

LINCOLN ELECTRIC HOLDINGS INC

Form 10-Q

April 30, 2010

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2010

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: 0-1402

**LINCOLN ELECTRIC HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of

incorporation or organization)

22801 St. Clair Avenue, Cleveland, Ohio  
(Address of principal executive offices)

(216) 481-8100

(Registrant's telephone number, including area code)

34-1860551  
(I.R.S. Employer Identification No.)

44117  
(Zip Code)

Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's common shares as of March 31, 2010 was 42,586,858.

**Table of Contents**

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	3
<u>CONSOLIDATED BALANCE SHEETS</u>	4
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	5
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<u>PART II. OTHER INFORMATION</u>	21
<u>Item 1. Legal Proceedings</u>	21
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 6. Exhibits</u>	22
<u>Signature</u>	23
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION*****ITEM 1. FINANCIAL STATEMENTS*****LINCOLN ELECTRIC HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)***(In thousands, except per share data)*

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net sales	\$ 470,958	\$ 411,751
Cost of goods sold	347,625	321,503
Gross profit	123,333	90,248
Selling, general & administrative expenses	87,813	77,516
Rationalization charges	801	11,699
Operating income	34,719	1,033
Other income (expense):		
Interest income	635	1,112
Equity earnings (loss) in affiliates	430	(1,986)
Other income	433	393
Interest expense	(1,514)	(2,562)
Total other expense	(16)	(3,043)
Income (loss) before income taxes	34,703	(2,010)
Income taxes	10,975	1,584
Net income (loss)	\$ 23,728	\$ (3,594)
Basic weighted average shares outstanding	42,404	42,372
Effect of dilutive securities - stock options and awards	360	
Diluted weighted average shares outstanding	42,764	42,372
Basic earnings (loss) per share	\$ 0.56	\$ (0.08)
Diluted earnings (loss) per share	\$ 0.55	\$ (0.08)
Cash dividends declared per share	\$ 0.28	\$ 0.27

See notes to these consolidated financial statements.

**Table of Contents****LINCOLN ELECTRIC HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS***(In thousands)*

	<b>March 31, 2010 (UNAUDITED)</b>	<b>December 31, 2009 (NOTE 1)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 376,608	\$ 388,136
Accounts receivable (less allowance for doubtful accounts of \$8,236 in 2010; \$8,174 in 2009)	307,841	273,700
<b>Inventories</b>		
Raw materials	78,896	69,048
Work-in-process	39,239	32,727
Finished goods	158,348	153,968
<b>Total inventory</b>	<b>276,483</b>	<b>255,743</b>
Other current assets	107,620	105,967
<b>Total Current Assets</b>	<b>1,068,552</b>	<b>1,023,546</b>
<b>Property, Plant and Equipment</b>		
Land	42,357	42,823
Buildings	292,421	291,444
Machinery and equipment	686,180	683,037
	1,020,958	1,017,304
Less accumulated depreciation	566,255	557,243
<b>Property, Plant and Equipment, Net</b>	<b>454,703</b>	<b>460,061</b>
Non-current assets	234,008	221,685
<b>TOTAL ASSETS</b>	<b>\$ 1,757,263</b>	<b>\$ 1,705,292</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Amounts due banks	\$ 28,018	\$ 34,577
Trade accounts payable	136,185	100,052
Other current liabilities	181,379	162,052
Current portion of long-term debt	1,141	1,290
<b>Total Current Liabilities</b>	<b>346,723</b>	<b>297,971</b>
<b>Long-Term Liabilities</b>		
Long-term debt, less current portion	87,001	87,850
Accrued pensions	131,543	139,670
Other long-term liabilities	98,252	94,126

Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

<b>Total Long-Term Liabilities</b>	316,796	321,646
<b>Shareholders Equity</b>		
Common shares	4,929	4,929
Additional paid-in capital	161,493	159,440
Retained earnings	1,250,808	1,239,004
Accumulated other comprehensive loss	(152,556)	(149,404)
Treasury shares	(184,296)	(181,623)
<b>Total Shareholders Equity</b>	1,080,378	1,072,346
Noncontrolling interests	13,366	13,329
<b>Total Equity</b>	1,093,744	1,085,675
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,757,263</b>	<b>\$ 1,705,292</b>

See notes to these consolidated financial statements.

**Table of Contents****LINCOLN ELECTRIC HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)***(In thousands)*

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 23,728	\$ (3,594)
Adjustments to reconcile Net income (loss) to Net cash provided by operating activities:		
Depreciation and amortization	14,237	13,488
Equity (earnings) loss in affiliates, net	(168)	3,254
Deferred income taxes	(7,305)	(13,452)
Stock-based compensation	1,976	1,192
Amortization of terminated interest rate swaps	(460)	(335)
Amortization of pension actuarial losses and prior service cost	5,311	4,350
Other non-cash items, net	(3,109)	1,504
Changes in operating assets and liabilities, net of effects from acquisitions:		
(Increase) decrease in accounts receivable	(40,279)	31,417
(Increase) decrease in inventories	(23,017)	37,163
(Increase) decrease in other current assets	(8,058)	8,473
Increase (decrease) in accounts payable	38,316	(4,382)
Increase (decrease) in other current liabilities	21,486	(3,855)
Decrease in accrued pensions	(7,582)	(6,504)
Net change in other long-term assets and liabilities	520	2,944
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>15,596</b>	<b>71,663</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(9,771)	(13,565)
Proceeds from sale of property, plant and equipment	42	192
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(9,729)</b>	<b>(13,373)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	10,644	7,065
Payments on short-term borrowings	(13,642)	(5,025)
Amounts due banks, net	1,389	(672)
Proceeds from long-term borrowings	30	
Payments on long-term borrowings	(421)	(30,227)
Proceeds from exercise of stock options	196	16
Tax benefit from exercise of stock options	78	2
Purchase of shares for treasury	(2,869)	(343)
Cash dividends paid to shareholders	(11,885)	(11,444)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(16,480)</b>	<b>(40,628)</b>
Effect of exchange rate changes on Cash and cash equivalents	(915)	(1,542)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(11,528)</b>	<b>16,120</b>



Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

Cash and cash equivalents at beginning of period	388,136	284,332
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 376,608	\$ 300,452

See notes to these consolidated financial statements.

---

**Table of Contents**

**LINCOLN ELECTRIC HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**(Dollars in thousands, except per share data)**

**March 31, 2010**

**NOTE 1 BASIS OF PRESENTATION**

As used in this report, the term "Company," except as otherwise indicated by the context, means Lincoln Electric Holdings, Inc., its wholly-owned and majority-owned subsidiaries for which it has a controlling interest. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. However, in the opinion of management, these consolidated financial statements contain all the adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position, results of operations and cash flows for the interim periods. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

The accompanying consolidated balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Certain reclassifications have been made to the prior year financial statements to conform to current year classifications.

*Venezuela Foreign Currency*

The local currency in Venezuela is the bolivar fuerte ("VEF"). A currency control board exists in Venezuela that is responsible for foreign exchange procedures, including approval of requests for exchanges of VEF for U.S. dollars at the official (government established) exchange rate. An unregulated parallel market exists for exchanging VEF for U.S. dollars through securities transactions.

