of December 31, 2014 would impact the Company's 2015 pre-tax income by approximately $1.0 million annually. A one-quarter percentage point decrease in the discount rate on the Company's U.S. pension plans as of December 31, 2014 would decrease the Company's 2015 pre-tax income by approximately $1.1 million annually. The Company reviews these and other assumptions at least annually.

The Company recorded a $42.0 million non-cash after-tax decrease in stockholders equity (through other non-owner changes to equity) to record the current year adjustments for changes in the funded status of its pension and postretirement benefit plans as required under accounting for defined benefit and other postretirement plans. This decrease in stockholders equity resulted primarily from losses related to changes in actuarial assumptions, combined

with unfavorable variances between expected and actual returns on pension plan assets. During 2014, the fair value of the Company's pension plan assets decreased by $0.9 million and the projected benefit obligation increased $59.7 million. The change in the projected benefit obligation included a $68.6 million (pre-tax) increase due to actuarial losses that resulted primarily from decreases in the discount rates and improvements in mortality rates used to measure pension liabilities. Prior to December 31, 2014 the Company utilized the 2000 Retired Pensioners Mortality Table projected to 2020 to determine benefit obligations for its U.S. pension plans. At December 31, 2014, the Company updated its mortality table assumptions to the Mercer Industry Longevity Experience Studies base table for the "Automotive, Industrial Goods and Transportation" industry and the Mercer modified MP-2014 projection table as the Company believes these tables are expected to more accurately reflect current trends in mortality. Changes to other actuarial assumptions in 2014 did not have a material impact on our stockholders equity or projected benefit obligation. Actual pre-tax return on total pension plan assets was $26.8 million compared with an expected pre-tax return on pension assets of $34.2 million. Approximately $4.9 million of pension plan asset and projected benefit obligation decreases relate to settlements

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that occurred during 2014. Pension expense for 2015 is expected to increase from $3.4 million in 2014, of which $1.8 million relates to settlements, curtailments and special termination charges, to $8.2 million in 2015, primarily as a result of an increase in the amortization of actuarial losses resulting from changes in certain actuarial assumptions, primarily lower discount rates and expected rates of return on assets, combined with improvements in mortality rates.

Income Taxes: As of December 31, 2014, the Company had recognized $41.9 million of deferred tax assets, net of valuation reserves. The realization of these benefits is dependent in part on the amount and timing of future taxable income in the jurisdictions where deferred tax assets reside. For those jurisdictions where the expiration date of tax loss carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided. Management believes that sufficient taxable income should be earned in the future to realize deferred income tax assets, net of valuation allowances recorded.

The valuation of deferred tax assets requires significant judgment. Management's assessment that these deferred tax assets will be realized represents its estimate of future results; however, there can be no assurance that such expectations will be met. Changes in management's assessment of achieving sufficient future taxable income could materially increase the Company's tax expense and could have a material adverse impact on the Company's financial condition and results of operations.

Additionally, the Company is exposed to certain tax contingencies in the ordinary course of business and, accordingly, records those tax liabilities in accordance with the guidance for accounting for uncertainty in income taxes. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized. For those income tax positions where it is more likely than not that a tax benefit will not be sustained, no tax benefit has been recognized in the financial statements. See Note 14 of the Consolidated Financial Statements.

Stock-Based Compensation: The Company accounts for its stock-based employee compensation plans at fair value on the grant date and recognizes the related cost in its consolidated statement of income in accordance with accounting standards related to share-based payments. The fair values of stock options are estimated using the Black-Scholes option-pricing model based on certain assumptions. The fair values of service and performance based share awards are estimated based on the fair market value of the Company's stock price on the grant date. The fair value of market based performance share awards are estimated using the Monte Carlo valuation method. See Note 13 of the Consolidated Financial Statements.

Recent Accounting Changes

In April 2014, the Financial Accounting Standards Board (FASB) amended its guidance related to reporting discontinued operations. The amended guidance changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. Under the amended guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results and is disposed of or classified as held for sale. The guidance also requires several new disclosures. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date and is effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. The Company is evaluating this guidance and will apply the guidance in the event that the Company has a future disposal that qualifies as a discontinued operation or is classified as held for sale.

