

BARNES GROUP INC
Form 10-Q
October 27, 2017

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 September 30, 2017

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)

06-0247840

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

123 Main Street, Bristol, Connecticut

(Address of Principal Executive Offices)

(860) 583-7070

Registrant's telephone number, including area code

06010

(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 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

The registrant had outstanding 53,610,570 shares of common stock as of October 25, 2017.

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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		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net sales	\$357,156	\$ 311,561	\$1,063,451	\$ 906,586
Cost of sales	236,016	198,600	692,355	582,028
Selling and administrative expenses	73,354	61,144	210,423	183,754
	309,370	259,744	902,778	765,782
Operating income	47,786	51,817	160,673	140,804
Interest expense	3,748	3,020	10,638	8,826
Other expense (income), net	357	621	773	24
Income before income taxes	43,681	48,176	149,262	131,954
Income taxes	8,348	11,348	30,599	33,066
Net income	\$35,333	\$ 36,828	\$ 118,663	\$ 98,888
Per common share:				
Basic	\$0.65	\$ 0.68	\$2.19	\$ 1.82
Diluted	0.65	0.67	2.17	1.81
Dividends	0.14	0.13	0.41	0.38
Weighted average common shares outstanding:				
Basic	54,066,509	54,206,064	54,140,551	54,206,798
Diluted	54,570,675	54,572,315	54,649,723	54,643,739

See accompanying notes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$35,333	\$36,828	\$118,663	\$98,888
Other comprehensive income, net of tax				
Unrealized gains (losses) on hedging activities, net of tax (1)	335	(150)	(124)	(580)
Foreign currency translation adjustments, net of tax (2)	20,004	990	80,174	2,100
Defined benefit pension and other postretirement benefits, net of tax (3)	1,640	2,042	3,576	5,740
Total other comprehensive income, net of tax	21,979	2,882	83,626	7,260
Total comprehensive income	\$57,312	\$39,710	\$202,289	\$106,148

(1) Net of tax of \$125 and \$1 for the three months ended September 30, 2017 and 2016, respectively, and \$(87) and \$(141) for the nine months ended September 30, 2017 and 2016, respectively.

(2) Net of tax of \$146 and \$31 for the three months ended September 30, 2017 and 2016, respectively, and \$526 and \$105 for the nine months ended September 30, 2017 and 2016, respectively.

(3) Net of tax of \$946 and \$977 for the three months ended September 30, 2017 and 2016, respectively, and \$2,749 and \$2,930 for the nine months ended September 30, 2017 and 2016, respectively.

See accompanying notes.

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

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 134,471	\$ 66,447
Accounts receivable, less allowances (2017 - \$4,495; 2016 - \$3,992)	325,189	287,123
Inventories	252,502	227,759
Prepaid expenses and other current assets	31,591	27,163
Total current assets	743,753	608,492
Deferred income taxes	31,942	25,433
Property, plant and equipment	825,705	762,187
Less accumulated depreciation	(471,760)	(427,698)
	353,945	334,489
Goodwill	685,990	633,436
Other intangible assets, net	514,331	522,258
Other assets	16,570	13,431
Total assets	\$ 2,346,531	\$ 2,137,539
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	\$ 16,875	\$ 30,825
Accounts payable	127,750	112,024
Accrued liabilities	191,889	156,967
Long-term debt - current	1,689	2,067
Total current liabilities	338,203	301,883
Long-term debt	497,429	468,062
Accrued retirement benefits	91,803	109,350
Deferred income taxes	64,700	66,446
Other liabilities	24,795	23,440
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock - par value \$0.01 per share		
Authorized: 150,000,000 shares	630	627
Issued: at par value (2017 - 62,987,803 shares; 2016 - 62,692,403 shares)		
Additional paid-in capital	452,677	443,235
Treasury stock, at cost (2017 - 9,377,948 shares; 2016 - 8,889,947 shares)	(279,978)	(251,827)
Retained earnings	1,273,474	1,177,151
Accumulated other non-owner changes to equity	(117,202)	(200,828)
Total stockholders' equity	1,329,601	1,168,358
Total liabilities and stockholders' equity	\$ 2,346,531	\$ 2,137,539

See accompanying notes.

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

	Nine months ended September 30, 2017	2016
Operating activities:		
Net income	\$ 118,663	\$ 98,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,535	58,949
Gain on disposition of property, plant and equipment	(96)	(475)
Stock compensation expense	8,472	8,620
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(26,773)	(18,461)
Inventories	(11,454)	4,626
Prepaid expenses and other current assets	(2,398)	(296)
Accounts payable	14,134	9,799
Accrued liabilities	28,889	13,028
Deferred income taxes	(18,063)	998
Long-term retirement benefits	(11,469)	(16,026)
Other	(677)	461
Net cash provided by operating activities	167,763	160,111
Investing activities:		
Proceeds from disposition of property, plant and equipment	401	715
Capital expenditures	(41,957)	(32,920)
Business acquisitions, net of cash acquired	(8,922)	(120,675)
Component Repair Program payments	—	(900)
Other	(3,000)	—
	(53,478)	(153,780)

Net cash used by
investing activities

Financing activities:

Net change in other borrowings	(14,103))	(9,321))
Payments on long-term debt	(60,897))	(263,578))
Proceeds from the issuance of long-term debt	89,118		288,982	
Proceeds from the issuance of common stock	1,731		2,463	
Common stock repurchases	(23,300))	(15,660))
Dividends paid	(22,042))	(20,444))
Withholding taxes paid on stock issuances	(4,851))	(4,881))
Other	(17,773))	3,406	
Net cash used by financing activities	(52,117))	(19,033))
Effect of exchange rate changes on cash flows	5,856		717	
Increase (decrease) in cash and cash equivalents	68,024		(11,985))
Cash and cash equivalents at beginning of period	66,447		83,926	
Cash and cash equivalents at end of period	\$ 134,471		\$ 71,941	

Supplemental Disclosure of Cash Flow Information:

Non-cash investing activities in 2016 included the recognition of \$12,436 of liabilities in connection with the FOBOHA acquisition.

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. Summary of Significant Accounting Policies

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2016 has been derived from the 2016 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, 2016. 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 nine-month period ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

2. Acquisition

On April 3, 2017, the Company completed its acquisition of the assets of the privately held Gammaflux L.P. business ("Gammaflux"), a leading supplier of hot runner temperature and sequential valve gate control systems to the plastics industry. Gammaflux, which is headquartered in Sterling, Virginia and has offices in Illinois and Germany, provides temperature control solutions for injection molding, extrusion, blow molding, thermoforming, and other applications. Its end markets include packaging, electronics, automotive, household products, medical, and tool building. The Company acquired the assets of Gammaflux for an aggregate purchase price of \$8,866, which was financed using cash on hand and borrowings under the Company's revolving credit facility. The purchase price includes adjustments under the terms of the Asset Purchase Agreement ("APA"), including \$2 related to cash acquired. In connection with the acquisition, the Company recorded \$1,535 of goodwill and \$3,700 of intangible assets.

During the nine months ended September 30, 2017, the Company incurred \$184 of acquisition-related costs related to the Gammaflux acquisition. These costs include due diligence costs and transaction costs to complete the acquisition and have been recognized in the Consolidated Statements of Income as selling and administrative expenses.

The operating results of Gammaflux have been included in the Consolidated Statements of Income since the date of acquisition. The Company reported \$6,483 in net sales for the period from the acquisition date through September 30, 2017. Gammaflux results have been included within the Industrial segment.

3. Net Income Per Common Share

For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding is increased for the potential dilutive effects of stock-based incentive plans. For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding increased by 504,168 and 366,251 for the three-month periods ended September 30, 2017 and 2016, respectively, and by 509,172 and 436,941 for the nine-month periods ended September 30, 2017 and 2016, respectively, to account for the potential dilutive effect of stock-based incentive plans. There were no adjustments to net income for the purposes of computing income available to common stockholders for the periods.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three-month periods ended September 30, 2017 and 2016, the Company excluded 0 and 209,907 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive. During the nine-month periods ended September 30, 2017 and 2016, the Company excluded 59,261 and 346,468 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive.