The official exchange rate in Venezuela had been fixed at 2.15 VEF to 1 U.S. dollar for several years. On January 8, 2010, the Venezuelan government announced the devaluation of its currency relative to the U.S. dollar. The official exchange rate for imported goods classified as essential changed from 2.15 to 2.60 (the "Essential Rate"), while the official exchange rate for other non-essential goods moved to an exchange rate of 4.30 (the "Non-Essential Rate"). The Company's Venezuelan subsidiary's financial statements are remeasured using the Non-Essential Rate as this is the rate expected to be applicable to dividend repatriations.

*Venezuela Highly Inflationary Economy*

An economy is considered highly inflationary under GAAP if the cumulative inflation rate for a three-year period meets or exceeds 100 percent. The Venezuelan economy exceeded the three-year cumulative inflation rate of 100 percent during the fourth quarter of 2009. As a result, the financial statements of the Company's Venezuelan subsidiary are reported under highly inflationary accounting rules as of January 1, 2010. Under highly inflationary accounting, the financial statements of the Company's Venezuelan subsidiary have been remeasured into the Company's reporting currency (U.S. dollars) and future exchange gains and losses from the remeasurement of monetary assets and liabilities will be reflected in current earnings, rather than "Accumulated other comprehensive loss" on the balance sheet.

Future impacts to earnings of applying highly inflationary accounting for Venezuela on the Company's consolidated financial statements will be dependent upon movements in the applicable exchange rates between the VEF and the U.S. dollar and the amount of monetary assets and liabilities included in the Company's Venezuelan subsidiary's balance sheet. At March 31, 2010, the net monetary liability position was \$3,550.

The devaluation of the VEF and the change to the U.S. dollar as the functional currency resulted in a foreign currency transaction gain of \$2,632 in "Selling, general & administrative expenses" and higher "Cost of goods sold" of \$2,621 due to the liquidation of inventory valued at the historical exchange rate.



**Table of Contents****NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS***New Accounting Standards Adopted:*

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Accounting Standards Codification ( ASC ) 820-10-50 to require additional information to be disclosed principally with respect to Level 3 fair value measurements and transfers to and from Level 1 and Level 2 measurements; in addition, enhanced disclosure is required concerning inputs and valuation techniques used to determine Level 2 and Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures, as required by ASU 2010-06, are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Earlier application is permitted. ASU No. 2010-06 was adopted by the Company on January 1, 2010 and did not have a significant impact on the Company's financial statements.

In December 2009, the FASB issued ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities an Amendment of the FASB Accounting Standards Codification*. In June 2009, the FASB issued ASC 810 (formerly SFAS 167, *Amendments to FASB Interpretation No. 46(R)* ). The objective of ASC 810 is to amend certain requirements of FASB Interpretation 46 (R) (revised December 2003), *Consolidation of Variable Interest Entities*, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. ASC 810 was adopted by the Company on January 1, 2010 and did not have an impact on the Company's financial statements.

In December 2009, the FASB issued ASU No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets an Amendment of the FASB Accounting Standards Codification*. In June 2009, the FASB issued ASC 860, *Transfers and Servicing*, (formerly SFAS 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* ). The objective of ASC 860 is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. ASC 860 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. ASU No. 2009-16 must be applied to transfers occurring on or after the effective date. ASU No. 2009-16 was adopted by the Company on January 1, 2010 and did not have a significant impact on the Company's financial statements.

*New Accounting Standards to be Adopted:*

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*. This update provides amendments to the criteria in Subtopic ASC 605-25. ASU No. 2009-13 provides principles for allocating consideration among multiple-elements and accounting for separate deliverables under an arrangement. ASC 605-25, as amended, introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis and early application is permitted. The Company is currently evaluating the impact of ASU No. 2009-13, but does not expect it will have a significant impact on the Company's financial statements.

**NOTE 3 ACQUISITIONS**

On July 29, 2009, the Company completed the acquisition of 100% of Jinzhou Jin Tai Welding and Metal Co., Ltd. ( Jin Tai ), based in Jinzhou, China. This transaction expanded the Company's customer base and gave the Company control of significant cost-competitive solid wire manufacturing capacity.

The Company previously held a 21% direct interest in Jin Tai and a further 27% indirect interest via its 35% interest in Taiwan-based Kuang Tai Metal Industrial Co., Ltd. ( Kuang Tai ). Under the terms of the agreement, the Company exchanged its 35% interest in Kuang Tai with a fair value of \$22,723, paid cash of \$35,531 and committed to pay an additional \$4,181 in cash over a three-year period after close. The fair value of the Company's previous non-controlling direct interest in Jin Tai was \$8,675.



**Table of Contents**

Jin Tai was included in the Company's consolidated financial statements as of the date of acquisition.

**NOTE 4 SEGMENT INFORMATION**

The Company's primary business is the design and manufacture of arc welding and cutting products, manufacturing a broad line of arc welding equipment, consumable welding products and other welding and cutting products. The Company also has a leading global position in the brazing and soldering alloys market.

During the fourth quarter of 2009, the Company realigned its business units into five operating segments to enhance the utilization of the Company's worldwide resources and global sourcing initiatives. The operating segments consist of North America Welding, Europe Welding, Asia Pacific Welding, South America Welding and The Harris Products Group. The North America Welding segment includes welding operations in the United States, Canada and Mexico. The other three welding segments include welding operations in Europe, Asia Pacific and South America, respectively. The fifth segment, The Harris Products Group, includes the Company's global cutting, soldering and brazing businesses as well as the retail business in the United States. The segment information of prior periods has been recast to conform to the current segment presentation.

Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being earnings (loss) before interest and income taxes ( EBIT ), as adjusted. Segment EBIT is adjusted for special items as determined by management such as the impact of rationalization activities, certain asset impairment charges and gains or losses on disposals of assets. Financial information for the reportable segments follows:

	North America Welding	Europe Welding	Asia Pacific Welding	South America Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
<i>Three months ended March 31, 2010:</i>							
Net sales to unaffiliated customers	\$ 231,335	\$ 84,676	\$ 71,945	\$ 22,748	\$ 60,254	\$	\$ 470,958
Inter-segment sales	24,908	3,558	2,501	194	1,731	(32,892)	
Total	\$ 256,243	\$ 88,234	\$ 74,446	\$ 22,942	\$ 61,985	\$ (32,892)	\$ 470,958
EBIT, as adjusted	\$ 30,996	\$ 1,098	\$ 1,006	\$ 1,335	\$ 2,679	\$ (742)	\$ 36,372
Special items		540	261	(11)			790
EBIT	\$ 30,996	\$ 558	\$ 745	\$ 1,346	\$ 2,679	\$ (742)	\$ 35,582
Interest income							635
Interest expense							(1,514)
Income before income taxes							\$ 34,703
Total assets	\$ 879,670	\$ 370,571	\$ 314,274	\$ 76,773	\$ 263,900	\$ (147,925)	\$ 1,757,263
<i>Three months ended March 31, 2009:</i>							
Net sales to unaffiliated customers	\$ 218,827	\$ 87,499	\$ 32,691	\$ 20,659	\$ 52,075	\$	\$ 411,751
Inter-segment sales	22,264	2,022	537		1,864	(26,687)	
Total	\$ 241,091	\$ 89,521	\$ 33,228	\$ 20,659	\$ 53,939	\$ (26,687)	\$ 411,751
EBIT, as adjusted	\$ 27,547	\$ (5,010)	\$ (7,161)	\$ 164	\$ (2,603)	\$ (1,798)	\$ 11,139
Special items	10,174	468	397	57	603		11,699
EBIT	\$ 17,373	\$ (5,478)	\$ (7,558)	\$ 107	\$ (3,206)	\$ (1,798)	\$ (560)

Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

Interest income	1,112
Interest expense	(2,562)
<b>Loss before income taxes</b>	<b>\$ (2,010)</b>

Total assets \$ 851,811 \$ 380,543 \$ 231,796 \$ 76,069 \$ 231,675 \$ (143,245) \$ 1,628,649

In 2010, special items include a charge of \$540 for rationalization actions in the Europe Welding segment primarily related to employee severance and other costs associated with the consolidation of manufacturing facilities. The Asia Pacific Welding segment includes a charge of \$261 for rationalization actions primarily related to employee severance and other costs associated with the consolidation of manufacturing facilities. The South America Welding segment includes a net gain of \$11 for the impacts to the Company's operations in Venezuela of the change in functional currency to the U. S. dollar and devaluation of the Venezuelan currency.

