

# BARNES GROUP INC

## **FORM 10-Q** (Quarterly Report)

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**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 June 30, 2008

OR

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

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

Commission file number 1-4801

**BARNES GROUP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**123 Main Street, Bristol, Connecticut**  
(Address of Principal Executive Offices)

**06-0247840**  
(I.R.S. Employer  
Identification No.)

**06011-0489**  
(Zip Code)

**(860) 583-7070 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 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 ☒  
Non-accelerated filer ☐

Accelerated filer ☐  
Smaller reporting company ☐

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

The registrant had outstanding 54,420,699 shares of common stock as of July 30, 2008.

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**For the Quarterly Period Ended June 30, 2008**

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### 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 June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net sales	\$ 382,873	\$ 359,526	\$ 771,441	\$ 720,176
Cost of sales	234,547	219,832	474,373	440,749
Selling and administrative expenses	99,314	99,399	198,156	195,964
	<u>333,861</u>	<u>319,231</u>	<u>672,529</u>	<u>636,713</u>
Operating income	49,012	40,295	98,912	83,463
Other income	104	389	303	631
Interest expense	5,125	6,489	10,423	13,461
Other expenses	374	321	2,210	661
Income before income taxes	43,617	33,874	86,582	69,972
Income taxes	9,002	5,487	18,536	13,930
Net income	<u>\$ 34,615</u>	<u>\$ 28,387</u>	<u>\$ 68,046</u>	<u>\$ 56,042</u>
Per common share:				
Net income:				
Basic	\$ .64	\$ .53	\$ 1.26	\$ 1.06
Diluted	.60	.49	1.20	.99
Dividends	.16	.14	.30	.265
Average common shares outstanding:				
Basic	54,294,170	53,134,347	54,210,884	52,855,972
Diluted	57,353,889	57,730,886	56,720,508	56,461,052

See accompanying notes.

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### BARNES GROUP INC. CONSOLIDATED BALANCE SHEETS (Dollars in thousands) (Unaudited)

	June 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 25,140	\$ 20,600
Accounts receivable, less allowances (2008 – \$5,268; 2007 – \$5,452)	239,907	211,346
Inventories	251,260	246,836
Deferred income taxes	26,890	29,087
Prepaid expenses	17,533	13,498
Total current assets	560,730	521,367
Deferred income taxes	10,180	14,085
Property, plant and equipment	648,736	622,728
Less accumulated depreciation	(405,418)	(392,183)
	243,318	230,545
Goodwill	394,694	380,486
Other intangible assets, net	323,603	330,458
Other assets	66,101	62,394
Total assets	<u>\$1,598,626</u>	<u>\$1,539,335</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Notes and overdrafts payable	\$ 9,752	\$ 7,322
Accounts payable	133,213	187,136
Accrued liabilities	98,097	107,202
Long-term debt – current	35,529	42,660
Total current liabilities	276,591	344,320
Long-term debt	423,064	384,482
Accrued retirement benefits	108,018	109,502
Other liabilities	45,899	47,084
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock - par value \$0.01 per share		
Authorized: 150,000,000 shares		
Issued: Shares at par value (2008 – 54,989,748; 2007 – 54,521,320)	550	545
Additional paid-in capital	239,820	230,721
Treasury stock, at cost (2008 – 560,452 shares; 2007 – 452,469 shares)	(13,512)	(10,583)
Retained earnings	474,291	422,790
Accumulated other non-owner changes to equity	43,905	10,474
Total stockholders' equity	745,054	653,947
Total liabilities and stockholders' equity	<u>\$1,598,626</u>	<u>\$1,539,335</u>

See accompanying notes.

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

	Six months ended June 30,	
	2008	2007
<b>Operating activities:</b>		
Net income	\$ 68,046	\$ 56,042
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	26,364	23,593
Loss (gain) on disposition of property, plant and equipment	(102)	174
Non-cash stock-based compensation expense	3,751	3,955
Non-cash retirement savings plan contributions	—	3,776
Withholding taxes paid on stock issuances	(1,512)	(5,016)
Loss on the sale of Spectrum Plastics	843	—
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(24,725)	(28,756)
Inventories	(1,549)	(3,307)
Prepaid expenses	(3,468)	(5,186)
Accounts payable	(19,208)	1,739
Accrued liabilities	(10,361)	(5,124)
Deferred income taxes	6,889	4,521
Long-term retirement benefits	(4,804)	(1,319)
Other	27	(535)
Net cash provided by operating activities	40,191	44,557
<b>Investing activities:</b>		
Proceeds from disposition of property, plant and equipment	542	431
Proceeds from the sale of Spectrum Plastics, net	5,129	—
Capital expenditures	(26,101)	(22,922)
Business acquisitions, net of cash acquired	—	(1,886)
Revenue sharing program payments	(35,750)	(36,275)
Other	(1,231)	(991)
Net cash used by investing activities	(57,411)	(61,643)
<b>Financing activities:</b>		
Net change in other borrowings	2,241	5,061
Payments on long-term debt	(165,987)	(168,182)
Proceeds from the issuance of long-term debt	197,350	176,875
Proceeds from the issuance of common stock	3,531	8,958
Common stock repurchases	(1,416)	—
Dividends paid	(16,273)	(14,053)
Excess tax benefit on stock awards	1,588	—
Other	(97)	(3,636)
Net cash provided by financing activities	20,937	5,023
Effect of exchange rate changes on cash and cash equivalents	823	(904)
Increase (decrease) in cash and cash equivalents	4,540	(12,967)
Cash and cash equivalents at beginning of period	20,600	35,360
Cash and cash equivalents at end of period	<u>\$ 25,140</u>	<u>\$ 22,393</u>

#### Supplemental Disclosure of Cash Flow Information:

Non-cash financing and investing activities in 2007 include the acquisition of \$65.4 million of intangible assets and the recognition of the corresponding liabilities in connection with the aftermarket revenue sharing programs (“RSPs”).

See accompanying notes.

**BARNES GROUP INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(All dollar amounts included in the notes are stated in thousands except per share data.)**

**1. Summary of Significant Accounting Policies**

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of 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 generally accepted accounting principles for complete financial statements. The balance sheet as of December 31, 2007 has been derived from the 2007 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, 2007. 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- and six-month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

See Notes 8 and 13 for discussion of the impact of the Company’s adoption of Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements,” on January 1, 2008.

In the third quarter of 2007, the Company realigned its reportable business segments by transferring the stock spring catalog and custom solutions business from Barnes Distribution to Barnes Industrial, whose engineered springs business manufactures many of the spring products sold by this business. All previously reported segment information was adjusted on a retrospective basis to reflect this change.

**2. Net Income Per Common Share**

For the purpose of computing diluted net income per share, the weighted average number of shares outstanding was increased by 3,059,719 and 4,596,539 for the three-month periods ended June 30, 2008 and 2007, respectively, and 2,509,624 and 3,605,080 for the six-month periods ended June 30, 2008 and 2007, respectively, to account for the potential dilutive effects of stock-based incentive plans and convertible senior subordinated notes.

The calculation of weighted average diluted shares outstanding excludes all anti-dilutive shares. During the three-month periods ended June 30, 2008 and 2007, the Company excluded 432,000 and 79,500 options, respectively, from the calculation of weighted average diluted shares outstanding as the stock options were considered anti-dilutive. During the six-month periods ended June 30, 2008 and 2007, the Company excluded 693,457 and 513,338 options, respectively, from the calculation of weighted average diluted shares outstanding as the stock options were considered anti-dilutive. There were no adjustments to net income for the purpose of computing income available to common stockholders for those periods.

The Company granted 301,300 stock options (278,800 net of forfeitures) and 140,141 restricted stock unit awards (130,141 net of forfeitures) in February 2008 as part of its annual grant award. Of the 130,141 restricted stock unit awards, 58,400 vest upon satisfying established performance goals and 71,741 vest upon meeting certain service conditions. Of the 71,741 restricted stock units that vest upon meeting certain service conditions, 9,477 have accelerated vesting provisions based upon meeting certain established performance goals.

The 3.75% convertible senior subordinated notes due in August 2025 (the “3.75% Convertible Notes”) are convertible, under certain circumstances, into a combination of cash and common stock of the Company. The conversion price as of June 30, 2008 was approximately \$20.91 per share of common stock. As of June 30, 2008 and 2007, the Company’s market price per share exceeded the conversion price of the notes. Under the net share settlement method, there were 1,215,770 and 1,548,163 potential shares issuable under the notes that were considered dilutive in the three-month periods ended June 30, 2008 and 2007, respectively, and 801,234 and 913,789 potential shares issuable under the notes that were considered dilutive in the six-month periods ended June 30, 2008 and 2007, respectively.

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The 3.375% convertible senior subordinated notes due in March 2027 (the “3.375% Convertible Notes”) are convertible, under certain circumstances, into a combination of cash and common stock of the Company. The conversion price as of June 30, 2008 was approximately \$28.59 per share of common stock. As of June 30, 2008, the Company’s market price per share did not exceed the conversion price of the notes. As of June 30, 2007, the Company’s market price per share exceeded the conversion price of the notes. Under the net share settlement method, there were 275,275 and 137,637 potential shares issuable under the notes that were considered dilutive in the three-month and six-month periods ended June 30, 2007, respectively.

### 3. Comprehensive Income

Comprehensive income includes all changes in equity during a period except those resulting from the investments by, and distributions to, stockholders. For the Company, comprehensive income for the period includes net income and other non-owner changes to equity, net of taxes.

#### Statements of Comprehensive Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income	\$34,615	\$28,387	\$ 68,046	\$56,042
Unrealized gains (losses) on hedging activities	1,886	(174)	2,332	(119)
Foreign currency translation adjustments	(2,686)	3,518	29,479	4,168
Defined benefit pension and other postretirement plans	471	348	1,620	1,422
Comprehensive income	<u>\$34,286</u>	<u>\$32,079</u>	<u>\$101,477</u>	<u>\$61,513</u>

### 4. Inventories

The components of inventories were:

	June 30, 2008	December 31, 2007
Finished goods	\$143,784	\$ 145,896
Work-in-process	65,181	61,027
Raw material and supplies	42,295	39,913
	<u>\$251,260</u>	<u>\$ 246,836</u>

### 5. 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 for the six-month period ended June 30, 2008:

	Barnes Aerospace	Barnes Distribution	Barnes Industrial	Total Company
January 1, 2008	\$30,786	\$ 161,063	\$188,637	\$380,486
Goodwill adjustments	—	(1,896)	(250)	(2,146)
Foreign currency translation	—	2,528	13,826	16,354
June 30, 2008	<u>\$30,786</u>	<u>\$ 161,695</u>	<u>\$202,213</u>	<u>\$394,694</u>

During the first half of 2008, the goodwill recorded at Barnes Distribution for the KENT acquisition was reduced to appropriately recognize deferred tax benefits related to certain assumed liabilities and was reduced for costs expended which were less than the amount recorded as an assumed liability in the acquisition. Goodwill recorded at Barnes Industrial was reduced in the first half of 2008 for the sale of Spectrum Plastics.



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### Other Intangible Assets:

Other intangible assets consisted of:

	Range of Life -Years	June 30, 2008		December 31, 2007	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue sharing programs	Up to 30	\$293,700	\$ (16,059)	\$293,700	\$ (11,785)
Customer lists/relationships	10	28,578	(10,701)	28,578	(9,150)
Patents, trademarks/trade names	5-30	22,896	(7,120)	25,196	(6,457)
Other	Up to 15	7,405	(1,501)	8,262	(2,068)
		352,579	(35,381)	355,736	(29,460)
Foreign currency translation		6,405	—	4,182	—
Other intangible assets		<u>\$358,984</u>	<u>\$ (35,381)</u>	<u>\$359,918</u>	<u>\$ (29,460)</u>

Amortization of intangible assets is expected to increase from approximately \$13,200 in 2008 to \$16,800 in 2012.

