BARNES GROUP INC
Form 10-Q
April 26, 2019

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

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from to

Commission file number 1-4801

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

Delaware	06-0247840
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
123 Main Street, Bristol, Connecticut	06010
(Address of Principal Executive Offices)	(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 x No ¨

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ¨ No x

The registrant had outstanding 51,384,304 shares of common stock as of April 24, 2019.

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Barnes Group Inc.
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For the Quarterly Period Ended March 31, 2019

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended March 31,	
	2019	2018
Net sales	$376,692	$ 366,660
Cost of sales	244,643	237,134
Selling and administrative expenses	81,400	72,893
	326,043	310,027
Operating income	50,649	56,633
Interest expense	5,113	3,892
Other expense (income), net	1,806	1,763
Income before income taxes	43,730	50,978
Income taxes	9,738	12,160
Net income	$33,992	$ 38,818
Per common share:		
Basic	$0.66	$ 0.73
Diluted	0.65	0.72
Weighted average common shares outstanding:		
Basic	51,660,804	53,535,424
Diluted	52,189,465	54,089,327

See accompanying notes.

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

	Three months ended March 31, 2019	2018
Net income	$ 33,992	$ 38,818
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on hedging activities, net of tax (1)	(568)	396
Foreign currency translation adjustments, net of tax (2)	(9,225)	26,953
Defined benefit pension and other postretirement benefits, net of tax (3)	1,615	3,164
Total other comprehensive (loss) income, net of tax	(8,178)	30,513
Total comprehensive income	$ 25,814	$ 69,331

(1) Net of tax of $(175) and $148 for the three months ended March 31, 2019 and 2018, respectively.

(2) Net of tax of $(100) and $162 for the three months ended March 31, 2019 and 2018, respectively.

(3) Net of tax of $540 and $1,257 for the three months ended March 31, 2019 and 2018, respectively.

See accompanying notes.

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

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$103,507	$100,719
Accounts receivable, less allowances (2019 - $4,957; 2018 - $5,010)	377,826	382,253
Inventories	257,249	265,990
Prepaid expenses and other current assets	58,839	57,184
Total current assets	797,421	806,146
Deferred income taxes	19,609	20,474
Property, plant and equipment	856,661	853,497
Less accumulated depreciation	(488,790)	(482,966)
	367,871	370,531
Goodwill	944,809	955,524
Other intangible assets, net	617,562	636,538
Other assets	52,403	19,757
Total assets	$2,799,675	$2,808,970
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$23,051	$2,137
Accounts payable	132,329	143,419
Accrued liabilities	208,420	206,782
Long-term debt - current	5,231	5,522
Total current liabilities	369,031	357,860
Long-term debt	877,540	936,357
Accrued retirement benefits	102,061	104,302
Deferred income taxes	103,366	106,559
Long-term tax liability	72,961	72,961
Other liabilities	50,213	27,875
Commitments and contingencies (Note 17)		
Stockholders' equity		
Common stock - par value $0.01 per share		
Authorized: 150,000,000 shares	634	634
Issued: at par value (2019 - 63,417,803 shares; 2018 - 63,367,133 shares)		
Additional paid-in capital	474,857	470,818
Treasury stock, at cost (2019 - 12,034,986 shares; 2018 - 12,033,580 shares)	(441,748)	(441,668)
Retained earnings	1,389,438	1,363,772
Accumulated other non-owner changes to equity	(198,678)	(190,500)
Total stockholders' equity	1,224,503	1,203,056

Total liabilities and stockholders' equity	$2,799,675	$2,808,970

See accompanying notes.

