

market value of plan assets. This difference results from the deferment in the recognition of asset gains and losses above or below expected returns on assets for a period of approximately five years. At December 31, 2002, the market-related value of pension assets exceeded the fair market value by \$70.0 million. This difference under SFAS 87 will increase pension expense by \$3.1 million in 2003 and an additional \$2.3 million in 2004.

Income Taxes

As of December 31, 2002, the Company had recognized \$38.6 million of deferred tax assets, net of valuation reserves. The realization of these benefits is dependent on future taxable income. For those jurisdictions where the expiration date of tax carry-forwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided. Management believes that sufficient income will be earned in the future to realize deferred income tax assets, net of valuation allowances recorded. The recognized net deferred tax asset is based on the Company's estimates of future taxable income and its tax planning strategies. The realization of these deferred tax assets can be impacted by changes to tax codes, statutory tax rates and future taxable income levels.

Acquisitions

During the past three years, the Company acquired a number of businesses, which were accounted for using the purchase method. Accordingly, the results of operations of the acquired companies have been included in the consolidated results from their respective acquisition dates.

In May 2000, the Company purchased substantially all of the assets and liabilities of Curtis Industries, Inc. (Curtis) for \$63.4 million. Curtis, a distributor of MRO supplies and high-quality security products, was combined with Bowman Distribution to form Barnes Distribution. This business combination created a broader product offering, enhanced service capabilities and opportunities for increased sales penetration. The combination also created significant cost savings opportunities, primarily through headquarters and distribution center consolidations and increased purchasing leverage. The majority of these cost savings were realized in 2002.

In connection with the Curtis acquisition, the Company incurred certain integration costs. The integration plan included combining the headquarters functions and consolidating warehousing and distribution networks. As a result, the Company recorded total costs of \$6.4 million, relating primarily to lease consolidation costs, facility closure costs and reductions in personnel. Costs of \$4.7 million associated with the acquired business were reflected as assumed liabilities in the allocation of the purchase price to net assets acquired. The remaining integration costs of \$1.7 million were reflected in expenses in 2000. As of December 31, 2002, \$1.5 million remained as liabilities related primarily to future lease payments.

In September 2000, the Company purchased substantially all of the assets and liabilities of AVS/Kratz-Wilde Machine Company and Apex Manufacturing, Inc. (Kratz-Wilde/Apex) for \$40.9 million. Kratz-Wilde/Apex fabricates and machines intricate aerospace components for jet engines and auxiliary power units. These businesses are included in the Barnes Aerospace segment. This acquisition augmented Barnes Aerospace by extending product depth and customer penetration, and also provided an additional FAA-licensed aircraft engine repair facility.

In 2001, the Company completed two bolt-on acquisitions, for a combined purchase price of \$3.8 million. In January 2001, the Company acquired Euro Stock Springs & Components Limited (Euro Stock). Euro Stock distributes standard springs through catalogs to customers located primarily in Europe. This business, which is included in the Barnes Distribution segment, expanded Barnes Distribution's presence in Europe and added a new sales channel through Euro Stock's product catalog. In November 2001, the Company acquired certain assets of Forward Industries, L.L.C., and its subsidiary Forward Industries, Ltd. Forward Industries designs and manufactures nitrogen gas springs that are used in the appliance, automotive, heating and cooling and electrical industries. This acquisition has been integrated with the Company's existing nitrogen gas spring business and is included in the Associated Spring segment. The acquisition broadened the nitrogen gas spring product line offering of Associated Spring.

In 2002, the Company completed two acquisitions for a total purchase price of \$34.0 million. Consideration for the acquisitions included cash of approximately \$31.0 million, of which \$2.0 million

BARNES GROUP INC.



MANAGEMENT'S
DISCUSSION &
ANALYSIS