

LINCOLN ELECTRIC HOLDINGS INC

Form 10-Q

October 28, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2008

or

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

For the transition period from _____ to _____

Commission File Number 0-1402

LINCOLN ELECTRIC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Ohio

34-1860551

(State or other jurisdiction of incorporation or organization)

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

22801 St. Clair Avenue, Cleveland, Ohio

44117

(Address of principal executive offices)

(Zip Code)

(216) 481-8100

(Registrant's telephone number, including area code)

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

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

Large accelerated filer 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 September 30, 2008 was 42,819,061.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$ 632,892	\$ 564,824	\$ 1,952,945	\$ 1,700,505
Cost of goods sold	436,014	405,083	1,373,902	1,213,880
Gross profit	196,878	159,741	579,043	486,625
Selling, general & administrative expenses	107,097	92,140	319,176	274,977
Rationalization charges				396
Operating income	89,781	67,601	259,867	211,252
Other income (expense):				
Interest income	2,317	2,290	6,616	5,439
Equity earnings in affiliates	3,739	2,263	8,102	7,418
Other income	201	819	1,327	1,863
Interest expense	(3,156)	(2,866)	(8,939)	(8,379)
Total other income	3,101	2,506	7,106	6,341
Income before income taxes	92,882	70,107	266,973	217,593
Income taxes	23,671	20,129	74,157	64,366
Net income	\$ 69,211	\$ 49,978	\$ 192,816	\$ 153,227
Per share amounts:				
Basic earnings per share	\$ 1.62	\$ 1.16	\$ 4.51	\$ 3.57
Diluted earnings per share	\$ 1.60	\$ 1.15	\$ 4.47	\$ 3.53
Cash dividends declared per share	\$ 0.25	\$ 0.22	\$ 0.75	\$ 0.66

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2008 (UNAUDITED)	December 31, 2007 (NOTE A)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 312,590	\$ 217,382
Accounts receivable (less allowance for doubtful accounts of \$8,594 in 2008; \$7,424 in 2007)	378,672	344,058
Inventories		
Raw materials	114,920	92,557
Work-in-process	59,051	48,444
Finished goods	245,675	202,848
Total inventory	419,646	343,849
Deferred income taxes	14,132	10,286
Other current assets	76,644	54,073
Total Current Assets	1,201,684	969,648
Property, Plant and Equipment		
Land	41,414	41,415
Buildings	262,142	255,318
Machinery and equipment	665,434	629,780
	968,990	926,513
Less accumulated depreciation and amortization	522,600	496,569
Property, Plant and Equipment, Net	446,390	429,944
Other Assets		
Prepaid pension costs	63,399	48,897
Equity investments in affiliates	65,194	59,723
Intangibles, net	62,071	51,194
Goodwill	42,003	42,727
Long-term investments	30,219	30,170
Other	16,167	12,993
Total Other Assets	279,053	245,704
TOTAL ASSETS	\$ 1,927,127	\$ 1,645,296

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2008 (UNAUDITED)	December 31, 2007 (NOTE A)
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Amounts due banks	\$ 21,425	\$ 11,581
Trade accounts payable	187,764	152,301
Accrued employee compensation and benefits	126,112	48,486
Accrued expenses	29,435	25,407
Accrued taxes, including income taxes	16,926	13,130
Accrued pensions	1,747	3,790
Dividends payable	10,685	10,720
Other current liabilities	55,004	45,601
Current portion of long-term debt	31,506	905
Total Current Liabilities	480,604	311,921
Long-Term Liabilities		
Long-term debt, less current portion	87,525	117,329
Accrued pensions	28,709	29,164
Deferred income taxes	38,216	36,874
Accrued taxes	38,257	34,132
Other long-term liabilities	38,147	28,656
Total Long-Term Liabilities	230,854	246,155
Shareholders Equity		
Preferred shares, without par value at stated capital amount; authorized - 5,000,000 shares; issued and outstanding - none		
Common shares, without par value at stated capital amount; authorized - 120,000,000 shares; issued - 49,290,717 shares in 2008 and 2007; outstanding - 42,819,061 shares in 2008 and 42,961,679 shares in 2007	4,929	4,929
Additional paid-in capital	155,984	145,825
Retained earnings	1,228,821	1,068,100
Accumulated other comprehensive (loss) income	(8,052)	15,841
Treasury shares, at cost - 6,471,656 shares in 2008 and 6,329,038 shares in 2007	(166,013)	(147,475)
Total Shareholders Equity	1,215,669	1,087,220
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,927,127	\$ 1,645,296

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Nine Months Ended September	
	30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 192,816	\$ 153,227
Adjustments to reconcile net income to net cash provided by operating activities:		
Rationalization charges		396
Depreciation and amortization	42,901	39,096
Equity earnings of affiliates, net	(5,830)	(5,531)
Deferred income taxes	(2,068)	(12,438)
Stock-based compensation	3,352	3,275
Amortization of terminated interest rate swaps	(717)	(880)
Other non-cash items, net	4,007	(233)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(32,954)	(35,185)
(Increase) decrease in inventories	(79,893)	17,841
(Increase) decrease in other current assets	(22,492)	4,570
Increase (decrease) in accounts payable	28,437	(13,332)
Increase in other current liabilities	108,537	65,102
Net change in pension assets and liabilities	(17,572)	(11,377)
Net change in other long-term assets and liabilities	(1,781)	(424)
NET CASH PROVIDED BY OPERATING ACTIVITIES	216,743	204,107
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(53,479)	(45,777)
Acquisition of businesses, net of cash acquired	(28,021)	(6,102)
Proceeds from sale of property, plant and equipment	589	607
NET CASH USED BY INVESTING ACTIVITIES	(80,911)	(51,272)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	17,895	4,529
Payments on short-term borrowings	(5,053)	(1,004)
Amounts due banks, net	(6,744)	(505)
Proceeds from long-term borrowings	1,352	
Payments on long-term borrowings	(806)	(40,459)
Proceeds from exercise of stock options	7,120	7,589
Tax benefit from exercise of stock options	3,416	5,001
Purchase of shares for treasury	(23,121)	
Cash dividends paid to shareholders	(32,071)	(28,271)
NET CASH USED BY FINANCING ACTIVITIES	(38,012)	(53,120)

Effect of exchange rate changes on cash and cash equivalents	(2,612)	3,293
INCREASE IN CASH AND CASH EQUIVALENTS	95,208	103,008
Cash and cash equivalents at beginning of period	217,382	120,212
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 312,590	\$ 223,220

See notes to these consolidated financial statements.

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**LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

(In thousands, except share and per share data)

September 30, 2008

NOTE A 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. Minority ownership interest in consolidated subsidiaries, which is not material, is recorded in *Other long-term liabilities*. 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 changes in cash flows for the interim periods. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

The balance sheet at December 31, 2007 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, 2007.

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

NOTE B STOCK-BASED COMPENSATION

The 2006 Equity and Performance Incentive Plan, as amended (*EPI Plan*), provides for the granting of options, appreciation rights, restricted shares, restricted stock units and performance-based awards up to an aggregate of 3,000,000 of the *Company's* common shares. The 2006 Stock Plan for Non-Employee Directors, as amended (*Director Plan*), provides for the granting of options, restricted shares and restricted stock units up to an aggregate of 300,000 of the *Company's* common shares.

The *Company* issued 232,050 and 312,087 shares of common stock from treasury upon exercise of employee stock options during the nine months ended September 30, 2008 and 2007, respectively. The *Company* granted 2,458 options and 288 restricted shares during the nine months ended September 30, 2008 and 541 restricted shares during the nine months ended September 30, 2007. The restricted shares granted in 2008 and 2007 were issued from treasury. Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options or restricted stock options or restricted or deferred shares ultimately forfeited because recipients fail to meet vesting requirements. Total stock-based compensation expense recognized in the consolidated statements of income for the nine months ended September 30, 2008 and 2007 was \$3,352 and \$3,275, respectively. The related tax benefit for the nine months ended September 30, 2008 and 2007 was \$1,281 and \$1,252, respectively.

NOTE C GOODWILL AND INTANGIBLE ASSETS

The *Company* performs an annual impairment test of goodwill in the fourth quarter using the same dates each year. Goodwill is tested for impairment using models developed by the *Company* which incorporate estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates, established business valuation multiples and management judgments regarding the applicable discount rates to value those estimated cash flows. In addition, goodwill is tested as necessary if changes in circumstances or the occurrence of events indicate potential impairment. There were no impairments of goodwill during the nine months ended September 30, 2008 and 2007. Goodwill totaled \$42,003 and \$42,727 at September 30, 2008 and December 31, 2007, respectively. Goodwill by segment at September 30, 2008 was \$16,372 for North America, \$11,410 for Europe and \$14,221 for Other Countries.