As discussed in Note 12, during the first quarter of 2008 the Company sold the net assets of the Barnes Industrial business Spectrum Plastics Molding Resources, Inc. ("Spectrum Plastics"). The sale of Spectrum Plastics resulted in a reduction of \$1,898 to intangible assets, net of accumulated amortization, in 2008.

### 6. Business Reorganizations

In connection with the acquisition of KENT and as part of Project Catalyst, Barnes Distribution implemented certain right-sizing actions which included employee terminations. As of December 31, 2007, the Company had a liability of \$6,662 related to these actions. In 2008, the Company implemented additional right-sizing actions at Barnes Distribution. In 2007, the Company implemented within Barnes Industrial a reduction-in-force, and production realignment and product rationalization activities. As of December 31, 2007, the Company had a liability of \$2,347 related to these actions. Additional actions at Barnes Industrial were taken in 2008. The following table sets forth the change in the carrying amount of the liability for these actions for the six-month period ended June 30, 2008:

	Barnes Distribution	Barnes Industrial
January 1, 2008	\$ 6,662	\$ 2,347
Severance expense, net	997	182
Adjustments recorded to assumed liabilities (goodwill)	(889)	—
Payments	(3,208)	(657)
Foreign currency translation	309	—
June 30, 2008	<u>\$ 3,871</u>	<u>\$ 1,872</u>

The Barnes Industrial liability includes \$602 of non-cash items. The remaining balances of the Barnes Distribution and Barnes Industrial liabilities are expected to be paid in 2008 and 2009.

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### 7. Debt

Under the terms of its Revolving Credit Agreement, the Company pays interest based on the London Interbank Offered Rate (“LIBOR”) plus a borrowing spread ranging from 0.30% to 1.15%, depending on the Company’s debt ratio at the time of the borrowing (the “borrowing spread”). In March 2008, the Company entered into two, three-year interest rate swap agreements which together converted the interest on the first \$100,000 of borrowings under the Company’s Revolving Credit Agreement from a variable rate plus the borrowing spread to a fixed rate of 2.947% plus the borrowing spread. The interest rate swaps qualify as cash flow hedges. The fair market value of the interest rate swaps was a net asset of \$1,892 at June 30, 2008 which was recorded in other long-term assets in the accompanying balance sheet. The offset to these amounts was recorded in accumulated other non-owner changes to equity, net of tax. Amounts in accumulated other non-owner changes to equity expected to be reclassified to earnings within the next year are not material. For the period ended June 30, 2008, there was no hedge ineffectiveness recorded in the consolidated statement of income related to this cash flow hedge.

The 3.75% Convertible Notes and the 3.375% Convertible Notes are eligible for conversion upon meeting certain conditions as provided in the respective indenture agreements. The eligibility for conversion is determined quarterly. During the second quarter of 2008, neither the 3.75% Convertible Notes nor the 3.375% Convertible Notes were eligible for conversion. During the third quarter of 2008, neither the 3.75% Convertible Notes nor the 3.375% Convertible Notes will be eligible for conversion.

### 8. Fair Value Measurements

In 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. On January 1, 2008, the provisions of this Statement became effective for financial assets and financial liabilities of the Company. See Note 13.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement classifies the inputs used to measure fair value into the following hierarchy:

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

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

Level 3 Unobservable inputs for the asset or liability

The following table provides the assets and liabilities reported at fair value and measured on a recurring basis as of June 30, 2008:

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Derivatives, net	<u>\$(2,992)</u>	<u>\$ —</u>	<u>\$ (2,992)</u>	<u>\$ —</u>
Rabbi trust assets	<u>1,706</u>	<u>1,706</u>	<u>—</u>	<u>—</u>
	<u><u>\$(1,286)</u></u>	<u><u>\$ 1,706</u></u>	<u><u>\$ (2,992)</u></u>	<u><u>\$ —</u></u>

The fair values for the derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based and treasury interest rates and forward currency spot and forward rates. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.

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As of December 31, 2007, the fair values of the 3.75% Convertible Notes and 3.375% Convertibles Notes were approximately \$167,330 and \$131,651, respectively. As of June 30, 2008, the fair values of the 3.75% Convertible Notes and the 3.375% Convertible Notes were approximately \$127,160 and \$105,750, respectively.

### 9. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

<u>Pensions</u>	<u>Three months ended</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ 1,834	\$ 2,001	\$ 3,879	\$ 4,048
Interest cost	5,874	5,449	11,748	10,779
Expected return on plan assets	(8,044)	(7,574)	(16,155)	(15,286)
Amortization of prior service cost	308	369	623	742
Recognized losses	655	568	1,170	1,079
Curtailment gain	—	(84)	—	(84)
Net periodic benefit cost	<u>\$ 627</u>	<u>\$ 729</u>	<u>\$ 1,265</u>	<u>\$ 1,278</u>

  

<u>Other Postretirement Benefits</u>	<u>Three months ended</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ 131	\$ 254	\$ 386	\$ 558
Interest cost	1,164	1,113	2,315	2,265
Amortization of prior service cost	262	302	509	592
Recognized losses	42	158	145	364
Net periodic benefit cost	<u>\$ 1,599</u>	<u>\$ 1,827</u>	<u>\$ 3,355</u>	<u>\$ 3,779</u>

### 10. Information on Business Segments

The following table sets forth information about the Company's operations by its three reportable business segments:

	<u>Three months ended</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2008</u>	<u>2007</u> As adjusted	<u>2008</u>	<u>2007</u> As adjusted
Net sales				
Barnes Aerospace	\$114,402	\$ 92,418	\$226,710	\$183,610
Barnes Distribution	135,772	137,502	276,745	277,269
Barnes Industrial	132,922	129,960	268,507	259,909
Intersegment sales	(223)	(354)	(521)	(612)
Total net sales	<u>\$382,873</u>	<u>\$359,526</u>	<u>\$771,441</u>	<u>\$720,176</u>
Operating profit				
Barnes Aerospace	\$ 23,877	\$ 18,582	\$ 46,188	\$ 35,424
Barnes Distribution	5,434	3,650	12,401	9,881
Barnes Industrial	19,697	18,091	40,321	38,213
Total operating profit	<u>49,008</u>	<u>40,323</u>	<u>98,910</u>	<u>83,518</u>
Interest income	89	251	279	439
Interest expense	(5,125)	(6,489)	(10,423)	(13,461)
Other income (expense), net	(355)	(211)	(2,184)	(524)
Total income before income taxes	<u>\$ 43,617</u>	<u>\$ 33,874</u>	<u>\$ 86,582</u>	<u>\$ 69,972</u>

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### **11. Commitments and Contingencies**

#### **Product Warranties**

The Company provides product warranties in connection with the sale of products. From time to time, the Company is subject to customer claims with respect to product warranties. Product warranty liabilities were not significant as of June 30, 2008 and December 31, 2007.

#### **Contingent Payments**

In connection with the Service Plus Distributors, Inc. acquisition in September, 2005, \$3,700 of the purchase price could be earned within three years of the closing date, contingent upon the occurrence of certain events or the achievement of certain performance targets. In 2006, \$1,500 was earned and paid. The remaining balance of \$2,200 as of June 30, 2008 will be recorded if and when paid.

#### **Income Taxes**

In connection with an Internal Revenue Service ("IRS") audit for the tax years 2000 through 2002, the IRS proposed adjustments to these tax years of approximately \$16,500, plus a potential penalty of 20% of the tax assessment plus interest. The adjustment relates to the federal taxation of foreign income of certain foreign subsidiaries. The Company filed an administrative protest of these adjustments and is currently engaged with the Appeals Office of the IRS. The Company believes its tax position on the issues raised by the IRS is correct and, therefore, the Company will continue to vigorously defend its position. The Company believes it will prevail on this issue. Any additional impact on the Company's liability for income taxes cannot presently be determined, but the Company believes it is adequately provided for and the outcome will not have a material impact on its results of operations, financial position or cash flows.

### **12. Business Divestiture**

In February 2008, the Company sold the net assets of Spectrum Plastics for \$6,350 resulting in an after-tax transaction loss of \$843, or \$0.01 per diluted share. The pre-tax loss of \$1,237 and related tax benefit of \$394 are reflected in other expenses and income taxes, respectively, in the accompanying consolidated statements of income in the six-month period ended June 30, 2008. The Company did not report Spectrum Plastics as a discontinued operation as it was not significant to any period presented. Accordingly, the operating results of Spectrum Plastics are included in the operating results of the Company in the accompanying consolidated statements of income for the six-month period ended June 30, 2008 (through the date of the sale) and for the three-month and six-month periods ended June 30, 2007.

### **13. Accounting Changes**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. This Statement was to be effective for the Company in 2008. However, in February 2008 the FASB issued Financial Statement of Position ("FSP") No. 157-1, which amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases," and other accounting pronouncements that address fair value measurements for lease transactions, and FSP No. 157-2, which delayed the effective date of SFAS No. 157 as it relates to nonfinancial assets and nonfinancial liabilities until 2009 for the Company except for items that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis. Effective January 1, 2008, the Company adopted the provisions of this Statement except as it relates to those nonfinancial assets and nonfinancial liabilities excluded under FSP No. 157-2. The nonfinancial assets and nonfinancial liabilities for which the Company has not applied the fair value provisions of SFAS No. 157 include: goodwill, intangible and other long-lived asset impairment testing; asset retirement obligations; liabilities for exit or disposal activities; and business combinations. The Company is currently evaluating the impact this Statement will have on the Company's financial position, results of operations and cash flows as it relates to nonfinancial assets and nonfinancial liabilities. For the impact of adoption of this Statement on financial assets and financial liabilities, see Note 8.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement permits the measurement of certain financial instruments at fair value with subsequent unrealized gains and losses recorded in earnings. This Statement was effective for the Company on January 1, 2008. Adoption of this Statement did not have an impact on the Company's financial position, results of operations and cash flows as the Company did not elect the fair value option.

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With respect to the unaudited consolidated financial information of Barnes Group Inc. for the three-month and six-month periods ended June 30, 2008 and 2007, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 1, 2008 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a “report” or a “part” of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.

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

We have reviewed the accompanying consolidated balance sheet of Barnes Group Inc. and its subsidiaries as of June 30, 2008 and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2008 and 2007 and the consolidated statements of cash flows for the six-month periods ended June 30, 2008 and 2007. This interim financial information is the responsibility of the Company's management.

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

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

As discussed in Notes 1, 8 and 13 to the consolidated financial information, the Company adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* ("FAS 157"), effective January 1, 2008.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, of stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 25, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Hartford, Connecticut  
August 1, 2008

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

#### OVERVIEW

Please refer to the Overview found in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. This Overview sets forth key management objectives and key performance indicators used by management as well as key industry and economic data tracked by management.

In the third quarter of 2007, the Company realigned its reportable business segments by transferring the stock spring catalog and custom solutions business from Barnes Distribution to Barnes Industrial, whose engineered springs business manufactures many of the spring products sold by this business. All previously reported segment information was adjusted on a retrospective basis to reflect this change.

#### Second Quarter 2008 Highlights

In the second quarter of 2008, sales grew 6.5% to \$382.9 million primarily as a result of organic sales growth at the Barnes Aerospace segment and the strengthening of foreign currencies against the U.S. dollar throughout the Company's geographically diverse businesses.

Operating income increased 21.6% to \$49.0 million in the second quarter of 2008 as all three business segments reported higher profits.