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

	Three months ended March 31, 2019	2018
Operating activities:		
Net income	$ 33,992	$ 38,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,100	23,677
Loss (gain) on disposition of property, plant and equipment	91	(158)
Stock compensation expense	3,021	2,501
Changes in assets and liabilities:		
Accounts receivable	4,345	(26,841)
Inventories	7,300	(13,920)
Prepaid expenses and other current assets	(2,670)	(6,028)
Accounts payable	(9,179)	4,488
Accrued liabilities	(4,708)	10,494
Deferred income taxes	(872)	(66)
Long-term retirement benefits	(3,428)	(2,213)
Other	68	(269)
Net cash provided by operating activities	53,060	30,483
Investing activities:		
Proceeds from disposition of property, plant and equipment	322	552
Capital expenditures	(13,738)	(11,210)
Other	—	(1,000)
Net cash used by investing activities	(13,416)	(11,658)
Financing activities:		
Net change in other borrowings	20,903	9,169
	(152,195)	(111,845)

Payments on long-term debt		
Proceeds from the issuance of long-term debt	102,990	87,500
Proceeds from the issuance of common stock	986	317
Common stock repurchases	—	(33,541)
Dividends paid	(8,217)	(7,453)
Withholding taxes paid on stock issuances	(80)	(68)
Other	(1,340)	(6,546)
Net cash used by financing activities	(36,953)	(62,467)
Effect of exchange rate changes on cash flows	97	3,053
Increase (decrease) in cash and cash equivalents	2,788	(40,589)
Cash and cash equivalents at beginning of period	100,719	145,290
Cash and cash equivalents at end of period	$ 103,507	$ 104,701

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)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2018 has been derived from the 2018 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, 2018. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair statement of the results, have been included. Operating results for the three-month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. Acquisitions

In the third quarter of 2018, the Company acquired Industrial Gas Springs Group Holdings Limited (“IGS”) and in the fourth quarter of 2018, the Company acquired Gimatic S.r.l ("Gimatic"). The following table reflects the unaudited pro forma operating results of the Company for the three months ended March 31, 2018, which give effect to the acquisitions of Gimatic and IGS as if they had occurred on January 1, 2017. The pro forma results are based on assumptions that the Company believes are reasonable under the circumstances. The pro forma results are not necessarily indicative of the operating results that would have occurred if the acquisitions had been effective January 1, 2017, nor are they intended to be indicative of results that may occur in the future. The underlying pro forma information includes the historical financial results of the Company and the acquired entities adjusted for certain items including amortization expense associated with the assets acquired and the Company’s expense related to financing arrangements, with the related tax effects. The pro forma information does not include the effects of any synergies or cost reduction initiatives related to the acquisitions.

	(Unaudited Pro Forma) Three Months Ended March 31, 2018
Net Sales	$ 386,562
Net Income	37,294

3. Recent Accounting Standards

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under U.S. GAAP through the use of Accounting Standards Updates ("ASUs") to the FASB's Accounting Standards Codification. The Company evaluates the applicability and potential impacts of recent ASUs on its Consolidated Financial Statements and related disclosures.

Recently Adopted Accounting Standards

In February 2016, the FASB amended its guidance related to lease accounting. The amended guidance required lessees to recognize a majority of their leases on the balance sheet as a right-of-use ("ROU") asset and a lease liability. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Lease expense will be recorded in a manner similar to current accounting, with leases being classified as either finance or operating in nature. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted.

The Company adopted the new standard using the modified retrospective approach on January 1, 2019. The Company's adoption included lease codification improvements that were issued by the FASB through March 2019. The Company elected an available transition method that uses the effective date of the amended guidance as the date of initial application. The FASB made available several practical expedients in adopting the amended lease accounting guidance. The Company elected the package of practical expedients permitted under the transition guidance within the amended guidance, which among other things, allowed registrants to carry forward historical lease classification. The Company elected the practical expedient that allows the combination of both lease and non-lease components as a single component and account for it as a lease for all classes of underlying assets. The Company elected not to apply the amended guidance to short term leases with an initial term of 12 months or less. The Company recognizes those lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term. The Company elected to use a single discount rate for a portfolio of leases with reasonably similar characteristics.

The most significant impact was the recognition of ROU assets and related lease liabilities for operating leases on the Consolidated Balance Sheet. The Company recognized ROU assets and related lease liabilities of $31,724 and $32,579 respectively, related to operating lease commitments, as of January 1, 2019. The operating lease ROU asset represents the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received. The amended guidance did not have a material impact on the Company's cash flows or results of operations. See Note 14 of the Consolidated Financial Statements.