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Gross intangible assets other than goodwill as of September 30, 2008 and December 31, 2007 were \$83,378 and \$70,722, respectively, and related accumulated amortization was \$21,307 and \$19,528, respectively. Aggregate amortization expense was \$2,228 and \$1,573 for the nine months ended September 30, 2008 and 2007, respectively. Gross intangible assets other than goodwill with indefinite lives totaled \$14,990 at September 30, 2008 and \$14,436 at December 31, 2007.

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The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
Numerator:				
Net income	\$ 69,211	\$ 49,978	\$ 192,816	\$ 153,227
Denominator:				
Basic weighted average shares outstanding	42,779	42,969	42,721	42,875
Effect of dilutive securities Stock options and awards	430	498	449	498
Diluted weighted average shares outstanding	43,209	43,467	43,170	43,373
Basic earnings per share	\$ 1.62	\$ 1.16	\$ 4.51	\$ 3.57
Diluted earnings per share	\$ 1.60	\$ 1.15	\$ 4.47	\$ 3.53

NOTE E COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
Net income	\$ 69,211	\$ 49,978	\$ 192,816	\$ 153,227
Other comprehensive income:				
Unrealized (loss) gain on derivatives designated and qualifying as cash flow hedges, net of tax	(766)	(592)	2,360	(3,045)
Currency translation adjustment	(64,514)	22,250	(27,369)	42,640
Unrecognized amounts from defined benefit pension plans, net of tax	291	601	1,116	2,256
Total comprehensive income	\$ 4,222	\$ 72,237	\$ 168,923	\$ 195,078

NOTE F INVENTORY VALUATION

Inventories are valued at the lower of cost or market. For most 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 \$95,130 at September 30, 2008 and \$72,088 at December 31, 2007.

NOTE G ACCRUED EMPLOYEE COMPENSATION AND BENEFITS

Accrued employee compensation and benefits at September 30, 2008 and 2007 include accruals for year-end bonuses and related payroll taxes of \$90,232 and \$77,307, respectively, related to Lincoln 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 September 30, 2007 to September 30, 2008 is due to the increase in profitability of the Company.

NOTE H SEGMENT INFORMATION

The Company's primary business is the design and manufacture of arc welding and cutting products, manufacturing a full line of arc welding equipment, consumable welding products and other welding and cutting products. The Company manages its operations by geographic location and has two reportable segments, North America and Europe, and combines all other operating segments as Other Countries. Other Countries includes results of operations for the Company's businesses in Argentina, Australia, Brazil, Colombia, Indonesia, Mexico, People's Republic of China, Taiwan, Venezuela and Vietnam.

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Each operating segment is managed separately because each faces a distinct economic environment, a different customer base and a varying level of competition and market conditions. Segment performance and resource allocation are measured based on income before interest and income taxes. Financial information for the reportable segments is as follows:

	North America	Europe	Other Countries	Eliminations	Consolidated
<i>Three months ended September 30, 2008</i>					
Net sales to unaffiliated customers	\$ 370,474	\$ 141,693	\$ 120,725	\$	\$ 632,892
Inter-segment sales	27,749	7,319	2,825	(37,893)	
Total	\$ 398,223	\$ 149,012	\$ 123,550	\$ (37,893)	\$ 632,892
Income before interest and income taxes	\$ 60,806	\$ 19,651	\$ 13,352	\$ (88)	\$ 93,721
Interest income					2,317
Interest expense					(3,156)
Income before income taxes					\$ 92,882
<i>Three months ended September 30, 2007</i>					
Net sales to unaffiliated customers	\$ 346,723	\$ 121,935	\$ 96,166	\$	\$ 564,824
Inter-segment sales	24,072	5,502	2,077	(31,651)	
Total	\$ 370,795	\$ 127,437	\$ 98,243	\$ (31,651)	\$ 564,824
Income before interest and income taxes	\$ 52,050	\$ 15,812	\$ 3,385	\$ (564)	\$ 70,683
Interest income					2,290
Interest expense					(2,866)
Income before income taxes					\$ 70,107
<i>Nine months ended September 30, 2008</i>					
Net sales to unaffiliated customers	\$ 1,142,322	\$ 460,116	\$ 350,507	\$	\$ 1,952,945
Inter-segment sales	85,960	21,583	7,122	(114,665)	
Total	\$ 1,228,282	\$ 481,699	\$ 357,629	\$ (114,665)	\$ 1,952,945
Income before interest and income taxes	\$ 179,388	\$ 58,380	\$ 30,776	\$ 752	\$ 269,296
Interest income					6,616

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Interest expense					(8,939)
Income before income taxes					\$ 266,973

Total assets as of September 30, 2008	\$ 1,111,323	\$ 508,048	\$ 446,757	\$ (139,001)	\$ 1,927,127
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Nine months ended September 30, 2007

Net sales to unaffiliated customers	\$ 1,056,289	\$ 375,935	\$ 268,281	\$	\$ 1,700,505
Inter-segment sales	73,744	16,686	10,373	(100,803)	

Total	\$ 1,130,033	\$ 392,621	\$ 278,654	\$ (100,803)	\$ 1,700,505
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Income before interest and income taxes	\$ 156,283	\$ 49,001	\$ 17,120	\$ (1,871)	\$ 220,533
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Interest income					5,439
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Interest expense					(8,379)
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Income before income taxes					\$ 217,593
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Total assets as of September 30, 2007	\$ 987,754	\$ 478,052	\$ 337,675	\$ (177,049)	\$ 1,626,432
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The Europe segment includes rationalization charges of \$396 for the nine months ended September 30, 2007.

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In 2005, the Company committed to a plan to rationalize manufacturing operations (the Ireland Rationalization) at Harris Calorific Limited (Harris Ireland). In connection with the Ireland Rationalization, the Company transferred all manufacturing from Harris Ireland to a lower cost facility in Eastern Europe. A total of 66 employees were impacted by the Ireland Rationalization.

The Company recorded \$396 (\$396 after-tax) to Rationalization charges during the nine months ended September 30, 2007. Charges incurred relate to employee severance costs, equipment relocation, employee retention and professional services. Essentially all rationalization activities were completed as of December 31, 2007. The Company has incurred a total of \$3,920 (pre-tax) in charges related to this plan. The Company expects to receive approximately \$2,097 during 2008 upon completion of the liquidation of the Harris Ireland Pension Plan.

NOTE J ACQUISITIONS

On October 1, 2008, the Company acquired a 90% interest in a leading Brazilian manufacturer of brazing products that owns assets formerly owned by Brastak Soldas Especiais S.A. for approximately \$24,000 in cash and assumed debt. The newly acquired company, based in Sao Paulo, will be operated as Harris Soldas Especiais S.A. The Company will begin consolidating the results of Harris Soldas Especiais S.A. in the Company s consolidated financial statements in October 2008. The Company has not yet completed the evaluation and allocation of the purchase price. This acquisition expands the Company s brazing product line and increases the Company s presence in the South American market. Annual sales at the time of the acquisition were approximately \$30,000.

On April 7, 2008, the Company acquired all of the outstanding stock of Electro-Arco S.A. (Electro-Arco), a privately held manufacturer of welding consumables headquartered near Lisbon, Portugal for approximately \$24,000 in cash and assumed debt. The Company began consolidating the results of Electro-Arco in the Company s consolidated financial statements in April 2008. This acquisition adds to the Company s European consumables manufacturing capacity and widens the Company s commercial presence in Western Europe. Annual sales at the time of the acquisition were approximately \$40,000.

On November 30, 2007, the Company acquired the assets and business of Vernon Tool Company Ltd. (Vernon Tool), a privately held manufacturer of computer-controlled pipe cutting equipment used for precision fabrication purposes headquartered near San Diego, California, for approximately \$12,434 in cash. The Company began consolidating the results of Vernon Tool in the Company s consolidated financial statements in December 2007. This acquisition adds to the Company s ability to support its customers in the growing market for infrastructure development. Annual sales at the time of the acquisition were approximately \$9,000.