#### RESULTS OF OPERATIONS

##### Sales

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2008	2007	Change		2008	2007	Change	
Barnes Aerospace	\$114.4	\$ 92.4	\$22.0	23.8%	\$226.7	\$183.6	\$43.1	23.5%
Barnes Distribution	135.8	137.5	(1.7)	(1.3)%	276.7	277.3	(0.6)	(0.2)%
Barnes Industrial	132.9	130.0	2.9	2.3%	268.5	259.9	8.6	3.3%
Intersegment sales	(0.2)	(0.4)	0.2	36.8%	(0.5)	(0.6)	0.1	14.8%
<b>Total</b>	<b>\$382.9</b>	<b>\$359.5</b>	<b>\$23.4</b>	<b>6.5%</b>	<b>\$771.4</b>	<b>\$720.2</b>	<b>\$51.2</b>	<b>7.1%</b>

The Company reported net sales of \$382.9 million in the second quarter of 2008, an increase of \$23.4 million or 6.5%, over the second quarter of 2007. The sales increase reflected \$13.0 million of organic sales growth as a result of a \$22.0 million increase at Barnes Aerospace, offset in part by lower organic sales at Barnes Distribution and Barnes Industrial. Foreign currency translation favorably impacted sales by \$13.8 million in the second quarter of 2008 as foreign currencies strengthened against the U.S. dollar, primarily in Europe and Canada. Additionally, the sale of Spectrum Plastics in the first quarter of 2008 resulted in a reduction in sales of \$3.4 million as compared to the 2007 period.

Sales for the six-month period ended June 30, 2008 were \$771.4 million, an increase of \$51.2 million, or 7.1%, over the six-month period ended June 30, 2007. The sales increase reflected \$28.1 million of organic sales growth as a result of a \$43.1 million increase at Barnes Aerospace, offset in part by lower organic sales at Barnes Distribution and Barnes Industrial. Foreign currency translation favorably impacted sales by \$28.9 million in 2008 as foreign currencies strengthened against the U.S. dollar, primarily in Europe and Canada. Additionally, the sale of Spectrum Plastics resulted in a reduction in sales of \$5.8 million as compared to the 2007 period.

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### Expenses and Operating Income

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2008	2007	Change		2008	2007	Change	
Cost of sales	\$234.5	\$219.8	\$14.7	6.7%	\$474.4	\$440.7	\$33.7	7.6%
% of sales	61.3%	61.1%			61.5%	61.2%		
Gross profit	148.3	139.7	8.6	6.2%	297.1	279.4	17.7	6.3%
% of sales	38.7%	38.9%			38.5%	38.8%		
Selling and administrative expenses	99.3	99.4	(0.1)	(0.1)%	198.2	196.0	2.2	1.1%
% of sales	25.9%	27.7%			25.7%	27.2%		
Operating income	49.0	40.3	8.7	21.6%	98.9	83.5	15.4	18.5%
% of sales	12.8%	11.2%			12.8%	11.6%		

Operating income was \$49.0 million in the second quarter of 2008, an increase of 21.6% over the same period in 2007. For the year-to-date period, operating income improved to \$98.9 million, an 18.5% increase. Operating income margin for the 2008 second quarter improved to 12.8% from 11.2% a year ago and on a year-to-date basis to 12.8% in 2008 from 11.6% in 2007. All three business segments contributed to the increase in operating income and operating margin in both periods with Barnes Aerospace being the primary contributor, as the result of its higher profitable sales.

Cost of sales increased 6.7% in the second quarter of 2008 compared with the same period in 2007, the result of higher sales levels. The increase in cost of sales was slightly higher than the 6.5% increase in sales and resulted in a 0.2 percentage point reduction in gross profit margin to 38.7%. Gross profit margins decreased as a result of the shift in the overall sales mix from the higher gross margin distribution business to the lower gross margin aerospace manufacturing business. On a year-to-date basis, the 7.6% increase in cost of sales in 2008 was slightly higher than the 7.1% increase in sales which resulted in a reduction in the gross margin of 0.3 percentage points to 38.5%.

Selling and administrative expenses remained flat in the second quarter of 2008 compared to the same period in 2007. As a percentage of sales, selling and administrative expenses decreased from 27.7% in the second quarter of 2007 to 25.9% in the second quarter of 2008 and from 27.2% in the first half of 2007 to 25.7% in the first half of 2008 primarily as a result of a shift in the sales mix to the manufacturing businesses, which have lower selling and administrative expenses, as well as the impact of expense reduction initiatives and lower selling expenses at Barnes Distribution. These improvements were offset by the higher expenses from the increased sales volumes as well as approximately \$3.5 million comprised of severance costs incurred by each of the business segments including costs associated with the second quarter 2008 expense reduction actions, and costs associated with the retirement of the former Senior Vice President, Finance and Chief Financial Officer.

### Other Income/Expense

Other expenses, net of other income, increased \$0.3 million in the second quarter of 2008 compared to the same period of 2007. Interest expense decreased \$1.4 million in the second quarter of 2008 as a result of lower interest rates. For the six-month period ended June 30, 2008, other expenses, net of other income, included the \$1.2 million loss on the sale of Spectrum Plastics.



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### Income Taxes

The Company's effective tax rate for the first half of 2008 was 21.4%, which resulted in an effective tax rate for the second quarter of 2008 of 20.6%, compared with 19.9% in the first half of 2007 and 20.3% for the full year 2007. The increase in the effective tax rate from the full year 2007 rate was primarily driven by the projected shift in the mix of income to higher taxing jurisdictions.

In connection with an Internal Revenue Service audit for the tax years 2000 through 2002, the IRS proposed adjustments to these tax years of approximately \$16.5 million, plus a potential penalty of 20% of the tax assessment plus interest. The adjustment relates to the federal taxation of foreign income of certain foreign subsidiaries. The Company filed an administrative protest of these adjustments and is currently engaged with the Appeals Office of the IRS. The Company believes its tax position on the issues raised by the IRS is correct and, therefore, the Company will continue to vigorously defend its position. The Company believes it will prevail on this issue. Any additional impact on the Company's liability for income taxes cannot presently be determined, but the Company believes it is adequately provided for and the outcome will not have a material impact on its results of operations, financial position or cash flows.

### Net Income and Net Income per Share

(in millions, except per share data)	Three months ended June 30,				Six months ended June 30,			
	2008	2007	Change		2008	2007	Change	
Net income	\$34.6	\$28.4	\$ 6.2	21.9%	\$68.0	\$56.0	\$12.0	21.4%
Net income per share:								
Basic	\$ .64	\$ .53	\$ .11	20.8%	\$1.26	\$1.06	\$ .20	18.9%
Diluted	.60	.49	.11	22.4%	1.20	.99	.21	21.2%
Average common shares outstanding:								
Basic	54.3	53.1	1.2	2.2%	54.2	52.9	1.3	2.6%
Diluted	57.4	57.7	(0.3)	(0.7)%	56.7	56.5	0.2	0.5%

Basic and diluted net income per share increased 20.8% and 22.4%, respectively, in the second quarter of 2008 as compared to 2007. The increase in basic shares outstanding reduced the percentage increase in net income per share as compared to the percentage increase in net income. Basic average shares outstanding increased primarily as a result of shares issued for employee stock plans. Diluted average shares outstanding decreased primarily as a result of the decrease in the dilutive effect of potentially issuable shares under the employee stock plans and the convertible notes offset in part by the increase in basic average shares outstanding.

### Financial Performance by Business Segment

#### Barnes Aerospace

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2008	2007	Change		2008	2007	Change	
Sales	\$114.4	\$92.4	\$22.0	23.8%	\$226.7	\$183.6	\$43.1	23.5%
Operating profit	23.9	18.6	5.3	28.5%	46.2	35.4	10.8	30.4%
Operating margin	20.9%	20.1%			20.4%	19.3%		

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Barnes Aerospace achieved sales of \$114.4 million in the second quarter of 2008, an increase of 23.8% over the second quarter of 2007, and \$226.7 million for the first half of 2008, a 23.5% increase over the first half of 2007. The second quarter and year-to-date sales increases reflect growth of 29.5% and 27.7%, respectively, in aftermarket sales due primarily to growth in aftermarket RSP sales and to a lesser extent increased maintenance, overhaul and repair sales ("MRO"). Manufacturing sales grew 21.0% and 21.5% in the second quarter and year-to-date periods, respectively, on the strength of the manufacturing sales order backlog. The order backlog at Barnes Aerospace at the end of the second quarter of 2008 was \$424.4 million, a 10.2% decrease from the record high \$472.6 million at December 31, 2007 due in part to lower orders combined with order deferments primarily related to delays in the delivery schedule on a major engine program. Approximately 61% of the backlog at June 30, 2008 is expected to be shipped within the next 12 months.

Barnes Aerospace's second quarter 2008 operating profit was \$23.9 million, an increase of 28.5% from the comparable 2007 period. For the year-to-date period, operating profit in 2008 increased 30.4% to \$46.2 million from the 2007 period. Operating profit for the quarter and year-to-date periods was positively impacted by the profit contribution from the higher margin aftermarket RSPs as well as the higher sales volume in both the MRO and manufacturing businesses. This was partially offset by higher costs in the MRO business as it continues to drive improvements in the manufacturing of a spare parts product line introduced in the second half of 2007.

Outlook: Sales in the commercial aerospace manufacturing business are expected to grow based on the strong commercial engine order backlog and Barnes Aerospace's participation in certain strategic engine programs. However, the rate of manufacturing sales growth is expected to moderate in the second half of 2008 in part as a result of the delay in the delivery schedule on certain engine programs which Barnes Aerospace participates in. Management expects aftermarket sales growth above industry levels based on the strength of the MRO market reflecting industry fundamentals and long-term maintenance and repair contracts, and in the spare parts manufacturing business primarily as a result of RSP-driven demand. Sales growth in the aftermarket business may be adversely impacted by the industry dynamics related to higher fuel costs and airline mergers, which have resulted in announced plans to retire older, less fuel-efficient aircraft. However, the aircraft retirements are not expected to significantly impact this business as Barnes Aerospace's aftermarket business has focused on the newer generation, more fuel-efficient airplane and engine platforms. Management is concentrating on meeting increased demand by adding capacity in strategic locations both domestically and internationally, and through operational improvements. Operating profits should continue to be positively impacted by the mix of contributions from sales volume increases in the aftermarket and manufacturing businesses. As part of the aftermarket RSP programs, the management fees payable to its customer increase generally in the fourth or later years of each program. These and other similar fees are deducted from sales and temper aftermarket RSP sales growth and operating margins.

## Barnes Distribution

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2008	2007	Change		2008	2007	Change	
Sales	\$135.8	\$137.5	\$(1.7)	(1.3)%	\$276.7	\$277.3	\$(0.6)	(0.2)%
Operating profit	5.4	3.7	1.7	48.9%	12.4	9.9	2.5	25.5%
Operating margin	4.0%	2.7%			4.5%	3.6%		

Barnes Distribution recorded sales of \$135.8 million in the second quarter of 2008, a 1.3% decrease from the second quarter of 2007, and \$276.7 million in the first half of 2008, a 0.2% decrease from the first half of 2007. The decreases in the second quarter of 2008 and the first half of 2008 were primarily a result of a reduction in organic sales of \$7.1 million and \$12.3 million, respectively. Lower organic sales were due to softness in certain markets served by Barnes Distribution in North America, primarily in the transportation-related and certain manufacturing markets, and the impact of initiatives which created sales force disruption in the United States and the United Kingdom. These decreases in sales were offset by the favorable impact of foreign currency translation of \$5.4 million and \$11.7 million in the second quarter of 2008 and the first half of 2008, respectively, as foreign currencies strengthened against the U.S. dollar, primarily in Europe.

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Barnes Distribution's operating profit for the second quarter of 2008 increased 48.9% to \$5.4 million and operating profit in the first half of 2008 increased 25.5% to \$12.4 million, primarily as a result of operational and productivity improvements in the North American business realized from Project Catalyst actions focused on improving the profitability of the business. Additionally, costs associated with Project Catalyst were approximately \$2.0 million in the second quarter of 2007. Offsetting these improvements were the underperformance of the European business, reduced profitability from lower sales levels, and a severance charge of approximately \$1.5 million in the U.S., Canada and the United Kingdom to align Barnes Distribution's cost base with current sales levels.