In May 2014, the FASB amended its guidance related to revenue recognition. The amended guidance established a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance, including industry-specific guidance. The amended guidance clarified that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the amended guidance, an entity (1) identifies the contract(s) with a customer; (2) identifies the performance obligations in the contract; (3) determines the transaction price; (4) allocates the transaction price to the contract's performance obligations; and (5) recognizes revenue when (or as) the entity satisfies a performance obligation. The amended guidance applied to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Entities had the option of using either a full retrospective or modified retrospective approach to the amended guidance.

The Company adopted the amended guidance, Accounting Standard Codification 606, Revenue from Contracts with Customers ("ASC 606"), and related amendments, using the modified retrospective approach on January 1, 2018, at which time it became effective for the Company. The Company recognized the cumulative effect of initially applying the new revenue standard to all contracts that were not completed on the date of adoption as an adjustment to the opening balance of retained earnings.

A majority of revenue continues to be recognized when products are shipped. Under the amended guidance, however, a certain portion of our businesses with customized products or contracts in which we perform work on customer-owned assets require the use of an "over time" recognition model as certain of these contracts meet one or more of the criteria established in the amended guidance. Revenue recognition on contracts requiring over time accounting recognition created unbilled receivables (contract assets) and reduced inventory on the Company's Consolidated Balance Sheet. Adoption of the amended guidance also resulted in the recognition of customer advances for which the Company has received an unconditional right to payment. Since the related performance obligations have not been satisfied, however, the Company recognized these customer advances as trade receivables, with a corresponding contract liability of equal amount. Under the previous guidance, the Company recognized customer advances when payment was received. See Note 4 of the Consolidated Financial Statements.

In August 2016, the FASB amended its guidance related to the Statement of Cash Flows. The amended guidance clarifies how certain cash receipts and cash payments should be presented on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. The Company adopted the guidance during the first quarter of 2018 and the adoption did not have an impact on its Statement of Cash Flows.

In January 2017, the FASB amended its guidance related to goodwill impairment testing. The amended guidance simplifies the subsequent measurement of goodwill, eliminating Step 2 from the goodwill impairment test. Under the amended guidance, companies should perform their annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Companies would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, assuming the loss recognized does not exceed the total amount of goodwill for the reporting unit. The amended guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company elected to early adopt this amended guidance during the second quarter of 2018 in connection with its annual goodwill impairment testing and it did not have an impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB amended its guidance related to the presentation of pension and other postretirement benefit costs. The amended guidance requires the bifurcation of net periodic benefit cost for pension and other postretirement plans. The service cost component of expense requires presentation with other employee compensation costs in operating income, consistent with the earlier guidance. The other components of expense, however, are reported separately outside of operating income. The amended guidance also allows only the service cost component of net benefit cost to be eligible for capitalization.

The guidance was effective for annual periods beginning after December 15, 2017 and interim periods within that reporting period. The Company adopted the amended guidance on a retrospective basis during the first quarter of 2018 and it did not have a material impact on its results of operations. See Note 12 of the Consolidated Financial Statements for additional disclosure related to pension and postretirement benefit costs.

In February 2018, the FASB issued guidance related to the impacts of the tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Act”). The guidance permits the reclassification of certain income tax effects of the Act from Accumulated Other Comprehensive Income to Retained Earnings (stranded tax effects). The stranded tax effects resulted from the December 31, 2017 remeasurement of deferred income taxes that was recorded through the Consolidated Statements of Income, with no corresponding adjustment to Accumulated Other Comprehensive Income having been initially recognized. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company elected to early adopt this amended guidance during the first quarter of 2018 using specific identification and as a result reclassified $19,331 from Accumulated Other Comprehensive Income to Retained Earnings on the Consolidated Balance Sheets. This reclassification relates only to the change in the U.S. Corporate income tax rate.