In May 2014, the FASB amended its guidance related to revenue recognition. The amended guidance establishes a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The

amended guidance clarifies that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the amended guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The amended guidance applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The amended guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to the amended guidance. The Company is evaluating this guidance and has not determined the impact that it may have on its financial statements nor decided upon the method of adoption.

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EBITDA

Earnings before interest expense, income taxes, and depreciation and amortization ("EBITDA") for 2014 was $257.4 million compared to $504.7 million in 2013. EBITDA is a measurement not in accordance with generally accepted accounting principles ("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 and in 2013 included a pre-tax gain of $313.7 million on the sale of BDNA. 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. 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. Accordingly, the calculation has limitations depending on its use.

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

	2014	2013
Net income	$118.4	$270.5
Add back:		
Interest expense	11.4	13.1
Income taxes	46.3	156.0
Depreciation and amortization	81.4	65.1
EBITDA	$257.4	$ 504.7 (1)

(1) EBITDA of $504.7 million in 2013 includes a pre-tax gain of $313.7 million related to the sale of BDNA.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. The Company's financial results could be impacted by changes in interest rates and foreign currency exchange rates, and commodity price changes. The Company uses financial instruments to hedge its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives for speculative or trading purposes.

The Company's long-term debt portfolio consists of fixed-rate and variable-rate instruments and is managed to reduce the overall cost of borrowing while also minimizing the effect of changes in interest rates on near-term earnings. The Company's primary interest rate risk is derived from its outstanding variable-rate debt obligations. Financial instruments have been used by the Company to hedge its exposures to fluctuations in interest rates. In April 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 Amended 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. At December 31, 2014, the result of a hypothetical 100 basis point increase in the average cost of the Company's variable-rate debt would have reduced annual pretax profit by $3.8 million.

At December 31, 2014, the fair value of the Company's fixed-rate debt was $106.3 million, compared with its carrying amount of $103.2 million. The Company estimates that a 100 basis point decrease in market interest rates at December 31, 2014 would have increased the fair value of the Company's fixed rate debt to $115.0 million.

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 exposed primarily to financial instruments denominated in currencies other than the functional currency at its international locations. A 10% adverse change in foreign currencies relative to the U.S dollar at December 31, 2014 would have resulted in a $1.6 million loss in the fair value of those financial instruments. At December 31, 2014, the Company held $46.0 million of cash and cash equivalents, the majority of which is held by foreign subsidiaries.

Foreign currency commitments and transaction exposures are managed at the operating units as an integral part of their businesses in accordance with a corporate policy that addresses acceptable levels of foreign currency exposures. At December 31, 2014, the Company did not hedge its foreign currency net investment exposures.

Additionally, to reduce foreign currency exposure, management generally maintains the majority of foreign cash and short-term investments in functional currency and uses forward currency contracts for non-functional currency denominated monetary assets and liabilities and anticipated transactions in an effort to reduce the effect of the volatility of changes in foreign exchange rates on the income statement. In historically weaker currency countries, such as Brazil and Mexico, management assesses the strength of these currencies relative to the U.S. dollar and may elect during periods of local currency weakness to invest excess cash in U.S. dollar-denominated instruments.

The Company's exposure to commodity price changes relates to certain manufacturing operations that utilize high-grade steel spring wire, stainless steel, titanium, Inconel, Hastelloys and other specialty metals. The Company attempts to manage its exposure to price increases through its procurement and sales practices.

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Item 8. Financial Statements and Supplementary Data

BARNES GROUP INC.

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
Net sales	$1,262,006	$1,091,566	$928,780
Cost of sales	829,648	738,170	655,653
Selling and administrative expenses	252,384	230,195	165,996
	1,082,032	968,365	821,649
Operating income	179,974	123,201	107,131
Interest expense	11,392	13,090	12,238
Other expense (income), net	2,082	2,537	2,631
Income from continuing operations before income taxes	166,500	107,574	92,262
Income taxes	45,959	35,253	12,432
Income from continuing operations	120,541	72,321	79,830
(Loss) income from discontinued operations, net of income taxes of $315, $120,750 and $10,831, respectively (Note 2)	(2,171)	198,206	15,419
Net income	$118,370	$270,527	$95,249
Per common share:			
Basic:			
Income from continuing operations	$2.20	$1.34	$1.46
(Loss) income from discontinued operations, net of income taxes	(0.04)	3.68	0.28
Net income	$2.16	$5.02	$1.74
Diluted:			
Income from continuing operations	$2.16	$1.31	$1.44
(Loss) income from discontinued operations, net of income taxes	(0.04)	3.61	0.28
Net income	$2.12	$4.92	$1.72
Dividends	$0.45	$0.42	$0.40
Weighted average common shares outstanding:			
Basic	54,791,030	53,860,308	54,626,453
Diluted	55,723,267	54,973,344	55,224,457

See accompanying notes.