Outlook: Management continues to focus on growing profitable organic sales and operating profits within Barnes Distribution. Organic sales may be negatively impacted by challenging global economic conditions and are largely dependent upon the retention of its customers and sales force worldwide. Profitable growth in North America is expected primarily as a result of targeted market segmentation initiatives, the recent cost base alignment actions and the change in sales force compensation which focuses on market pricing, customer retention and penetration, and adding new customers in core markets. Profitable growth in Europe is dependent on continued improvements in operational performance and realization of the benefits of the recent cost base alignment actions coupled with sales growth. Operating profit in the second half of 2008 is expected to be positively impacted by the benefits from the Project Catalyst initiatives undertaken in 2007 including the actions focused on sales and margin improvement, expanded global product sourcing, European market development, and logistics and network optimization. Costs associated with additional productivity and profitability initiatives may negatively impact near-term operating profits. Management continues to actively monitor its supplier price increases in an effort to share these increases with its customers.

## Barnes Industrial

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2008	2007	Change		2008	2007	Change	
Sales	\$132.9	\$130.0	\$2.9	2.3%	\$268.5	\$259.9	\$8.6	3.3%
Operating profit	19.7	18.1	1.6	8.9%	40.3	38.2	2.1	5.5%
Operating margin	14.8%	13.9%			15.0%	14.7%		

Sales at Barnes Industrial for the second quarter of 2008 were \$132.9 million, a 2.3% increase from the second quarter of 2007, and \$268.5 million for the first half of 2008, a 3.3% increase from 2007. Organic sales were down slightly in the 2008 periods as sales growth in the specialty businesses was offset by declines in the primarily North American-based engineered springs businesses. The declines in North America resulted from weaker economic conditions as compared to 2007, particularly in the North American transportation market. Additionally, the sale of Spectrum Plastics resulted in a reduction in sales of \$3.4 million and \$5.8 million for the second quarter of 2008 and first half of 2008, respectively. These decreases were offset by the favorable impact on sales of foreign currency translation of approximately \$8.4 million in the second quarter of 2008 and \$17.2 million in the first half of 2008 as foreign currencies strengthened against the U.S. Dollar, primarily in Europe.

Barnes Industrial's second quarter 2008 operating profit was \$19.7 million, an 8.9% improvement from the comparable 2007 period. The higher operating profit resulted primarily from higher sales levels in the higher margin specialty businesses, productivity and process improvements, and pricing initiatives. These increases were offset in part by the impact on operating profit of the lower sales in the engineered springs businesses. On a year-to-date basis, operating profit increased 5.5% to \$40.3 million as a result of similar factors.

Outlook: Management continues to be focused on profitable organic sales growth in 2008 and leveraging the benefits of the diversified industrial end markets in which Barnes Industrial has a market presence and competitive advantage, primarily in the U.S., Europe and Asia. However, growth in the global economy is uncertain given current economic conditions. In particular, management expects sales in certain North American markets, mainly those served by its engineered springs businesses, to continue to be soft. Additionally, the inflationary pressure on commodity prices is increasing, which could negatively impact profitability in the near-term. Management continues to focus on improving profitability through organic sales growth, pricing initiatives, cost structure optimization, and productivity and process improvement actions, though the costs of such initiatives may negatively impact near-term operating profits.

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### 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 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 2008 will generate significant cash. This operating cash flow may be supplemented with external borrowings to meet near-term organic business expansion and the Company's current financial commitments. Any future acquisitions are expected to be financed through internal cash, borrowings and equity, or a combination thereof.

The Company regularly reviews its capital commitments and needs and the availability of financing through institutional sources and capital markets. The Company expects to pursue opportunities to raise additional capital from time to time as it determines to be advisable based upon its capital needs, financing capabilities and market conditions.

#### Cash Flow

(in millions)	Six months ended June 30,		Change
	2008	2007	
Operating activities	\$ 40.2	\$ 44.6	\$ (4.4)
Investing activities	(57.4)	(61.6)	4.2
Financing activities	20.9	5.0	15.9
Exchange rate effect	0.8	(1.0)	1.8
Increase (decrease) in cash	\$ 4.5	\$ (13.0)	\$ 17.5

Operating activities provided \$40.2 million in cash in the first half of 2008 compared to \$44.6 million in the first half of 2007. Compared to the 2007 period, operating cash flows in the 2008 period were positively impacted by improved operating performance, offset by investments in working capital. At Barnes Aerospace, this includes payments for the investment in inventory related to a spare parts product line introduced in the second half of 2007.

Cash used by investing activities in the first half of 2008 was \$57.4 million compared to \$61.6 million in the comparable 2007 period and includes participation fee payments related to the aftermarket RSPs of \$35.8 million in the 2008 period and \$36.3 million in the 2007 period. As of June 30, 2008, the Company had a \$21.8 million liability under the RSPs which is included in accounts payable. Capital expenditures in the first half of 2008 were \$26.1 million compared to \$22.9 million in 2007. The Company expects capital spending in 2008 to be \$45.0 million to \$50.0 million. Additionally, investing activities in the first half of 2008 include the net proceeds of \$5.1 million from the sale of Spectrum Plastics.

Cash from financing activities in the first half of 2008 included a net increase in borrowings of \$33.6 million compared to an increase of \$13.8 million in the comparable 2007 period. Proceeds in both periods were used to finance working capital requirements, capital expenditures, revenue sharing program payments and dividends. The 2007 net increase in borrowings includes the sale of \$100.0 million of the 3.375% Convertible Notes, the proceeds of which were used to pay down borrowings under the revolving credit facility. Total cash used to pay dividends increased in the first half of 2008 by \$2.2 million over the comparable 2007 period, to \$16.3 million due to an increase in the number of shares outstanding and an increase in the quarterly cash dividend per share to \$0.14 per share in the second quarter of 2007 and \$0.16 per share in the second quarter of 2008. Other financing activities in 2007 included \$3.6 million of fees related to the convertible debt issuance.

At June 30, 2008, the Company held \$25.1 million in cash and cash equivalents, the majority of which are held outside of the U.S. In general, the repatriation of cash to the U.S. would have adverse tax consequences and the balances remain outside of the U.S. to fund future international growth investments, including capital expenditures, acquisitions and aftermarket RSP participation fees.

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The Company maintains borrowing facilities with banks to supplement internal cash generation. At June 30, 2008, \$189.7 million was borrowed at an interest rate of 2.95% under the Company's \$400.0 million borrowing facility which matures in September 2012. Additionally, at June 30, 2008, the Company had \$8.0 million of borrowings under uncommitted short-term bank credit lines at an interest rate of 4.63%. At June 30, 2008, the Company's total borrowings are comprised of approximately 57% fixed rate debt and approximately 43% variable rate debt. The interest payments on approximately 50% of the variable rate interest debt have been converted into payments of fixed interest plus the borrowing spread under the terms of the interest rate swap agreements described in Note 7 of the Notes to the Consolidated Financial Statements.

Borrowing capacity is limited by various debt covenants in the Company's debt agreements. The most restrictive borrowing covenant requires the Company to maintain a ratio of Consolidated Total Debt to EBITDA, as defined in the amended and restated revolving credit agreement, of not more than 4.00 times at June 30, 2008. The ratio requirement will decrease to 3.75 times for any fiscal quarter ending after September 30, 2009. The actual ratio at June 30, 2008 was 2.13 times and would have allowed additional borrowings of \$409.3 million.

The Company believes its credit facilities, coupled with cash generated from operations, are adequate for its anticipated near-term requirements.

## OTHER MATTERS

### 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 Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The most significant areas involving management judgments and estimates are described in Management's Discussion and Analysis of Financial Conditions and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes to such judgments and estimates. Actual results could differ from those estimates.

### Recent Accounting Changes

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. This Statement was to be effective for the Company in 2008. However, in February 2008 the FASB issued FSP No. 157-1, which amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases," and other accounting pronouncements that address fair value measurements for lease transactions, and FSP No. 157-2, which delayed the effective date of SFAS No. 157 as it relates to nonfinancial assets and nonfinancial liabilities until 2009 for the Company except for items that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis. Effective January 1, 2008, the Company adopted the provisions of this Statement except as it relates to those nonfinancial assets and nonfinancial liabilities excluded under FSP No. 157-2. The nonfinancial assets and nonfinancial liabilities for which the Company has not applied the fair value provisions of SFAS No. 157 include: goodwill, intangible and other long-lived asset impairment testing; asset retirement obligations; liabilities for exit or disposal activities; and business combinations. The Company is currently evaluating the impact this Statement will have on the Company's financial position, results of operations and cash flows as it relates to nonfinancial assets and nonfinancial liabilities. For the impact of adoption of this Statement on financial assets and financial liabilities, see Note 8 of the Notes to the Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations." The provisions of SFAS No. 141R change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. This Statement will be effective prospectively for acquisitions made by the Company after December 31, 2008. The impact of this Statement on the Company's financial position, results of operations and cash flows will be dependent on the terms, conditions and details of such acquisitions.

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In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51.” The provisions of SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This Statement will be effective for the Company in 2009. Since the Company currently does not have any minority interest investments, it does not expect this Statement will have an impact on the Company’s financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities.” The provisions of SFAS No. 161 which will change the required interim and annual disclosures for derivative instruments and hedging activities will be required for the Company beginning in 2009.

In May 2008, the FASB issued FSP No. APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).” The provisions of this FSP require an entity to separately account for the liability and equity components of the convertible debt in a manner that reflects the entity’s nonconvertible debt borrowing rate when interest is recognized. The FSP will be effective for the Company beginning in 2009 and the provisions will be required to be applied retroactively to all periods presented. The Company is currently evaluating the impact this Statement will have on the Company’s financial position, results of operations and cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” The provisions of this FSP define non-forfeitable dividends or dividend equivalents distributed on unvested share-based payment transactions as participating securities. As participating securities, these instruments are required to be included in the calculation of basic earnings per share. The FSP will be effective for the Company beginning in 2009 and the provisions will be required to be applied retroactively to all periods presented. The Company is currently evaluating the impact this FSP will have on the Company’s calculation of basic earnings per share.

## EBITDA

Earnings before interest expense, income taxes, and depreciation and amortization (“EBITDA”) for the first half of 2008 were \$123.3 million compared to \$107.0 million in the first half of 2007. 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. The Company does not intend EBITDA to represent cash flows from operations as defined by GAAP, and the reader should not consider it as an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP, or as an indicator of the Company’s operating performance. The Company’s definition of EBITDA may not be comparable with EBITDA as defined by other companies. Accordingly, the measurement has limitations depending on its use. The Company believes EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors.

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

	Six months ended June 30,	
	2008	2007
Net income	\$ 68.0	\$ 56.0
Add back:		
Interest expense	10.4	13.5
Income taxes	18.5	13.9
Depreciation and amortization	26.4	23.6
EBITDA	<u>\$123.3</u>	<u>\$107.0</u>

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### Forward-looking Statements

Certain of the statements in this quarterly report may contain certain forward-looking statements as defined in the Private Securities Litigation and Reform Act of 1995. Forward-looking statements are made based upon management’s good faith expectations and beliefs concerning future developments and their potential effect upon the Company and can be identified by the use of words such as “anticipated,” “believe,” “expect,” “plans,” “strategy,” “estimate,” “project,” and other words of similar meaning in connection with a discussion of future operating or financial performance. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. The risks and uncertainties, which are described in our periodic filings with the Securities and Exchange Commission, include, among others, uncertainties arising from the behavior of financial markets; future financial performance of the industries or customers that we serve; changes in market demand for our products and services; integration of acquired businesses; changes in raw material prices and availability; our dependence upon revenues and earnings from a small number of significant customers; uninsured claims; and numerous other matters of global, regional or national scale, including those of a political, economic, business, competitive, regulatory and public health nature. The Company assumes no obligation to update our forward-looking statements.