**Table of Contents**

In 2009, special items in each segment include rationalization charges primarily related to employee severance totaling \$11,699.

**NOTE 5 RATIONALIZATION**

The Company recognized rationalization charges of \$801 during the three months ended March 31, 2010 relating primarily to employee severance and other costs associated with the consolidation of manufacturing operations resulting from actions initiated in 2009.

During the third quarter of 2009, the Company initiated various rationalization actions including the closure of a manufacturing facility in Europe and the consolidation of certain manufacturing operations in the Europe Welding and Asia Pacific Welding segments. These actions impacted 80 employees in the Europe Welding segment, 188 employees in the Asia Pacific Welding segment and nine employees in the South America Welding segment. These actions are expected to cost \$12,500 including rationalization charges of \$8,333 and related asset impairment charges of \$1,768 recognized in 2009. The Company recognized a charge of \$801 for the three months ended March 31, 2010 related to these activities. At March 31, 2010, a liability relating to these actions of \$2,131 was recognized in Other current liabilities. Costs associated with these actions are expected to be substantially completed and paid by the end of 2010.

During the second quarter of 2009, the Company initiated various rationalization activities including the closure of a manufacturing facility in The Harris Products Group segment. The Company recognized rationalization charges of \$6,684 for the year ended December 31, 2009. At March 31, 2010, a liability related to these actions of \$2,111 was recognized in Other current liabilities. The liability primarily relates to employee severance benefits expected to be substantially paid by the end of 2010.

The Company recognized rationalization charges in the first quarter of 2009 related primarily to employee severance actions in each segment totaling \$11,699.

The following table summarizes the activity related to the rationalization liabilities by segment:

	<b>Europe Welding</b>	<b>Asia Pacific Welding</b>	<b>The Harris Products Group</b>	<b>Consolidated</b>
Balance at December 31, 2009	\$ 3,081	\$ 831	\$ 2,445	\$ 6,357
Payments and other adjustments	(1,623)	(959)	(334)	(2,916)
Charged to expense	540	261		801
Balance at March 31, 2010	\$ 1,998	\$ 133	\$ 2,111	\$ 4,242

**NOTE 6 STOCK-BASED COMPENSATION**

The Company issued 8,275 and 700 shares of common stock from treasury upon exercise of employee stock options during the three months ended March 31, 2010 and 2009, respectively. The Company granted 800 options and 1,336 restricted shares during the three months ended March 31, 2010. No options or shares were granted during the first quarter of 2009. The restricted shares granted in 2010 were issued from treasury.

For the three months ended March 31, 2010 and 2009, common shares subject to equity-based awards of 700,058 and 1,697,418, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.



**Table of Contents****NOTE 7 COMPREHENSIVE INCOME (LOSS)**

The components of comprehensive income (loss) are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 23,728	\$ (3,594)
Other comprehensive income (loss):		
Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax of \$148 in 2010 and \$326 in 2009	278	595
Amortization of unrecognized amounts from defined benefit pension plans, net of tax of \$2,122 in 2010 and \$2,466 in 2009	3,276	4,350
Currency translation adjustment	(6,756)	(24,208)
Total comprehensive income (loss)	20,526	(22,857)
Comprehensive loss (income) attributable to noncontrolling interests	50	(12)
Comprehensive income (loss) attributable to Lincoln Electric Holdings, Inc.	\$ 20,576	\$ (22,869)

**NOTE 8 INVENTORY VALUATION**

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity, and abnormal manufacturing costs are recognized as period costs. For domestic inventories, cost is determined principally by the last-in, first-out (LIFO) method, and for non-U.S. inventories, cost is determined by the first-in, first-out (FIFO) method. The valuation of LIFO inventories is made at the end of each year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations, by necessity, are based on estimates of expected year-end inventory levels and costs and are subject to final year-end LIFO inventory calculations. The excess of current cost over LIFO cost amounted to \$65,346 and \$62,447 at March 31, 2010 and December 31, 2009, respectively.

**NOTE 9 ACCRUED EMPLOYEE COMPENSATION AND BENEFITS**

Other current liabilities at March 31, 2010 and 2009 include accruals for year-end bonuses and related payroll taxes of \$16,765 and \$7,082, respectively, related to the Company's employees worldwide. The payment of bonuses is discretionary and is subject to approval by the Board of Directors. A majority of annual bonuses are paid in December resulting in an increasing bonus accrual during the Company's fiscal year. The increase in the accrual from March 31, 2009 to March 31, 2010 is due to the increase in profitability of the Company.

**NOTE 10 CONTINGENCIES**

The Company, like other manufacturers, is subject from time to time to a variety of civil and administrative proceedings arising in the ordinary course of business. Such claims and litigation include, without limitation, product liability claims and health, safety and environmental claims, some of which relate to cases alleging asbestos and manganese induced illnesses. The claimants in the asbestos and manganese cases seek compensatory and punitive damages, in most cases for unspecified amounts. The Company believes it has meritorious defenses to these claims and intends to contest such suits vigorously.

The Company's accrual for contingent liabilities, primarily for product liability claims, was \$16,621 as of March 31, 2010 and \$15,333 as of December 31, 2009. The accrual is included in Other current liabilities. The Company also has an asset for recoveries from insurance carriers on the outstanding insured claims of \$11,974 as of March 31, 2010 and \$11,235 as of December 31, 2009. The asset is included in Other current assets.

Based on the Company's historical experience in litigating product liability claims, including a significant number of dismissals, summary judgments and defense verdicts in many cases and immaterial settlement amounts, as well as the Company's current assessment of the underlying merits of the claims and applicable insurance, the Company believes resolution of these claims and proceedings, individually or in the aggregate (exclusive of defense costs), will not have a material adverse impact upon the Company's consolidated financial statements.



**Table of Contents****NOTE 11 PRODUCT WARRANTY COSTS**

The Company accrues for product warranty claims based on historical experience and the expected material and labor costs to provide warranty service. Warranty services are provided for periods up to three years from the date of sale. The accrual for product warranty claims is included in Other current liabilities.