On November 29, 2007, the Company announced that it had entered into a majority-owned joint venture with Zhengzhou Heli Welding Materials Co., Ltd. (Zhengzhou Heli), a privately held manufacturer of subarc flux based in Zhengzhou, China. The Company contributed \$11,700 to Zhengzhou Heli in the period and recorded \$10,800 of intangible assets and goodwill related to the investment. The Company has not yet completed the evaluation and allocation of the purchase price. The Company began consolidating the results of Zhengzhou Heli in February 2008. Annual sales at the time of the acquisition were approximately \$8,000.

On July 20, 2007, the Company acquired Nanjing Kuang Tai Welding Company, Ltd. (Nanjing), a manufacturer of stick electrode products based in Nanjing, China, for approximately \$4,245 in cash and assumed debt. The Company began consolidating the results of Nanjing in the Company s consolidated financial statements in July 2007. The Company previously owned 35% of Nanjing indirectly through its investment in Kuang Tai Metal Industrial Company, Ltd. Annual sales at the time of the acquisition were approximately \$10,000.

On March 30, 2007, the Company acquired all of the outstanding stock of Spawmet Sp. z.o.o. (Spawmet), a privately held manufacturer of welding consumables headquartered near Katowice, Poland, for approximately \$5,000 in cash. The Company began consolidating the results of Spawmet in the Company s consolidated financial statements in April 2007. This acquisition provides the Company with a portfolio of stick electrode products and the Company expects this acquisition to enhance its market position by broadening its distributor network in Poland and Eastern Europe. Annual sales at the time of the acquisition were approximately \$5,000.

Table of Contents**NOTE K CONTINGENCIES AND GUARANTEE**

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. Although defense costs remain significant, all other costs associated with these claims, including indemnity charges and settlements, have been immaterial to the Company's consolidated financial statements. Based on the Company's historical experience in litigating these 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.

The Company has provided a guarantee on loans for an unconsolidated joint venture of approximately \$6,745 at September 30, 2008. The guarantee is provided on four separate loan agreements. Two loans are for \$2,000 each, one which matures in March 2009 and the other maturing in May 2009. The other two loans mature in July 2010, one for \$1,806 and the other for \$939. The loans were undertaken to fund the joint venture's working capital and capital expansion needs. The Company would become liable for any unpaid principal and accrued interest if the joint venture were to default on payment at the respective maturity dates. The Company believes the likelihood is remote that material payment will be required under these arrangements based on the current financial condition of the joint venture.

NOTE L 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 nine months ended September 30, 2008 and 2007 are as follows:

	Nine Months Ended	
	September 30,	
	2008	2007
Balance at beginning of period	\$ 12,308	\$ 9,373
Charged to costs and expenses	11,548	8,557
Deductions	(8,651)	(7,012)
Foreign currency translation	(256)	392
Balance at end of period	\$ 14,949	\$ 11,310

Warranty expense was 0.6% and 0.5% of sales for the nine months ended September 30, 2008 and 2007, respectively.

NOTE M DEBT

During March 2002, the Company issued Senior Unsecured Notes (the Notes) totaling \$150,000 through a private placement. The Notes have original maturities ranging from five to ten years with a weighted average interest rate of 6.1% and an average tenure of eight years. Interest is payable semi-annually in March and September. The proceeds are being used for general corporate purposes, including acquisitions. The proceeds are generally invested in short-term, highly liquid investments. The Notes contain certain affirmative and negative covenants, including restrictions on asset dispositions and financial covenants (interest coverage and funded debt-to-EBITDA, as defined in the Notes Agreement, ratios). As of September 30, 2008, the Company was in compliance with all of its debt covenants. During March 2007, the Company repaid the \$40,000 Series A Notes which had matured, reducing the total balance outstanding of the Notes to \$110,000.

The maturity and interest rates of the Notes outstanding at September 30, 2008 are as follows (in thousands):

	Amount Due	Matures	Interest Rate
Series B	\$ 30,000	March 2009	5.89%
Series C	\$ 80,000	March 2012	6.36%

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During March 2002, the Company entered into floating rate interest rate swap agreements totaling \$80,000, to convert a portion of the Notes outstanding from fixed to floating rates. These swaps were designated as fair value hedges, and as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk were recognized in earnings. Net payments or receipts under these agreements were recognized as adjustments to interest expense. In May 2003, these swap agreements were terminated. The gain on the termination of these swaps was \$10,613, and has been deferred and is being amortized as an offset to interest expense over the remaining life of the Notes. The amortization of this gain reduced interest expense by \$717 and \$880 for the nine months ended September 30, 2008 and 2007, respectively, and is expected to reduce annual interest expense by \$958 in 2008. At September 30, 2008, \$996 remains to be amortized of which \$295 is recorded in Current portion of long-term debt and \$701 is recorded in Long-term debt, less current portion, respectively.

During July 2003 and April 2004, the Company entered into various floating rate interest rate swap agreements totaling \$110,000, to convert a portion of the Notes outstanding from fixed to floating rates based on the London Inter-Bank Offered Rate (LIBOR), plus a spread of between 179.75 and 226.50 basis points. The variable rates are reset every six months, at which time payment or receipt of interest will be settled. These swaps are designated as fair value hedges, and as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. Net payments or receipts under these agreements are recognized as adjustments to interest expense.

The fair value of these swaps is recorded in Other current assets and Other long-term assets with corresponding offsets in Current portion of long-term debt and Long-term debt, respectively. The fair value of these swaps at September 30, 2008 and December 31, 2007 was an asset of \$1,649 and \$762, respectively.

Swaps have increased the value of the Series B Notes from \$30,000 to \$30,365 and increased the value of the Series C Notes from \$80,000 to \$82,280 as of September 30, 2008. The weighted average effective interest rate on the Notes, net of the impact of swaps, was 4.7% for the nine months ended September 30, 2008.

Revolving Credit Agreement

The Company has a \$175,000, five-year revolving Credit Agreement expiring in December 2009. The Credit Agreement may be used for general corporate purposes and may be increased, subject to certain conditions, by an additional amount up to \$75,000. The interest rate on borrowings under the Credit Agreement is based on either LIBOR plus a spread based on the Company's leverage ratio or the prime rate, at the Company's election. A quarterly facility fee is payable based upon the daily aggregate amount of commitments and the Company's leverage ratio. The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, subordinated debt and transactions with affiliates. As of September 30, 2008, there are no borrowings under the Credit Agreement.

Short-term Borrowings

Amounts reported as Amounts due banks represent the short-term borrowings of the Company's foreign subsidiaries.

NOTE N NEW ACCOUNTING PRONOUNCEMENTS

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 162 The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. The Company does not expect the adoption of SFAS 162 to have a significant impact on its financial statements.

In April 2008, FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3) was issued. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15,

2008, and interim periods within those fiscal years. Early adoption is prohibited. FSP 142-3 applies prospectively to intangible assets acquired after adoption.

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In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS 133. SFAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of SFAS 161 on its financial statements.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) 51. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. SFAS 160 is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 160 to have a significant impact on its financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations. SFAS 141(R) replaces SFAS 141, Business Combinations. SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses arising subsequent to adoption are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted this statement as of January 1, 2008 and elected not to apply the fair value option to any of its financial instruments.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. In February 2008, the FASB amended SFAS 157 to exclude SFAS 13, Accounting for Leases. In addition, the FASB delayed the effective date of SFAS 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The Company adopted the provisions of SFAS 157 related to its financial assets and liabilities on January 1, 2008. See Note Q.

NOTE O RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

A summary of the components of net periodic benefit costs is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Service cost – benefits earned during the period	\$ 4,175	\$ 4,283	\$ 12,590	\$ 13,341
Interest cost on projected benefit obligation	10,656	10,041	32,085	30,252
Expected return on plan assets	(14,289)	(14,201)	(43,012)	(41,911)
Amortization of prior service cost	24	22	55	54
Amortization of net loss	404	1,086	1,229	3,735
Settlement loss			545	

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Net pension cost of defined benefit plans	970	1,231	3,492	5,471
Multi-employer plans	374	338	1,159	1,037
Defined contribution plans	2,256	2,056	6,402	5,960
Net periodic benefit costs	\$ 3,600	\$ 3,625	\$ 11,053	\$ 12,468

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Based on current pension funding rules, the Company does not anticipate that contributions to the U.S. plans would be required in 2008. The Company has voluntarily contributed \$13,000 to its U.S. plans for the nine months ended September 30, 2008. The Company expects to voluntarily contribute \$15,000 to its U.S. plans in 2008.

The Company is in the process of terminating the Harris Calorific Limited (Harris Ireland) Pension Plan as part of the rationalization of Harris Ireland. The Company expects to receive approximately \$2,097 in 2008 upon final settlement.