The Company granted 125,300 stock options, 85,307 restricted stock unit awards and 83,970 performance share awards ("PSAs") in February 2017 as part of its annual grant awards. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic weighted-average common shares outstanding as they contain nonforfeitable rights to dividend payments. The PSAs are part of the long-term Performance

Share Award Program (the "Awards Program") and are based on performance goals that are driven by a combination of independently measured metrics (depending on the grant year) with each metric being weighted equally. The metrics for awards granted in 2016 and 2017 include the Company's total shareholder return ("TSR") and return on invested capital ("ROIC"). The TSR metric is designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index over a three-year performance period. The ROIC metric is measured based on pre-established Company targets over the same period. The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR portion of the PSA was determined using a Monte Carlo valuation method as the award contains a market condition.

4. Inventories

The components of inventories consisted of:

	September 30, December 31,	
	2017	2016
Finished goods	\$ 78,116	\$ 71,100
Work-in-process	110,204	98,246
Raw material and supplies	64,182	58,413
	\$ 252,502	\$ 227,759

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 as of and for the period ended September 30, 2017:

	Industrial	Aerospace	Total Company
January 1, 2017	\$602,650	\$ 30,786	\$ 633,436
Acquisition related	3,330	—	3,330
Foreign currency translation	49,224	—	49,224
September 30, 2017	\$655,204	\$ 30,786	\$ 685,990

In the second quarter of 2017, management performed its annual impairment testing of goodwill. Based on this assessment, there was no goodwill impairment recognized as of June 30, 2017.

Other Intangible Assets:

Other intangible assets consisted of:

		September 30, 2017		December 31, 2016	
	Range of Life -Years	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue sharing programs (RSPs)	Up to 30	\$293,700	\$(105,054)	\$293,700	\$(95,701)
Component repair programs (CRPs)	Up to 30	111,839	(15,112)	111,839	(10,497)
Customer lists/relationships	10-16	215,966	(62,250)	215,266	(53,198)
Patents and technology	4-14	87,052	(45,428)	84,052	(37,897)
Trademarks/trade names	10-30	11,950	(10,258)	11,950	(9,967)
Other	Up to 15	20,551	(16,960)	20,551	(16,338)
		741,058	(255,062)	737,358	(223,598)

Unamortized intangible assets:

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Trade names	42,770	—	42,770	—
Foreign currency translation	(14,435)	—	(34,272)	—
Other intangible assets	\$769,393	\$ (255,062)	\$745,856	\$ (223,598)

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Estimated amortization of intangible assets for future periods is as follows: 2017 - \$41,000; 2018 - \$41,000; 2019 - \$40,000; 2020 - \$37,000 and 2021 - \$36,000.

In the second quarter of 2017 management performed its annual impairment testing of its trade names, indefinite-lived intangible assets. Based on this assessment, there was no impairment recognized as of June 30, 2017.

6. Debt

The Company's debt agreements contain financial covenants that require the maintenance of interest coverage and leverage ratios. The Company is in compliance with its financial covenants as of September 30, 2017, and continues to monitor its future compliance based on current and anticipated future economic conditions.

Long-term debt and notes and overdrafts payable at September 30, 2017 and December 31, 2016 consisted of:

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revolving credit agreement	\$393,000	\$397,805	\$363,300	\$364,775
3.97% Senior Notes	100,000	103,319	100,000	101,598
Borrowings under lines of credit and overdrafts	16,875	16,875	30,825	30,825
Capital leases	4,882	5,314	5,413	5,902
Other foreign bank borrowings	1,236	1,249	1,416	1,428
	515,993	524,562	500,954	504,528
Less current maturities	(18,564)		(32,892)	
Long-term debt	\$497,429		\$468,062	

In February 2017, the Company and certain of its subsidiaries entered into the fourth amendment of its fifth amended and restated revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A as the Administrative Agent for the lenders. The Amended Credit Agreement increases the facility from \$750,000 to \$850,000 and extends the maturity date from September 2018 to February 2022. The Amended Credit Agreement also increases the existing accordion feature from \$250,000, allowing the Company to now request additional borrowings of up to \$350,000. The Company may exercise the accordion feature upon request to the Administrative Agent as long as an event of default has not occurred or is not continuing. The borrowing availability of \$850,000, pursuant to the terms of the Amended Credit Agreement, allows for multi-currency borrowing which includes euro, sterling or Swiss franc borrowing, up to \$600,000. Depending on the Company's consolidated leverage ratio, and at the election of the Company, borrowings under the Amended Credit Agreement will bear interest at either LIBOR plus a margin of between 1.10% and 1.70% or the base rate, as defined in the Amended Credit Agreement, plus a margin of 0.10% to 0.70%. The Company paid fees and expenses of \$2,542 in conjunction with executing the Amended Credit Agreement; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheets and are being amortized into interest expense on the accompanying Consolidated Statements of Income through its maturity. Cash used to pay these fees have been recorded through other financing activities on the Consolidated Statements of Cash Flows.

Borrowings and availability under the Amended Credit Agreement were \$393,000 and \$457,000, respectively, at September 30, 2017 and \$363,300 and \$386,700, respectively, at December 31, 2016. The average interest rate on these borrowings was 2.34% and 1.86% on September 30, 2017 and December 31, 2016, respectively. The fair value of the borrowings is based on observable Level 2 inputs. The borrowings were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

In October 2014, the Company entered into a Note Purchase Agreement (“Note Purchase Agreement”), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of \$100,000 aggregate principal amount of 3.97% Senior Notes due October 17, 2024 (the “3.97% Senior Notes”).

The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any

accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The fair value of the 3.97% Senior Notes was determined using the US Treasury yield and a long-term credit spread for similar types of borrowings that represent Level 2 observable inputs.

The Company's borrowing capacity remains limited by various debt covenants in the Amended Credit Agreement and the Note Purchase Agreement (the "Agreements"). The Agreements require the Company to maintain a ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, of not more than 3.25 times ("Senior Debt Ratio"), a ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA of not more than 3.75 times and a ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, in each case at the end of each fiscal quarter; provided that the debt to EBITDA ratios are permitted to increase for a period of four fiscal quarters after the closing of certain permitted acquisitions.

In addition, the Company has available approximately \$59,000 in uncommitted short-term bank credit lines ("Credit Lines") and overdraft facilities. Under the Credit Lines, \$16,800 was borrowed at September 30, 2017 at an interest rate of 2.05% and \$30,700 was borrowed at December 31, 2016 at an average interest rate of 1.96%. The Company had also borrowed \$75 and \$125 under the overdraft facilities at September 30, 2017 and December 31, 2016, respectively. Repayments under the Credit Lines are due within one month after being borrowed. Repayments of the overdrafts are generally due within two days after being borrowed. The carrying amounts of the Credit Lines and overdrafts approximate fair value due to the short maturities of these financial instruments.

The Company has capital leases at the Thermoplay and Männer businesses. The fair value of the capital leases is based on observable Level 2 inputs. These instruments are valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

The Company also has other foreign bank borrowings. The fair value of the other foreign bank borrowings is based on observable Level 2 inputs. These instruments are valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

7. Derivatives

The Company has manufacturing and sales facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is also exposed to fluctuations in interest rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program.

Financial instruments have been used by the Company to hedge its exposure to fluctuations in interest rates. In 2012, the Company entered into five-year interest rate swap agreements (the "Swaps") transacted with three banks which together converted the interest on the first \$100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.03% plus the borrowing spread. The Swaps expired on April 28, 2017. The Company entered into a new interest rate swap agreement (the "Swap") that commenced on April 28, 2017, with one bank, and converts the interest on the first \$100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The Swap expires on January 31, 2022. These interest rate swap agreements are accounted for as cash flow hedges.

The Company also uses financial instruments to hedge its exposures to fluctuations in foreign currency exchange rates. The Company has various contracts outstanding which primarily hedge recognized assets or liabilities, and anticipated transactions in various currencies including the Euro, British pound sterling, U.S. dollar, Canadian dollar, Japanese yen, Singapore dollar, Korean won, Swedish kroner, Chinese renminbi and Swiss franc. Certain foreign currency derivative instruments are treated as cash flow hedges of forecasted transactions. All foreign exchange

contracts are due within two years.

