

BARNES GROUP INC
Form 10-Q
April 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number 1-4801

BARNES GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware

06-0247840

(State or other jurisdiction of incorporation or
organization)

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

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

06010
(Zip Code)

Registrant's telephone number, including area code

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

The registrant had outstanding 53,745,549 shares of common stock as of April 24, 2013.

1

Barnes Group Inc.
 Index to Form 10-Q
 For the Quarterly Period Ended March 31, 2013

	Page
Part I.	FINANCIAL INFORMATION
Item 1.	<u>Financial Statements</u> <u>3</u>
	<u>Consolidated Statements of Income for the three months ended March 31, 2013 and 2012</u> <u>3</u>
	<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012</u> <u>4</u>
	<u>Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u> <u>5</u>
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u> <u>6</u>
	<u>Notes to Consolidated Financial Statements</u> <u>7</u>
	<u>Report of Independent Registered Public Accounting Firm</u> <u>19</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>20</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>28</u>
Item 4.	<u>Controls and Procedures</u> <u>28</u>
Part II.	OTHER INFORMATION
Item 1.	<u>Legal Proceedings</u> <u>30</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>30</u>
Item 6.	<u>Exhibits</u> <u>31</u>
	<u>Signatures</u> <u>32</u>
	<u>Exhibit Index</u> <u>33</u>

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended March 31,	
	2013	2012
Net sales	\$263,545	\$222,795
Cost of sales	177,715	160,421
Selling and administrative expenses	60,875	37,756
	238,590	198,177
Operating income	24,955	24,618
Interest expense	4,357	2,368
Other expense (income), net	966	859
Income from continuing operations before income taxes	19,632	21,391
Income taxes	4,199	3,801
Income from continuing operations	15,433	17,590
(Loss) income from discontinued operations, net of income taxes of \$183 and \$3,004 respectively (Note 2)	(1,961	) 4,617
Net income	\$13,472	\$22,207
Per common share:		
Basic:		
Income from continuing operations	\$0.29	\$0.33
(Loss) income from discontinued operations, net of income taxes	(0.04	) 0.08
Net income	\$0.25	\$0.41
Diluted:		
Income from continuing operations	\$0.28	\$0.32
(Loss) income from discontinued operations, net of income taxes	(0.04	) 0.08
Net income	\$0.24	\$0.40
Dividends	\$0.10	\$0.10
Weighted average common shares outstanding:		
Basic	54,739,465	54,805,636
Diluted	55,524,560	55,455,579

See accompanying notes.

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

	Three months ended March 31,	
	2013	2012
Net income	\$13,472	\$22,207
Other comprehensive (loss) income, net of tax		
Unrealized gain on hedging activities, net of tax (1)	427	236
Foreign currency translation adjustments, net of tax (2)	(14,505)	) 14,709
Defined benefit pension and other postretirement benefits, net of tax (3)	2,410	1,205
Total other comprehensive (loss) income, net of tax	(11,668)	) 16,150
Total comprehensive income	\$1,804	\$38,357

(1) Net of tax of \$188 and \$84 for the three months ended March 31, 2013 and 2012, respectively.

(2) Net of tax of \$(101) and \$717 for the three months ended March 31, 2013 and 2012, respectively.

(3) Net of tax of \$2,838 and \$1,017 for the three months ended March 31, 2013 and 2012, respectively.

See accompanying notes.

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

	March 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$99,872	\$86,356
Accounts receivable, less allowances (2013 - \$2,050; 2012 - \$2,858)	226,744	253,202
Inventories	179,142	226,220
Deferred income taxes	12,968	33,906
Assets held for sale	241,311	—
Prepaid expenses and other current assets	17,682	18,856
Total current assets	777,719	618,540
Deferred income taxes	46,955	29,961
Property, plant and equipment	581,964	634,464
Less accumulated depreciation	(368,124	) (401,367
	213,840	233,097
Goodwill	439,240	579,905
Other intangible assets, net	375,663	383,972
Other assets	22,191	23,121
Total assets	\$1,875,608	\$1,868,596
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	\$12,539	\$3,795
Accounts payable	85,227	99,037
Accrued liabilities	72,786	96,364
Liabilities held for sale	23,809	—
Long-term debt - current	53,781	699
Total current liabilities	248,142	199,895
Long-term debt	604,370	642,119
Accrued retirement benefits	158,455	159,103
Deferred income taxes	47,809	48,707
Other liabilities	18,437	18,654
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock - par value \$0.01 per share		
Authorized: 150,000,000 shares	595	592
Issued: at par value (2013 - 59,489,205 shares; 2012 - 59,202,029 shares)		
Additional paid-in capital	348,158	332,588
Treasury stock, at cost (2013 - 5,497,079 shares; 2012 - 4,999,556 shares)	(113,333) (99,756
Retained earnings	641,395	633,446

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Accumulated other non-owner changes to equity	(78,420) (66,752)
Total stockholders' equity	798,395	800,118	
Total liabilities and stockholders' equity	\$1,875,608	\$1,868,596	

See accompanying notes.