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BARNES GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,		
	2014	2013	2012
Net income	$118,370	$270,527	$95,249
Other comprehensive (loss) income, net of tax			
Unrealized loss on hedging activities, net of tax (1)	(213)	(87)	(635)
Foreign currency translation adjustments, net of tax (2)	(83,168)	19,615	24,678
Defined benefit pension and other postretirement benefits, net of tax (3)	(42,016)	73,168	(15,741)
Total other comprehensive (loss) income, net of tax	(125,397)	92,696	8,302
Total comprehensive income	$(7,027)	$363,223	$103,551

(1) Net of tax of $(45), $272 and $(513) for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Net of tax of $(3,292), $439 and $1,262 for the years ended December 31, 2014, 2013 and 2012, respectively.

(3) Net of tax of $(24,799), $43,109 and $(7,994) for the years ended December 31, 2014, 2013 and 2012, respectively.

See accompanying notes.

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BARNES GROUP INC.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2014	2013
Assets		
Current assets		
Cash and cash equivalents	$46,039	$70,856
Accounts receivable, less allowances (2014 – $3,873; 2013 – $3,438)	275,890	258,664
Inventories	212,044	211,246
Deferred income taxes	31,849	18,226
Prepaid expenses and other current assets	22,574	18,204
Total current assets	588,396	577,196
Deferred income taxes	10,061	2,314
Property, plant and equipment, net	299,435	302,558
Goodwill	594,949	649,697
Other intangible assets, net	554,694	534,293
Other assets	26,350	57,615
Total assets	$2,073,885	$2,123,673
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$8,028	$1,074
Accounts payable	94,803	88,721
Accrued liabilities	161,397	154,514
Long-term debt – current	862	56,009
Total current liabilities	265,090	300,318
Long-term debt	495,844	490,341
Accrued retirement benefits	115,057	80,884
Deferred income taxes	70,147	94,506
Other liabilities	15,954	16,210
Commitments and contingencies (Note 21)		
Stockholders' equity		
Common stock – par value $0.01 per share		
Authorized: 150,000,000 shares		
Issued: at par value (2014 – 61,229,980 shares; 2013 – 60,306,128 shares)	612	603
Additional paid-in capital	405,525	390,347
Treasury stock, at cost (2014 – 6,729,438 shares; 2013 – 6,389,267 shares)	(169,405)	(156,649)
Retained earnings	974,514	881,169
Accumulated other non-owner changes to equity	(99,453)	25,944
Total stockholders' equity	1,111,793	1,141,414
Total liabilities and stockholders' equity	$2,073,885	$2,123,673

See accompanying notes.