The changes in the carrying amount of product warranty accruals for the three months ended March 31, 2010 and 2009 are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance at beginning of period	\$ 16,768	\$ 13,736
Charged to expense	1,482	2,724
Deductions	(1,987)	(2,547)
Foreign currency translation	(263)	(210)
<b>Balance at end of period</b>	<b>\$ 16,000</b>	<b>\$ 13,703</b>

Warranty expense was 0.3% and 0.7% of sales for the three months ended March 31, 2010 and 2009, respectively.

**NOTE 12 DEBT**

As of March 31, 2010, the Company was in compliance with its debt covenants. The Company's \$80,000 Series C Note (Note ) is due in March 2012.

The Company has historically utilized interest rate swaps to manage interest rate risks. The Company terminated its remaining interest rate swaps in 2009 and has no interest rate swaps outstanding as of March 31, 2010. The termination of interest rate swaps in 2009 resulted in a realized gain of \$5,079. This gain was deferred and is being amortized over the remaining life of the Note. The amortization of this gain reduced Interest expense by \$409 and \$178 in the first quarter of 2010 and 2009, respectively, and is expected to reduce annual interest expense by \$1,661 during 2010. At March 31, 2010, \$3,241 remains to be amortized and is recognized in Long-term debt, less current portion. Additionally, the amortization of a gain of \$10,163 on interest rate swaps terminated in 2003 reduced Interest expense by \$51 and \$157 in the first quarter of 2010 and 2009, respectively, and is expected to reduce annual interest expense by \$206 in 2010. At March 31, 2010, \$391 remains to be amortized and is recognized in Long-term debt, less current portion. The weighted average effective interest rate on the Note, net of the impact of swaps, was 4.1% for the quarter ended March 31, 2010.

**NOTE 13 RETIREMENT AND POSTRETIREMENT BENEFIT PLANS**

The components of total pension expense were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Service cost	\$ 4,044	\$ 3,566
Interest cost	10,895	10,732
Expected return on plan assets	(12,281)	(10,592)
Amortization of prior service cost	(11)	15
Amortization of net loss	5,322	6,611
<b>Defined benefit plans</b>	<b>7,969</b>	<b>10,332</b>
<b>Multi-employer plans</b>	<b>278</b>	<b>304</b>
<b>Defined contribution plans</b>	<b>1,814</b>	<b>1,230</b>

Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

Total pension expense	\$ 10,061	\$ 11,866
-----------------------	-----------	-----------

The Company voluntarily contributed \$9,000 to its defined benefit plans in the U.S. in the three months ended March 31, 2010 and expects to contribute a total of \$30,000 to its defined benefit plans in the U.S. in 2010.

---

**Table of Contents**

**NOTE 14 INCOME TAXES**

The Company recognized \$10,975 of tax expense on pre-tax income of \$34,703, resulting in an effective tax rate of 31.6% for the three months ended March 31, 2010. The effective tax rate is lower than the Company's statutory rate primarily because of the utilization of foreign tax loss carryforwards for which valuation allowances had been previously recognized.

The effective income tax rate of (78.8)% for the three months ended March 31, 2009 was due to losses at certain non-U.S. entities for which no tax benefit was provided. The rate also included a benefit for the utilization of foreign tax credits.

The anticipated effective rate for 2010 depends on the amount of earnings in various tax jurisdictions and the level of related tax deductions achieved during the year.

As of March 31, 2010, the Company had \$43,070 of unrecognized tax benefits. If recognized, approximately \$29,488 would be recognized as a component of income tax expense.

The Company files income tax returns in the U.S. and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2005. The Company anticipates no significant changes to its total unrecognized tax benefits through the end of the first quarter of 2011. The Company is currently subject to an Internal Revenue Service audit for the 2005-2008 tax years and an Indonesian tax audit for 2005 - 2006. The Company does not expect the results of these examinations to have a material effect on the consolidated financial statements.

**NOTE 15 DERIVATIVES AND FAIR VALUE**

The Company uses derivatives to manage exposures to currency exchange rates, interest rates and commodity prices arising in the normal course of business. Derivative contracts to hedge currency and commodity exposures are generally written on a short-term basis but may cover exposures for up to two years while interest rate contracts may cover longer periods consistent with the terms of the underlying debt. The Company does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized at fair value on the balance sheet. The accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting. The Company formally documents the relationship of the hedge with the hedged item as well as the risk-management strategy for all designated hedges. Both at inception and on an ongoing basis, the hedging instrument is assessed as to its effectiveness, when applicable. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, hedge accounting is discontinued. The cash flows from settled derivative contracts are recognized in operating activities in the Consolidated Statements of Cash Flows. Hedge ineffectiveness was immaterial in the three months ended March 31, 2010 and 2009.

The Company is subject to the credit risk of the counterparties to derivative instruments. Counterparties include a number of major banks and financial institutions. The Company manages individual counterparty exposure by monitoring the credit rating of the counterparty and the size of financial commitments and exposures between the Company and the counterparty. None of the concentrations of risk with any individual counterparty was considered significant at March 31, 2010. The Company does not expect any counterparties to fail to meet their obligations.

*Cash flow hedges*

Certain foreign currency forward contracts were qualified and designated as cash flow hedges. The dollar equivalent gross notional amount of these short-term contracts was \$19,466 and \$3,570 at March 31, 2010 and December 31, 2009, respectively. The effective portions of the fair value gains or losses on these cash flow hedges are recognized in Accumulated other comprehensive income (AOCI) and subsequently reclassified to Cost of goods sold or Sales for hedges of purchases and sales, respectively, as the underlying hedged transactions affect earnings.

*Fair value hedges*

The Company had no fair value hedges outstanding at March 31, 2010 or 2009.

**Table of Contents***Derivatives not designated as hedging instruments*

The Company has certain foreign exchange forward contracts which are not designated as hedges. These derivatives are held as economic hedges of certain balance sheet exposures. The dollar equivalent gross notional amount of these contracts was \$200,645 and \$102,410 at March 31, 2010 and December 31, 2009, respectively. The fair value gains or losses from these contracts were recognized currently in Selling, general and administrative expenses, offsetting the losses or gains on the exposures being hedged.

The Company dedesignated commodity forward contracts at the inception of 2009 that had previously been designated and qualified as cash flow hedges. At March 31, 2010, the notional amounts, in thousands of pounds, of these contracts consisted of aluminum forward contracts of 150, copper forward contracts of 150 and nickel forward contracts of 18. The effective portion of the fair value gains or losses on these instruments were recognized in AOCI while the instruments were designated and qualified as cash flow hedges. Realized gains and losses were reclassified to earnings as the underlying hedged transactions affected earnings. Subsequent to dedesignation, the fair value gains or losses on these instruments are recognized currently in earnings.

The Company has short-term silver forward contracts with a notional amount of 250,000 troy ounces at March 31, 2010. Realized and unrealized gains and losses on these contracts were recognized in earnings.