NOTE P INCOME TAXES

The effective income tax rates of 27.8% and 29.6% for the nine months ended September 30, 2008 and 2007, respectively, are lower than the Company's statutory rate primarily because of the utilization of foreign tax credits, lower taxes on non-U.S. earnings and the utilization of foreign tax loss carryforwards, for which valuation allowances have been previously provided. The anticipated effective rate for 2008 depends on the amount of earnings in various tax jurisdictions and the level of related tax deductions achieved during the year.

As of September 30, 2008, the Company had \$32,591 of unrecognized tax benefits. If recognized, approximately \$19,382 would be recorded as a component of income tax expense. For the three and nine month periods ending September 30, 2008, the gross increase in unrecognized tax benefits which relate to the current year are \$1,068 and \$5,170, respectively, due to various international and U.S. matters. For the three and nine month periods ending September 30, 2008, the gross increase in unrecognized tax benefits which relate to a prior year are \$911 and \$2,528, respectively. For the three and nine month periods ending September 30, 2008, a tax benefit of \$3,534 and 3,724, respectively, was recorded from the resolution of prior years' tax liabilities.

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 third quarter of 2009. The Company is currently subject to an Internal Revenue Service audit for the 2005-2006 tax years.

NOTE Q FAIR VALUE

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. In February 2008, the FASB amended SFAS 157 to exclude SFAS 13, Accounting for Leases. In addition, the FASB delayed the effective date of SFAS 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The Company adopted the provisions of SFAS 157 related to its financial assets and liabilities on January 1, 2008.

Assets and liabilities that are within the provisions of SFAS 157, such as the Company's derivative contracts, are valued at fair value using the market and income valuation approaches. The Company's derivative contracts include interest rate swaps as well as forward foreign currency and commodity contracts. The Company uses the market approach to value similar assets and liabilities in active markets and the income approach that consists of discounted cash flow models that take into account the present value of future cash flows under the terms of the contracts using current market information as of the reporting date.

SFAS 157 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 a summary of the fair values of assets and liabilities under SFAS 157:

**Fair Value Measurements at September 30, 2008
Using**

Description	Balance as of September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other	
			Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives, net liability	\$ 651 14	\$	\$ 651	\$

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (in thousands, except share and per share data)

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 following discussion and analysis of the Company's results of operations and financial position should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and the unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. This report contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in the forward-looking statements. See Risk Factors in Part II, Item 1A of this report for more information regarding forward-looking statements.

GENERAL

The Company is the world's largest designer and manufacturer of arc welding and cutting products, manufacturing a full line of arc welding equipment, consumable welding products and other welding and cutting products.

The Company is one of only a few worldwide broad line manufacturers of both arc welding equipment and consumable products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company's welding product offering also includes regulators and torches used in oxy-fuel welding and cutting. In addition, the Company has a leading global position in the brazing and soldering alloys market.

The Company invests in the research and development of arc welding equipment and consumable products in order to continue its market leading product offering. The Company continues to invest in technologies that improve the quality and productivity of welding products. In addition, the Company continues to actively increase its patent application process in order to secure its technology advantage in the United States and other major international jurisdictions. The Company believes its significant investment in research and development and its highly trained technical sales force provide a competitive advantage in the marketplace.

The Company's products are sold in both domestic and international markets. In North America, products are sold principally through industrial distributors, retailers and also directly to users of welding products. Outside of North America, the Company has an international sales organization comprised of Company employees and agents who sell products from the Company's various manufacturing sites to distributors and product users.

The Company's major end user markets include:

- general metal fabrication,
- power generation and process industry,
- structural steel construction (buildings and bridges),
- heavy equipment fabrication (farming, mining and rail),
- shipbuilding,
- automotive,
- pipe mills and pipelines, and
- offshore oil and gas exploration and extraction.

The Company has, through wholly-owned subsidiaries or joint ventures, manufacturing facilities located in the United States, Australia, Brazil, Canada, Colombia, France, Germany, Indonesia, Italy, Mexico, the Netherlands, People's Republic of China, Poland, Portugal, Spain, Taiwan, Turkey, United Kingdom, Venezuela and Vietnam.

The Company's sales and distribution network, coupled with its manufacturing facilities, are reported as two separate reportable segments, North America and Europe, with all other operating segments combined and reported as Other Countries.

The principal raw materials essential to the Company's business are various chemicals, electronics, steel, engines, brass, copper and aluminum alloys, all of which are normally available for purchase in the open market.

The Company's facilities are subject to environmental regulations. To date, compliance with these environmental regulations has not had a material effect on the Company's earnings. The Company is ISO 9001 certified at nearly all facilities

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worldwide. In addition, the Company is ISO 14001 certified at all significant manufacturing facilities in the United States and is working to gain certification at its remaining United States facilities, as well as the remainder of its facilities worldwide.

Key Indicators

Key economic measures relevant to the Company include industrial production trends, steel consumption, purchasing manager indices, capacity utilization within durable goods manufacturers, and consumer confidence indicators. Key industries which provide a relative indication of demand drivers to the Company include farm machinery and equipment, construction and transportation, fabricated metals, electrical equipment, ship and boat building, defense, truck manufacturing, energy and railroad equipment. Although these measures provide key information on trends relevant to the Company, the Company does not have available a more direct correlation of leading indicators which can provide a forward-looking view of demand levels in the markets which ultimately use the Company's welding products.

Key operating measures utilized by the operating units to manage the Company include orders, sales, inventory and fill-rates, all of which provide key indicators of business trends. These measures are reported on various cycles including daily, weekly and monthly depending on the needs established by operating management.

Key financial measures utilized by the Company's executive management and operating units in order to evaluate the results of its business and in understanding key variables impacting the current and future results of the Company include: sales; gross profit; selling, general and administrative expenses; earnings before interest and taxes; earnings before interest, taxes and bonus; operating cash flows; and capital expenditures, including applicable ratios such as return on investment and average operating working capital to sales. These measures are reviewed at monthly, quarterly and annual intervals and compared with historical periods, as well as objectives established by the Board of Directors of the Company.

RESULTS OF OPERATIONS

The following table presents the Company's results of operations:

	Three Months Ended September 30,					
	2008		2007		Change	
(In thousands)	Amount	% of Sales	Amount	% of Sales	Amount	%
Net sales	\$ 632,892	100.0%	\$ 564,824	100.0%	\$ 68,068	12.1%
Cost of goods sold	436,014	68.9%	405,083	71.7%	30,931	7.6%
Gross profit	196,878	31.1%	159,741	28.3%	37,137	23.2%
Selling, general and administrative expenses	107,097	16.9%	92,140	16.3%	14,957	16.2%
Operating income	89,781	14.2%	67,601	12.0%	22,180	32.8%
Interest income	2,317	0.4%	2,290	0.4%	27	1.2%
Equity earnings in affiliates	3,739	0.6%	2,263	0.4%	1,476	65.2%
Other income	201	0.0%	819	0.1%	(618)	(75.5%)
Interest expense	(3,156)	(0.5%)	(2,866)	(0.5%)	(290)	10.1%
Income before income taxes	92,882	14.7%	70,107	12.4%	22,775	32.5%
Income taxes	23,671	3.7%	20,129	3.6%	3,542	17.6%
Net income	\$ 69,211	10.9%	\$ 49,978	8.8%	\$ 19,233	38.5%

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(In thousands)	Nine Months Ended September 30,					
	2008		2007		Change	
	Amount	% of Sales	Amount	% of Sales	Amount	%
Net sales	\$ 1,952,945	100.0%	\$ 1,700,505	100.0%	\$ 252,440	14.8%
Cost of goods sold	1,373,902	70.4%	1,213,880	71.4%	160,022	13.2%
Gross profit	579,043	29.6%	486,625	28.6%	92,418	19.0%
Selling, general and administrative expenses	319,176	16.3%	274,977	16.2%	44,199	16.1%
Rationalization charges		0.0%	396	0.0%	(396)	(100.0%)
Operating income	259,867	13.3%	211,252	12.4%	48,615	23.0%
Interest income	6,616	0.3%	5,439	0.3%	1,177	21.6%
Equity earnings in affiliates	8,102	0.4%	7,418	0.4%	684	9.2%
Other income	1,327	0.1%	1,863	0.1%	(536)	(28.8%)
Interest expense	(8,939)	(0.5%)	(8,379)	(0.5%)	(560)	6.7%
Income before income taxes	266,973	13.7%	217,593	12.8%	49,380	22.7%
Income taxes	74,157	3.8%	64,366	3.8%	9,791	15.2%
Net income	\$ 192,816	9.9%	\$ 153,227	9.0%	\$ 39,589	25.8%