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

	Years Ended December 31,		
	2014	2013	2012
Operating activities:			
Net income	$118,370	$270,527	$95,249
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	81,395	65,052	57,360
Amortization of convertible debt discount	731	2,391	2,211
Loss (gain) on disposition of property, plant and equipment	143	(887)	(178)
Stock compensation expense	7,603	18,128	8,819
Withholding taxes paid on stock issuances	(4,367)	(2,090)	(1,150)
Loss (gain) on the sale of businesses	1,586	(313,708)	886
Changes in assets and liabilities, net of the effects of acquisitions/divestitures:			
Accounts receivable	(21,367)	(23,764)	(4,160)
Inventories	(10,092)	2,079	5,404
Prepaid expenses and other current assets	(7,137)	(2,172)	(4,341)
Accounts payable	8,123	2,384	(5,493)
Accrued liabilities	24,402	(9,891)	(9,746)
Deferred income taxes	(9,841)	3,412	9,446
Long-term retirement benefits	(7,584)	(642)	(16,438)
Other	4,933	(729)	(1,492)
Net cash provided by operating activities	186,898	10,090	136,377
Investing activities:			
Proceeds from disposition of property, plant and equipment	849	1,767	854
(Payments for) proceeds from the sale of businesses	(1,181)	538,942	(438)
Change in restricted cash	4,886	—	4,900
Capital expenditures	(57,365)	(57,304)	(37,787)
Business acquisitions, net of cash acquired	—	(307,264)	(296,560)
Component Repair Program payments	(70,100)	(16,639)	—
Other	(1,338)	(2,058)	(3,776)
Net cash (used) provided by investing activities	(124,249)	157,444	(332,807)
Financing activities:			
Net change in other borrowings	7,009	(2,753)	(8,852)
Payments on long-term debt	(332,336)	(555,195)	(114,411)
Proceeds from the issuance of long-term debt	293,291	450,253	376,000
Payment of assumed liability to Otto Männer Holding AG	(19,796)	—	—
Premium paid on convertible debt redemption	(14,868)	—	—
Proceeds from the issuance of common stock	11,460	13,491	7,061
Common stock repurchases	(8,389)	(68,608)	(19,037)
Dividends paid	(24,464)	(22,422)	(21,662)
Excess tax benefit on stock awards	4,888	3,899	1,438
Other	(338)	(1,472)	(1,261)
Net cash (used) provided by financing activities	(83,543)	(182,807)	219,276
Effect of exchange rate changes on cash flows	(3,923)	(227)	1,005
(Decrease) increase in cash and cash equivalents	(24,817)	(15,500)	23,851

Cash and cash equivalents at beginning of year	70,856	86,356	62,505
Cash and cash equivalents at end of year	$46,039	$70,856	$86,356

Supplemental Disclosure of Cash Flow Information:

Non-cash investing activities in 2014 and 2013 included the acquisition of $19,000 and $10,000, respectively, of intangible assets, and the recognition of the corresponding liabilities, in connection with the Component Repair Programs. Non-cash financing activities in 2013 included the issuance of 1,032,493 treasury shares ($36,695) in connection with the acquisition of the Männer Business. Non-cash investing activities in 2012 included the assumption of $45,537 of debt in connection with the acquisition of Synventive Molding Solutions.

See accompanying notes.

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BARNES GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars and shares in thousands)

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
January 1, 2012	58,594	$586	$316,251	4,254	$(79,569)	$560,186	$(75,054)	$722,400
Comprehensive income						95,249	8,302	103,551
Dividends paid						(21,662)		(21,662)
Common stock repurchases				700	(19,037)			(19,037)
Employee stock plans	608	6	16,337	46	(1,150)	(327)		14,866
December 31, 2012	59,202	592	332,588	5,000	(99,756)	633,446	(66,752)	800,118
Comprehensive income						270,527	92,696	363,223
Dividends paid						(22,422)		(22,422)
Common stock repurchases				2,351	(68,608)			(68,608)
Männer Acquisition			22,890	(1,032)	13,805			36,695
Employee stock plans	1,104	11	34,869	70	(2,090)	(382)		32,408
December 31, 2013	60,306	603	390,347	6,389	(156,649)	881,169	25,944	1,141,414
Comprehensive income						118,370	(125,397)	(7,027)
Dividends paid						(24,464)		(24,464)
Common stock repurchases				221	(8,389)			(8,389)
Convertible debt redemption, net of tax			(8,666)					(8,666)
Employee stock plans	924	9	23,844	119	(4,367)	(561)		18,925
December 31, 2014	61,230	$612	$405,525	6,729	$(169,405)	$974,514	$(99,453)	$1,111,793

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
and the tables in Note 20)

1. Summary of Significant Accounting Policies

General: The preparation of consolidated 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. Actual results could differ from those estimates.

Consolidation: The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries. Intercompany transactions and account balances have been eliminated.

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. The results of the Männer Business, from the date of the acquisition on October 31, 2013, are included within the Company's Consolidated Financial Statements for the year ended December 31, 2013. 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 of the Consolidated Financial Statements.

In the first quarter of 2013, the Company realigned its organizational structure by aligning its strategic business units into two reportable segments: Industrial and Aerospace. See Note 20 of the Consolidated Financial Statements.

In the third quarter of 2012, the Company completed its acquisition of Synventive Molding Solutions ("Synventive”). The acquisition has been integrated into the Industrial segment. The results of Synventive, from the date of the acquisition on August 27, 2012, are included within the Company's Consolidated Financial Statements for the year ended December 31, 2012. See Note 3 of the Consolidated Financial Statements.