Fair values of derivative instruments in the Consolidated Balance Sheets follow:

	March 31, 2010		December 31, 2009	
	Other Current Assets	Other Current Liabilities	Other Current Assets	Other Current Liabilities
<b>Derivatives by hedge designation</b>				
Designated as hedging instruments:				
Foreign exchange contracts	\$ 146	\$ 301	\$ 63	\$ 12
Not designated as hedging instruments:				
Foreign exchange contracts	662	2,323	133	1,017
Commodity contracts	326	272	611	186
Total derivatives	\$ 1,134	\$ 2,896	\$ 807	\$ 1,215

The effects of designated fair value hedges and undesignated derivative instruments on the Consolidated Statements of Income consisted of the following:

Derivatives by hedge designation	Classification of gains (losses)	Three Months Ended	Three Months Ended
		March 31, 2010	March 31, 2009
Fair value hedges:			
Interest rate swaps	Interest expense	\$	\$ 181
Not designated as hedges:			
Foreign exchange contracts	Selling, general & administrative expenses	(1,989)	(302)
Commodity contracts	Selling, general & administrative expenses		576
Commodity contracts	Cost of goods sold	(104)	

**Table of Contents**

The effects of designated cash flow hedges on AOCI and the Consolidated Statements of Income consisted of the following:

<b>Total recognized in AOCI, net of tax</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Foreign exchange contracts	\$ (66)	\$ (5)
Commodity contracts	(300)	(639)

<b>Derivative type</b>	<b>Gain (loss) reclassified from AOCI to:</b>	<b>Three Months Ended March 31, 2010</b>	<b>Three Months Ended March 31, 2009</b>
Foreign exchange contracts	Sales	\$ 11	\$ (177)
	Cost of goods sold	(75)	2,219
	Selling, general & administrative expenses		(147)
Commodity contracts	Cost of goods sold	(546)	(2,804)

The Company expects \$366 related to existing contracts to be reclassified from AOCI, net of tax, to earnings over the next 12 months as the hedged transactions are realized.

*Fair Value*

Fair Value is defined 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 (exit price). The following hierarchy is used to classify the inputs used to measure fair value:

- 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 a summary of fair value measurements:

<b>Description</b>	<b>Balance as of March 31, 2010</b>	<b>Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Foreign exchange contracts	\$ 808	\$	\$ 808	\$
Commodity contracts	326		326	
Total assets	\$ 1,134	\$	\$ 1,134	\$
<b>Liabilities:</b>				
Foreign exchange contracts	\$ 2,624	\$	\$ 2,624	\$
Commodity contracts	272		272	
Total liabilities	\$ 2,896	\$	\$ 2,896	\$

## Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

The Company's derivative contracts are valued at fair value using the market approach. The Company uses the market approach to value similar assets and liabilities in active markets. The Company measures the fair value of foreign exchange contracts using Level 2 inputs based on observable market spot and forward rates. The Company measures the fair value of commodity contracts using Level 2 inputs through observable market transactions in active markets provided by financial institutions. During the quarter ended March 31, 2010, there were no significant transfers between Levels 1, 2 or 3.



**Table of Contents**

The fair value of Cash and cash equivalents, Accounts receivable, Amounts due banks and Trade accounts payable approximated book value due to the short term nature of these instruments at March 31, 2010 and December 31, 2009, respectively. The fair value of long-term debt at March 31, 2010 and December 31, 2009, including the current portion, was approximately \$90,388 and \$91,365, respectively, which was determined using available market information and methodologies requiring judgment. The carrying value of this debt at such dates was \$88,142 and \$89,140, respectively. Since considerable judgment is required in interpreting market information, the fair value of the debt is not necessarily the amount that could be realized in a current market exchange.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, except per share data)**

**Results of Operations****Three Months Ended March 31, 2010 Compared with Three Months Ended March 31, 2009**

	2010		2009		Change	
	Amount	% of Sales	Amount	% of Sales	Amount	%
Net sales	\$ 470,958	100.0%	\$ 411,751	100.0%	\$ 59,207	14.4%
Cost of goods sold	347,625	73.8%	321,503	78.1%	26,122	8.1%
Gross profit	123,333	26.2%	90,248	21.9%	33,085	36.7%
Selling, general & administrative expenses	87,813	18.6%	77,516	18.8%	10,297	13.3%
Rationalization charges	801	0.2%	11,699	2.8%	(10,898)	(93.2%)
Operating income	34,719	7.4%	1,033	0.3%	33,686	3,261.0%
Interest income	635	0.1%	1,112	0.3%	(477)	(42.9%)
Equity earnings (loss) in affiliates	430	0.1%	(1,986)	(0.5%)	2,416	121.7%
Other income	433	0.1%	393	0.1%	40	10.2%
Interest expense	(1,514)	(0.3%)	(2,562)	(0.6%)	1,048	(40.9%)
Income (loss) before income taxes	34,703	7.4%	(2,010)	(0.5%)	36,713	1,826.5%
Income taxes	10,975	2.3%	1,584	0.4%	9,391	592.9%
Net income (loss)	\$ 23,728	5.0%	\$ (3,594)	(0.9%)	\$ 27,322	760.2%

*Net Sales:* Net sales for the first quarter of 2010 increased 14.4% to \$470,958 from \$411,751 in the first quarter of 2009. The increase in Net sales reflects a \$24,970 (6.1%) increase due to volume, a \$15,394 (3.7%) decrease due to price, a \$33,893 (8.2%) increase from acquisitions and a \$15,738 (3.8%) favorable impact as a result of changes in foreign currency exchange rates.

Net sales for the North America Welding segment increased 5.7% to \$231,335 in the first quarter of 2010 compared with \$218,827 in the first quarter of 2009. This increase reflects an increase of \$16,707 (7.6%) due to volume, a \$9,669 (4.4%) decrease due to price and a \$5,470 (2.5%) increase as a result of changes in foreign currency exchange rates.

Net sales for the Europe Welding segment decreased 3.2% to \$84,676 in the first quarter of 2010 compared with \$87,499 in the first quarter of 2009. This decrease reflects a decrease of \$1,992 (2.3%) due to volume, a \$6,932 (7.9%) decrease due to price and a \$6,101 (7.0%) favorable impact as a result of changes in foreign currency exchange rates.

Net sales for the Asia Pacific Welding segment increased 120.1% to \$71,945 in the first quarter of 2010 compared with \$32,691 in the first quarter of 2009. This increase reflects an increase of \$3,015 (9.2%) due to volume, a \$2,631 (8.0%) decrease due to price, a \$33,893 (103.7%) increase from acquisitions and a \$4,977 (15.2%) favorable impact as a result of changes in foreign currency exchange rates.

Net sales for the South America Welding segment increased 10.1% to \$22,748 in the first quarter of 2010 compared with \$20,659 in the first quarter of 2009. This increase reflects an increase of \$3,025 (14.6%) due to volume, a \$2,059 (10.0%) increase due to price and a \$2,995

## Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

(14.5%) unfavorable impact as a result of changes in foreign currency exchange rates.

Net sales for The Harris Products Group segment increased 15.7% to \$60,254 in the first quarter of 2010 compared with \$52,075 in the first quarter of 2009. This increase reflects an increase of \$4,215 (8.1%) due to volume, a \$1,779 (3.4%) increase due to price and a \$2,185 (4.2%) favorable impact as a result of changes in foreign currency exchange rates.

**Table of Contents**

*Gross Profit:* Gross profit increased 36.7% to \$123,333 for the first quarter of 2010 compared with \$90,248 in the first quarter of 2009. As a percentage of Net sales, Gross profit increased to 26.2% in the first quarter of 2010 from 21.9% in the first quarter of 2009. The increase was primarily a result of higher sales and production volumes, lower materials costs and cost reduction initiatives offset by incremental costs of \$2,621 due to the Venezuela functional currency change and devaluation of the Venezuelan currency, increased product liability costs of \$1,841 and an increase to the LIFO reserve of \$2,899. Foreign currency exchange rates had a \$4,460 favorable translation impact in the first quarter of 2010.