The Company does not use derivatives for speculative or trading purposes or to manage commodity exposures. Changes in the fair market value of derivatives that qualify as fair value hedges or cash flow hedges are recorded directly to earnings or accumulated other non-owner changes to equity, depending on the designation. Amounts recorded to accumulated other non-owner changes to equity are reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Any ineffective portion, or amounts related to contracts that are not designated as hedges, are recorded directly to earnings.

The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item. Other financing cash flows during the first nine months of 2017 and 2016, as presented on the consolidated

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statements of cash flows, include \$14,962 of net cash payments and \$3,822 of net cash proceeds, respectively, from the settlement of foreign currency hedges related to intercompany financing.

The following table sets forth the fair value amounts of derivative instruments held by the Company.

	September 30, 2017		December 31, 2016	
	Asset	Liability	Asset	Liability
	Derivatives		Derivatives	
Derivatives designated as hedging instruments:				
Interest rate contracts	\$ —	\$ (345)	\$ —	\$ (78)
Foreign exchange contracts	—	(121)	—	(177)
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	65	(377)	397	(1,499)
Total derivatives	\$ 65	\$ (843)	\$ 397	\$ (1,754)

Asset derivatives are recorded in prepaid expenses and other current assets in the accompanying consolidated balance sheets. Liability derivatives related to interest rate contracts and foreign exchange contracts are recorded in other liabilities and accrued liabilities, respectively, in the accompanying Consolidated Balance Sheets.

The following table sets forth the gain (loss), net of tax, recorded in accumulated other comprehensive income (loss), net of tax, for the three- and nine-month periods ended September 30, 2017 and 2016 for derivatives held by the Company and designated as hedging instruments.

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Cash flow hedges:				
Interest rate contracts	\$97	\$137	\$(167)	\$74
Foreign exchange contracts	238	(287)	43	(654)
	\$335	\$(150)	\$(124)	\$(580)

Amounts related to the interest rate swaps included within accumulated other comprehensive income (loss) that were reclassified to expense during the first nine months of 2017 and 2016 resulted in a fixed rate of interest plus the borrowing spread for the first \$100,000 of one-month LIBOR borrowings. The fixed rate of interest was 1.92% for the period covered by the Swap, which matures in January 2022, and 1.03% for the Swaps, which matured in April 2017. Additionally, there were no amounts recognized in income for hedge ineffectiveness during the three- and nine-month periods ended September 30, 2017 and 2016.

The following table sets forth the net (loss) gain recorded in other expense (income), net in the consolidated statements of income for the three- and nine-month periods ended September 30, 2017 and 2016 for non-designated derivatives held by the Company. Such amounts were substantially offset by the net (gain) loss recorded on the underlying hedged asset or liability, also recorded in other expense (income), net.

Three months ended September 30, 2017		Nine months ended September 30, 2016	

Foreign exchange contracts \$(2,545) \$(3,755) \$(12,949) \$(7,506)

8. Fair Value Measurements

The provisions of the accounting standard for fair value define 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 standard 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 financial assets and financial liabilities reported at fair value and measured on a recurring basis:

Description	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Asset derivatives	\$65	\$—	\$ 65	\$ —
Liability derivatives	(843)	—	(843)	—
Bank acceptances	13,009	—	13,009	—
Rabbi trust assets	2,427	2,427	—	—
	\$14,658	\$2,427	\$ 12,231	\$ —
December 31, 2016				
Asset derivatives	\$397	\$—	\$ 397	\$ —
Liability derivatives	(1,754)	—	(1,754)	—
Bank acceptances	9,690	—	9,690	—
Rabbi trust assets	2,216	2,216	—	—
	\$10,549	\$2,216	\$ 8,333	\$ —

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rates and foreign currency spot and forward rates. Bank acceptances represent financial instruments accepted from certain Chinese customers in lieu of cash paid on receivables, generally range from three to six months in maturity and are guaranteed by banks. The carrying amounts of the bank acceptances, which are included within prepaid expenses and other current assets, approximate fair value due to their short maturities. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.

9. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Pensions				
Service cost	\$1,572	\$1,354	\$4,674	\$4,056
Interest cost	4,764	4,869	14,051	14,650
Expected return on plan assets	(7,206)	(7,564)	(20,882)	(22,774)
Amortization of prior service cost	110	52	330	157
Amortization of actuarial losses	2,703	2,697	7,846	8,109
Curtailment gain	—	—	(7,217)	—
Settlement loss (gain)	298	—	(193)	—
Net periodic benefit cost	\$2,241	\$1,408	\$(1,391)	\$4,198

In June 2017, the Company authorized the closure of its FOBOHA facility located in Muri, Switzerland which resulted in pension curtailment and settlement gains of \$7,217 and \$230, respectively, during the second quarter of 2017. See Note 14 of the Consolidated Financial Statements for additional information related to the Closure.

In May 2017, the Company contributed \$5,000 of discretionary contributions to its U.S. Qualified pension plans. The Company currently does not plan to make any additional discretionary contributions to its U.S. Qualified pension plans, however approximately \$5,000 is expected to be made into its U.S. Non-qualified and international pension plans throughout 2017.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Other Postretirement Benefits				
Service cost	\$20	\$31	\$62	\$92
Interest cost	389	440	1,170	1,324
Amortization of prior service credit	(17)	(93)	(51)	(280)
Amortization of actuarial losses	68	134	207	401
Net periodic benefit cost	\$460	\$512	\$1,388	\$1,537

10. Income Taxes

The Company merged certain of its Swiss operating legal entities during the second quarter of 2017 (the "Merger"). Certain of these entities included businesses with deferred tax assets that were offset by valuation allowances. As a result of the Merger, the Company reevaluated the valuation allowances and deferred tax assets related to these businesses and determined such allowances were no longer required as the merged entities would more likely than not utilize previously unbenefited net operating losses that would have otherwise expired. In addition, certain deferred tax assets were adjusted as a result of higher income tax rates. The impacts of these adjustments were treated as discrete items in the second quarter of 2017 resulting in reductions in tax expense of \$5,872 and \$461, respectively.

The Company's effective tax rate for the first nine months of 2017 was 20.5% compared with 25.1% in the first nine months of 2016 and 25.7% for the full year 2016. The decrease in the first nine months of 2017 effective tax rate from

the full year 2016 rate is primarily due to the adjustment of certain valuation reserves and other benefits resulting from the merger of legal entities in Switzerland, and the settlement of tax audits and closure of tax years for various tax jurisdictions, partially offset by the expiration of certain tax holidays.

The Aerospace and Industrial segments were previously awarded international tax holidays. All significant tax holidays for which the Company currently receives benefit are expected to expire in the fourth quarter of 2017.

11. Changes in Accumulated Other Comprehensive Income (Loss) by Component

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The following table sets forth the changes in accumulated other comprehensive income (loss), net of tax, by component for the nine-month periods ended September 30, 2017 and 2016:

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
January 1, 2017	\$ (227)	\$ (114,570)	\$ (86,031)	\$ (200,828)
Other comprehensive (loss) income before reclassifications to consolidated statements of income	(501)	(1,888)	80,174	77,785
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	377	5,464	—	5,841
Net current-period other comprehensive (loss) income	(124)	3,576	80,174	83,626
September 30, 2017	\$ (351)	\$ (110,994)	\$ (5,857)	\$ (117,202)

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
January 1, 2016	\$ 115	\$ (105,703)	\$ (37,664)	\$ (143,252)
Other comprehensive (loss) income before reclassifications to consolidated statements of income	(823)	283	2,100	1,560
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	243	5,457	—	5,700
Net current-period other comprehensive (loss) income	(580)	5,740	2,100	7,260
September 30, 2016	\$ (465)	\$ (99,963)	\$ (35,564)	\$ (135,992)

The following table sets forth the reclassifications out of accumulated other comprehensive income (loss) by component for the three- and nine-month periods ended September 30, 2017 and 2016:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified		Affected Line Item in the Consolidated Other Comprehensive Statements of Income
	Three months ended September 30, 2017	Three months ended September 30, 2016	
Gains and losses on cash flow hedges			
Interest rate contracts	\$ (174)	\$ (137)	Interest expense
Foreign exchange contracts	(40)	(20)	Net sales
	(214)	(157)	Total before tax
	74	55	Tax benefit
	(140)	(102)	Net of tax
Pension and other postretirement benefit items			

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Amortization of prior-service (costs) credits, net	\$ (93)	\$ 41	(A)
Amortization of actuarial losses	(2,771)	(2,831)	(A)
Settlement loss	(298)	—	(A)
	(3,162)	(2,790)	Total before tax
	946	977	Tax benefit
	(2,216)	(1,813)	Net of tax

Total reclassifications in the period \$ (2,356) \$ (1,915)

(A) These accumulated other comprehensive income (loss) components are included within the computation of net periodic pension cost. See Note 9.