All previously reported financial information has been adjusted on a retrospective basis to reflect the discontinued operations of BDNA and the segment realignment for all years presented.

Revenue recognition: Sales and related cost of sales are recognized when products are shipped or delivered to customers depending upon when title and risk of loss have passed. Service revenue is recognized when the related services are performed. In the aerospace manufacturing businesses, the Company recognizes revenue based on the units-of-delivery method in accordance with accounting standards related to accounting for performance of construction-type and certain production-type contracts. Management fees related to the aerospace aftermarket Revenue Sharing Programs ("RSPs") are satisfied through an agreed upon reduction from the sales price of each of the related spare parts. These fees recognize our customer's necessary performance of engine program support activities,

such as spare parts administration, warehousing and inventory management, and customer support, and are not separable from our sale of products, and accordingly, they are reflected as a reduction to sales, rather than as costs incurred, when revenues are recognized.

Operating expenses: The Company includes manufacturing labor, material, manufacturing overhead and costs of its distribution network within cost of sales. Other costs, including selling personnel costs and commissions, and other general and administrative costs of the Company are included within selling and administrative expenses. Depreciation and amortization expense is allocated between cost of sales and selling and administrative expenses.

Cash and cash equivalents: Cash in excess of operating requirements is invested in short-term, highly liquid, income-producing investments. All highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents. Cash equivalents are carried at cost which approximates fair value.

Inventories: Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or market. Loss provisions, if any, on aerospace contracts are established when estimable. Loss provisions are based on the projected excess of manufacturing costs over the net revenues of the products or group of related products under contract or purchase order.

Property, plant and equipment: Property, plant and equipment is stated at cost. Depreciation is recorded over estimated useful lives, ranging from 20 to 50 years for buildings, three to five years for computer equipment, four to 12 years for machinery and equipment and 12 to 17 years for furnaces and boilers. The straight-line method of depreciation was adopted for all property, plant and equipment placed in service after March 31, 1999. For property, plant and equipment placed into service prior to April 1, 1999, depreciation is calculated using accelerated methods. The Company assesses the impairment of property, plant and equipment subject to depreciation whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill: Goodwill represents the excess purchase cost over the fair value of net assets of companies acquired in business combinations. Goodwill is considered an indefinite-lived asset. Goodwill is subject to impairment testing in accordance with accounting standards governing such on an annual basis, in the second quarter, or more frequently if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Based on the assessments performed during 2014, there was no goodwill impairment.

Aerospace Aftermarket Programs: The Company participates in aftermarket RSPs under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program. As consideration, the Company has paid participation fees, which are recorded as long-lived intangible assets. The Company records amortization of the related intangible asset as sales dollars are being earned based on a proportional sales dollar method. Specifically, this method amortizes each asset as a reduction to revenue based on the proportion of sales under a program in a given period to the estimated aggregate sales dollars over the life of that program.

The Company also entered into Component Repair Programs ("CRPs") that provide for, among other items, the right to sell certain aftermarket component repair services for CFM56, CF6 and LM engines directly to other customers as one of a few GE licensed suppliers. In addition, the CRPs extend certain existing contracts under which the Company currently provides these services directly to GE. The Company has recorded the consideration for these rights as an intangible asset that will be amortized as a reduction to sales over the remaining life of these engine programs. This method reflects the pattern in which the economic benefits of the RSPs and the CRP are realized.

The recoverability of each asset is subject to significant estimates about future revenues related to the program’s aftermarket parts and services. The Company evaluates these intangible assets for recoverability and updates amortization rates on an agreement by agreement basis for the RSP's and on an individual asset basis for the CRPS. The assets are reviewed for recoverability periodically including whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Annually, the Company evaluates the remaining useful life of these assets to determine whether events and circumstances warrant a revision to the remaining periods of amortization. Management updates revenue projections, which includes comparing actual experience against projected revenue and industry projections. The potential exists that actual revenues will not meet expectations due to a change in market conditions including, for example, the replacement of older engines with new, more fuel-efficient engines or the Company's ability to capture additional market share within the Aftermarket business. A shortfall in future revenues may indicate a triggering event requiring a write down or further evaluation of the recoverability of the assets or require the Company to accelerate amortization expense prospectively dependent on the level of the shortfall. The Company has not identified any impairment of these assets.