*Selling, General & Administrative ( SG&A ) Expenses:* SG&A expenses increased \$10,297 (13.3%) in the first quarter of 2010 compared with the first quarter of 2009. The increase was primarily due to higher bonus expense of \$11,591, the unfavorable translation impact of foreign currency exchange rates of \$3,577 and incremental SG&A from acquisitions of \$1,626, offset by lower selling, administrative and research and development expense of \$869, lower retirement costs in the U.S. of \$961, incremental foreign currency transaction gains of \$2,680 and a gain of \$2,632 due to the change in functional currency for the Company's subsidiary in Venezuela and the devaluation of the Venezuelan currency.

*Rationalization Charges:* In the first quarter of 2010, the Company recognized \$801 (\$612 after-tax) in charges primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in the Europe Welding and Asia Pacific Welding segments resulting from actions initiated in 2009.

*Interest Income:* Interest income decreased to \$635 in the first quarter of 2010 from \$1,112 in the first quarter of 2009. The decrease was due to lower interest rates on cash and cash equivalents in 2010 when compared with 2009.

*Equity Earnings (Loss) in Affiliates:* Equity earnings in affiliates was \$430 in the first quarter of 2010 compared with a loss of \$1,986 in the first quarter of 2009. The first quarter of 2009 included a loss of \$1,991 from the Company's 35% interest in Taiwan-based Kuang Tai Metal Industrial Co., Ltd. ( Kuang Tai ), divested in July 2009 in conjunction with the acquisition of Jinzhou Jin Tai Welding and Metal Co., Ltd. ( Jin Tai ).

*Interest Expense:* Interest expense decreased to \$1,514 in the first quarter of 2010 from \$2,562 in the first quarter of 2009 primarily as a result of a lower average debt balance from the payment of \$30,000 on the Senior Unsecured Note that matured in March 2009 and the impact of the amortization of gains on the terminated interest rate swaps.

*Income Taxes:* The Company recognized \$10,975 of tax expense on pre-tax income of \$34,703, resulting in an effective tax rate of 31.6% for the three months ended March 31, 2010. Tax expense includes a net impact of \$437 related to the change in the functional currency for the Company's subsidiary in Venezuela and the devaluation of the Venezuelan currency. The effective tax rate is lower than the Company's statutory rate primarily because of the utilization of foreign tax loss carryforwards for which valuation allowances had been previously recognized.

The effective income tax rate of (78.8)% for the three months ended March 31, 2009 was due to losses at certain non-U.S. entities for which no tax benefit was provided. The rate also included a benefit for the utilization of foreign tax credits.

*Net Income:* Net income for the first quarter of 2010 was \$23,728 compared with a net loss of \$3,594 in the first quarter of 2009. Diluted earnings per share for the first quarter of 2010 was \$0.55 compared with diluted loss of \$0.08 per share in the first quarter of 2009. Foreign currency exchange rate movements had a favorable translation effect of \$558 and \$1,320 on net income for the first quarter of 2010 and 2009, respectively.

*Non-GAAP Financial Measures:* The Company reviews Operating income, Net income (loss) and Diluted earnings (loss) per share ( EPS ) excluding special items, non-GAAP financial measures, in assessing and evaluating the Company's underlying operating performance.

**Table of Contents**

The following table presents a reconciliation of Operating income as reported to Adjusted operating income excluding special items:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Operating income as reported	\$ 34,719	\$ 1,033
Special items:		
Rationalization charges	801	11,699
Venezuela functional currency change and devaluation	(11)	
<b>Adjusted operating income excluding special items</b>	<b>\$ 35,509</b>	<b>\$ 12,732</b>

Special items included in Operating income for the first quarter of 2010 include rationalization charges of \$801 primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in the Europe Welding and Asia Pacific Welding segments resulting from actions initiated in 2009. Special items for 2010 also include a net gain of \$11 for the South America Welding segment related to the change in the functional currency for the Company's subsidiary in Venezuela to the U.S. dollar and devaluation of the Venezuelan currency. This net gain includes a foreign currency transaction gain of \$2,632 included in SG&A and an incremental cost of \$2,621 included in Cost of goods sold.

Special items included in Operating income for the first quarter of 2009 include rationalization charges in each segment primarily related to employee severance totaling \$11,699.

The following table presents reconciliations of Net income (loss) and Diluted EPS as reported to Adjusted net income (loss) and Adjusted diluted EPS excluding special items:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss) as reported	\$ 23,728	\$ (3,594)
Special items (after-tax):		
Rationalization charges	612	7,428
Venezuela functional currency change and devaluation	426	
<b>Adjusted net income excluding special items</b>	<b>\$ 24,766</b>	<b>\$ 3,834</b>
Diluted EPS as reported	\$ 0.55	\$ (0.08)
Special items	0.03	0.17
<b>Adjusted diluted EPS excluding special items</b>	<b>\$ 0.58</b>	<b>\$ 0.09</b>

Special items included in Net income for the first quarter of 2010 include after-tax rationalization charges of \$612 primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in the Europe Welding and Asia Pacific Welding segments resulting from actions initiated in 2009. Special items for 2010 also include a net after-tax charge of \$426 for the South America Welding segment related to the change in the functional currency for the Company's subsidiary in Venezuela to the U.S. dollar and devaluation of the Venezuelan currency.

Special items included in Net income for the first quarter of 2009 include after-tax rationalization charges in each segment primarily related to employee severance totaling \$7,428.

**Liquidity and Capital Resources**

## Edgar Filing: LINCOLN ELECTRIC HOLDINGS INC - Form 10-Q

The Company's cash flow from operations, while cyclical, has been reliable and strong. Operational cash flow is a key driver of liquidity, providing cash and access to capital markets. In assessing liquidity, the Company reviews working capital measurements to define areas for improvement. Management anticipates the Company will be able to satisfy cash requirements for its ongoing businesses for the foreseeable future primarily with cash generated by operations, existing cash balances and, if necessary, borrowings under its existing credit facilities.

**Table of Contents**

The following table reflects changes in key cash flow measures:

	<b>Three Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Cash provided by operating activities:	\$ 15,596	\$ 71,663	\$ (56,067)
Cash used by investing activities:	(9,729)	(13,373)	3,644
Capital expenditures	(9,771)	(13,565)	3,794
Cash used by financing activities:	(16,480)	(40,628)	24,148
(Payments on) proceeds from short-term borrowings, net	(1,609)	1,368	(2,977)
Payments on long-term borrowings, net	(391)	(30,227)	29,836
Purchase of shares for treasury	(2,869)	(343)	(2,526)
Cash dividends paid to shareholders	(11,885)	(11,444)	(441)
(Decrease) increase in Cash and cash equivalents	(11,528)	16,120	(27,648)

Cash and cash equivalents decreased 3.0% or \$11,528 during the first three months of 2010 to \$376,608 as of March 31, 2010 from \$388,136 as of December 31, 2009. This compares to an increase of 5.7% or \$16,120 to \$300,452 during the first three months of 2009.