In August 2018, the FASB issued new guidance related to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor (for example, a service contract). Pursuant to the new guidance, customers apply the same criteria for capitalizing implementation costs in a hosting arrangement as they would for an arrangement that has a software license. The new guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. The FASB provided the option of applying the guidance retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company elected to early adopt this guidance, prospectively, during the third quarter of 2018, and it did not have a material impact on the Consolidated Financial Statements.

In August 2017, the FASB amended its guidance related to hedge accounting. The amended guidance makes more financial and nonfinancial hedging strategies eligible for hedge accounting, amends presentation and disclosure requirements and changes the assessment of effectiveness. The guidance also more closely aligns hedge accounting with management strategies, simplifies application and increases the transparency of hedging. The amended guidance is effective January 1, 2019, with early adoption permitted in any interim period. The Company adopted the amended guidance on January 1, 2019 and it did not have a material impact on the Consolidated Financial Statements, however it did result in amendments to certain disclosures required pursuant to the earlier guidance. See Note 10 of the Consolidated Financial Statements.

Recently Issued Accounting Standards

In August 2018, the FASB amended its guidance related to disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amended requirements serve to remove, add and otherwise clarify certain existing disclosures. The amended guidance is effective for fiscal years ending after December 15, 2020. The guidance requires application on a retrospective basis to all periods presented. The Company is currently evaluating the impact that the guidance may have on the disclosures within its Consolidated Financial Statements.

4. Revenue

The Company is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare, and packaging. The Company accounts for revenue in accordance with ASC 606, which it adopted on January 1, 2018, using the modified retrospective approach. Note 3 of the Consolidated Financial Statements further discusses this adoption.

Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred and the significant risks and rewards of ownership have transferred, and the Company has rights to payment and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue is generally transferred at a point in time, a certain portion of businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over time recognition model as certain contracts meet one or more of the established criteria pursuant to ASC 606. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed.

The following table presents the Company's revenue disaggregated by products and services, and geographic regions, by segment.

	Three months ended March 31,					
	2019			2018		
	Industrial	Aerospace	Total Company	Industrial	Aerospace	Total Company
Product and Services						
Engineered Components Products	$69,684	$—	$69,684	$77,090	$—	$77,090
Molding Solutions Products	106,793	—	106,793	119,099	—	119,099
Force & Motion Control Products	51,617	—	51,617	49,772	—	49,772
Automation Products	14,408	—	14,408	—	—	—
Aerospace Original Equipment Manufacturer Products	—	87,939	87,939	—	80,695	80,695
Aerospace Aftermarket Products and Services	—	46,251	46,251	—	40,004	40,004
	$242,502	$134,190	$376,692	$245,961	$120,699	$366,660
Geographic Regions (A)						
Americas	$98,288	$96,144	$194,432	$96,527	$85,961	$182,488
Europe	94,430	24,324	118,754	94,140	24,675	118,815
Asia	48,942	12,404	61,346	54,380	8,913	63,293
Other	842	1,318	2,160	914	1,150	2,064
	$242,502	$134,190	$376,692	$245,961	$120,699	$366,660

(A) Sales by geographic market are based on the location to which the product is shipped.

Revenue from goods and services transferred to customers at a point in time accounted for approximately 90 percent of revenue for the three-month periods ended March 31, 2019 and March 31, 2018. A majority of revenue within the Industrial segment and Aerospace OEM business is recognized at a point in time when the product or solution is shipped to the customer. A portion of revenue within the Aerospace Aftermarket business is also recognized when product is shipped.

Revenue from products and services transferred to customers over time accounted for approximately 10 percent of revenue for the three-month period ended March 31, 2019 and March 31, 2018. The Company recognizes revenue over time in instances where a contract supports a continual transfer of control to the customer. Substantially all of our revenue in the Aerospace maintenance repair and overhaul business and a portion of the Engineered Components Products, Molding Solutions Products and Aerospace OEM Products is recognized over time. Within the Molding Solution businesses and Aerospace Aftermarket business, this continual transfer of control to the customer results from repair and refurbishment work performed on customer controlled assets. With other contracts, this continual transfer of control to the customer is supported by clauses in the contract where we deliver products that do not have an alternative use and requires an enforceable right to payment of costs incurred (plus a reasonable profit) or the Company has a contractual right to complete any work in process and receive full contract price.