5

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

	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net income	\$ 13,472	\$ 22,207
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,499	13,063
Amortization of convertible debt discount	582	537
Gain on disposition of property, plant and equipment	(54	) (97
Stock compensation expense	12,657	2,100
Withholding taxes paid on stock issuances	(720	) (683
Loss on the sale of businesses	—	767
Changes in assets and liabilities:		
Accounts receivable	(16,347	) (1,512
Inventories	(968	) 1,091
Prepaid expenses and other current assets	(235	) (2,272
Accounts payable	7,144	(672
Accrued liabilities	(16,679	) (29,379
Deferred income taxes	485	3,852
Long-term retirement benefits	801	(2,708
Other	1,020	25
Net cash provided by operating activities	17,657	6,319
Investing activities:		
Proceeds from disposition of property, plant and equipment	44	135
Payments related to the sale of businesses, net	—	(363
Capital expenditures	(10,050	) (7,281
Other	(1,420	) (1,418
Net cash used by investing activities	(11,426	) (8,927
Financing activities:		
Net change in other borrowings	8,737	(6,688
Payments on long-term debt	(6,245	) (13,135
Proceeds from the issuance of long-term debt	21,000	49,000
Proceeds from the issuance of common stock	2,677	3,324
Common stock repurchases	(12,856	) (11,141
Dividends paid	(5,443	) (5,459
Excess tax benefit on stock awards	506	1,227
Other	(53	) (65
Net cash provided by financing activities	8,323	17,063
Effect of exchange rate changes on cash flows	(1,038	) 529
Increase in cash and cash equivalents	13,516	14,984
Cash and cash equivalents at beginning of period	86,356	62,505
Cash and cash equivalents at end of period	\$ 99,872	\$ 77,489

See accompanying notes.

6

BARNES GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2012 has been derived from the 2012 financial statements of Barnes Group Inc. (the "Company"). For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included. Operating results for the three-month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

In the first quarter of 2013, the Company entered into a definitive agreement to sell its Barnes Distribution North America business ("BDNA") to MSC Industrial Direct Co., Inc. ("MSC") for \$550,000, subject to certain working capital and post closing adjustments. All previously reported financial information has been adjusted on a retrospective basis to reflect BDNA results as discontinued operations in the consolidated statements of income. The Company classified the business as "held for sale" on the consolidated balance sheets as of March 31, 2013. The Company completed the sale of BDNA on April 22, 2013. See Note 2 and Note 16.

Additionally, in the first quarter of 2013, the Company changed its organizational structure to align its strategic business units into two reportable business segments: Aerospace and Industrial. The Company has transferred 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. All previously reported financial information has been adjusted on a retrospective basis to reflect the segment realignment. See Note 13.

In the third quarter of 2012, the Company completed its acquisition of Synventive Molding Solutions. The acquisition has been integrated into the Industrial segment. See Note 3.

2. Discontinued Operations

Barnes Distribution Europe

On December 30, 2011, the Company sold substantially all of the assets of its Barnes Distribution Europe ("BDE") business to Berner SE (the "Purchaser") in a cash transaction pursuant to the terms of a Share and Asset Purchase Agreement ("SPA") among the Company, the Purchaser, and their respective relevant subsidiaries. The Company received gross proceeds of \$33,358, which represented 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 loss from operations of discontinued businesses for the quarter ended March 31, 2013 includes a final settlement to 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 (\$6,537 at March 31, 2013) plus interest remains in escrow. The Company objected to the retention of the escrow and expects to prevail in this matter. The Company has recorded the restricted cash in other assets at March 31, 2013 and December 31, 2012.