Cash provided by operating activities decreased by \$56,067 for the first three months of 2010 compared with the first three months of 2009. The decrease was primarily related to an increase in operating working capital in 2010 compared with a decrease in operating working capital in 2009 partially offset by higher earnings in 2010. Net operating working capital to sales, defined as the sum of Accounts receivable and Total inventory less Trade accounts payable divided by annualized rolling three months of Net sales, was 23.8% at March 31, 2010 compared with 23.2% at December 31, 2009 and 26.9% at March 31, 2009. Days sales in inventory increased to 106.1 days at March 31, 2010 from 100.8 days at December 31, 2009 and decreased from 126.1 days at March 31, 2009. Accounts receivable days increased to 62.6 days at March 31, 2010 from 56.9 days at December 31, 2009 and 61.0 days at March 31, 2009. Average days in accounts payable increased to 40.2 days at March 31, 2010 from 30.0 days at December 31, 2009 and 36.9 days at March 31, 2009.

Cash used by investing activities for the first three months of 2010 compared with the first three months of 2009 decreased by \$3,644. This reflects a decrease in capital expenditures of \$3,794 to \$9,771 from \$13,565 in 2009. The Company anticipates capital expenditures in 2010 in the range of \$40,000 to \$50,000. Anticipated capital expenditures reflect investments to improve operational effectiveness and the Company's continuing international expansion. Management critically evaluates all proposed capital expenditures and requires each project to increase efficiency, reduce costs, promote business growth, or to improve the overall safety and environmental conditions of the Company's facilities. Management does not currently anticipate any unusual future cash outlays relating to capital expenditures.

Cash used by financing activities decreased \$24,148 to \$16,480 in the first three months of 2010 compared with the first three months of 2009. The decrease was primarily due to the repayment of the Company's \$30,000 Series B Senior Unsecured Note on maturity in 2009 partially offset by a reduction in short-term borrowings of \$1,609 in the current period versus an increase of \$1,368 in the comparable period of the prior year and higher purchases of shares for treasury of \$2,526.

The Company's debt levels decreased from \$123,717 at December 31, 2009 to \$116,160 at March 31, 2010 primarily due to the devaluation of the bolivar denominated debt in Venezuela and net reductions in short-term borrowings at certain foreign subsidiaries. Debt to total invested capital decreased to 9.6% at March 31, 2010 from 10.2% at December 31, 2009.

In January 2010, the Company paid a cash dividend of \$0.28 per share, or \$11,885, to shareholders of record on December 31, 2009.

*Venezuela Foreign Currency*

The local currency in Venezuela is the bolivar fuerte ( VEF ). A currency control board exists in Venezuela that is responsible for foreign exchange procedures, including approval of requests for exchanges of VEF for U.S. dollars at the official (government established) exchange rate. An unregulated parallel market exists for exchanging VEF for U.S. dollars through securities transactions.

The official exchange rate in Venezuela had been fixed at 2.15 VEF to 1 U.S. dollar for several years. On January 8, 2010, the Venezuelan government announced the devaluation of its currency relative to the U.S. dollar. The official exchange rate for



---

**Table of Contents**

imported goods classified as essential changed from 2.15 to 2.60 (the Essential Rate ), while the official exchange rate for other non-essential goods moved to an exchange rate of 4.30 (the Non-Essential Rate ). The Company's Venezuelan subsidiary's financial statements are remeasured using the Non-Essential Rate as this is the rate expected to be applicable to dividend repatriations.

*Venezuela Highly Inflationary Economy*

An economy is considered highly inflationary under GAAP if the cumulative inflation rate for a three-year period meets or exceeds 100 percent. The Venezuelan economy exceeded the three-year cumulative inflation rate of 100 percent during the fourth quarter of 2009. As a result, the financial statements of the Company's Venezuelan subsidiary are reported under highly inflationary accounting rules as of January 1, 2010. Under highly inflationary accounting, the financial statements of the Company's Venezuelan subsidiary have been remeasured into the Company's reporting currency (U.S. dollars) and future exchange gains and losses from the remeasurement of monetary assets and liabilities will be reflected in current earnings, rather than Accumulated other comprehensive loss on the balance sheet.

Future impacts to earnings of applying highly inflationary accounting for Venezuela on the Company's consolidated financial statements will be dependent upon movements in the applicable exchange rates between the VEF and the U.S. dollar and the amount of monetary assets and liabilities included in the Company's Venezuelan subsidiary's balance sheet. At March 31, 2010, the net monetary liability position was \$3,550.

The devaluation of the VEF and the change to the U.S. dollar as the functional currency resulted in a foreign currency transaction gain of \$2,632 in Selling, general & administrative expenses and higher Cost of goods sold of \$2,621 due to the liquidation of inventory valued at the historical exchange rate.

**Rationalization**

The Company recognized rationalization charges of \$801 during the three months ended March 31, 2010 relating primarily to employee severance and other costs associated with the consolidation of manufacturing operations resulting from actions initiated in 2009.

During the third quarter of 2009, the Company initiated various rationalization actions including the closure of a manufacturing facility in Europe and the consolidation of certain manufacturing operations in the Europe Welding and Asia Pacific Welding segments. These actions impacted 80 employees in the Europe Welding segment, 188 employees in the Asia Pacific Welding segment and nine employees in the South America Welding segment. These actions are expected to cost \$12,500 including rationalization charges of \$8,333 and related asset impairment charges of \$1,768 recognized in 2009. The Company recognized a charge of \$801 for the three months ended March 31, 2010 related to these activities. At March 31, 2010, a liability relating to these actions of \$2,131 was recognized in Other current liabilities. Costs associated with these actions are expected to be substantially completed and paid by the end of 2010.

During the second quarter of 2009, the Company initiated various rationalization activities including the closure of a manufacturing facility in The Harris Products Group segment. The Company recognized rationalization charges of \$6,684 for the year ended December 31, 2009. At March 31, 2010, a liability related to these actions of \$2,111 was recognized in Other current liabilities. The liability primarily relates to employee severance benefits expected to be substantially paid by the end of 2010.

The Company recognized rationalization charges in the first quarter of 2009 related primarily to employee severance actions in each segment totaling \$11,699.

**Acquisitions**

On July 29, 2009, the Company completed the acquisition of 100% of Jin Tai, based in Jinzhou, China. This transaction expanded the Company's customer base and gave the Company control of significant cost-competitive solid wire manufacturing capacity.

The Company previously held a 21% direct interest in Jin Tai and a further 27% indirect interest via its 35% interest in Kuang Tai. Under the terms of the agreement, the Company exchanged its 35% interest in Kuang Tai with a fair value of \$22,723, paid cash of \$35,531 and committed to pay an additional \$4,181 in cash over a three-year period after close. The fair value of the Company's previous non-controlling direct interest in Jin Tai was \$8,675.



**Table of Contents**

Jin Tai was included in the Company's consolidated financial statements as of the date of acquisition.

**Debt**

As of March 31, 2010, the Company was in compliance with its debt covenants. The Company's \$80,000 Series C Note ( Note ) is due in March 2012.

The Company has historically utilized interest rate swaps to manage interest rate risks. The Company terminated its remaining interest rate swaps in 2009 and has no interest rate swaps outstanding as of March 31, 2010. The termination of interest rate swaps in 2009 resulted in a realized gain of \$5,079. This gain was deferred and is being amortized over the remaining life of the Note. The amortization of this gain reduced Interest expense by \$409 and \$178 in the first quarter of 2010 and 2009, respectively, and is expected to reduce annual interest expense by \$1,661 during 2010. At March 31, 2010, \$3,241 remains to be amortized and is recognized in Long-term debt, less current portion. Additionally, the amortization of a gain of \$10,163 on interest rate swaps terminated in 2003 reduced Interest expense by \$51 and \$157 in the first quarter of 2010 and 2009, respectively, and is expected to reduce annual interest expense by \$206 in 2010. At March 31, 2010, \$391 remains to be amortized and is recognized in Long-term debt, less current portion. The weighted average effective interest rate on the Note, net of the impact of swaps, was 4.1% for the quarter ended March 31, 2010.