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

There has been no significant change in the Company's exposure to market risk during the first six months of 2008 other than the following change related to the Company's interest rate exposure. In March 2008, the Company entered into two, three-year interest rate swap agreements which together converted the interest on the first \$100.0 million of borrowings under the Company's Revolving Credit Agreement from a variable rate plus the borrowing spread to a fixed rate of 2.947% plus the borrowing spread for the purpose of mitigating its exposure to variable interest rates. The Company did not previously hedge its exposure to variable interest rates. For discussion of the Company's exposure to market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

### **Item 4. Controls and Procedures**

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



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### PART II. OTHER INFORMATION

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

##### (c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1-30, 2008	210	\$ 23.48	—	5,000,000
May 1-31, 2008	46,075	\$ 30.74	46,075	4,953,925
June 1-30, 2008	26,839	\$ 25.78	—	4,953,925
Total	73,124 <sup>(1)</sup>	\$ 28.90	46,075	

- (1) Other than 46,075 shares purchased in the second quarter of 2008 which were purchased as part of the Company's publicly announced plans, all acquisitions of equity securities during the second quarter of 2008 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 May 8, 2008 authorizing repurchase of up to 5.0 million shares of its common stock. This program replaced a previous authorization for the repurchase of up to 1.0 million shares of its common stock that was approved on April 12, 2001.

#### Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of the Company's stockholders was held on May 8, 2008. Proxies for the meeting were solicited pursuant to Regulation 14 A.
- (b) The following directors were elected:

Director	Votes in Favor	Votes Withheld	For a Term Expiring
William S. Bristow, Jr.	39,344,233	5,377,583	2011
William C. Denninger	42,493,331	2,228,485	2011*
Gregory F. Milzcik	43,153,018	1,568,798	2011

\* Effective June 2, 2008, Mr. Denninger retired as a Director of the Company.

- (c) (1) The stockholders approved an amendment to the Barnes Group Inc. Employee Stock Purchase Plan to increase to 2,525,000 the number of shares of common stock authorized for issuance under the plan. The proposal was approved as 38,584,093 shares voted for, 560,069 shares voted against, 595,802 shares abstained, and 4,981,852 shares did not vote.
- (2) The stockholders ratified the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2008. The proposal was ratified as 43,455,262 shares voted for, 1,163,254 shares voted against and 103,300 shares abstained.

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### Item 6. Exhibits

#### (a) Exhibits

- Exhibit 4.1 (i) ISDA Master Agreement, dated as of March 6, 2008, between Wells Fargo Bank, N.A. and Barnes Group Inc.  
(ii) Schedule to Wells Fargo Bank, N.A. ISDA Master Agreement.
- Exhibit 4.2 (i) Schedule to JP Morgan Chase Bank, N.A. ISDA Master Agreement.
- Exhibit 10.1 Agreement between Francis C. Boyle and the Company, dated June 6, 2008.
- Exhibit 15 Letter regarding unaudited interim financial information.
- Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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**SIGNATURES**

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

Barnes Group Inc.  
(Registrant)

Date: August 1, 2008

/s/ F RANCIS C. B OYLE , J R .

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**Francis C. Boyle, Jr.**  
**Acting Chief Financial Officer and**  
**Vice President, Controller**  
**(the principal Financial and Accounting Officer)**

**EXHIBIT INDEX**

**Barnes Group Inc.**

**Quarterly Report on Form 10-Q  
For Quarter ended June 30, 2008**

<b>Exhibit No.</b>	<b>Description</b>	<b>Reference</b>
4.1	(i) ISDA Master Agreement, dated as of March 6, 2008, between Wells Fargo Bank, N.A. and Barnes Group Inc.	Filed with this report.
	(ii) Schedule to Wells Fargo Bank, N.A. ISDA Master Agreement.	Filed with this report.
4.2	(i) Schedule to JP Morgan Chase Bank, N.A. ISDA Master Agreement.	Filed with this report.
10.1	Agreement between Francis C. Boyle and the Company, dated June 6, 2008.	Filed with this report.
15	Letter regarding unaudited interim financial information.	Filed with this report.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
32	Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished with this report.

(Multicurrency – Cross Border)

**ISDA** ®  
International Swap Dealers Association, Inc.

**MASTER AGREEMENT**

dated as of **March 6, 2008**

**Wells Fargo Bank, N.A.**

and

**Barnes Group Inc.**

have entered and/or anticipate entering into one or more transactions (each a “Transaction”) that are or will be governed by this Master Agreement, which includes the schedule (the “Schedule”), and the documents and other confirming evidence (each a “Confirmation”) exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:—

**1. Interpretation**

(a) **Definitions.** The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) **Inconsistency.** In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) **Single Agreement.** All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this “Agreement”), and the parties would not otherwise enter into any Transactions.

**2. Obligations**

(a) **General Conditions.**

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

(b) **Change of Account.** Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) **Netting.** If on any date amounts would otherwise be payable:—

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) **Deduction or Withholding for Tax.**

(i) **Gross-Up.** All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and
- (4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) **Liability.** If:—

- (1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);
- (2) X does not so deduct or withhold; and
- (3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) **Default Interest; Other Amounts.** Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

### 3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:—

(a) **Basic Representations.**

- (i) **Status.** It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;
- (ii) **Powers.** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;
- (iii) **No Violation or Conflict.** Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;
- (iv) **Consents.** All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and
- (v) **Obligations Binding.** Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge,

Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) **Absence of Litigation.** There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) **Accuracy of Specified Information.** All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) **Payer Tax Representation.** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) **Payee Tax Representations.** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

#### 4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) **Furnish Specified Information.** It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:—

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) **Maintain Authorisations.** It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) **Comply with Laws.** It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) **Tax Agreement.** It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) **Payment of Stamp Tax.** Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located (“Stamp Tax Jurisdiction”) and will indemnify



the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

## 5. Events of Default and Termination Events

(a) **Events of Default.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) **Failure to Pay or Deliver.** Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) **Breach of Agreement.** Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) **Credit Support Default.**

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) **Misrepresentation.** A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) **Default under Specified Transaction.** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) **Cross Default.** If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) **Bankruptcy.** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:—

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) **Merger Without Assumption.** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:—

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) **Termination Events.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:—

(i) **Illegality.** Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):—

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) **Tax Event.** Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) **Tax Event Upon Merger.** The party (the “Burdened Party”) on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5 (a)(viii);

(iv) **Credit Event Upon Merger.** If “Credit Event Upon Merger” is specified in the Schedule as applying to the party, such party (“X”), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) **Additional Termination Event.** If any “Additional Termination Event” is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) **Event of Default and Illegality.** If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

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## 6. Early Termination

(a) **Right to Terminate Following Event of Default.** If at any time an Event of Default with respect to a party (the “Defaulting Party”) has occurred and is then continuing, the other party (the “Non-defaulting Party”) may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, “Automatic Early Termination” is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) **Right to Terminate Following Termination Event.**

(i) **Notice.** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) **Transfer to Avoid Termination Event.** If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party’s policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) **Two Affected Parties.** If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) **Right to Terminate.** If:—

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

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(c) **Effect of Designation.**

- (i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.
- (ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) **Calculations.**

(i) **Statement.** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) **Payment Date.** An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) **Payments on Early Termination.** If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) **Events of Default.** If the Early Termination Date results from an Event of Default:—

- (1) **First Method and Market Quotation .** If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.
- (2) **First Method and Loss.** If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.
- (3) **Second Method and Market Quotation .** If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) **Second Method and Loss** . If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) **Termination Events**. If the Early Termination Date results from a Termination Event:—

(1) **One Affected Party**. If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) **Two Affected Parties** . If there are two Affected Parties:—

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) **Adjustment for Bankruptcy**. In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) **Pre-Estimate**. The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

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## 7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:—

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

## 8. Contractual Currency

(a) ***Payment in the Contractual Currency.*** Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the “Contractual Currency”). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) ***Judgments.*** To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term “rate of exchange” includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) ***Separate Indemnities.*** To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) ***Evidence of Loss.*** For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

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## 9. Miscellaneous

- (a) **Entire Agreement.** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.
- (b) **Amendments.** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.
- (c) **Survival of Obligations.** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.
- (d) **Remedies Cumulative.** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.
- (e) **Counterparts and Confirmations.**
- (i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.
  - (ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.
- (f) **No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.
- (g) **Headings.** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

## 10. Offices; Multibranch Parties

- (a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.
- (b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.
- (c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

## 11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.



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## 12. Notices

(a) **Effectiveness.** Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:—

- (i) if in writing and delivered in person or by courier, on the date it is delivered;
- (ii) if sent by telex, on the date the recipient's answerback is received;
- (iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);
- (iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or
- (v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) **Change of Addresses.** Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

## 13. Governing Law and Jurisdiction

(a) **Governing Law.** This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) **Jurisdiction.** With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

- (i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and
- (ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) **Service of Process.** Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) **Waiver of Immunities.** Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

#### 14. Definitions

As used in this Agreement:—

**“Additional Termination Event”** has the meaning specified in Section 5(b).

**“Affected Party”** has the meaning specified in Section 5(b).

**“Affected Transactions”** means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

**“Affiliate”** means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, “control” of any entity or person means ownership of a majority of the voting power of the entity or person.

**“Applicable Rate”** means:—

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

**“Burdened Party”** has the meaning specified in Section 5(b).

**“Change in Tax Law”** means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

**“consent”** includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

**“Credit Event Upon Merger”** has the meaning specified in Section 5(b).

**“Credit Support Document”** means any agreement or instrument that is specified as such in this Agreement.

**“Credit Support Provider”** has the meaning specified in the Schedule.

**“Default Rate”** means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

**“Defaulting Party”** has the meaning specified in Section 6(a).

**“Early Termination Date”** means the date determined in accordance with Section 6(a) or 6(b)(iv).

**“Event of Default”** has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

**“Illegality”** has the meaning specified in Section 5(b).

**“Indemnifiable Tax”** means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

**“law”** includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and **“lawful”** and **“unlawful”** will be construed accordingly.

**“Local Business Day”** means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

**“Loss”** means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6 (e)(i)(l) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party’s legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

**“Market Quotation”** means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the “Replacement Transaction”) that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was, absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

**“Non-default Rate”** means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

**“Non-defaulting Party”** has the meaning specified in Section 6(a).

**“Office”** means a branch or office of a party, which may be such party’s head or home office.

**“Potential Event of Default”** means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

**“Reference Market-makers”** means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

**“Relevant Jurisdiction”** means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

**“Scheduled Payment Date”** means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

**“Set-off”** means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

**“Settlement Amount”** means, with respect to a party and any Early Termination Date, the sum of:—

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party’s Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

**“Specified Entity”** has the meaning specified in the Schedule.

**“Specified Indebtedness”** means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

**“Specified Transaction”** means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

**“Stamp Tax”** means any stamp, registration, documentation or similar tax.

**“Tax”** means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

**“Tax Event”** has the meaning specified in Section 5(b).

**“Tax Event Upon Merger”** has the meaning specified in Section 5(b).

**“Terminated Transactions”** means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if “Automatic Early Termination” applies, immediately before that Early Termination Date).

**“Termination Currency”** has the meaning specified in the Schedule.

**“Termination Currency Equivalent”** means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the “Other Currency”), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

**“Termination Event”** means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

**“Termination Rate”** means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

**“Unpaid Amounts”** owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

**Wells Fargo Bank, N.A.**

By: /s/ Karen K. Ahrens  
Name: Karen K. Ahrens  
Title: Vice President  
Date: 5/19/08

**Barnes Group Inc.,**  
a Delaware corporation

By: /s/ David J. Sinder  
Name: David J. Sinder  
Title: Assistant Treasurer  
Date: 5/16/08

By: /s/ Lawrence W. O'Brien  
Name: Lawrence W. O'Brien  
Title: VP Treasurer  
Date: 5/16/08

## SCHEDULE

to the

## ISDA MASTER AGREEMENT

This is the Schedule to that certain ISDA Master Agreement dated as of **March 6, 2008** between **Wells Fargo Bank, N.A.** ("Party A") and **Barnes Group Inc.**, a Delaware corporation ("Party B").

## PART 1

Termination Provisions

In this Agreement:

(A) "Specified Entity" means in relation to Party A for the purpose of:

Section 5(a)(v) (Default under Specified Transaction)	None.;
Section 5(a)(vi) (Cross Default),	None.;
Section 5(a)(vii) (Bankruptcy),	None.; and
Section 5(b)(iv) (Credit Event Upon Merger),	None.

