

**Item 8. Financial Statements and Supplementary Data**

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

	Years Ended December 31,		
	2016	2015	2014
Net sales	\$ 1,230,754	\$ 1,193,975	\$ 1,262,006
Cost of sales	790,299	782,817	829,648
Selling and administrative expenses	248,277	242,762	252,384
	<b>1,038,576</b>	<b>1,025,579</b>	<b>1,082,032</b>
Operating income	<b>192,178</b>	<b>168,396</b>	<b>179,974</b>
Interest expense	11,883	10,698	11,392
Other expense (income), net	(2,326)	(248)	2,082
Income from continuing operations before income taxes	<b>182,621</b>	<b>157,946</b>	<b>166,500</b>
Income taxes	47,020	36,566	45,959
Income from continuing operations	<b>135,601</b>	<b>121,380</b>	<b>120,541</b>
Loss from discontinued operations, net of income taxes of \$0, \$0 and \$315, respectively	—	—	(2,171)
Net income	<b>\$ 135,601</b>	<b>\$ 121,380</b>	<b>\$ 118,370</b>
Per common share:			
Basic:			
Income from continuing operations	\$ 2.50	\$ 2.21	\$ 2.20
Loss from discontinued operations, net of income taxes	—	—	(0.04)
Net income	<b>\$ 2.50</b>	<b>\$ 2.21</b>	<b>\$ 2.16</b>
Diluted:			
Income from continuing operations	\$ 2.48	\$ 2.19	\$ 2.16
Loss from discontinued operations, net of income taxes	—	—	(0.04)
Net income	<b>\$ 2.48</b>	<b>\$ 2.19</b>	<b>\$ 2.12</b>
Dividends	\$ 0.51	\$ 0.48	\$ 0.45
Weighted average common shares outstanding:			
Basic	<b>54,191,013</b>	55,028,063	54,791,030
Diluted	<b>54,631,313</b>	55,513,219	55,723,267

See accompanying notes.

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

	Years Ended December 31,		
	2016	2015	2014
Net income	<b>\$135,601</b>	\$121,380	\$118,370
Other comprehensive loss, net of tax			
Unrealized (loss) gain on hedging activities, net of tax (1)	<b>(342)</b>	847	(213)
Foreign currency translation adjustments, net of tax (2)	<b>(48,367)</b>	(54,232)	(83,168)
Defined benefit pension and other postretirement benefits, net of tax (3)	<b>(8,867)</b>	9,586	(42,016)
Total other comprehensive loss, net of tax	<b>(57,576)</b>	(43,799)	(125,397)
Total comprehensive income (loss)	<b>\$ 78,025</b>	\$ 77,581	\$ (7,027)

(1) Net of tax of \$(42), \$227 and \$(45) for the years ended December 31, 2016, 2015 and 2014, respectively.

(2) Net of tax of \$(833), \$(1,777) and \$(3,292) for the years ended December 31, 2016, 2015 and 2014, respectively.

(3) Net of tax of \$(4,687), \$3,916 and \$(24,799) for the years ended December 31, 2016, 2015 and 2014, respectively.

See accompanying notes.