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Nine months ended September 30, 2017		Affected Line Item in the Consolidated Statements of Income Nine months ended September 30, 2016
Gains and losses on cash flow hedges			
Interest rate contracts	\$(380)	\$(437)	Interest expense
Foreign exchange contracts	(178)	40	Net sales
	(558)	(397)	Total before tax
	181	154	Tax benefit
	(377)	(243)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior-service (costs) credits, net	\$(279)	\$ 123	(A)
Amortization of actuarial losses	(8,053)	(8,510)	(A)
Curtailment gain	187	—	(A)
Settlement loss	(68)	—	(A)
	(8,213)	(8,387)	Total before tax
	2,749	2,930	Tax benefit
	(5,464)	(5,457)	Net of tax
Total reclassifications in the period	\$(5,841)	\$(5,700)	

(A) These accumulated other comprehensive income (loss) components are included within the computation of net periodic pension cost. See Note 9.

12. Information on Business Segments

The Company is organized based upon the nature of its products and services and reports under two global business segments: Industrial and Aerospace. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has not aggregated operating segments for purposes of identifying these two reportable segments.

The Industrial segment is a global manufacturer of highly-engineered, high-quality precision components, products and systems for critical applications serving a diverse customer base in end-markets such as transportation, industrial equipment, consumer products, packaging, electronics, medical devices, and energy. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. Industrial's Molding Solutions businesses design and manufacture customized hot runner systems, advanced mold cavity sensors and process control systems, and precision high cavitation mold assemblies - collectively, the enabling technologies for many complex injection molding applications. Industrial's Nitrogen Gas Products business provides innovative cost effective force and motion solutions for sheet metal forming, heavy duty suspension and other selective niche markets for customers worldwide. Industrial's Engineered Components businesses manufacture and supply precision mechanical products used in transportation and industrial applications, including mechanical springs, high-precision punched and fine-blanked components and retention rings.

The Aerospace segment is a global provider of fabricated and precision-machined components and assemblies for original equipment manufacturer ("OEM") turbine engine, airframe and industrial gas turbine builders, and the military. Aerospace Aftermarket includes the jet engine component maintenance overhaul and repair business ("MRO") and the spare parts business. MRO includes our Component Repair Programs ("CRPs"), which service many of the world's major turbine engine manufacturers, commercial airlines and the military. The spare parts business includes our revenue sharing programs ("RSPs") under which the Company receives an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program.

The following tables set forth information about the Company's operations by its two reportable segments:

	Three months ended		Nine months ended	
	September 30, 2017	2016	September 30, 2017	2016
Net sales				
Industrial	\$240,390	\$208,748	\$719,556	\$608,534
Aerospace	116,767	102,816	343,899	298,055
Intersegment sales	(1)	(3)	(4)	(3)
Total net sales	\$357,156	\$311,561	\$1,063,451	\$906,586
Operating profit				
Industrial	\$29,308	\$34,958	\$100,154	\$99,445
Aerospace	18,478	16,859	60,519	41,359
Total operating profit	47,786	51,817	160,673	140,804
Interest expense	3,748	3,020	10,638	8,826
Other expense (income), net	357	621	773	24
Income before income taxes	\$43,681	\$48,176	\$149,262	\$131,954

	September 30, 2017	December 31, 2016
Assets		
Industrial	\$ 1,502,193	\$1,356,081
Aerospace	648,561	647,766
Other ^(A)	195,777	133,692
Total assets	\$ 2,346,531	\$2,137,539

(A) "Other" assets include corporate-controlled assets, the majority of which are cash and deferred tax assets.

13. Commitments and Contingencies

Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. The Company accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, historical experience and other related information known to the Company. Liabilities related to product warranties and extended warranties were not material as of September 30, 2017 and December 31, 2016.

14. Business Reorganization

In June 2017, the Company authorized the closure and consolidation of two production facilities (the "Closures") including a FOBOHA facility located in Muri, Switzerland (60 employees) and an Associated Spring facility (30 employees) into other facilities included within the Industrial segment to leverage capacity, infrastructure and critical resources. The Company recorded a net pre-tax gain of \$1,392 in the first nine months of 2017 related to the Closures. This balance includes pension curtailment and settlement gains of \$7,217 and \$230, respectively, partially offset by employee severance charges of \$3,756 and other Closure costs of \$2,299, primarily related to asset write-downs. The severance liability was included within Accrued Liabilities as of September 30, 2017. The Company also expects to incur additional costs of approximately \$700 in 2017 related to the Closures, including costs related to the transfer of work to other existing facilities. Closure costs are recorded primarily within Cost of Sales in the accompanying Consolidated Statements of Income and are reflected in the results of the Industrial segment.

The following table sets forth the change in the liability for the 2017 employee termination actions:

16

January 1, 2017	\$ —
Employee termination benefit costs	3,756
Payments	(3,008)
Foreign currency translation	(45)
September 30, 2017	\$ 703

The majority of this balance is expected to be paid in 2017.

15. Accounting Changes

In July 2015, the FASB amended its guidance related to the measurement of inventory. The amended guidance requires inventory to be measured at the lower of cost and net realizable value and thereby simplifies the current guidance of measuring inventory at the lower of cost or market. The amended guidance is effective prospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company adopted the guidance during the first quarter of 2017 and it did not have a material impact on its Consolidated Financial Statements.

With respect to the unaudited consolidated financial information of Barnes Group Inc. for the nine-month periods ended September 30, 2017 and 2016, 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 October 27, 2017 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.

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 September 30, 2017, and the related consolidated statements of income and of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and September 30, 2016 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2017 and September 30, 2016. 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.

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, 2016, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 21, 2017, which included a paragraph describing a change in the manner of accounting for stock-based compensation and a change in the manner of accounting for classification of deferred taxes in the 2016 financial statements, 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, 2016, 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
October 27, 2017
Hartford, CT

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

OVERVIEW

Please refer to the Overview 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, 2016. The Annual Report on Form 10-K and other documents related to the Company are located on the Company's website: www.bginc.com.

Third Quarter 2017 Highlights

In the third quarter of 2017, sales increased by \$45.6 million, or 14.6% from the third quarter of 2016, to \$357.2 million. Within Industrial, this sales increase was partly driven by an incremental \$11.3 million sales contribution from FOBOHA during July and August 2017 (acquisition completed on August 31, 2016) and Gammaflux sales of \$3.2 million during the quarter. Organic sales (net sales excluding both foreign currency and acquisition impacts) increased by \$26.0 million, or 8.3%, with increases of 5.8% within Industrial and 13.6% within Aerospace. Sales in Industrial were impacted by changes in foreign currency which increased sales by approximately \$5.1 million as the U.S. dollar weakened against foreign currencies.

Operating income in the third quarter of 2017 decreased 7.8% to \$47.8 million from the third quarter of 2016 and operating margin decreased from 16.6% to 13.4%. Operating income was largely impacted by lower productivity, resulting primarily from increased costs incurred on certain programs at Industrial, partially offset by increased leverage of organic sales in both segments.

RESULTS OF OPERATIONS

Net Sales

(in millions)	Three months ended September 30,			Nine months ended September 30,			
	2017	2016	Change	2017	2016	Change	
Industrial	\$240.4	\$208.7	\$31.6 15.2%	\$719.6	\$608.5	\$111.0 18.2%	
Aerospace	116.8	102.8	14.0 13.6%	343.9	298.1	45.8 15.4%	
Total	\$357.2	\$311.6	\$45.6 14.6%	\$1,063.5	\$906.6	\$156.9 17.3%	

The Company reported net sales of \$357.2 million in the third quarter of 2017, an increase of \$45.6 million, or 14.6%, from the third quarter of 2016. Organic sales increased by \$26.0 million, which included increases of \$12.0 million and \$14.0 million at Industrial and Aerospace, respectively. The increase at Industrial was driven primarily by continued strength in our Nitrogen Gas Products and Molding Solutions business units, whereas growth on newer, more technologically advanced engine platforms increased volumes at the original equipment manufacturing business within Aerospace. Sales within the Aerospace aftermarket businesses also improved during the third quarter of 2017. The overall sales increase was also driven by an incremental \$11.3 million sales contribution from FOBOHA during July and August 2017 (acquisition completed on August 31, 2016) and Gammaflux sales of \$3.2 million during the third quarter of 2017. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately \$5.1 million.