Performance Obligations. A performance obligation represents a promise within a contract to provide a distinct good or service to the customer. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectibility of consideration is probable. Transaction price reflects the amount of consideration which the Company expects to be entitled in exchange for transferred goods or services. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized as the performance obligation is satisfied.

The majority of our revenues are from contracts that are less than one year, however certain Aerospace OEM and Industrial Molding Solutions business contracts extend beyond one year. In the Industrial segment, customers are typically with OEMs or suppliers to OEMs and in some businesses, with distributors. In the Aerospace segment, customers include commercial airlines, OEMs and other aircraft and military parts providers.

To determine the proper revenue recognition method for contracts, the Company uses judgment to evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. Contracts within the Aerospace OEM and Engineered Components businesses typically have contracts that are combined as the customer may issue multiple purchase orders at or near the same point in time under the terms of a long term agreement.

Revenue is recognized in an over time model based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company utilizes the cost-to-cost measure of progress for over time contracts as we believe this measure best depicts the transfer of control to the customer, which occurs as we incur costs on contracts.

Contract Estimates. Due to the nature of the work performed in completing certain performance obligations, the estimation of both total revenue and cost at completion (the process described above) includes a number of variables and requires significant judgment.

Estimating total contract revenue may require judgment as certain contracts contain pricing discount structures, rebates, early payment discounts, or other provisions that can impact transaction price. The Company generally estimates variable consideration utilizing the expected value methodology as multiple inputs are considered and weighed, such as customer history, customer forecast communications, economic outlooks, and industry data. In certain circumstances where a particular outcome is probable, we utilize the most likely amount to which we expect to be entitled. The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Estimating the total expected costs related to contracts also requires significant judgment. The Aerospace OEM business has an Estimate at Completion (EAC) process in which management reviews the progress and execution of our performance obligations for significant contracts with revenue recognized under an over time model. As part of this process, management reviews information including, but not limited to, performance under the contract, progress towards completion, identified risks and opportunities, sourcing determinations and related changes in estimates of costs to be incurred. These considerations include management's judgment about the ability and cost to achieve technical requirements and other contract requirements. Management makes assumptions and estimates regarding labor efficiency, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g., to estimate increases in wages and prices for materials and related support cost allocations), execution by our subcontractors and overhead cost rates, among other variables.

The Company generally utilizes the portfolio approach to estimate the amount of revenue to recognize for certain other contracts which require over time revenue recognition. Such contracts are grouped together either by revenue stream, customer or product. Each portfolio of contracts is grouped together based on having similar characteristics. The portfolio approach is utilized only when the result of the accounting is not expected to be materially different than if applied to individual contracts.

Adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. Revenue recognized from performance obligations satisfied in previous periods was not material in the first three months of 2019 and 2018.

Contract Balances. The timing of revenue recognition, invoicing and cash collections affect accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the Consolidated

Balance Sheets.

Unbilled Receivables (Contract Assets) - Pursuant to the over time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized when 1) the cost-to-cost method is applied and 2) such revenue exceeds the amount invoiced to the customer. Unbilled receivables are included within prepaid expenses and other current assets on the Consolidated Balance Sheet as of March 31, 2019 and March 31, 2018.

Customer Advances and Deposits (Contract Liabilities) - The Company may receive a customer advance or deposit, or have an unconditional right to receive a customer advance, prior to revenue being recognized. Certain contracts within the Molding Solutions businesses, for example, may require such advances. Since the performance obligations related to such advances may not have been satisfied, a contract liability is established. An offsetting asset of equal amount is recorded as an account receivable until the advance is collected. Advances and deposits are included within accrued liabilities on the Consolidated Balance Sheets until the respective revenue is recognized. Advance payments are not considered a significant financing component as they are generally received less than one year before the customer solution is completed.

These assets and liabilities are reported on the Consolidated Balance Sheet on an individual contract basis at the end of each reporting period.