"Specified Entity" means in relation to Party B for the purpose of:

Section 5(a)(v) (Default under Specified Transaction)	Subsidiaries, as defined in the Credit Agreement
Section 5(a)(vi) (Cross Default),	Subsidiaries, as defined in the Credit Agreement
Section 5(a)(vii) (Bankruptcy),	Significant Subsidiaries, as defined in the Credit Agreement; and
Section 5(b)(iv) (Credit Event Upon Merger),	Subsidiaries, as defined in the Credit Agreement

(B) "Specified Transaction" will have the meaning specified in Section 14 of this Agreement.

(C) The "Cross-Default" provisions of Section 5(a)(vi) of this Agreement will apply to Party A and to Party B, *provided, however*, that the following provision shall be inserted at the end of Section 5(a)(vi):

"*provided, however*, that an Event of Default shall not occur under either (1) or (2) above if the default, Event of Default or other similar event or condition referenced to in (1) or the failure to pay referred to in (2) is a failure to pay caused by an error or omission of an administrative or operational nature and funds were available to such party to enable it to make the relevant payment when due and such payment is in fact made on or before the second Local Business Day following receipt of written notice from the other party of such failure to pay."

“Specified Indebtedness” will have the meaning specified in Section 14; *provided, however*, with respect to Party A such term shall not include deposits and obligations in respect of deposits received in the ordinary course of Party A’s banking business.

“Threshold Amount” means with respect to Party A, an amount equal to 3% of the Shareholders Equity (as hereinafter defined) of Party A and with respect to Party B, (i) \$0 in respect of any Specified Indebtedness owing to Party A, and (ii) \$20,000,000 in respect of any other Specified Indebtedness.

For purposes of the foregoing, the term “Shareholders Equity” shall mean an amount equal to the greater of (x) zero and (y) an amount equal to such party’s total assets *minus* its total liabilities, as reflected on such party’s most recent audited financial statements, or if such party does not have audited financial statements, then its most recent financial statements.

(D) The “Credit Event Upon Merger” provisions of Section 5(b)(iv) of this Agreement will apply to Party A and to Party B.

(E) The “Automatic Early Termination” provision of Section 6(a) of this Agreement will not apply to Party A or to Party B.

(F) Payments on Early Termination. For the purpose of Section 6(e) of this Agreement: (i) Market Quotation will apply, and (ii) Second Method will apply.

(G) “Termination Currency” means United States Dollars.

(H) Additional Termination Event will apply. Each of the following shall constitute an Additional Termination Event:

(a) The Fourth Amended and Restated Revolving Credit Agreement made as of September 19, 2007 by and among Barnes Group Inc. and Barnes Group Switzerland GmbH, as Borrowers, Bank of America, N.A. and the other lending institutions from time to time party thereto, as Lenders, Banc of America Securities LLC, as Arranger, KeyBank National Association and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, and The Bank of New York and The Governor and Company of The Bank of Ireland, as Co-Documentation Agents, as amended, modified, supplemented, renewed, extended or replaced from time to time (the “**Credit Agreement**”), or any promissory note, loan agreement, credit agreement, reimbursement agreement or other document or instrument evidencing a credit extension from Party A to Party B, is terminated, cancelled, voided, breached or amended in any manner which would affect Party B’s ability to perform its obligations under this Agreement, determined by Party A in its sole discretion. Upon the occurrence of such event, Party B shall be deemed to be the sole Affected Party and all Transactions shall be deemed to be Affected Transactions;

(b) If there shall exist a “Change of Control” as defined in the Credit Agreement. Upon the occurrence of such event, Party B shall be deemed to be the sole Affected Party and all Transactions shall be deemed to be Affected Transactions; or

(c) During the term of this Agreement, Party B shall at any time (A) grant or cause to be granted to any person a lien upon or security interest in any property as security, or provide a letter of credit or other credit support, for the obligations of Party B under the Credit Agreement and (B) fail at the same time to provide Party A collateral, letter of credit or other credit support in amount, form, and substance satisfactory to Party A (in its sole discretion) to secure the obligations of Party B hereunder. Upon the occurrence of such event, Party B shall be deemed to be the sole Affected Party and all Transactions shall be deemed to be Affected Transactions.



## PART 2

### Tax Representations

(A) Payer Representations. For the purpose of Section 3(e) of this Agreement, each party makes the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, *provided* that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(B) Payee Representations.

(i) For the purpose of Section 3(f) of this Agreement, Party A represents that it is a national banking association organized under the laws of the United States.

(ii) For the purpose of Section 3(f) of this Agreement, Party B represents that it is a corporation established under the laws of the State of Delaware.

## PART 3

### Agreement to Deliver Documents

For the purposes of Section 4(a)(i) and (ii) of this Agreement, the parties agrees that the following documents will be delivered:

<b>Party Required to Deliver Document</b>	<b>Form/Document/Certificate</b>	<b>Date by which to be delivered</b>	<b>Covered by Section 3(d) Representation</b>
Party A and Party B	Satisfactory evidence of its capacity and ability to enter into this Agreement and any Transaction hereunder	Upon execution of this Agreement and upon request	Yes
Party A and Party B	Certified evidence of the authority, incumbency and specimen signature of each person executing any document on its behalf in connection with this Agreement	Upon execution of this Agreement and upon request	Yes
Party A and Party B	The Credit Support Document(s), if any, listed in Part 4 (f) of this Schedule	Upon execution of this Agreement	Yes

<b>Party Required to Deliver Document</b>	<b>Form/Document/Certificate</b>	<b>Date by which to be delivered</b>	<b>Covered by Section 3(d) Representation</b>
Party A and Party B	Duly executed and completed U.S. Internal Revenue Service Form W-9 (or successor thereto).	Upon execution of this Agreement, promptly upon reasonable demand by Party A and promptly upon learning that any such form previously provided by Party B has become obsolete or incorrect	Yes
Party A and Party B	Such other documents as Party A or Party B may reasonably request	Upon request	Yes

## **PART 4**

### **Miscellaneous**

(A) Addresses for Notices . For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to Party B:

Address: Barnes Group Inc.  
123 Main Street  
P.O. Box 489  
Bristol, Connecticut 06011 -0489  
Facsimile: (860) 582-4008  
Attention: Treasurer

With a copy to:

Barnes Group Inc.  
123 Main Street  
P.O. Box 489  
Bristol, Connecticut 06011 -0489  
Attention: General Counsel

Address for all notices or communications to Party A:

Address: Wells Fargo Bank, N.A.  
550 California Street, Suite 1210  
MAC A0112-121  
San Francisco, California 94104  
Telephone: (877) 240-0795  
Facsimile: (415) 986-2604  
Attention: Derivatives Documentation Manager

Additional Address for notices or communications for operational purposes (payments and settlements):

Address: Wells Fargo Bank, N.A.  
550 California Street, Suite 1210  
MAC A0112-121  
San Francisco, California 94104  
Facsimile No.: (415) 646-9208  
Attention: Back Office Operations – Settlements

(B) Process Agent . For the purpose of Section 13(c) of this Agreement, neither Party A nor Party B will appoint a Process Agent.

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(C) Offices. The provisions of Section 10(a) will apply to this Agreement.

(D) Multibranch Party. For the purpose of Section 10(c) of this Agreement:

Party A is not a Multibranch Party.

Party B is not a Multibranch Party.

(E) Calculation Agent. The Calculation Agent is Party A, unless Party A is a Defaulting Party hereunder, in which case the Calculation Agent shall be a mutually agreed upon dealer in the relevant market.

(F) Credit Support Document.

Credit Support Document means, in relation to Party A: None.

Credit Support Document means, in relation to Party B: None.

(G) Credit Support Provider.

Credit Support Provider means in relation to Party A: None.

Credit Support Provider means in relation to Party B: None.

(H) Governing Law and Jurisdiction. This Agreement will be governed by and construed in accordance with the laws of the State of New York without reference to choice of law doctrine.

(I) Netting of Payments. Subparagraph (ii) of Section 2(c) of this Agreement will apply to each Transaction.

(J) “Affiliate” will have the meaning specified in Section 14 of this Agreement.

## **PART 5**

### **Other Provisions**

(A) Confirmations. Notwithstanding anything to the contrary in this Agreement:

(i) The parties hereto agree that with respect to each Transaction hereunder a legally binding agreement shall exist from the moment that the parties hereto agree on the essential terms of such Transaction, which the parties anticipate will occur by telephone.

(ii) For each Transaction Party A and Party B agree to enter into hereunder, Party A shall promptly send to Party B a Confirmation setting forth the terms of such Transaction. Party B shall execute and return the Confirmation to Party A or request correction of any error within three Business Days of receipt. Failure of Party B to respond within such period shall not affect the validity or enforceability of such Transaction and shall be deemed to be an affirmation of such terms.

(B) Definitions. For each Transaction (unless otherwise specified in a Confirmation) all provisions of the 2000 ISDA Definitions (as published by the International Swaps & Derivatives Association, Inc.), including the Annex to the 2000 ISDA Definitions and any supplements thereto, are hereby incorporated by this reference into this Agreement and shall form a part hereof as if set forth in full herein.

(C) Additional Representations. Section 3 of this Agreement is hereby amended by adding at the end thereof the following subsections (g) through (l):

“(g) ***Eligible Contract Participant***. It is an “eligible contract participant” as that term is defined in Section 1a(12) of the Commodity Exchange Act (7 U.S.C. 1a(12)), as amended.”

“(h) **No Agency** . It is entering into this Agreement, any Credit Support Document to which it is a party, each Transaction and any other documentation relating to this Agreement or any Transaction as principal (and not as agent or in any other capacity, fiduciary or otherwise).”

“(i) **Creditworthiness** . The economic terms of this Agreement, and any Credit Support Documents to which it is a party, and each Transaction have been individually tailored and negotiated by it, and the creditworthiness of the other party was a material consideration in its entering into or determining the terms of this Agreement, such Credit Support document, and such Transaction.”

“(j) **Individual Negotiation**. This Agreement (including each Transaction) has been subject to individual negotiation by the parties, including individualized creditworthiness determinations.”

“(k) **Assessment and Understanding** . It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms, conditions and risks of this Agreement and each Transaction hereunder. It is also capable of assuming, and assumes, the risks of this Agreement and each Transaction hereunder.”

“(l) **Non-Reliance**. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction: it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into a Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee of the expected results of that Transaction.”

(D) **Right of Setoff** . Section 6 of this Agreement is amended by adding the following new Section 6(f):

“(f) **Set-off**. Any amount (the “Early Termination Amount”) payable to one party (the Payee) by the other party (the Payer) under Section 6(e), in circumstances where there is a Defaulting Party or one Affected Party, will, at the option of the party (“X”) other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the “Other Agreement Amount”) payable (whether at such time or in the future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) issued or executed by one party to or in favour of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this Section 6(f).

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Section 6(f) shall be effective to create a charge or other security interest. This Section shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise).”

(E) Inconsistency Among Definitions or Provisions. In the event of any inconsistency between the definitions or provisions in any of the following documents, the relevant document first listed below shall govern: (i) a Confirmation; (ii) the Schedule to the ISDA Master Agreement; (iii) the ISDA Master Agreement; and (iv) the 2000 ISDA Definitions.

(F) Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of the Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. The parties hereto shall endeavor in good faith negotiations to replace the prohibited or unenforceable provision with a valid provision, the economic effect of which comes as close as possible to that of the prohibited or unenforceable provision.

(G) WAIVER OF JURY TRIAL. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY TRIAL OR LITIGATION ARISING OUT OF OR IN CONNECTION WITH ANY TRANSACTION OR THIS AGREEMENT.

(H) Consent to Recording. Each party (i) consents to the recording of the telephone conversations of trading and marketing personnel of the parties in connection with this Agreement or any potential Transaction, and (ii) agrees to obtain any necessary consents of and give notice of such recording to its personnel, and (iii) consents to the submission of any such tape recording in evidence in any Proceedings.