The Company reported net sales of \$1,063.5 million in the first nine months of 2017, an increase of \$156.9 million or 17.3%, from the first nine months of 2016. In Industrial, the acquisitions of FOBOHA in August 2016 and Gammaflux in April 2017 provided incremental sales of \$47.2 million and \$6.5 million, respectively, during the first nine months of 2017. Organic sales increased by \$103.8 million, which included increases of \$58.0 million and \$45.8

million at Industrial and Aerospace, respectively. The increase at Industrial was driven primarily by continued strength in our Nitrogen Gas Products and Molding Solutions business units, whereas growth on newer, more technologically advanced engine platforms increased volumes at the original equipment manufacturing business within Aerospace. Sales within the Aerospace aftermarket businesses also improved during the first nine months of 2017. The strengthening of the U.S. dollar against foreign currencies decreased net sales within the Industrial segment by approximately \$0.7 million.

Expenses and Operating Income

(in millions)	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change		2017	2016	Change	
Cost of sales	\$236.0	\$198.6	\$37.4	18.8 %	\$692.4	\$582.0	\$110.3	19.0 %
% sales	66.1	% 63.7	%		65.1	% 64.2	%	
Gross profit ⁽¹⁾	\$121.1	\$113.0	\$8.2	7.2 %	\$371.1	\$324.6	\$46.5	14.3 %
% sales	33.9	% 36.3	%		34.9	% 35.8	%	
Selling and administrative expenses	\$73.4	\$61.1	\$12.2	20.0 %	\$210.4	\$183.8	\$26.7	14.5 %
% sales	20.5	% 19.6	%		19.8	% 20.3	%	
Operating income	\$47.8	\$51.8	\$(4.0)	(7.8) %	\$160.7	\$140.8	\$19.9	14.1 %
% sales	13.4	% 16.6	%		15.1	% 15.5	%	

(1) Sales less cost of sales.

Cost of sales in the third quarter of 2017 increased 18.8% from the 2016 period, while gross profit margin decreased from 36.3% in the 2016 period to 33.9% in the 2017 period. Gross margins declined at both Aerospace and Industrial. Gross profit improved within both segments, driven primarily by organic growth within each of the business units. At Industrial, gross margins decreased during the 2017 period due to lower productivity, primarily a result of additional costs incurred on certain programs at Engineered Components. Incremental costs include expedited freight, increased scrap and costs related to the transfer of work to other facilities. A lower margin contribution on acquisition sales and an increase in incentive compensation at certain businesses also had an impact on the overall lower gross margins at Industrial. Partially offsetting these items was the profit impact of organic growth within our Molding Solutions and Nitrogen Gas Products business units. The third quarter of 2017 and the third quarter of 2016 both included \$0.5 million of short-term purchase accounting adjustments related to the acquisition of FOBOHA. Within Aerospace, improvement in gross profit relates primarily to organic growth within each of the businesses, combined with favorable productivity, partially offset by planned price deflation. Gross margins at Aerospace decreased primarily as a result of price deflation within the original equipment manufacturing business and an increase in incentive compensation, partially offset by the profit impact of increased sales volumes within our maintenance repair and overhaul and spare parts businesses during the third quarter of 2017. Selling and administrative expenses in the third quarter of 2017 increased 20.0% from the 2016 period, due primarily to corresponding increases in sales volumes and incentive compensation during the period, partially offset by the absence of \$0.6 million of costs related to a customer termination dispute and \$1.2 million of costs related to the acquisition of FOBOHA during the 2016 period. Additional costs of \$0.3 million related to the second quarter 2017 restructuring actions also contributed to the increase in selling and administrative expenses during the third quarter of 2017. As a percentage of sales, selling and administrative costs increased slightly from 19.6% in the third quarter of 2016 to 20.5% in the 2017 period. Operating income in the third quarter of 2017 decreased 7.8% to \$47.8 million from the third quarter of 2016 and operating income margin decreased from 16.6% to 13.4%, driven primarily by unfavorable productivity, as discussed above, at Industrial.

Cost of sales in the first nine months of 2017 increased 19.0% from the 2016 period, while gross profit margin decreased from 35.8% in the 2016 period to 34.9% in the 2017 period. Gross margins improved at Aerospace and declined at Industrial. Gross profit improved within both segments, driven primarily by organic growth within each of the business units. At Industrial, gross margins decreased during the first nine months of 2017 as a result of lower productivity, primarily a result of additional costs incurred on certain programs at Engineered Components. Incremental costs include expedited freight, increased scrap and costs related to the transfer of work to other facilities. A lower margin contribution on acquisition sales also had an impact on the overall lower gross margins at Industrial. Partially offsetting these items was the profit impact of organic growth within our Molding Solutions and Nitrogen Gas Products business units and a pre-tax net benefit of \$1.3 million resulting from the second quarter 2017 restructuring actions taken within Industrial. Gross profit during the first nine months of 2017 was negatively impacted by \$2.3 million of short-term purchase accounting adjustments related to the acquisition of FOBOHA,

whereas the prior year period included \$0.5 million of such adjustments. Within Aerospace, improvement in gross profit relates primarily to organic growth within each of the businesses, combined with favorable productivity, partially offset by price deflation. Increased volumes in the maintenance repair and overhaul and spare parts businesses, in particular, contributed to the gross margin improvement during the first nine months of 2017. Selling and administrative expenses in the first nine months of 2017 increased 14.5% from the 2016 period, due primarily to corresponding increases in sales volumes, incentive compensation and the amortization of intangible assets related to the acquisition of FOBOHA, partially offset by the absence of \$3.0 million of costs related to a customer termination dispute and \$1.2 million of transaction costs related to FOBOHA during the first nine months of 2016. As a percentage of sales, selling and administrative costs slightly decreased from 20.3% in the first nine

months of 2016 to 19.8% in the 2017 period. Operating income in the first nine months of 2017 increased 14.1% to \$160.7 million from the first nine months of 2016 and operating income margin decreased slightly from 15.5% to 15.1%.

Interest expense

Interest expense increased by \$0.7 million in the third quarter of 2017, as compared with the prior year period, primarily as a result of higher interest rates. Interest expense increased by \$1.8 million in the first nine months of 2017, as compared with the prior year period, also a result of higher interest rates.

Other expense (income), net

Other expense (income), net in the third quarter of 2017 was \$0.4 million compared to \$0.6 million in the third quarter of 2016. Other expense (income), net in the first nine months of 2017 was \$0.8 million compared to \$0.0 million in the first nine months of 2016. Foreign currency losses of \$0.1 million in the first nine months of 2017 compared with foreign currency gains of \$0.8 million in the first nine months of 2016.

Income Taxes

The Company merged certain of its Swiss operating legal entities during the second quarter of 2017 (the "Merger"). Certain of these entities included businesses with deferred tax assets that were offset by valuation allowances. As a result of the Merger, the Company reevaluated the valuation allowances and deferred tax assets related to these businesses and determined such allowances were no longer required as the merged entities would more likely than not utilize previously unbenefited net operating losses that would have otherwise expired. In addition, certain deferred tax assets were adjusted as a result of higher income tax rates. The impacts of these adjustments were treated as discrete items in the second quarter of 2017 resulting in reductions in tax expense of \$5.9 million and \$0.5 million, respectively.

The Company's effective tax rate for the first nine months of 2017 was 20.5% compared with 25.1% in the first nine months of 2016 and 25.7% for the full year 2016. The decrease in the first nine months of 2017 effective tax rate from the full year 2016 rate is primarily due to the adjustment of certain valuation reserves and other benefits resulting from the merger of legal entities in Switzerland, and the settlement of tax audits and closure of tax years for various jurisdictions, partially offset by the expiration of certain tax holidays.