Net contract assets (liabilities) consisted of the following:

	March 31, 2019	December 31, 2018	$ Change	% Change
Unbilled receivables (contract assets)	$17,501	$ 11,844	$ 5,657	48 %
Contract liabilities	(56,606)	(57,522)	916	(2)%
Net contract liabilities	$(39,105)	$ (45,678)	$ 6,573	(14)%

Contract liabilities balances at March 31, 2019 and December 31, 2018 include $14,243 and $15,348 respectively, of customer advances for which the Company has an unconditional right to collect payment. Accounts receivable, as presented on the Consolidated Balance Sheet, includes corresponding balances at March 31, 2019 and December 31, 2018, respectively.

Changes in the net contract liabilities balance during the three-month period ended March 31, 2019 were impacted by a $916 net decrease in contract liabilities, driven primarily by revenue recognized in the current period, partially offset by new customer advances and deposits. Adding to the contract liability decrease was a $5,657 net increase in contract assets, driven primarily by contract progress (i.e. unbilled receivable), partially offset by earlier contract progress being invoiced to the customer.

The Company recognized approximately 35% of the revenue related to the contract liability balance as of December 31, 2018 during the three-month period ended March 31, 2019, primarily representing revenue from the sale of molds and hot runners within the Molding Solutions businesses.

Contract Costs. The Company may incur costs to fulfill a contract. Costs are incurred to develop, design and manufacture tooling to produce a customer's customized product in conjunction with certain of its contracts, primarily in the Aerospace OEM business. For certain contracts, control related to this tooling remains with the Company. The tooling may be deemed recoverable over the life of the related customer contract (oftentimes a long-term agreement). The Company therefore capitalizes these tooling costs and amortizes them over the shorter of the tooling life or the duration of the long-term agreement. The Company may also incur costs related to the development of product designs (molds or hot runner systems) within its Molding Solutions businesses. Control of the design may be retained by the Company and deemed recoverable over the contract to build the systems or mold, therefore this design work cost is capitalized and amortized to cost of sales when the related revenue is recognized. Amortization related to these capitalized costs to fulfill a contract were $3,434 and $3,986 in the three month periods ended March 31, 2019 and March 31, 2018, respectively.

Capitalized costs, net of amortization, to fulfill a contract balances were as follows:

	March 31, 2019	December 31, 2018
Tooling	$ 6,058	$ 6,155
Design costs	2,281	2,285
Other	—	5
	$ 8,339	$ 8,445

Remaining Performance Obligations. The Company has elected to disclose remaining performance obligations only for contracts with an original duration of greater than one year. Such remaining performance obligations represent the transaction price of firm orders for which work has not been performed and, for Aerospace, excludes projections of components and assemblies that Aerospace OEM customers anticipate purchasing in the future under existing programs, which represent orders that are beyond lead time and do not represent performance obligations pursuant to ASC 606. As of March 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was $228,536. The Company expects to recognize revenue on approximately 80% of the remaining performance obligations over the next 12 months, with the remainder being recognized within 24 months.

5. Stockholders Equity

A schedule of consolidated changes in equity for the three months ended March 31, 2019 is as follows (shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2018	63,367	$ 634	$ 470,818	12,034	$ (441,668)	$ 1,363,772	$ (190,500)	$ 1,203,056
Comprehensive income						33,992	(8,178)	25,814
Dividends declared ($0.16 per share)						(8,217)		(8,217)
Employee stock plans	51		4,039	1	(80)	(109)		3,850
March 31, 2019	63,418	$ 634	$ 474,857	12,035	$ (441,748)	$ 1,389,438	$ (198,678)	$ 1,224,503

A schedule of consolidated changes in equity for the three months ended March 31, 2018 is as follows (shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2017	63,034	$ 630	$ 457,365	9,656	$ (297,998)	$ 1,206,723	$ (106,399)	$ 1,260,321
Comprehensive income						38,818	30,513	69,331
Dividends declared ($0.14 per share)						(7,453)		(7,453)
Common stock repurchases								