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Net Sales. Net sales for the quarter ended September 30, 2008 increased 12.1% to \$632,892 compared to \$564,824 for the quarter ended September 30, 2007. The increase in Net sales reflects a \$28,482 (5.0%) decrease due to volume, a \$64,820 (11.5%) increase due to price, an \$18,021 (3.2%) increase from acquisitions and a \$13,709 (2.4%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for the North American operations increased 6.9% to \$370,474 for the quarter ended September 30, 2008 compared to \$346,723 for the quarter ended September 30, 2007. This increase reflects a decrease of \$18,899 (5.5%) due to volume, a \$40,169 (11.6%) increase due to price, a \$2,889 (0.8%) increase from acquisitions and a \$408 (0.1%) decrease as a result of changes in foreign currency exchange rates. Net sales for the European operations increased 16.2% to \$141,693 for the quarter ended September 30, 2008 compared to \$121,935 for the quarter ended September 30, 2007. This increase reflects a decrease of \$4,031 (3.3%) due to volume, a \$5,170 (4.2%) increase due to price, a \$10,405 (8.5%) increase from acquisitions and an \$8,214 (6.7%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for Other Countries increased 25.5% to \$120,725 for the quarter ended September 30, 2008 compared to \$96,166 for the quarter ended September 30, 2007. This increase reflects a decrease of \$5,552 (5.8%) due to volume, a \$19,481 (20.3%) increase due to price, a \$4,727 (4.9%) increase from acquisitions and a \$5,903 (6.1%) favorable impact as a result of changes in foreign currency exchange rates.

Gross Profit. Gross profit increased 23.2% to \$196,878 for the quarter ended September 30, 2008 compared to \$159,741 for the quarter ended September 30, 2007. As a percentage of Net sales, Gross profit increased to 31.1% for the quarter ended September 30, 2008 compared to 28.3% for the quarter ended September 30, 2007. This increase was due primarily to price increases put in place in response to variable cost increases and improved operational effectiveness partially offset by volume decreases. Foreign currency exchange rates had a \$3,599 and \$3,482 favorable translation impact for the quarters ended September 30, 2008 and September 30, 2007, respectively.

The Company continues to experience significant volatility in input prices, including metals, chemicals and energy. Future margin levels will be dependent on the Company's ability to manage this cost volatility. The Company expects declining sales volumes and the impact of lower commodity costs to pressure margins in the fourth quarter and into

2009.

Selling, General & Administrative (SG&A) Expenses. SG&A expenses increased \$14,957 (16.2%) for the quarter ended September 30, 2008 compared to the quarter ended September 30, 2007. The increase was primarily due to higher bonus expense of \$7,842 resulting from higher operating profit, higher incremental selling and administrative expenses of \$2,278 on increased selling activities, incremental selling and administrative expenses of \$2,192 related to newly acquired businesses and the unfavorable translation impact of foreign currency exchange rates of \$2,642.

Interest Income. Interest income increased to \$2,317 for the quarter ended September 30, 2008 compared to \$2,290 for the quarter ended September 30, 2007. The increase was a result of increases in cash balances partially offset by lower interest rates for the quarter ended September 30, 2008 when compared to the quarter ended September 30, 2007.

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Equity Earnings in Affiliates. Equity earnings in affiliates increased to \$3,739 for the quarter ended September 30, 2008 compared to \$2,263 for the quarter ended September 30, 2007 primarily as a result of increased earnings at the Company's joint venture investment in Turkey.

Interest Expense. Interest expense increased to \$3,156 for the quarter ended September 30, 2008 compared to \$2,866 for the quarter ended September 30, 2007 primarily due to higher average debt levels. See Note M to the Company's Consolidated Financial Statements for further discussion.

Income Taxes. Income taxes for the quarter ended September 30, 2008 were \$23,671 on income before income taxes of \$92,882, an effective rate of 25.5%, compared with income taxes of \$20,129 on income before income taxes of \$70,107, or an effective rate of 28.7% for the quarter ended September 30, 2007. The decrease in the effective tax rate is a result of additional utilization of foreign tax credits from the repatriation of higher-taxed earnings and greater income before income taxes in lower tax rate jurisdictions in the quarter ending September 30, 2008. The effective rate for the quarter ended September 30, 2008 and 2007 was lower than the Company's statutory rate primarily because of the utilization of foreign tax credits, lower taxes on non-U.S. earnings and the utilization of foreign tax loss carryforwards, for which valuation allowances have been previously provided.

Net Income. Net income for the quarter ended September 30, 2008 was \$69,211 compared to \$49,978 for the quarter ended September 30, 2007. Diluted earnings per share for the quarter ended September 30, 2008 were \$1.60 compared to \$1.15 per share for the quarter ended September 30, 2007. Foreign currency exchange rate movements had a favorable translation effect of \$887 and \$1,064 on net income for the quarters ended September 30, 2008 and 2007, respectively.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Net Sales. Net sales for the nine months ended September 30, 2008 increased 14.8% to \$1,952,945 compared to \$1,700,505 for the nine months ended September 30, 2007. The increase in Net sales reflects a \$2,676 (0.2%) increase due to volume, a \$125,726 (7.4%) increase due to price, a \$50,885 (3.0%) increase from acquisitions and a \$73,153 (4.3%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for the North American operations increased 8.1% to \$1,142,322 for the nine months ended September 30, 2008 compared to \$1,056,289 for the nine months ended September 30, 2007. This increase reflects a decrease of \$7,232 (0.7%) due to volume, a \$79,816 (7.6%) increase due to price, a \$7,271 (0.7%) increase due to acquisitions and a \$6,178 (0.6%) increase as a result of changes in foreign currency exchange rates. Net sales for the European operations increased 22.4% to \$460,116 for the nine months ended September 30, 2008 compared to \$375,935 for the nine months ended September 30, 2007. This increase reflects an increase of \$8,084 (2.2%) due to volume, a \$6,211 (1.7%) increase due to price, a \$23,544 (6.3%) increase from acquisitions and a \$46,342 (12.3%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for Other Countries increased 30.6% to \$350,507 for the nine months ended September 30, 2008 compared to \$268,281 for the nine months ended September 30, 2007. This increase reflects an increase of \$1,824 (0.7%) due to volume, a \$39,699 (14.8%) increase due to price, a \$20,070 (7.5%) increase from acquisitions and a \$20,633 (7.7%) favorable impact as a result of changes in foreign currency exchange rates.

Gross Profit. Gross profit for the nine months ended September 30, 2008 increased 19.0% to \$579,043 compared to \$486,625 for the nine months ended September 30, 2007. As a percentage of Net sales, Gross profit increased to 29.6% for the nine months ended September 30, 2008 compared to 28.6% for the nine months ended September 30, 2007. This increase was due to price increases put in place in response to variable cost increases as well as improved operational effectiveness. Foreign currency exchange rates had a \$17,373 and a \$9,194 favorable translation impact for the nine months ended September 30, 2008 and 2007, respectively.

The Company continues to experience significant volatility in input prices, including metals, chemicals and energy. Future margin levels will be dependent on the Company's ability to manage this cost volatility. The Company expects declining sales volumes and the impact of lower commodity costs to pressure margins in the fourth quarter and into 2009.

Selling, General & Administrative (SG&A) Expenses. SG&A expenses increased \$44,199 (16.1%) for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase was primarily due to higher bonus expense of \$13,845 as a result of increased operating profit, higher incremental selling and

administrative expenses of \$9,958 on increased selling activities, incremental selling and administrative expenses of \$6,246 related to newly acquired businesses, higher foreign currency transaction losses of \$3,599 and the unfavorable translation impact of foreign currency exchange rates of \$10,766.

Interest Income. Interest income increased to \$6,616 for the nine months ended September 30, 2008 compared to \$5,439 for the nine months ended September 30, 2007. The increase was a result of increases in cash balances partially offset by lower interest rates for the nine months ended September 30, 2008 when compared to the nine months ended September 30, 2007.

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Equity Earnings in Affiliates. Equity earnings in affiliates increased to \$8,102 for the nine months ended September 30, 2008 compared to \$7,418 for the nine months ended September 30, 2007 primarily as a result of the increased earnings at the Company's joint venture investment in Taiwan.