Other Intangible Assets: Other intangible assets consist primarily of the Aerospace Aftermarket Programs, as discussed above, customer relationships, tradenames, patents and proprietary technology. These intangible assets, with the exception of tradenames, have finite lives and are amortized over the periods in which they provide benefit. The Company assesses the impairment of long-lived assets, including identifiable intangible assets subject to amortization, whenever significant events or significant changes in circumstances indicate the carrying value may not be recoverable. Tradenames, intangible assets with indefinite lives, are subject to impairment testing in accordance with accounting standards governing such on an annual basis, in the third quarter, or more frequently if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Based on the assessment performed during 2014, there were no impairments of other intangible assets. See Note 6 of the Consolidated Financial Statements.

Derivatives: Accounting standards related to the accounting for derivative instruments and hedging activities require that all derivative instruments be recorded on the balance sheet at fair value. Foreign currency contracts may qualify as fair value

hedges of unrecognized firm commitments, cash flow hedges of recognized assets and liabilities or anticipated transactions, or a hedge of a net investment. 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 Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item.

Foreign currency: Assets and liabilities of international operations are translated at year-end rates of exchange; revenues and expenses are translated at average rates of exchange. The resulting translation gains or losses are reflected in accumulated other non-owner changes to equity within stockholders' equity. A net foreign currency transaction loss of $1,466 in 2014, a gain of $945 in 2013 and a loss $2,144 in 2012 were included in other expense (income), net in the Consolidated Statements of Income.

Research and Development: Costs are incurred in connection with efforts aimed at discovering and implementing new knowledge that is critical to developing new products, processes or services, significantly improving existing products or services, and developing new applications for existing products and services. Research and development expenses for the creation of new and improved products and services were $15,782, $14,707 and $8,696, for the years 2014, 2013 and 2012, respectively, and are included in selling, general and administrative expense.

2. Discontinued Operations

Barnes Distribution North America

In April 2013, the Company completed the sale of BDNA to MSC pursuant to the terms of the Asset Purchase Agreement between the Company and MSC. The total cash consideration received for BDNA was $537,761, net of transaction costs and closing adjustments paid. The net after-tax proceeds were $419,136 after consideration of certain post closing adjustments, transaction costs and income taxes. The Company made estimated income tax payments of $130,004 related to the gain on sale during 2013 and recorded an income tax receivable of $12,608 in the Consolidated Balance Sheet as of December 31, 2013. The Company has since elected to apply the income tax receivable to future tax filings.

Barnes Distribution Europe

In December 2011, the Company sold substantially all of the assets of its 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 plus interest remained in escrow. The cash was restricted and recorded in other assets at December 31, 2013. The Company settled the pending claim on September 24, 2014 and entered into an agreement to pay the Purchaser €1,250 of the proceeds that were held in escrow. The losses from discontinued operations for the year ended December 31, 2014 include this €1,250 ($1,586) reduction in proceeds from the sale of the business. The remaining funds of €3,850 were no longer restricted within escrow effective September 24, 2014 and were subsequently released from escrow on October 6, 2014.

The below amounts related to BDNA and the BDE business were derived from historical financial information. The amounts have been segregated from continuing operations and reported as discontinued operations within the consolidated financial statements. In 2014, the Company recorded a net after-tax loss on the sale of businesses of $1,987 resulting primarily from the reduction to the BDE escrow proceeds of €1,250, as discussed above. In 2013, the Company recorded a net after-tax

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gain of $195,317 on the sale of BDNA, net of transaction-related costs of $9,749, whereas pre-tax income from the discontinued operations at BDNA was $6,345. In 2012, the Company recorded income of $15,419 from discontinued operations which included $29,384 of pre-tax income provided by the operations of BDNA, partially offset by the adjustment of a retained liability related to BDE, $10,831 of tax expense and an $886 pre-tax loss on transaction.