(I) Events of Default. Section 5 of this Agreement is hereby amended as follows:

(i) Credit Support Default. Section 5(a)(iii) of this Agreement is hereby amended by the addition of “or if there is no applicable grace period, three Local Business Day after notice of such failure is given to the party or Credit Support Provider (as the case may be)” after “elapsed” in the fourth line thereof.

## PART 6

### FX Transaction and Currency Options

(A) Incorporation and Amendment of 1998 FX and Currency Option Definitions.

(i) Incorporation of 1998 FX and Currency Option Definitions. The 1998 FX and Currency Option Definitions, as amended from time to time (the “1998 Definitions”), published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Trader Association and The Foreign Exchange committee, are hereby incorporated by reference with respect to any “Currency Option Transactions” and “FX Transactions” as defined by the 1998 Definitions, except as otherwise specifically provided herein or in the Confirmation.

(ii) Amendment of 1998 FX and Currency Option Definitions. The following amendments are made to the 1998 Definitions: Section 2.1 of the 1998 Definitions is amended by adding the following as Section 2.1(b):

**Currency Obligation.** “Currency Obligation” means the undertaking of a party hereunder to receive or deliver an amount of currency, including a netted Currency Obligation, and including any Currency Obligation previously entered into by the parties.

(B) **Confirmations.** Any confirmation (whether provided by mail, facsimile or other electronic means) in respect of any FX Transaction or Currency Option Transaction into which the parties may enter, or may have entered into prior to the date hereof, that fails by its terms to expressly exclude the application of this Agreement shall (to the extent not otherwise provided for in this Agreement) (i) constitute a “Confirmation” as referred to in this Agreement, even when not so specified in such confirmation; and (ii) supplement, form a part of, and be subject to this Agreement, and all provisions in this Agreement will govern such Confirmation except as expressly modified therein.

(C) **Netting and Related Provisions** . Section 2(c) shall not apply to FX Transaction or Currency Option Transactions. In lieu thereof, the following shall apply:

(i) Netting, Discharge and Termination of FX Transactions. The following provisions shall apply to FX Transactions:

Unless otherwise agreed by the parties, whenever an FX Transaction is entered into between the parties which creates a Currency Obligation in the same currency and for the same Settlement Date as an existing Currency Obligation between the parties, such Currency Obligation shall automatically and without further action be netted, individually canceled and simultaneously replaced through novation by a new Currency Obligation under which the party having the obligation to deliver the greater aggregate amount of currency shall be obligated to deliver the excess of such greater aggregate currency amount over such lesser aggregate currency amount. Such new Currency Obligation shall be considered a "Currency Obligation" under this Agreement.

(ii) Netting, Discharge and Termination with Respect to Currency Option Transactions. The following provisions shall apply to Currency Option Transactions:

Unless otherwise agreed by the parties, any Call or Put written by a party will automatically be terminated and discharged, in whole or in part, as applicable, against a Call or a Put, respectively, having the same identical terms, written by the other party; and, upon the occurrence of such termination or discharge, neither party shall have any further obligation to the other party in respect of the parts so terminated and discharged (except for the obligation of either party to pay any Premium due, but not paid, thereunder); and the remaining portion of any Currency Option Transaction, which is partially discharged and terminated, shall continue to be a Currency Option Transaction under this Agreement.

(D) **Inconsistencies** . In the event of any conflict between:

(i) the terms of a Deliverable FX Transaction Confirmation and this Agreement, the terms of this Agreement shall supersede;

(ii) the terms of a Deliverable FX Transaction Confirmation, where the Confirmation explicitly states that it shall so prevail and has been signed by both parties, its terms shall supersede the terms of this Agreement;

(iii) the terms of a Currency Option Transaction or a Non-Deliverable FX Transaction Confirmation and this Agreement, the terms of the Confirmation shall supersede.

(E) **Definitions** . Section 14 of this Agreement is hereby amended as follows:

The definition of "Terminated Transactions" shall be deemed to include Currency Obligations.

(F) **Premium Payment** . Notwithstanding the provisions of Section 5 of this Agreement or any other provisions of this Agreement, if in connection with a Currency Option Transaction a Premium is not received on the Premium Payment Date, the Seller may elect: (i) to accept a later payment of such Premium or (ii) to give written notice of such non-payment and, if such payment shall not be received within three Local Business Days of such notice, treat the related Currency Option Transaction as void. If the Seller elects to act under clause (i) of the preceding sentence, the Buyer shall pay interest on such Premium in the same currency as such Premium from the day such Premium was due until the day paid at the Default Rate, as determined in good faith by the Seller; and if the Seller elects to act under clause (ii) of the preceding sentence, the Buyer shall pay all of Seller's losses, costs and expenses, including, but not limited to, legal fees and out-of-pocket expenses of the Seller, incurred in connection with such unpaid or late Premium or void Currency Option Transaction, including, but not limited to, interest on such Premium in the same currency as such Premium at the then prevailing market rate and any other costs or expenses incurred by the Seller in covering its obligations (including, but not limited to, a delta hedge) with respect to such Currency Option Transaction.

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IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

Party A

**Wells Fargo Bank, N.A.**

By: /s/ Karen K. Ahrens  
Name: Karen K. Ahrens  
Title: Vice President  
Date: 5/19/08

Party B

**Barnes Group Inc.,**  
a Delaware corporation

By: /s/ David J. Sinder  
Name: David J. Sinder  
Title: Assistant Treasurer  
Date: 5/16/08

By: /s/ Lawrence W. O'Brien  
Name: Lawrence W. O'Brien  
Title: VP Treasurer  
Date: 5/16/08

**SCHEDULE  
to the  
2002 MASTER AGREEMENT**

**dated as of 5 May, 2008**

**between**

**JPMORGAN CHASE BANK, N.A.  
("Party A")**

**and**

**BARNES GROUP INC.  
("Party B")**

**PART 1  
Termination Provisions**

- (1) **"Specified Entity"** means, in relation to Party A, for the purpose of:  
**Section 5(a)(v)** , any Affiliate of Party A;  
**Section 5(a)(vi)** , none;  
**Section 5(a)(vii)** , none; and  
**Section 5(b)(v)** , none;  
and, in relation to Party B, for the purpose of:  
**Section 5(a)(v)** , any Affiliate of Party B;  
**Section 5(a)(vi)** , none;  
**Section 5(a)(vii)** , none; and  
**Section 5(b)(v)** , none.
- (2) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement.
- (3) The **"Cross-Default"** provisions of Section 5(a)(vi) will apply to Party A and Party B, and for such purpose:
- (a) **"Specified Indebtedness"** will have the meaning specified in Section 14 of this Agreement, except that such term shall not include obligations in respect of deposits received in the ordinary course of a party's banking business.
- (b) **"Threshold Amount"** means, with respect to Party A, an amount equal to three percent of the shareholders' equity of Party A; and with respect to Party B, USD 20,000,000 or the equivalent thereof in any other currency or currencies.
- (c) Section 5(a)(vi) of this Agreement will be deemed to be amended to include the following Clause "(3)":  
"or (3) a default, event of default, or other similar condition or event (however described) occurs and is continuing which entitles any person or entity to terminate its commitment under any agreement to lend or advance or make available funds to a party (or any applicable Specified Entity) in respect of an aggregate amount in excess of the Threshold Amount."



- (4) The “**Credit Event Upon Merger**” provisions of Section 5(b)(v) will apply to Party A and Party B; provided, however, that if the applicable party has long term, unsecured and unsubordinated indebtedness or deposits which is or are publicly rated (such rating, a “Credit Rating”) by Moody’s Investor Services, Inc. (“Moody’s”), Standard and Poors Ratings Group (“S&P”) or any other internationally recognized rating agency (a “Rating Agency”), then the words “materially weaker” in line 6 of Section 5(b)(v) shall mean that the Credit Rating of such party (or, if applicable, the Credit Support Provider of such party) shall be rated lower than Baa3 by Moody’s, or lower than BBB- by S&P or, in the event that there is no Credit Rating by either Moody’s or S&P applicable to such party (or, if applicable, the Credit Support Provider of such party) but such party’s long-term indebtedness or deposits is or are rated by a Rating Agency, lower than a rating equivalent to the foregoing by such Rating Agency.
- (5) The “**Automatic Early Termination**” provision of Section 6(a) will not apply to Party A or Party B.
- (6) “**Termination Currency**” will have the meaning set forth in Section 14 of this Agreement.
- (7) **Additional Termination Event** will not apply.

## **PART 2**

### **Tax Representations**

- (A) **Tax Representations**. For the purpose of Section 3(f) of this Agreement:
- (i) Party A and Party B each represent, respectively, that it is a United States Person for U.S. federal income tax purposes and either (a) is a financial institution or (b) is not acting as an agent for a person that is not a United States Person for U.S. federal income tax purposes.
  - (ii) Party B represents in respect of each Transaction where Party A’s Office for the Transaction is not located in the United States of America:

Party B is fully eligible for the benefits of the “Business Profits” or “Industrial and Commercial Profits” provision, as the case may be, the “Interest” provision and the “Other Income” provision (if any) of the income tax treaty (if any), in effect between the jurisdiction of Party A’s Office for the Transaction and the United States of America with respect to any payment described in such provisions and received or to be received by it in connection with this Agreement and no such payment is attributable to a trade or business carried on by it through a permanent establishment in the jurisdiction through which Party A has entered the relevant Transaction.

## **PART 3**

### **Agreement to Deliver Documents**

For the purpose of Sections 4(a)(i) and 4(a)(ii) of this Agreement, each party agrees to deliver the following documents:

- (a) Tax forms, documents or certificates to be delivered are:

Each party agrees to deliver to the other party a complete and accurate United States Internal Revenue Service Form W-9 (or any applicable successor form), in a manner reasonably satisfactory to the respective party, (I) upon execution of this Agreement; (II) promptly upon reasonable demand of the respective party, and (III) promptly upon learning that any such form previously provided by such party has become obsolete or incorrect (and each such form is hereby identified for purposes of Section 3(d) of this Agreement).

(b) Other documents to be delivered are:

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
Party A and Party B	Audited annual financial statements of such entity (in the case of Party A, of JPMorgan Chase & Co.) for each fiscal year certified by independent certified public accountants and prepared in accordance with relevant generally accepted accounting principles	Upon request if unavailable on the SEC website or such entity's website and in any event, within 120 days following the fiscal year end.	Yes
Party A and Party B	Unaudited financial statements of such entity (in the case of Party A, of JPMorgan Chase & Co.) for each quarter, in each case prepared in accordance with relevant generally accepted accounting principles	Upon request if unavailable on the SEC website or such entity's website and in any event, within 60 days following each quarter end	Yes
Party A and Party B	Certified copies of all corporate authorizations and any other documents with respect to the execution, delivery and performance of this Agreement	Upon execution and delivery of this Agreement	Yes
Party A and Party B	Certificate of authority and specimen signatures of individuals executing this Agreement, Confirmations and each Credit Support Document (as applicable)	Upon execution and delivery of this Agreement and thereafter upon request of the other party	Yes

#### **PART 4** **Miscellaneous**

(1) **Addresses for Notices**. For the purpose of Section 12(a) of this Agreement:

Address for notice or communications to Party A:

Any notice relating to a particular Transaction shall be delivered to the address or facsimile number specified in the Confirmation of such Transaction. Any notice delivered for purposes of Sections 5 and 6 of this Agreement shall be delivered to the following address:

JPMorgan Chase Bank, National Association  
Attention: Legal Department- Derivatives Practice Group

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270 Park Avenue  
New York, New York 10017-2070  
Facsimile No.: (646) 534-6393

Address for notice or communications to Party B:

Barnes Group Inc.  
Attention: Lawrence O'Brien  
123 Main Street  
Bristol, CT 06011-0489  
Facsimile No.: 860-582-4008  
Telephone No.: 860-973-2108  
Email: lo'brien@barnesgroupinc.com

- (2) **Process Agent**. For the purpose of Section 13(c) of this Agreement:  
Party A appoints as its Process Agent: Not applicable.  
Party B appoints as its Process Agent: Not applicable.
- (3) **Offices**. The provisions of Section 10(a) will apply to this Agreement.
- (4) **Multibranch Party**. For the purpose of Section 10 of this Agreement:  
Party A is a Multibranch Party and may act through any Office specified in a Confirmation.  
Party B is not a Multibranch Party.
- (5) **Credit Support Document**.  
Not Applicable.
- (6) **Credit Support Provider**.  
Credit Support Provider means, in relation to Party A, not applicable.  
Credit Support Provider means, in relation to Party B, not applicable.
- (7) **Governing Law**. This Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).
- (8) **Netting of Payments**. "Multiple Transaction Payment Netting" will apply for the purpose of Section 2(c) of this Agreement to all Transactions starting from the date of this Agreement.
- (9) **"Affiliate"** will have the meaning specified in Section 14 of this Agreement.
- (10) **Absence of Litigation**. For the purpose of Section 3(c) of this Agreement:  
**"Specified Entity"** means, in relation to Party A, any Affiliate of Party A.  
**"Specified Entity"** means, in relation to Party B, any Affiliate of Party B.
- (11) **No Agency**. The provisions of Section 3(g) of this Agreement will apply to this Agreement.