**New Accounting Pronouncements***New Accounting Standards Adopted:*

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Accounting Standards Codification ( ASC ) 820-10-50 to require additional information to be disclosed principally with respect to Level 3 fair value measurements and transfers to and from Level 1 and Level 2 measurements; in addition, enhanced disclosure is required concerning inputs and valuation techniques used to determine Level 2 and Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures, as required by ASU 2010-06, are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Earlier application is permitted. ASU No. 2010-06 was adopted by the Company on January 1, 2010 and did not have a significant impact on the Company's financial statements.

In December 2009, the FASB issued ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities an Amendment of the FASB Accounting Standards Codification*. In June 2009, the FASB issued ASC 810 (formerly SFAS 167, *Amendments to FASB Interpretation No. 46(R)* ). The objective of ASC 810 is to amend certain requirements of FASB Interpretation 46 (R) (revised December 2003), *Consolidation of Variable Interest Entities*, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. ASC 810 was adopted by the Company on January 1, 2010 and did not have an impact on the Company's financial statements.

In December 2009, the FASB issued ASU No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets an Amendment of the FASB Accounting Standards Codification*. In June 2009, the FASB issued ASC 860, *Transfers and Servicing*, (formerly SFAS 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* ). The objective of ASC 860 is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. ASC 860 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. ASU No. 2009-16 must be applied to transfers occurring on or after the effective date. ASU No. 2009-16 was adopted by the Company on January 1, 2010 and did not have a significant impact on the Company's financial statements.

*New Accounting Standards to be Adopted:*

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*. This update provides amendments to the criteria in Subtopic ASC 605-25. ASU No. 2009-13 provides principles for allocating consideration among multiple-elements and accounting for separate deliverables under an arrangement. ASC 605-25, as amended, introduces an estimated selling price



---

## **Table of Contents**

method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis and early application is permitted. The Company is currently evaluating the impact of ASU No. 2009-13, but does not expect it will have a significant impact on the Company's financial statements.

### **Forward-looking Statements**

The Company's expectations and beliefs concerning the future contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect management's current expectations and involve a number of risks and uncertainties. Actual results may differ materially from such statements due to a variety of factors that could adversely affect the Company's operating results. The factors include, but are not limited to: general economic and market conditions; the effectiveness of operating initiatives; currency exchange and interest rates; adverse outcome of pending or potential litigation; possible acquisitions; market risks and price fluctuations related to the purchase of commodities and energy; global regulatory complexity; and the possible effects of international terrorism and hostilities on the Company or its customers, suppliers and the economy in general. For additional discussion, see Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

### ***ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

There have been no material changes in the Company's exposure to market risk since December 31, 2009. See Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

### ***ITEM 4. CONTROLS AND PROCEDURES***

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no changes in the Company's internal control over financial reporting during the period covered by this Form 10-Q that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### ***ITEM 1. LEGAL PROCEEDINGS***

The Company is subject, from time to time, to a variety of civil and administrative proceedings arising out of its normal operations, including, without limitation, product liability claims and health, safety and environmental claims. Among such proceedings are the cases described below.

At March 31, 2010, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 16,794 plaintiffs, which is a net decrease of 397 claims from those previously reported. In each instance, the Company is one of a large number of defendants. The asbestos claimants seek compensatory and punitive damages, in most cases for unspecified sums. Since January 1, 1995, the Company has been a co-defendant in other similar cases that have been resolved as follows: 38,887 of those claims were dismissed, 13 were tried to defense verdicts, five were tried to plaintiff verdicts, one was resolved by agreement for an immaterial amount and 563 were decided in favor of the Company following summary judgment motions. On March 23, 2010, a jury returned a verdict in one such case in Common Pleas Court of Philadelphia County, Pennsylvania in favor of the plaintiff against multiple co-defendants, awarding an aggregate of \$14.5 million in compensatory damages (of which approximately \$1.3 million is allocable to the Company). The Company plans to appeal this verdict after the final judgment is entered. On March 31, 2010, a jury returned a verdict in another similar case in the same jurisdiction in favor of the Company.

At March 31, 2010, the Company was a co-defendant in cases alleging manganese induced illness involving claims by approximately 3,269 plaintiffs, which is a net decrease of 64 claims from those previously reported. In each instance, the Company is one of a large number of defendants. The claimants in cases alleging manganese induced illness seek compensatory and punitive damages, in most cases for unspecified sums. The claimants allege that exposure to manganese contained in welding consumables caused the plaintiffs to develop adverse neurological conditions, including a condition



**Table of Contents**

known as manganism. At March 31, 2010, cases involving 1,986 claimants were filed in or transferred to federal court where the Judicial Panel on Multi-District Litigation has consolidated these cases for pretrial proceedings in the Northern District of Ohio. Since January 1, 1995, the Company has been a co-defendant in similar cases that have been resolved as follows: 13,535 of those claims were dismissed, 20 were tried to defense verdicts in favor of the Company and five were tried to plaintiff verdicts (four of which are being or will be appealed). In addition, 13 claims were resolved by agreement for immaterial amounts and one was decided in favor of the Company following a summary judgment motion.

On December 13, 2006, the Company filed a complaint in U.S. District Court (Northern District of Ohio) against Illinois Tool Works, Inc. seeking a declaratory judgment that eight patents owned by the defendant relating to certain inverter power sources have not and are not being infringed and that the subject patents are invalid. Illinois Tool Works filed a motion to dismiss this action, which the Court denied on June 21, 2007. On September 7, 2007, the Court stayed the litigation, referencing pending reexaminations before the U.S. Patent and Trademark Office. On June 17, 2008, the Company filed a motion to amend its pleadings in the foregoing matter to include several additional counts, including specific allegations of fraud on the U.S. Patent and Trademark Office with respect to portable professional welding machines and resulting monopoly power in that market.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Issuer purchases of its common stock during the first quarter of 2010 were as follows:

<b>Period</b>	<b>Total Number of Shares Repurchased (1)</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (1)</b>
January 1 - 31, 2010		\$		3,784,610
February 1 - 28, 2010				3,784,610
March 1 - 31, 2010	60,000	47.82	60,000	3,724,610

(1) In October of 2003, the Company's Board of Directors authorized share repurchase programs for up to 15 million shares of the Company's common stock. Total shares purchased through the share repurchase programs were 11,275,390 shares at a cost of \$277,400,000 for a weighted average cost of \$24.60 per share through March 31, 2010.

**ITEM 6. EXHIBITS**

(a) Exhibits

- 31.1 Certification by the Chairman, President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification by the Senior Vice President, Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

Signature

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

LINCOLN ELECTRIC HOLDINGS, INC.

/s/ Vincent K. Petrella  
Vincent K. Petrella

Senior Vice President, Chief Financial

Officer and Treasurer

(principal financial and accounting officer)

April 30, 2010