	2014	2013	2012
Net sales	$—	$93,173	$301,179
(Loss) income before income taxes	(270)	5,248	27,136
Income tax (benefit) expense	(86)	2,359	10,918
(Loss) income from operations of discontinued businesses, net of income taxes	(184)	2,889	16,218
(Loss) gain on transaction	(1,586)	313,708	(886)
Income tax expense (benefit) on sale	401	118,391	(87)
(Loss) gain on the sale of businesses, net of income taxes	(1,987)	195,317	(799)
(Loss) income from discontinued operations, net of income taxes	$(2,171)	$198,206	$15,419

3. Acquisitions

During 2013 and 2012, the Company acquired the Männer and Synventive businesses, respectively. The results of operations of these acquired businesses have been included in the consolidated results from the respective acquisition dates. The purchase prices for these acquisitions have been allocated to tangible and intangible assets and liabilities of the businesses based upon estimates of their respective fair values.

In August 2012, the Company completed the acquisition of Synventive by acquiring all of the issued and outstanding shares of capital stock of Synventive Acquisition Inc., a Delaware corporation. Synventive is a leading designer and manufacturer of highly engineered and customized hot runner systems and components which serve as the enabling technology for many complex injection molding applications and are standard in industries that require premium product aesthetics and performance. This business, which has been integrated into our Industrial segment, enhances the Company's core manufacturing capabilities, adds innovative products and services and is expected to expand the Company's global marketplace presence. The Company acquired Synventive for an aggregate purchase price of $351,463, consisting of $305,926 in cash (including cash acquired of $9,366) and the assumption of $45,537 of debt. Immediately following the completion of the acquisition, the Company paid $45,156 of the assumed debt, primarily using cash on hand. The remaining purchase price was financed primarily with borrowings under the Company's revolving credit facility.

In October 2013, the Company completed the acquisition of the Männer Business, a German company based in Bahlingen, Germany. The Männer Business is a leader in the development and manufacture of high precision molds, valve gate hot runner systems, and system solutions for the medical/pharmaceutical, packaging, and personal care/health care industries. The Männer Business, which has been integrated into the Industrial segment, includes manufacturing locations in Germany, Switzerland and the United States, and sales and service offices in Europe, the United States, Hong Kong/China and Japan. The Company acquired all the shares of capital stock of the Männer Business for an aggregate purchase price of €280,742 ($380,673) which was paid through a combination of €253,242 in cash ($343,978) and 1,032,493 shares of the Company's common stock (valued at €27,500 pursuant to the Share Purchase Agreement and $36,695 based upon market value at close). The purchase price includes certain adjustments under the terms of the Share Purchase Agreement, including approximately €27,030 related to cash acquired ($36,714).

The Company incurred $3,642 and $2,377 of acquisition-related costs during the years ended December 31, 2013 and 2012 related to the Männer and Synventive acquisitions, respectively. These costs include due diligence costs and transaction costs to complete the acquisitions, and have been recognized in the Company's Consolidated Statements of Income as selling and administrative expenses.

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The operating results of Synventive have been included in the Consolidated Statements of Income for the period ended December 31, 2012, since the August 27, 2012 date of acquisition. The Company reported $60,070 in net sales and operating profit of $1,892 from Synventive, included within the Industrial segment's operating profit, inclusive of $5,899 of short-term purchase accounting adjustments and transaction costs, for the period from the acquisition date through December 31, 2012. The operating results of Synventive during 2013 and 2014 have been included in the Consolidated Statements of Income for the years ended December 31, 2013 and 2014.
The operating results of the Männer Business have been included in the Consolidated Statements of Income for the period ended December 31, 2013, since the October 31, 2013 date of acquisition. The Company reported $18,894 in net sales and an operating loss of $2,817 from the Männer Business, included within the Industrial segment's operating profit, inclusive of $7,279 of short-term purchase accounting adjustments and transaction costs, for the year ended December 31, 2013. The operating results of the Männer Business during 2014 have been included in the Consolidated Statements of Income for the years ended December 31, 2014.
The following table summarizes the fair values of the assets acquired, net of cash acquired, and liabilities assumed at the October 31, 2013 date of acquisition for the Männer Business and the August 27, 2012 acquisition date for Synventive. Fair values are inclusive of purchase price adjustments that were made subsequent to the respective acquisition dates:

	Synventive	Männer Business
Accounts Receivable	$43,270	$15,329
Inventories	13,392	32,908
Other current assets	3,988	423
Property, plant and equipment	16,000	63,411
Other noncurrent assets	2,841	—
Other intangible assets (Note 6)	126,600	146,600
Goodwill (Note 6)	203,656	189,486
Total assets acquired	409,747	448,157
Current liabilities	(25,230)	(57,943)
Other liabilities	(4,130)	(566)
Deferred income taxes	(38,290)	(42,495)
Debt assumed	(45,537)	(3,194)
Total liabilities assumed	(113,187)	(104,198)
Net assets acquired	$296,560	$343,959

The final purchase price allocations related to the Männer Business and Synventive reflect post-closing adjustments pursuant to the terms of the respective Stock Purchase Agreements.