Interest Expense. Interest expense increased to \$8,939 for the nine months ended September 30, 2008 compared to \$8,379 for the nine months ended September 30, 2007 as a result of a lower level of amortization of the gain associated with previously terminated interest rate swap agreements and higher debt levels. See Note M to the Company's Consolidated Financial Statements for further discussion.

Income Taxes. Income taxes for the nine months ended September 30, 2008 were \$74,157 on income before income taxes of \$266,973, an effective rate of 27.8%, compared with income taxes of \$64,366 on income before income taxes of \$217,593, or an effective rate of 29.6% for the nine months ended September 30, 2007. The decrease in the effective tax rate is a result of additional utilization of foreign tax credits from the repatriation of higher-taxed earnings. The effective rate for the nine months ended September 30, 2008 and 2007 was lower than the Company's statutory rate primarily because of the utilization of foreign tax credits, lower taxes on non-U.S. earnings and the utilization of foreign tax loss carryforwards, for which valuation allowances have been previously provided.

Net Income. Net income for the nine months ended September 30, 2008 was \$192,816 compared to \$153,227 for the nine months ended September 30, 2007. Diluted earnings per share for the nine months ended September 30, 2008 were \$4.47 compared to \$3.53 per share for the nine months ended September 30, 2007. Foreign currency exchange rate movements had a favorable translation effect of \$5,171 and \$2,979 on net income for the nine months ended September 30, 2008 and 2007, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations, while cyclical, has been reliable and consistent. The Company has relatively unrestricted access to capital markets. 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 of 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.

The following table reflects changes in key cash flow measures:

(In thousands)	Nine Months Ended September 30,		
	2008	2007	Change
Cash provided by operating activities:	\$216,743	\$204,107	\$ 12,636
Cash used by investing activities:	(80,911)	(51,272)	(29,639)
Capital expenditures, net	(52,890)	(45,170)	(7,720)
Acquisition of businesses, net of cash acquired	(28,021)	(6,102)	(21,919)
Cash used by financing activities:	(38,012)	(53,120)	15,108
Proceeds from short-term borrowings, net	6,098	3,020	3,078
Proceeds from (payments on) long-term borrowings, net	546	(40,459)	41,005
Proceeds from exercise of stock options	7,120	7,589	(469)
Tax benefit from exercise of stock options	3,416	5,001	(1,585)
Purchase of shares for treasury	(23,121)		(23,121)
Cash dividends paid to shareholders	(32,071)	(28,271)	(3,800)
Increase in cash and cash equivalents	95,208	103,008	(7,800)

Cash and cash equivalents increased 43.8% or \$95,208 for the nine months ended September 30, 2008, to \$312,590 compared to \$217,382 as of December 31, 2007. This compares to an increase of 85.7% or \$103,008 to \$223,220 for the nine months ended September 30, 2007.

Cash provided by operating activities increased to \$216,743 for the nine months ended September 30, 2008 compared to \$204,107 for the nine months ended September 30, 2007. The increase for the nine months ended September 30, 2008 was primarily related to an increase in net income partially offset by higher working capital levels when compared to the nine months ended September 30, 2007. Average operating working capital to sales was 24.1% at

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September 30, 2008 compared to 23.5% at December 31, 2007 and 25.8% at September 30, 2007. Days sales in inventory increased to 121.8 days at September 30, 2008 from 101.2 days at December 31, 2007 and 108.8 days at September 30, 2007. Accounts receivable days increased to

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57.2 days at September 30, 2008 from 56.9 days at December 31, 2007 and decreased from 59.9 days at September 30, 2007. Average days in accounts payable increased to 43.6 days at September 30, 2008 from 36.2 days at December 31, 2007 and 34.5 days at September 30, 2007.

Cash used by investing activities for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 increased by \$29,639. This reflects an increase in cash used in the acquisition of businesses of \$21,919 and an increase in net capital expenditures of \$7,720 to \$52,890 from \$45,170 for the nine months ended September 30, 2007. The Company anticipates capital expenditures in 2008 in the range of \$65,000 to \$75,000.

Anticipated capital expenditures reflect 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 \$15,108 to \$38,012 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. In 2007, the \$40,000 Series A Senior Unsecured Notes were paid on maturity. Purchases of shares for treasury were \$23,121 in 2008. There were no purchases of shares for treasury in the comparable 2007 period.

The Company has investments in Venezuela, which currently require the approval of a government agency to convert local currency to U.S. dollars at official government rates. Government approval for currency conversion to satisfy U.S. dollar liabilities to foreign suppliers, including payables to Lincoln affiliates, has lagged payment due dates from time to time in the past, resulting in higher cash balances and higher past due U.S. dollar payables within our Venezuelan subsidiary. The Company had essentially eliminated its Venezuelan subsidiary's U.S. dollar liability position as of September 30, 2008 by executing a program designed to minimize such exposure and a high level of payment authorizations through the official government currency exchange control mechanism.

The Company's debt levels increased from \$129,815 at December 31, 2007, to \$140,456 at September 30, 2008 primarily because of higher foreign borrowings. Debt to total capitalization decreased to 10.4% at September 30, 2008 from 10.7% at December 31, 2007.

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 10,839,800 shares at a cost of \$254,972 through September 30, 2008.

In October 2008, the Company paid a quarterly cash dividend of \$0.25 per share, or \$10,685 to shareholders of record on September 30, 2008.

Rationalization

In 2005, the Company committed to a plan to rationalize manufacturing operations (the Ireland Rationalization) at Harris Calorific Limited (Harris Ireland). In connection with the Ireland Rationalization, the Company transferred all manufacturing from Harris Ireland to a lower cost facility in Eastern Europe. A total of 66 employees were impacted by the Ireland Rationalization.

The Company recorded \$396 (\$396 after-tax) to Rationalization charges for the nine months ended September 30, 2007. Charges incurred relate to employee severance costs, equipment relocation, employee retention and professional services. Essentially all rationalization activities were completed as of December 31, 2007. The Company has incurred a total of \$3,920 (pre-tax) in charges related to this plan. The Company expects to receive approximately \$2,097 during 2008 upon completion of the liquidation of the Harris Ireland Pension Plan.

Acquisitions

On October 1, 2008, the Company acquired a 90% interest in a leading Brazilian manufacturer of brazing products that owns assets formerly owned by Brastak Soldas Especiais S.A. for approximately \$24,000 in cash and assumed debt. The newly acquired company, based in Sao Paulo, will be operated as Harris Soldas Especiais S.A. The Company will begin consolidating the results of Harris Soldas Especiais S.A. in the Company's consolidated financial statements in October 2008. The Company has not yet completed the evaluation and allocation of the purchase price. This acquisition expands the Company's brazing product line and increases the Company's presence in the South American market. Annual sales at the time of the acquisition were approximately \$30,000.

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On April 7, 2008, the Company acquired all of the outstanding stock of Electro-Arco S.A. (Electro-Arco), a privately held manufacturer of welding consumables headquartered near Lisbon, Portugal for approximately \$24,000 in cash and assumed debt. The Company began consolidating the results of Electro-Arco in the Company's consolidated financial statements in April 2008. This acquisition adds to the Company's European consumables manufacturing capacity and widens the Company's commercial presence in Western Europe. Annual sales at the time of the acquisition were approximately \$40,000.

On November 30, 2007, the Company acquired the assets and business of Vernon Tool Company Ltd. (Vernon Tool), a privately held manufacturer of computer-controlled pipe cutting equipment used for precision fabrication purposes headquartered near San Diego, California, for approximately \$12,434 in cash. The Company began consolidating the results of Vernon Tool in the Company's consolidated financial statements in December 2007. This acquisition adds to the Company's ability to support its customers in the growing market for infrastructure development. Annual sales at the time of the acquisition were approximately \$9,000.

On November 29, 2007, the Company announced that it had entered into a majority-owned joint venture with Zhengzhou Heli Welding Materials Co., Ltd. (Zhengzhou Heli), a privately held manufacturer of subarc flux based in Zhengzhou, China. The Company contributed \$11,700 to Zhengzhou Heli in the period and recorded \$10,800 of intangible assets and goodwill related to the investment. The Company has not yet completed the evaluation and allocation of the purchase price. The Company began consolidating the results of Zhengzhou Heli in February 2008. Annual sales at the time of the acquisition were approximately \$8,000.

On July 20, 2007, the Company acquired Nanjing Kuang Tai Welding Company, Ltd. (Nanjing), a manufacturer of stick electrode products based in Nanjing, China, for approximately \$4,245 in cash and assumed debt. The Company began consolidating the results of Nanjing in the Company's consolidated financial statements in July 2007. The Company previously owned 35% of Nanjing indirectly through its investment in Kuang Tai Metal Industrial Company, Ltd. Annual sales at the time of the acquisition were approximately \$10,000.