Barnes Distribution North America

On February 22, 2013, the Company and MSC entered into an Asset Purchase Agreement ("APA") pursuant to which MSC would acquire BDNA. The APA provided that MSC would pay the Company \$550,000 as consideration for the acquisition of BDNA, subject to certain working capital and post closing adjustments. In the first quarter of 2013, the Company classified the business as "held for sale". The results of BDNA have been segregated and presented as discontinued operations in the consolidated statements of income. The Company completed the sale of BDNA on April 22, 2013.

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

	Three months ended March 31,		
	2013	2012	
Net sales	\$75,821	\$80,301	
(Loss) income before income taxes	(1,778	) 8,401
Income tax expense	183	3,017	
(Loss) income from operations of discontinued businesses, net of income taxes	(1,961	) 5,384
Loss on transaction	—	(780)
Income tax benefit on loss on sale	—	13	
Loss on the sale of businesses	—	(767)
(Loss) income from discontinued operations, net of income taxes	\$(1,961	) \$4,617

The BDNA assets and liabilities held for sale will be sold or otherwise disposed of and are comprised of the following:

Assets	
Accounts receivable, less allowance of \$801	\$38,752
Inventories	47,408
Prepaid expenses and other current assets	2,179
Property, plant and equipment, net	17,861
Goodwill	134,715
Other assets	396
Assets held for sale	\$241,311
Liabilities	
Accounts payable	\$20,676
Accrued liabilities	2,964
Accrued retirement benefits	66
Other liabilities	103
Liabilities held for sale	\$23,809

3. Acquisition

During 2012, the Company completed the acquisition of Synventive Molding Solutions ("Synventive") by acquiring all of the issued and outstanding shares of capital stock of Synventive Acquisition Inc., a Delaware corporation. The following table reflects the unaudited pro forma operating results of the Company for the three months ended March 31, 2012, which gives effect to 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 acquisition been effective January 1, 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 Synventive adjusted for certain items including depreciation and amortization expense associated with the

assets acquired and the Company's expense related to financing arrangements, with the related tax effects. The pro forma information does not include the effects of any synergies or cost reduction initiatives related to the acquisition.

	(Unaudited Pro Forma) Three months ended March 31, 2012
Net sales	\$262,120
Income from continuing operations	18,897
Net income	23,514
Per common share:	
Basic:	
Income from continuing operations	\$0.35
Net income	\$0.43
Diluted:	
Income from continuing operations	\$0.34
Net income	\$0.42

4. Net Income Per Common Share

For the purpose of computing diluted income from continuing operations and net income per common share, the weighted-average number of common shares outstanding is increased for the potential dilutive effects of stock-based incentive plans and convertible senior subordinated notes. For the purpose of computing diluted income from continuing operations and net income per common share, the weighted-average number of common shares was increased by 785,095 and 649,943 for the three-month periods ended March 31, 2013 and 2012, respectively, to account for the potential dilutive effect of stock-based incentive plans. There were no adjustments to income from continuing operations or net income for the purposes of computing income available to common stockholders for those periods.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three month periods ended March 31, 2013 and 2012, the Company excluded 366,349 and 307,113 stock options, respectively, from the calculation of weighted average diluted shares outstanding as the stock options would have been anti-dilutive.

The Company granted 130,600 stock options, 161,295 restricted stock unit awards and 135,055 performance share awards in February 2013 as part of its annual grant awards. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic average common shares outstanding as they contain nonforfeitable rights to dividend payments. The performance share awards are part of a long-term Relative Measure program, which is designed to assess the Company's performance relative to the performance of companies included in the Russell 2000 Index over the three-year term of the program ending December 31, 2015. The performance goals are independent of each other and based on three metrics: the Company's total shareholder return ("TSR"), basic earnings per share growth and operating income before depreciation and amortization growth (weighted equally). The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR portion of the performance share awards was determined using a Monte Carlo valuation method as the award contains a market condition.

In the first quarter of 2013, the Board of Directors of the Company approved a Transition and Resignation Agreement (the "Agreement") for its former Chief Executive Officer ("Former CEO") in connection with his resignation of the CEO role and his assumption of a Vice Chairman role. The Agreement provides that, in exchange for the Former

CEO's delivery of an effective release of claims, his adherence to certain restrictive covenants, and the successful provision of transition services, including with regard to certain equity grants, the successful sale of the Barnes Distribution North America business, the Former CEO's outstanding equity awards are modified to increase the post-termination exercise period for stock options until the earlier of ten years from the date of grant or five years from the retirement date and made non-forfeitable all outstanding stock options, restricted stock units awards and performance share awards that remained unvested on the day of his agreed to

9

resignation date from the company. The original vesting dates of the equity awards serve as the delivery dates and the performance metrics continue to apply to the performance share awards. The Company recorded \$10,492 of stock compensation expense in the first quarter of 2013 as a result of the modifications.