The following table reflects the unaudited pro forma operating results of the Company for the years ended December 31, 2013 and 2012, which give effect to the acquisition of the Männer Business as if it had occurred on January 1, 2012 and the acquisition of Synventive as if it had occurred on January 1, 2011. 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 acquisitions been effective on January 1, 2012 and 2011, 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 two acquired businesses 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 acquisitions.

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	(Unaudited Pro Forma)	
	2013	2012
Net sales	$1,191,109	$1,137,437
Income from continuing operations	92,343	88,023
Net income	$290,549	$103,442
Per common share:		
Basic:		
Income from continuing operations	$1.69	$1.58
Net income	$5.31	$1.86
Diluted:		
Income from continuing operations	$1.65	$1.56
Net income	$5.20	$1.84

For the Männer Business, pro forma earnings during the year ended December 31, 2013 were adjusted to exclude non-recurring items including acquisition-related costs and expenses related to fair value adjustments to inventory and acquired backlog. Pro forma earnings in 2012 were adjusted to include these items, with acquisition-related costs of $3,642 and expenses of $9,130 and $6,600 related to adjustments to inventory and acquired backlog, respectively.

For Synventive, pro forma earnings during the year ended December 31, 2012 were adjusted to exclude non-recurring items including acquisition-related costs related to fair value adjustments to inventory and acquired backlog. Pro forma earnings in 2011 were adjusted to include these items, with acquisition-related costs of $11,776 ($2,377 incurred by the Company and $9,399 incurred by Synventive at closing) and expenses of $3,765 and $1,222 related to the fair value adjustments to inventory and acquired backlog, respectively.

4. Inventories

Inventories at December 31 consisted of:

	2014	2013
Finished goods	$83,905	$85,033
Work-in-process	79,563	71,982
Raw materials and supplies	48,576	54,231
	$212,044	$211,246

5. Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of:

	2014	2013
Land	$19,422	$21,935
Buildings	145,142	154,938
Machinery and equipment	507,661	509,664
	672,225	686,537
Less accumulated depreciation	(372,790)	(383,979)

	$299,435	$302,558

Depreciation expense was $41,875, $34,419 and $34,218 during 2014, 2013 and 2012, respectively.

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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 the Company:

	Industrial	Aerospace	Other	Total Company
January 1, 2013	$414,244	$30,786	$134,875	$579,905
Goodwill acquired	189,486	—	—	189,486
Divestiture	—	—	(134,704)	(134,704)
Purchase accounting adjustment	2,627	—	—	2,627
Foreign currency translation	12,554	—	(171)	12,383
December 31, 2013	618,911	30,786	—	649,697
Foreign currency translation	(54,748)	—	—	(54,748)
December 31, 2014	$564,163	$30,786	$—	$594,949

Of the $594,949 of goodwill at December 31, 2014, $43,860 represents the original tax deductible basis.

In 2013, the changes recorded at Industrial include $2,627 of final purchase accounting adjustments from the acquisition of Synventive and $189,486 of goodwill resulting from the acquisition of the Männer Business. The amount allocated to goodwill reflects the benefits that the Company expects to realize from increased global market access and the assembled workforce of the Männer Business. None of the recognized goodwill from the Männer Business is expected to be deductible for income tax purposes.
In the first quarter of 2013, the Company realigned its reportable business segments by transferring the Associated Spring Raymond business ("Raymond"), its remaining business within the former Distribution segment, to the Industrial segment. The goodwill related to BDNA ("BDNA goodwill"), also a business within the former Distribution segment, was $134,875 at December 31, 2012. BDNA was sold on April 22, 2013. See Note 2.
Other Intangible Assets: Other intangible assets at December 31 consisted of:

	Range of Life-Years	2014 Gross Amount	Accumulated Amortization	2013 Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue Sharing Programs	Up to 30	$293,700	$(72,958)	$293,700	$(64,220)
Component Repair Program	Up to 15	106,639	(1,941)	26,639	