On March 30, 2007, the Company acquired all of the outstanding stock of Spawmet Sp. z.o.o. (Spawmet), a privately held manufacturer of welding consumables headquartered near Katowice, Poland, for approximately \$5,000 in cash. The Company began consolidating the results of Spawmet in the Company's consolidated financial statements in April 2007. This acquisition provides the Company with a portfolio of stick electrode products and the Company expects this acquisition to enhance its market position by broadening its distributor network in Poland and Eastern Europe. Annual sales at the time of the acquisition were approximately \$5,000.

The Company continues to expand globally and periodically looks at transactions that would involve significant investments. The Company can fund its global expansion plans with operational cash flow, but a significant acquisition may require access to capital markets, in particular, the public and/or private bond market, as well as the syndicated bank loan market. The Company's financing strategy is to fund itself at the lowest after-tax cost of funding. Where possible, the Company utilizes operational cash flows and raises capital in the most efficient market, usually the U.S., and then lends funds to the specific subsidiary that requires funding. If additional acquisitions providing appropriate financial benefits become available, additional expenditures may be made.

Debt

During March 2002, the Company issued Senior Unsecured Notes (the Notes) totaling \$150,000 through a private placement. The Notes have original maturities ranging from five to ten years with a weighted average interest rate of 6.1% and an average tenure of eight years. Interest is payable semi-annually in March and September. The proceeds are being used for general corporate purposes, including acquisitions. The proceeds are generally invested in short-term, highly liquid investments. The Notes contain certain affirmative and negative covenants, including restrictions on asset dispositions and financial covenants (interest coverage and funded debt-to-EBITDA, as defined in the Notes Agreement, ratios). As of September 30, 2008, the Company was in compliance with all of its debt covenants. During March 2007, the Company repaid the \$40,000 Series A Notes which had matured, reducing the total balance outstanding of the Notes to \$110,000.

The maturity and interest rates of the Notes outstanding at September 30, 2008 are as follows (in thousands):

Matures

	Amount Due		Interest Rate
Series B	\$30,000	March 2009	5.89%
Series C	\$80,000	March 2012	6.36%

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During March 2002, the Company entered into floating rate interest rate swap agreements totaling \$80,000, to convert a portion of the Notes outstanding from fixed to floating rates. These swaps were designated as fair value hedges, and as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk were recognized in earnings. Net payments or receipts under these agreements were recognized as adjustments to interest expense. In May 2003, these swap agreements were terminated. The gain on the termination of these swaps was \$10,613, and has been deferred and is being amortized as an offset to interest expense over the remaining life of the Notes. The amortization of this gain reduced interest expense by \$717 and \$880 for the nine months ended September 30, 2008 and 2007, respectively, and is expected to reduce annual interest expense by \$958 in 2008. At September 30, 2008, \$996 remains to be amortized of which \$295 is recorded in Current portion of long-term debt and \$701 is recorded in Long-term debt, less current portion, respectively.

During July 2003 and April 2004, the Company entered into various floating rate interest rate swap agreements totaling \$110,000, to convert a portion of the Notes outstanding from fixed to floating rates based on the London Inter-Bank Offered Rate (LIBOR), plus a spread of between 179.75 and 226.50 basis points. The variable rates are reset every six months, at which time payment or receipt of interest will be settled. These swaps are designated as fair value hedges, and as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. Net payments or receipts under these agreements are recognized as adjustments to interest expense.

The fair value of these swaps is recorded in Other current assets and Other long-term assets with corresponding offsets in Current portion of long-term debt and Long-term debt, respectively. The fair value of these swaps at September 30, 2008 and December 31, 2007 was an asset of \$1,649 and \$762, respectively.

Swaps have increased the value of the Series B Notes from \$30,000 to \$30,365 and increased the value of the Series C Notes from \$80,000 to \$82,280 as of September 30, 2008. The weighted average effective interest rate on the Notes, net of the impact of swaps, was 4.7% for the nine months ended September 30, 2008.

Revolving Credit Agreement

The Company has a \$175,000, five-year revolving Credit Agreement expiring in December 2009. The Credit Agreement may be used for general corporate purposes and may be increased, subject to certain conditions, by an additional amount up to \$75,000. The interest rate on borrowings under the Credit Agreement is based on either LIBOR plus a spread based on the Company's leverage ratio or the prime rate, at the Company's election. A quarterly facility fee is payable based upon the daily aggregate amount of commitments and the Company's leverage ratio. The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, subordinated debt and transactions with affiliates. As of September 30, 2008, there are no borrowings under the Credit Agreement.

Short-term Borrowings

Amounts reported as Amounts due banks represent the short-term borrowings of the Company's foreign subsidiaries.

Stock-based compensation

The 2006 Equity and Performance Incentive Plan, as amended (EPI Plan), provides for the granting of options, appreciation rights, restricted shares, restricted stock units and performance-based awards up to an aggregate of 3,000,000 of the Company's common shares. The 2006 Stock Plan for Non-Employee Directors, as amended (Director Plan), provides for the granting of options, restricted shares and restricted stock units up to an aggregate of 300,000 of the Company's common shares.

The Company issued 232,050 and 312,087 shares of common stock from treasury upon exercise of employee stock options during the nine months ended September 30, 2008 and 2007, respectively. The Company granted 2,458 options and 288 restricted shares during the nine months ended September 30, 2008 and 541 restricted shares during the nine months ended September 30, 2007. The restricted shares granted in 2008 and 2007 were issued from treasury. Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options or restricted stock options or restricted or deferred shares ultimately forfeited because recipients fail to meet vesting requirements. Total stock-based compensation expense recognized in the consolidated statements of income for the nine months ended September 30,

2008 and 2007 was \$3,352 and \$3,275,

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respectively. The related tax benefit for the nine months ended September 30, 2008 and 2007 was \$1,281 and \$1,252, respectively.

Product liability expense

Product liability expenses have been significant, particularly with respect to welding fume claims. Costs incurred are volatile and are largely related to trial activity. The costs associated with these claims are predominantly defense costs, which are recognized in the periods incurred. See Note K to the Consolidated Financial Statements for further discussion.

The long-term impact of the welding fume loss contingency, in the aggregate, on operating cash flows and capital markets access is difficult to assess, particularly since claims are in many different stages of development and the Company benefits significantly from cost sharing with co-defendants and insurance carriers. Moreover, the Company has been largely successful to date in its defense of these claims and indemnity payments have been immaterial. If cost sharing dissipates for some currently unforeseen reason, or the Company's trial experience changes overall, it is possible on a longer term basis that the cost of resolving this loss contingency could materially reduce the Company's operating results and cash flow and restrict capital market access.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Company utilizes letters of credit to back certain payment and performance obligations. Letters of credit are subject to limits based on amounts outstanding under the Company's Credit Agreement. The Company has also provided a guarantee on loans for an unconsolidated joint venture of approximately \$6,745 at September 30, 2008. The Company believes the likelihood is remote that material payment will be required under this arrangement because of the current financial condition of the joint venture.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 162 The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. The Company does not expect the adoption of SFAS 162 to have a significant impact on its financial statements.

In April 2008, FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3) was issued. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. FSP 142-3 applies prospectively to intangible assets acquired after adoption.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS 133. SFAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of SFAS 161 on its financial statements.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) 51. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. SFAS 160 is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 160 to have a

significant impact on its financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations. SFAS 141(R) replaces SFAS 141, Business Combinations. SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of

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accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses arising subsequent to adoption are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted this statement as of January 1, 2008 and elected not to apply the fair value option to any of its financial instruments.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. In February 2008, the FASB amended SFAS 157 to exclude SFAS 13, Accounting for Leases. In addition, the FASB delayed the effective date of SFAS 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The Company adopted the provisions of SFAS 157 related to its financial assets and liabilities on January 1, 2008. See Note Q.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make estimates and assumptions. These estimates and assumptions are reviewed periodically by management and compared to historical trends to determine the accuracy of estimates and assumptions used. If warranted, these estimates and assumptions may be changed as current trends are assessed and updated. Historically, the Company's estimates have been determined to be reasonable. No material changes to the Company's accounting policies were made from the prior period. The Company believes the following are some of the more critical judgment areas in the application of its accounting policies that affect its financial condition and results of operations.