The 3.375% convertible senior subordinated notes due in March 2027 (the "Notes") are convertible, under certain circumstances, into a combination of cash and common stock of the Company. The conversion price as of March 31, 2013 was approximately \$28.31 per share of common stock. The dilutive effect of the Notes is determined based on the average closing price of the Company's stock for the last 30 trading days of the quarter as compared to the conversion price of the Notes. Under the net share settlement method, there were no potential shares issuable under the Notes as the Notes would have been anti-dilutive for the three-month periods ended March 31, 2013 and 2012.

5. Inventories

The components of inventories consisted of:

	March 31, 2013	December 31, 2012
Finished goods	\$73,974	\$126,139
Work-in-process	61,495	56,186
Raw material and supplies	43,673	43,895
	\$179,142	\$226,220

As of March 31, 2013, BDNA held inventories of \$47,408 which is included in assets held for sale in the accompanying consolidated balance sheet as of March 31, 2013. See Note 2.

6. Goodwill and Other Intangible Assets

Goodwill:

The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company as of and for the period ended March 31, 2013:

	Aerospace	Industrial	Other	Total Company
January 1, 2013	\$30,786	\$414,244	\$134,875	\$579,905
Transfer to assets held for sale	—	—	(134,715)	(134,715)
Foreign currency translation	—	(5,790)	(160)	(5,950)
March 31, 2013	\$30,786	\$408,454	\$—	\$439,240

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. At March 31, 2013, the BDNA goodwill was included within assets held for sale on the consolidated balance sheet. See Note 2. The BDNA and Raymond businesses represent individual reporting units as of December 31, 2012 and March 31, 2013.

Other Intangible Assets:

Other intangible assets consisted of:

	Range of Life -Years	March 31, 2013		December 31, 2012	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue sharing programs (RSPs)	Up to 30	\$293,700	\$(57,313)	\$293,700	\$(54,638)
Customer lists/relationships	10-15	91,306	(12,088)	102,806	(21,727)
Patents and technology	7-14	41,972	(9,261)	41,972	(7,758)
Trademarks/trade names	5-30	11,950	(6,930)	12,750	(7,497)
Other	Up to 15	12,692	(7,202)	12,692	(6,927)
		451,620	(92,794)	463,920	(98,547)
Unamortized intangible asset:					
Trade name		10,000		10,000	
Foreign currency translation		6,837	—	8,599	—
Other intangible assets		\$468,457	\$(92,794)	\$482,519	\$(98,547)

Gross amounts of \$11,500 and \$800 that were included within customer lists and trademarks, respectively, at December 31, 2012, were related to BDNA, and are therefore classified within assets held for sale as of March 31, 2013. The gross amounts were fully amortized at March 31, 2013.

Estimated amortization of intangible assets for future periods is as follows: 2013 - \$24,000 ; 2014 - \$24,000; 2015 - \$24,000; 2016 - \$23,000 and 2017 - \$24,000.

7. Debt

The Company's debt agreements contain financial covenants that require the maintenance of interest coverage and leverage ratios. The Company is in compliance with its debt covenants as of March 31, 2013, and closely monitors its future compliance based on current and anticipated future economic conditions.

Long-term debt and notes and overdrafts payable at March 31, 2013 and December 31, 2012 consisted of:

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.375% Convertible Notes	\$55,636	\$61,240	\$55,636	\$57,977
Unamortized debt discount – 3.375% Convertible Notes	(2,540)	—	(3,122)	—
Revolving credit agreement	604,100	614,965	589,200	599,172
Borrowings under lines of credit and overdrafts	12,095	12,095	3,380	3,380
Foreign bank borrowings	810	812	945	947
Other	589	587	574	574
	670,690	689,699	646,613	662,050
Less current maturities	(66,320)		(4,494)	
Long-term debt	\$604,370		\$642,119	

The 3.375% Convertible Notes are subject to redemption at their par value at any time, at the option of the Company, on or after March 20, 2014. The note holders may also require the Company to redeem some or all of the notes at their par value on March 15th of 2014, 2017 and 2022. As such, the balance of these Notes of \$53,096 (\$55,636 par value) and the related deferred tax balances are cla