The Aerospace and Industrial segments were previously awarded international tax holidays. All significant tax holidays for which the Company currently receives benefit are expected to expire in the fourth quarter of 2017.

Income and Income per Share

(in millions, except per share)	Three months ended September 30,			Nine months ended September 30,				
	2017	2016	Change	2017	2016	Change		
Net income	\$35.3	\$36.8	\$(1.5)	(4.1)%	\$118.7	\$98.9	\$19.8	20.0 %
Net income per common share:								
Basic	\$0.65	\$0.68	\$(0.03)	(4.4)%	\$2.19	\$1.82	\$0.37	20.3 %
Diluted	0.65	0.67	(0.02)	(3.0)%	2.17	1.81	0.36	19.9 %
Weighted average common shares outstanding:								
Basic	54.1	54.2	(0.1)	(0.3)%	54.1	54.2	(0.1)	(0.1)%
Diluted	54.6	54.6	—	— %	54.6	54.6	—	— %

Basic and diluted net income per common share decreased for the three-month period, and increased for the nine-month period, as compared to the 2016 periods, consistent with the changes in net income for the periods. Basic weighted average common shares outstanding decreased slightly while diluted weighted average common shares

outstanding were flat. Share repurchases of 550,994 and 407,000 shares during 2016 and the first nine months of 2017, respectively, as part of the Company's repurchase program were largely offset by the grant and issuance of additional shares for employee stock plans.

Financial Performance by Business Segment

Industrial

(in millions)	Three months ended September 30,			Nine months ended September 30,			
	2017	2016	Change	2017	2016	Change	
Sales	\$240.4	\$208.7	\$31.6	\$719.6	\$608.5	\$111.0	18.2%
Operating profit	29.3	35.0	(5.7)	100.2	99.4	0.7	0.7%
Operating margin	12.2%	16.7%		13.9%	16.3%		

Sales at Industrial were \$240.4 million in the third quarter of 2017, a \$31.6 million increase from the third quarter of 2016. This sales increase was partly driven by an incremental \$11.3 million sales contribution from FOBOHA during July and August 2017 (acquisition completed on August 31, 2016) and Gammaflux sales of \$3.2 million during the third quarter of 2017. Organic sales increased by \$12.0 million, or 5.8%, during the 2017 period, driven primarily by continued strength in our Nitrogen Gas Products and Molding Solutions business units. A continuation of favorable demand trends in our tool and die and transportation end-markets have contributed to the organic growth within these business units. Foreign currency increased sales by approximately \$5.1 million as the U.S. dollar weakened against foreign currencies. During the first nine months of 2017, this segment reported sales of \$719.6 million, an 18.2% increase from the first nine months of 2016. Organic sales increased by \$58.0 million, or 9.5%, during the 2017 period, primarily a result of continued strength in our Nitrogen Gas Products and Molding Solutions businesses. Acquisitions provided sales of \$53.7 million during the first nine months of 2017. The impact of foreign currency decreased sales by approximately \$0.7 million as the U.S. dollar strengthened against foreign currencies.

Operating profit in the third quarter of 2017 at Industrial was \$29.3 million, a decrease of \$5.7 million from the third quarter of 2016. Operating profit was impacted primarily by lower productivity, resulting primarily from increased costs incurred on certain programs within Engineered Components. Incremental costs include expedited freight, increased scrap and costs related to the transfer of work to other facilities. Costs related to lower productivity and an increase in incentive compensation at certain Industrial businesses were partially offset by the profit impact of increased sales volumes, largely a result of stronger tool and die and transportation end-markets. The third quarter of 2017 also included \$0.3 million of costs related to restructuring actions that occurred during the second quarter of 2017. See Note 14 to the Consolidated Financial Statements for further discussion related to the restructuring actions. The third quarter of 2017 includes \$0.5 million of short-term purchase accounting adjustments related to the acquisition of FOBOHA, whereas the third quarter of 2016 included \$1.7 million of short-term purchase accounting adjustments and acquisition costs. Lower margins at FOBOHA also impacted the third quarter of 2017. Operating margin decreased from 16.7% in the 2016 period to 12.2% in the 2017 period due to the above items. Operating profit in the first nine months of 2017 at Industrial was \$100.2 million, an increase of \$0.7 million from the first nine months of 2016. Operating profit benefited from increased sales volumes, largely offset by lower productivity, primarily driven by the increased costs incurred on certain programs within Engineered Components. The 2017 period also includes \$2.3 million of short-term purchase accounting adjustments related to the acquisition of FOBOHA, primarily offset by a pre-tax net benefit of \$1.4 million that resulted from the restructuring actions taken during the second quarter of 2017. Operating margin decreased from 16.3% in the 2016 period to 13.9% in the 2017 period primarily as a result of these items. Lower margins at FOBOHA also impacted the first nine months of 2017.

Outlook: In the Industrial manufacturing businesses, management is focused on generating organic sales growth through the introduction of new products and services and by leveraging the benefits of the diversified products and industrial end-markets in which its businesses have a global presence. Our ability to generate sales growth is subject to economic conditions in the global markets served by all of our businesses. For general industrial end-markets, manufacturing Purchasing Managers Indices ("PMIs") above 50 in China, North America and Europe are positive signs. Within China, we have seen a strengthening in orders that began during the middle of 2016 and that is continuing into the fourth quarter of 2017, indicating strength within the transportation markets. Global forecasted

production for light vehicles is expected to grow nominally in 2017, however production is beginning to decline modestly within the North American market. Within our Molding Solutions businesses, global markets remain healthy. For the Molding Solutions businesses in the remainder of 2017, we anticipate favorable demand trends to continue within the medical and personal care hot runner markets and the packaging and medical mold markets. Within our molds product line, orders continued to improve during the third quarter of 2017. As noted above, our third quarter sales were positively impacted by \$5.1 million from fluctuations in foreign currencies. To the extent that the U.S. dollar fluctuates relative to other foreign currencies, our sales may continue to be impacted by foreign currency relative to the prior year periods. The relative impact on operating profit is not expected to be as significant as the impact on sales as most of our businesses have expenses primarily denominated in local currencies, where their revenues reside. The Company also remains

focused on sales growth through acquisition and expanding geographic reach. Strategic investments in new technologies, manufacturing processes and product development are expected to provide incremental benefits over the long term.

Operating profit is largely dependent on the sales volumes and mix of the businesses in the segment. Management continues to focus on improving profitability and expanding margins through leveraging organic sales growth, acquisitions, pricing initiatives, global sourcing, productivity and the evaluation of customer programs. We continue to evaluate market conditions and remain proactive in managing costs. Costs associated with new product and process introductions, restructuring initiatives, strategic investments and the integration of acquisitions may negatively impact operating profit.

Aerospace

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	Change	2017	2016	Change
Sales	\$116.8	\$102.8	\$14.0 13.6%	\$343.9	\$298.1	\$45.8 15.4%
Operating profit	18.5	16.9	1.6 9.6%	60.5	41.4	19.2 46.3%
Operating margin	15.8%	16.4%		17.6%	13.9%	

The Aerospace segment reported sales of \$116.8 million in the third quarter of 2017, a 13.6% increase from the third quarter of 2016. Sales increased within all of the Aerospace businesses. The original equipment manufacturing ("OEM") business continued to transition from the manufacture of components on legacy engine platforms to newer, more technologically advanced platforms. Increased volume generated by newer programs was only partially offset by lower volumes and the impact of lower pricing on more mature engine platforms. Sales within the aftermarket repair and overhaul ("MRO") business also increased during the third quarter of 2017 as the Company continued to obtain additional sales volume from existing customers, a trend that began during the second half of 2016. Volumes within the spare parts business also increased during the 2017 period. Sales within the segment are largely denominated in U.S. dollars and therefore were not impacted by changes in foreign currency. During the first nine months of 2017, this segment reported sales of \$343.9 million, a 15.4% increase from the first nine months of 2016, driven by growth within each of the Aerospace businesses. Growth during the first nine months of 2017 resulted from sales in newer engine programs within OEM and additional volume from existing customers within aftermarket.