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

	December 31,	
	2016	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 66,447	\$ 83,926
Accounts receivable, less allowances (2016 – \$3,992; 2015 – \$4,085)	287,123	261,757
Inventories	227,759	208,611
Deferred income taxes	—	24,825
Prepaid expenses and other current assets	27,163	32,469
Total current assets	<u>608,492</u>	<u>611,588</u>
Deferred income taxes	25,433	1,139
Property, plant and equipment, net	334,489	308,856
Goodwill	633,436	587,992
Other intangible assets, net	522,258	528,322
Other assets	13,431	23,969
Total assets	<u><u>\$ 2,137,539</u></u>	<u><u>\$ 2,061,866</u></u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Notes and overdrafts payable	\$ 30,825	\$ 22,680
Accounts payable	112,024	97,035
Accrued liabilities	156,967	131,320
Long-term debt – current	2,067	1,515
Total current liabilities	<u>301,883</u>	<u>252,550</u>
Long-term debt	468,062	485,711
Accrued retirement benefits	109,350	112,888
Deferred income taxes	66,446	62,364
Other liabilities	23,440	20,600
Commitments and contingencies (Note 20)		
Stockholders' equity		
Common stock – par value \$0.01 per share		
Authorized: 150,000,000 shares		
Issued: at par value (2016 – 62,692,403 shares; 2015 – 62,071,144 shares)	627	621
Additional paid-in capital	443,235	427,558
Treasury stock, at cost (2016 – 8,889,947 shares; 2015 – 8,206,683 shares)	(251,827)	(226,421)
Retained earnings	1,177,151	1,069,247
Accumulated other non-owner changes to equity	(200,828)	(143,252)
Total stockholders' equity	<u>1,168,358</u>	<u>1,127,753</u>
Total liabilities and stockholders' equity	<u><u>\$ 2,137,539</u></u>	<u><u>\$ 2,061,866</u></u>

See accompanying notes.

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

	Years Ended December 31,		
	2016	2015	2014
<b>Operating activities:</b>			
Net income	\$ 135,601	\$ 121,380	\$ 118,370
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	80,154	78,242	81,395
Amortization of convertible debt discount	—	—	731
(Gain) loss on disposition of property, plant and equipment	(349)	(1,128)	143
Stock compensation expense	11,493	9,258	7,603
Loss on the sale of businesses	—	—	1,586
Pension lump-sum settlement charge	—	9,856	—
Changes in assets and liabilities, net of the effects of acquisitions:			
Accounts receivable	(23,057)	14,027	(21,367)
Inventories	1,989	(1,190)	(10,092)
Prepaid expenses and other current assets	569	(2,645)	(7,137)
Accounts payable	11,778	(2,936)	8,123
Accrued liabilities	15,825	(14,166)	29,290
Deferred income taxes	(2,210)	3,121	(9,841)
Long-term retirement benefits	(15,492)	1,081	(7,584)
Other	1,345	2,575	4,933
Net cash provided by operating activities	217,646	217,475	196,153
<b>Investing activities:</b>			
Proceeds from disposition of property, plant and equipment	780	3,442	849
Payments for the sale of businesses	—	—	(1,181)
Change in restricted cash	—	—	4,886
Capital expenditures	(47,577)	(45,982)	(57,365)
Business acquisitions, net of cash acquired	(128,613)	(51,954)	—
Component Repair Program payments	(4,100)	(21,000)	(70,100)
Other	—	—	(1,338)
Net cash used in investing activities	(179,510)	(115,494)	(124,249)
<b>Financing activities:</b>			
Net change in other borrowings	8,375	14,680	7,009
Payments on long-term debt	(321,506)	(171,198)	(332,336)
Proceeds from the issuance of long-term debt	303,277	159,264	293,291
Payment of assumed liability to Otto Männer Holding AG	—	—	(19,796)
Premium paid on convertible debt redemption	—	—	(14,868)
Proceeds from the issuance of common stock	4,611	11,425	11,460
Common stock repurchases	(20,520)	(52,103)	(8,389)
Dividends paid	(27,435)	(26,176)	(24,464)
Withholding taxes paid on stock issuances	(4,885)	(4,913)	(4,367)
Other	4,771	9,850	(338)
Net cash used by financing activities	(53,312)	(59,171)	(92,798)
Effect of exchange rate changes on cash flows	(2,303)	(4,923)	(3,923)
(Decrease) increase in cash and cash equivalents	(17,479)	37,887	(24,817)
Cash and cash equivalents at beginning of year	83,926	46,039	70,856
Cash and cash equivalents at end of year	\$ 66,447	\$ 83,926	\$ 46,039

Supplemental Disclosure of Cash Flow Information:

Non-cash investing activities in 2015 and 2014 included the acquisition of \$3,200 and \$19,000, respectively, of intangible assets, and the recognition of the corresponding liabilities, in connection with the Component Repair Programs.

See accompanying notes.