(12) **Additional Representation** will apply. For the purpose of Section 3 of this Agreement, the following will each constitute an Additional Representation:

(h) **Relationship Between Parties** . Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(i) **Non-Reliance** . It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction, it being understood that information and explanations related to the terms and conditions of a Transaction will not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party will be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(ii) **Assessment and Understanding** . It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(iii) **Status of Parties** . The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction.

(iv) **Other Transactions** . It understands and acknowledges that the other party may, either in connection with entering into a Transaction or from time to time thereafter, engage in open market transactions that are designed to hedge or reduce the risks incurred by it in connection with such Transaction and that the effect of such open market transactions may be to affect or reduce the value of such Transaction.

(13) **Eligible Contract Participant** . Each party represents to the other party (which representation will be deemed to be repeated by each party on each date on which a Transaction is entered into) that it is an “eligible contract participant”, as defined in the Commodity Futures Modernization Act of 2000.

(14) **Recording of Conversations** . Each party (i) consents to the recording of telephone conversations between the trading, marketing and other relevant personnel of the parties and their Affiliates in connection with this Agreement or any potential Transaction, (ii) agrees to obtain any necessary consent of, and give any necessary notice of such recording to, its relevant personnel and (iii) agrees, to the extent permitted by applicable law, that recordings may be submitted in evidence in any Proceedings.

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**PART 5**  
**Other Provisions**

- (1) **Waiver of Jury Trial** . Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or proceeding relating to this Agreement or any Credit Support Document. Each party (i) certifies that no representative, agent or attorney of the other party or any Credit Support Provider has represented, expressly or otherwise, that such other party would not, in the event of such a suit, action or proceeding, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other party have been induced to enter into this Agreement and provide for any Credit Support Document, as applicable, by, among other things, the mutual waivers and certifications in this Section.
- (2) **ISDA Definitions** . Reference is hereby made to the 2006 ISDA Definitions (the “2006 Definitions”) and the 1998 FX and Currency Option Definitions (the “FX Definitions”) (collectively the “ISDA Definitions”) each as published by the International Swaps and Derivatives Association, Inc., which are hereby incorporated by reference herein. Any terms used and not otherwise defined herein which are contained in the ISDA Definitions shall have the meaning set forth therein.
- (3) **Scope of Agreement** . Notwithstanding anything contained in this Agreement to the contrary, any transaction (other than a repurchase transaction, reverse repurchase transaction, buy/sell-back transaction or securities lending transaction) which may otherwise constitute a “Specified Transaction” (without regard to the phrase “which is not a Transaction under this Agreement but” in the definition of “Specified Transaction”) for purposes of this Agreement which has been or will be entered into between the parties shall constitute a “Transaction” which is subject to, governed by, and construed in accordance with the terms of this Agreement, unless any Confirmation with respect to a Transaction entered into after the execution of this Agreement expressly provides otherwise.
- (4) **Inconsistency** . In the event of any inconsistency between any of the following documents, the relevant document first listed below shall govern: (i) a Confirmation; (ii) the Schedule and Paragraph 11 or Paragraph 13 of an ISDA Credit Support Annex (as applicable); (iii) the ISDA Definitions; and (iv) the printed form of ISDA Master Agreement and ISDA Credit Support Annex (as applicable). In the event of any inconsistency between provisions contained in the 2006 Definitions and the FX Definitions, the FX Definitions shall prevail.
- (5) **Compliance with SEC Order Requiring Sworn Certification of Financial Statements** . Party B represents to Party A that Party B has complied in all material respects with the Order of the Securities and Exchange Commission (the “SEC”) dated June 27, 2002 (No. 4-460) requiring the filing of sworn statements pursuant to Section 21(a)(1) of the Securities Exchange Act of 1934, as amended, and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, and the rules of the SEC promulgated thereunder. This representation shall be deemed to be repeated at all times until the termination of this Agreement.

- (6) **Amendment and Restatement of Prior Agreements**. Upon the execution of this Agreement, this Agreement will amend, restate and supersede the ISDA Interest Rate and Currency Exchange Agreement dated as of July 12, 1991, and any transactions that have been entered into between JPMorgan Chase Bank, N.A., successor in interest to Chemical Bank and Party B that would otherwise constitute a “Specified Transaction” for purposes of this Agreement (collectively, the “Prior Agreements”) whereupon all such Prior Agreements shall be deemed governed by and construed in accordance with this Agreement.

Please confirm your agreement to the terms of the foregoing Schedule by signing below.

**JPMORGAN CHASE BANK, N.A.**

By: /s/ Melissa McMahon  
Name: Melissa McMahon  
Title: Managing Director and Associate General Counsel

**BARNES GROUP INC.**

By: Lawrence W. O'Brien  
Name: Lawrence W. O'Brien  
Title: VP, Treasurer

June 6, 2008

Mr. Francis C. Boyle  
82 Teeter Rock Road  
Trumbull, CT 06611

Dear Frank:

We are pleased to confirm our offer and your acceptance of the position of acting Chief Financial Officer effective June 1, 2008. This letter will confirm the compensation arrangements incident to this assignment.

Your salary will increase to an annual rate of \$400,000 through December 31, 2008 and for up to one year while a search for a Chief Financial Officer is conducted. You will remain at that annual rate for 90 days following the date of employment of the successful candidate, at which time your salary will return to your prior annual salary of \$250,000. If the search has not been completed by March 1, 2009, your salary will return to the annual rate of \$250,000 effective June 1, 2009. You will report to Greg Milzcik, President and Chief Executive Officer, until such time that a Chief Financial Officer is named.

You will continue to participate in the company's annual incentive program. Your target incentive will remain at 35% of salary with a maximum payout of 105% of salary. However, we will calculate the first five months of your 2008 annual incentive payment based on your prior annual salary, and the balance of the year will be based on your new annual salary of \$400,000. This proration will increase your 2008 total cash compensation to \$452,625 at targeted levels of Company performance and to a maximum of \$688,875. The payouts to participants are subject to the provisions of the plan, and are scheduled to be paid in late February of the year immediately following the plan year (i.e., payouts for the 2008 plan year are expected to be paid in late February 2009).

You will continue to be eligible for consideration for long-term incentive grants annually. All existing long-term incentive grants are unaffected, and will continue to be subject to the terms and conditions contained in the applicable individual grant agreements.

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June 6, 2008  
Mr. Francis C. Boyle

In accordance with the Company's stock ownership program, your fixed share guideline will continue to be 31,586 shares. This fixed share amount will not change regardless of future price fluctuations, and will not be impacted by your change in salary. The guideline will revert to a multiple of your prior annual salary of \$250,000 if your ownership were to fall below that fixed share guideline at any time. Ownership includes directly and beneficially owned shares, and stock retained following the vesting of restricted stock or the exercise of stock options.

You will also continue to participate in the Company's Senior Executive Enhanced Life Insurance Plan (SEELIP), which provides a universal life policy with a death benefit equal to four times your prior annual salary (\$1,000,000) and an increasing cash value. SEELIP is an individual policy that you own and, as such, the policy is portable. Barnes Group Inc. pays the premium for as long as you remain with the Company. We will also provide an additional \$600,000 of coverage (four times the additional \$150,000 of salary) through our group term life program for up to one year.

You will continue as a participant in the Company Vehicles policy (No. 602) as part of your total compensation package. As you know, that policy is being revised to incorporate an allowance versus a leased car. We will provide you with the details of the revised program once it has been finalized later this month.

You will continue as a participant in the Company's Salaried Retirement Income Plan (SRIP), Retirement Benefit Equalization Plan (RBEP), Supplemental Executive Retirement Plan (SERP), Retirement Saving Plan (RSP) and Employee Stock Purchase Plan (ESPP), subject to plan limits. The additional salary paid in 2008 and, if applicable, 2009 will be considered for purposes of all calculations incident to these plans.

Your participation in the Company's Memberships, Clubs and Other policy (No. 308), Executive Health Examination program and Financial Planning/Tax Preparation program will be unaffected by this assignment. The additional compensation being provided during this assignment will not impact your benefits under the Severance Agreement (aka Change In Control Agreement), as amended, dated October 17, 1997, the Executive Separation Pay Plan, Short-Term Disability policy (No. 509) and Long Term Disability Coverage. All other benefit programs will be unaffected, although certain coverage levels may increase commensurate with your increase in salary.

This letter sets forth our offer of employment and is not intended to create an expressed or implied contract of any kind, nor shall it be construed to constitute a promise or contract of lifetime or continuing employment. Your employment with Barnes Group Inc. is at will and may be terminated at any time, with or without cause, by either you or the Company, subject to the notice requirements summarized above. The terms of this offer supersede and take the place of any prior written or oral offers of



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June 6, 2008  
Mr. Francis C. Boyle 1

employment. Barnes Group Inc. also has the right to change, interpret, withdraw, or add to any of the policies, benefits, terms or conditions of employment at any time. The terms and conditions of this letter may only be amended or modified in writing by myself.

If you have any questions with regard to the above, please call me at (860) 973-2130 or Martin Van Walsum at (860) 973-2165.

Sincerely,

/s/ John R. Arrington  
John R. Arrington  
Senior Vice President, Human Resources

Agreed to and accepted:

/s/ F.C. Boyle  
Francis C. Boyle

6/6/08  
Date

cc: G. Milzcik  
S. Gates

August 1, 2008

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Commissioners:

We are aware that our report dated August 1, 2008 on our review of interim financial information of Barnes Group Inc. for the three- and six-month periods ended June 30, 2008 and June 30, 2007 and included in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2008 is incorporated by reference in its Registration Statements on Form S-3 (Nos. 333-104242) and Form S-8 (Nos. 2-56437, 2-91285, 33-20932, 33-91758, 33-27339, 333-41398, 333-57658, 33-30229, 333-88518, 333-112869, 333-115333, 333-133597, 333-140922 and 333-150741).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Hartford, Connecticut

## CERTIFICATION

I, Gregory F. Milzcik, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2008 of Barnes Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2008

/s/ G REGORY F. M ILZCIK

**Gregory F. Milzcik**  
**President and Chief Executive Officer**

## CERTIFICATION

I, Francis C. Boyle, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2008 of Barnes Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2008

/s/ FRANCIS C. BOYLE, JR.

**Francis C. Boyle, Jr.**  
**Acting Chief Financial Officer and**  
**Vice President, Controller**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Barnes Group Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ G REGORY F. M ILZCIK

**Gregory F. Milzcik**  
**President and Chief Executive Officer**  
**August 1, 2008**

/s/ F RANCIS C. B OYLE, J R.

**Francis C. Boyle, Jr.**  
**Acting Chief Financial Officer and Vice President, Controller**  
**August 1, 2008**

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging, or otherwise adopting the signature that appears in the typed form within the electronic version of this written statement required by Section 906, has been provided to Barnes Group Inc. and will be retained by Barnes Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.