Operating profit at Aerospace in the third quarter of 2017 increased 9.6% from the third quarter of 2016 to \$18.5 million. The operating profit increase resulted from the increased volumes discussed above, coupled with favorable productivity, resulting from our ability to leverage production volumes, partially offset by price deflation, mix within the OEM business and increased employee related costs, primarily due to incentive compensation. The third quarter of 2016 included \$0.6 million of costs related to a contract termination dispute that was resolved favorably by the end of 2016. Operating margin decreased slightly from 16.4% in the 2016 period to 15.8% in the 2017 period. Operating profit in the first nine months of 2017 increased 46.3% from the first nine months of 2016 to \$60.5 million, also driven by higher sales volumes and favorable productivity. The first nine months of 2016 included \$3.0 million of costs related to the contract termination dispute.

Outlook: Sales in the Aerospace OEM business are based on the general state of the aerospace market driven by the worldwide economy and are supported by its order backlog through participation in certain strategic commercial and military engine and airframe programs. Over the next several years, the Company expects strength in demand for new engines, driven by an expected increase in commercial aircraft production levels. The Company expects further shifts in the production mix from some of its legacy engine programs to the continual ramping of several new engine programs. Backlog at OEM was \$708.9 million at September 30, 2017, an increase of 13.2% since December 31, 2016, at which time backlog was \$626.3 million. The increase in the first nine months of 2017 orders primarily

reflects an expanded time horizon on orders for certain engine programs and increased volumes. Approximately 50% of OEM backlog is expected to ship in the next 12 months. The Aerospace OEM business may be impacted by changes in the content levels on certain platforms, changes in customer sourcing decisions, adjustments to customer inventory levels, commodity availability and pricing, changes in production schedules of specific engine and airframe programs, redesign of parts, quantity of parts per engine, cost schedules agreed to under contract with the engine manufacturers, as well as the pursuit and duration of new programs. Sales in the Aerospace aftermarket business may be impacted by fluctuations in end-market demand, inventory management and changes in customer sourcing, deferred or limited maintenance activity during engine shop visits and the use of surplus (used) material during the engine repair and overhaul process. End markets are expected to grow based on the long term underlying fundamentals of the aerospace industry. Management continues to believe its Aerospace aftermarket business is competitively positioned based on well-established long-term customer relationships, including maintenance and repair contracts in the MRO business and long-term Revenue Sharing Programs ("RSPs") and Component Repair Programs ("CRPs"), expanded capabilities and current capacity levels. The MRO business may be potentially impacted by airlines that closely manage their aftermarket costs as engine performance and quality improves. Fluctuations in fuel costs and their impact on airline profitability and behaviors

within the aerospace industry could also impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the economics associated with new fuel efficient technologies.

Management is focused on growing operating profit at Aerospace primarily through leveraging organic sales growth, strategic investments, new product and process introductions, and productivity. Operating profit is expected to be affected by the impact of changes in sales volume, mix and pricing, particularly as they relate to the highly profitable aftermarket RSP spare parts business, and investments made in each of its businesses. Costs associated with new product and process introductions, the physical transfer of work to lower cost manufacturing regions, additional productivity initiatives and restructuring activities may also negatively impact operating profit.

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 overseas and adequate lines of credit.

The Company believes that its 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 2017 will generate sufficient cash to fund operations. The Company closely monitors its cash generation, usage and preservation including the management of working capital to generate cash.

In February 2017, the Company and certain of its subsidiaries entered into the fourth amendment of its fifth amended and restated revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement increases the facility from \$750.0 million to \$850.0 million and extends the maturity date from September 2018 to February 2022. The Amended Credit Agreement also increases the existing accordion feature from \$250.0 million, allowing the Company to now request additional borrowings of up to \$350.0 million. The Company may exercise the accordion feature upon request to the Administrative Agent as long as an event of default has not occurred or is not continuing. The borrowing availability of \$850.0 million, pursuant to the terms of the Amended Credit Agreement, allows for multi-currency borrowing which includes euro, British pound sterling or Swiss franc borrowing, up to \$600.0 million. Depending on the Company's consolidated leverage ratio, and at the election of the Company, borrowings under the Amended Credit Agreement will bear interest at either LIBOR plus a margin of between 1.10% and 1.70% or the base rate, as defined in the Amended Credit Agreement, plus a margin of 0.10% to 0.70%.

In October 2014, the Company entered into a Note Purchase Agreement ("Note Purchase Agreement"), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of \$100.0 million aggregate principal amount of 3.97% senior notes due October 17, 2024 (the "3.97% Senior Notes"). The 3.97% Senior Notes are senior unsecured obligations of the Company and will pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The Note Purchase Agreement contains customary affirmative and negative covenants that are similar to the covenants required under the Amended Credit Agreement, as discussed below. At September 30, 2017, the Company was in compliance with all covenants under the Note Purchase Agreement.

The Company's borrowing capacity remains limited by various debt covenants in the Amended Credit Agreement and the Note Purchase Agreement (the "Agreements"). The Agreements require the Company to maintain a ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, of not more than 3.25 times ("Senior Debt Ratio"), a ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA of not more than 3.75 times and a ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, in each case at the end of each fiscal quarter; provided that the debt to EBITDA ratios are permitted to increase for a period of four fiscal quarters after the closing of certain permitted acquisitions.

At September 30, 2017, the Company was in compliance with all covenants under the Agreements. The Company's most restrictive financial covenant is the Senior Debt Ratio which requires the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.25 times at September 30, 2017. The actual ratio at September 30, 2017 was 1.63 times.

During the first nine months of 2017, the Company repurchased 0.4 million shares of the Company's stock at a cost of \$23.3 million.

Operating cash flow may be supplemented with external borrowings to meet near-term business expansion needs and the Company's current financial commitments. The Company has assessed its credit facilities in conjunction with the Amended Credit Facility and currently expects that its bank syndicate, comprised of 14 banks, will continue to support its Amended Credit Agreement which matures in February 2022. At September 30, 2017, the Company had \$457.0 million unused and available for borrowings under its \$850.0 million Amended Credit Facility, subject to covenants. At September 30, 2017, additional borrowings of \$671.7 million of Total Debt and \$513.4 million of Senior Debt, would have been allowed under the financial covenants. The Company intends to use borrowings under its Amended Credit Facility to support the Company's ongoing growth initiatives. The Company believes its credit facilities and access to capital markets, coupled with cash generated from operations, are adequate for its anticipated future requirements.

The Company had \$16.8 million in borrowings under short-term bank credit lines at September 30, 2017.

In 2012, the Company entered into five-year interest rate swap agreements (the "swaps") transacted with three banks which together converted the interest on the first \$100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.03% plus the borrowing spread, for the purpose of mitigating its exposure to variable interest rates. The swaps expired on April 28, 2017. The Company entered into a new interest rate swap agreement (the "swap") that commenced on April 28, 2017, with one bank, and converts the interest on the first \$100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The swap expires on January 31, 2022. At September 30, 2017, the Company's total borrowings were comprised of approximately 40% fixed rate debt and 60% variable rate debt. At December 31, 2016, the Company's total borrowings were comprised of approximately 41% fixed rate debt and 59% variable rate debt.

At September 30, 2017, the Company held \$134.5 million in cash and cash equivalents, the majority of which was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and are expected to primarily fund international investments.

In May 2017, the Company made a \$5.0 million discretionary contribution to its U.S. Qualified pension plans. The Company currently does not plan to make any additional discretionary contributions to its U.S. Qualified pension plans, however an incremental \$5.0 million of contributions are expected to be made into its U.S. Non-qualified and international pension plans throughout 2017.

Any future acquisitions are expected to be financed through internal cash, borrowings and equity, or a combination thereof. Additionally, we may from time to time seek to retire or repurchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, under a Rule 10b5-1 trading plan, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

Cash Flow

(in millions)	Nine months ended		
	September 30,		
	2017	2016	Change
Operating activities	\$ 167.8	\$ 160.1	\$ 7.7
Investing activities	(53.5)	(153.8)	100.3

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Financing activities	(52.1)	(19.0)	(33.1)
Exchange rate effect	5.9	0.7	5.1
Increase (decrease) in cash	\$68.0	\$(12.0)	\$80.0

Operating activities provided \$167.8 million in the first nine months of 2017 compared to \$160.1 million in the first nine months of 2016. Operating cash flows in the 2017 period were positively impacted by improved operating results partially offset by an increase in cash used for working capital. Cash flows in the 2017 and 2016 periods were impacted by outflows of \$5.0 million and \$15.0 million, respectively, related to discretionary contributions to the U.S. Qualified pension plans.

Investing activities used \$53.5 million and \$153.8 million in the first nine months of 2017 and 2016, respectively. Investing activities in the 2017 period include capital expenditures of \$42.0 million compared to \$32.9 million in the 2016 period. The Company expects capital spending in 2017 to approximate \$55 to \$60 million. Investing activities in the first nine months of 2017 also included outflows of \$8.9 million to fund the acquisition of Gammaflux and \$3.0 million related to an Aerospace agreement (which was included in Other Investing activities). Investing activities in the first nine months of 2016 also included outflows of \$119.2 million to fund the acquisition of FOBOHA, \$1.5 million related to the post-acquisition closing adjustment of Thermoplay and \$0.9 million for payment that was required pursuant to the first Component Repair Program.

Financing activities in the first nine months of 2017 included a net increase in borrowings of \$14.1 million compared to \$16.1 million in the comparable 2016 period. During the third quarter of 2016, the Company borrowed \$100.0 million under the Amended Credit Facility through an international subsidiary. The proceeds were distributed to the Parent Company and subsequently used to pay down U.S. borrowings under the Amended Credit Facility. Proceeds from the issuance of common stock were \$1.7 million and \$2.5 million in the 2017 and 2016 periods, respectively. During the first nine months of 2017, the Company repurchased 0.4 million shares of the Company's stock at a cost of \$23.3 million compared with the purchase of 0.4 million shares at a cost of \$15.7 million during the first nine months of 2016. Total cash used to pay dividends increased to \$22.0 million in the 2017 period from \$20.4 million in the 2016 period, reflecting an increase in dividends paid per share. Other financing cash flows during the first nine months of 2017 include \$15.0 million of net cash payments resulting from the settlement of foreign currency hedges related to intercompany financing compared to \$3.8 million of net cash proceeds in the first nine months of 2016. Cash used for financing activities in the 2017 period also includes \$2.5 million of deferred financing fees paid in connection with the Amended Credit Agreement.

The Company maintains borrowing facilities with banks to supplement internal cash generation. At September 30, 2017, \$393.0 million was borrowed at an average interest rate of 2.34% under the Company's \$850.0 million Amended Credit Facility which matures in February 2022. In addition, as of September 30, 2017, the Company had \$16.8 million in borrowings under short-term bank credit lines. At September 30, 2017, the Company's total borrowings were comprised of 40% fixed rate debt and 60% variable rate debt. The interest payments on \$100.0 million of the variable rate interest debt have been converted into payment of fixed interest plus the borrowing spread under the terms of the interest rate swap that was executed in April 2017.

Debt Covenants

As noted above, borrowing capacity is limited by various debt covenants in the Company's debt agreements. Following is a reconciliation of Consolidated EBITDA, a key metric in the debt covenants, to the Company's net income (in millions):

	Four fiscal quarters ended September 30, 2017
Net income	\$ 155.4
Add back:	
Interest expense	13.7
Income taxes	44.6
Depreciation and amortization	89.7
Adjustment for non-cash stock based compensation	10.4
Amortization of FOBOHA acquisition inventory step-up	2.4
Other adjustments	0.6
Consolidated EBITDA, as defined	\$ 316.7
Consolidated Senior Debt, as defined, as of September 30, 2017	\$ 516.0
Ratio of Consolidated Senior Debt to Consolidated EBITDA Maximum	1.63 3.25
Consolidated Total Debt, as defined, as of September 30, 2017	\$ 516.0
Ratio of Consolidated Total Debt to Consolidated EBITDA Maximum	1.63 3.75
Consolidated Cash Interest Expense, as defined, as of September 30, 2017	\$ 13.7
Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense Minimum	23.13 4.25

The Amended Credit Agreement allows for certain adjustments within the calculation of the financial covenants. Other adjustments consist of net losses on the sale of assets and due diligence and transaction expenses as permitted under the Amended Credit Agreement. The Company's financial covenants are measured as of the end of each fiscal quarter. At September 30, 2017, additional borrowings of \$671.7 million of Total Debt and \$513.4 million of Senior Debt would have been allowed under the covenants. Senior Debt includes primarily the borrowings under the Amended Credit Facility, the 3.97% Senior Notes and the borrowings under the lines of credit. The Company's unused committed credit facilities at September 30, 2017 were \$457.0 million.

OTHER MATTERS

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 Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The most significant areas involving management judgments and estimates are described in 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, 2016. There have been no material changes to such judgments and estimates. Actual results could differ from those estimates.

Recent Accounting Changes

In May 2014, the Financial Accounting Standards Board ("FASB") amended its guidance related to revenue recognition. The amended guidance establishes a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance,

including industry-specific guidance. The amended guidance clarifies 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 will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The amended guidance applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The amended guidance was initially effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. On July 9, 2015, the FASB approved a deferral

of the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Entities have the option of using either a full retrospective or modified retrospective approach to the amended guidance. The Company plans to adopt the amended guidance using the modified retrospective approach on January 1, 2018 at which time it becomes effective for the Company.

In 2015, we developed a project plan and established a cross-functional team to implement the amended guidance. We are completing the review of our contracts and evaluating the impact of the amended guidance on each of our primary revenue streams. While we are continuing to assess all potential impacts of the amended guidance, we currently believe that the most significant impact relates to the timing of revenue recognition, presentation and disclosures. We expect that a substantial portion of our businesses will continue to recognize revenue on a "point-in-time basis". We also expect, however, that a portion of our businesses with customized products or contracts in which we perform work on a customer-owned asset will require the use of an "over time" recognition model as certain of our contracts may meet certain of the criteria established in the amended guidance. We anticipate utilizing the cost-to-cost input method to measure progress towards completion for contracts on an over time revenue recognition model. The Company is working to quantify the impact of the "over time" revenue recognition model in conjunction with our ongoing review of contracts, however the ultimate financial impact will be dependent upon the terms of the contracts with customers at the time of adoption and the Company's progress to completion on such contracts at that time. In addition, we continue to identify appropriate changes to our business processes, systems and controls to support recognition and disclosure requirements under the new standard. We are currently implementing design changes to such business processes, controls and systems to ensure that such changes are effective at the time of adoption.

In February 2016, the FASB amended its guidance related to lease accounting. The amended guidance requires lessees to recognize a majority of their leases on the balance sheet as a right-to-use asset. 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. 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 is currently evaluating the guidance to determine the impact it will have on its Consolidated Financial Statements. The Company anticipates the amended guidance will have a material impact on its assets and liabilities due to the addition of right-of-use assets and lease liabilities to the balance sheet; however, it does not expect the amended guidance to have a material impact on its cash flows or results of operations.

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, with focus on eight specific areas in which cash flows have, in practice, been presented inconsistently. The guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the amended guidance to have a material impact on its 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 adoption of this amended guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB amended its guidance related to the presentation of pension costs. The amended guidance requires the bifurcation of net periodic benefit cost for pension and other postretirement plans. The service cost

component of expense will be presented with other employee compensation costs in operating income, consistent with the current guidance. The other components of expense, however, will be reported separately outside of operating income. The guidance is effective for annual periods beginning after December 15, 2017 and interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the amended guidance to determine the impact it will have on its Consolidated Financial Statements. The Company does not expect that the adoption of this amended guidance will have a material impact on the Company's Consolidated Financial Statements on an ongoing basis. The Company's retrospective adoption, though, will likely have an impact on certain classifications in the 2017 Consolidated Statements of Income, mainly due to the pension curtailment and settlement gains (net) that were recorded in operating income during the first nine months of 2017. See Note 9 of 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 is currently evaluating the impact that the guidance will have on its Consolidated Financial Statements.

EBITDA

EBITDA for the first nine months of 2017 was \$228.4 million compared to \$199.7 million in the first nine months of 2016. EBITDA is a measurement not in accordance with accounting principles generally accepted in the United States of America ("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):

	Nine months ended September 30,	
	2017	2016
Net income	\$118.7	\$98.9
Add back:		
Interest expense	10.6	8.8
Income taxes	30.6	33.1
Depreciation and amortization	68.5	58.9
EBITDA	\$228.4	