Legal and Tax 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 costs associated with these claims are predominantly defense costs, which are recognized in the periods incurred. Insurance reimbursements mitigate these costs and, where reimbursements are probable, they are recognized in the applicable period. With respect to costs other than defense costs (i.e., for liability and/or settlement or other resolution), reserves are recorded when it is probable that the contingencies will have an unfavorable outcome. The Company accrues its best estimate of the probable costs, after a review of the facts with management and counsel and taking into account past experience. If an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated, disclosure is provided for material claims or litigation. Many of the current cases are in differing procedural stages and information on the circumstances of each claimant, which forms the basis for judgments as to the validity or ultimate disposition of such actions, will vary greatly. Therefore, in many situations a range of possible losses cannot be made. Reserves are adjusted as facts and circumstances change and related management assessments of the underlying merits and the likelihood of outcomes change. Moreover, reserves only cover identified and/or asserted claims. Future claims could, therefore, give rise to increases to such reserves. See Note K to the Consolidated Financial Statements and the Legal Proceedings section of this Quarterly Report on Form 10-Q for further discussion of legal contingencies.

The Company is subject to taxation from U.S. federal, state, municipal and international jurisdictions. The calculation of current income tax expense is based on the best information available and involves significant management

judgment. The actual income tax liability for each jurisdiction in any year can in some instances be ultimately determined several years after the financial statements are published.

The Company maintains reserves for estimated income tax exposures for many jurisdictions. Exposures are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Exposures can also be affected by changes in applicable tax law or other factors, which may cause management to believe a revision of past

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estimates is appropriate. Management believes that an appropriate liability has been established for income tax exposures; however, actual results may materially differ from these estimates.

Deferred Income Taxes

Deferred income taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards. The Company does not provide deferred income taxes on unremitted earnings of certain non-U.S. subsidiaries which are deemed permanently reinvested. It is not practicable to calculate the deferred taxes associated with the remittance of these earnings. Deferred income taxes of \$83 have been provided on earnings of \$560 that are not expected to be permanently reinvested. At September 30, 2008, the Company had approximately \$74,182 of gross deferred tax assets related to deductible temporary differences and tax loss and credit carryforwards which may reduce taxable income in future years.

In assessing the realizability of deferred tax assets, the Company assesses whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. At September 30, 2008, a valuation allowance of \$20,362 had been recorded against these deferred tax assets based on this assessment. The Company believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable could be increased or reduced in the future if the Company's assessment of future taxable income or tax planning strategies changes.

Pensions

The Company maintains a number of defined benefit and defined contribution plans to provide retirement benefits for employees in the U.S., as well as employees outside the U.S. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), local statutory law or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a domestic non-qualified pension plan for certain key employees and certain foreign plans.

The Company records liabilities equal to the underfunded status of defined benefit plans, and assets equal to the overfunded status of certain defined benefit plans measured as the difference between the fair value of plan assets and the projected benefit obligation. As of December 31, 2007, the Company recognized liabilities of \$32,954 and prepaids of \$48,897 and also recognized Accumulated other comprehensive loss of \$52,274 (after-tax), respectively for its defined benefit pension plans.

A substantial portion of the Company's pension amounts relate to its defined benefit plan in the United States. The market-related value of plan assets is determined by fair values at December 31.

A significant element in determining the Company's pension expense is the expected return on plan assets. At the end of each year, the expected return on plan assets is determined based on the weighted average expected return of the various asset classes in the plan's portfolio and the targeted allocation of plan assets. The asset class return is developed using historical asset return performance, as well as current market conditions such as inflation, interest rates and equity market performance. The Company determined this rate to be 8.25% for its U.S. plans at December 31, 2007. The assumed long-term rate of return on assets is applied to the market value of plan assets. This produces the expected return on plan assets included in pension expense. The difference between this expected return and the actual return on plan assets is deferred and amortized over the average remaining service period of active employees expected to receive benefits under the plan. The amortization of the net deferral of past losses will increase future pension expense. During 2007, investment returns in the Company's U.S. pension plans were approximately 8.4%. A 25 basis point change in the expected return on plan assets would increase or decrease pension expense by approximately \$1,400.

Another significant element in determining the Company's pension expense is the discount rate for plan liabilities. To develop the discount rate assumption to be used, the Company refers to the yield derived from matching projected pension payments with maturities of a portfolio of available non-callable bonds rated Aa- or better. The Company also refers to investment yields available at year-end on long-term bonds rated Aa- or better. The Company determined this rate to be 6.35% for its U.S. plans at December 31, 2007. A 25 basis point change in the discount rate would increase

or decrease pension expense by approximately \$2,000.

Based on current pension funding rules, the Company does not anticipate that contributions to the U.S. plans would be required in 2008. The Company has voluntarily contributed \$13,000 to its U.S. plans for the nine months ended September 30, 2008. The Company expects to voluntarily contribute \$15,000 to its U.S. plans in 2008.

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Pension expense relating to the Company's defined benefit and contribution plans was \$16,575 in 2007. The Company expects 2008 pension expense to decrease by approximately \$1,838 compared to 2007. Financial market turmoil in 2008 has resulted in asset value declines across a broad range of securities. If market conditions prevailing at September 30, 2008 were to continue through year-end, pension expense for the Company's domestic defined benefit plans for 2009 would increase significantly over 2008 expense levels.

Inventories and Reserves

Inventories are valued at the lower of cost or market. For most 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. The excess of current cost over LIFO cost amounted to \$95,130 at September 30, 2008. The Company reviews the net realizable value of inventory in detail on an on-going basis, with consideration given to deterioration, obsolescence and other factors. If actual market conditions differ from those projected by management, and the Company's estimates prove to be inaccurate, write-downs of inventory values and adjustments to cost of sales may be required. Historically, the Company's reserves have approximated actual experience.

Accounts Receivable and Allowances

The Company maintains an allowance for doubtful accounts for estimated losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on the age of the related receivable, knowledge of the financial condition of customers, review of historical receivables and reserve trends and other pertinent information. If the financial condition of customers deteriorates or an unfavorable trend in receivable collections is experienced in the future, additional allowances may be required. Historically, the Company's reserves have approximated actual experience.

Impairment of Long-Lived Assets

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows and established business valuation multiples.

The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's judgment. Any changes in key assumptions about the Company's businesses and their prospects, or changes in market conditions, could result in an impairment charge.

Impairment of Goodwill and Intangibles

The Company performs an annual impairment test of goodwill in the fourth quarter using the same dates each year. In addition, goodwill is tested as necessary if changes in circumstances or the occurrence of events indicate potential impairment. The Company evaluates the recoverability of goodwill and intangible assets not subject to amortization as required under SFAS 142 Goodwill and Other Intangible Assets by comparing the fair value of each reporting unit with its carrying value. The fair values of reporting units are determined using models developed by the Company which incorporate estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates, established business valuation multiples, and management judgments regarding the applicable discount rates to value those estimated cash flows.

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, 2007. See Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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

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evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are operating effectively as designed. There have been no changes in the Company's internal controls or in other factors that occurred 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 September 30, 2008, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 27,115 plaintiffs, which is a net decrease of 819 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: 28,315 of those claims were dismissed, eleven were tried to defense verdicts, four were tried to plaintiff verdicts, one was resolved by agreement for an immaterial amount and 551 were decided in favor of the Company following summary judgment motions.

At September 30, 2008, the Company was a co-defendant in cases alleging manganese induced illness involving claims by approximately 2,344 plaintiffs, which is a net decrease of 437 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 known as manganism. At September 30, 2008, cases involving 975 claimants were filed in or transferred to federal court where the Judicial Panel on MultiDistrict Litigation has consolidated these cases for pretrial proceedings in the Northern District of Ohio (the MDL Court). Plaintiffs have also filed eight class actions seeking medical monitoring in state courts, six of which have been removed and transferred to the MDL Court. A motion to strike all class action allegations in those six cases was granted by the MDL Court on August 4, 2008. The class action complaint filed in Ohio was also dismissed by the plaintiff on August 22, 2008, leaving only one potential state court class action. In addition, plaintiffs filed a class action complaint seeking medical monitoring on behalf of current and former welders in eight states, including three states covered by the single-state class actions, in the United States District Court for the Northern District of California. This case was also transferred to the MDL Court. A motion to certify a medical monitoring class related to this case was denied on September 14, 2007 and the 16 individual claimants dismissed their claims on March 20, 2008. Since January 1, 1995, the Company has been a co-defendant in similar cases that have been resolved as follows: 12,795 of those claims were dismissed, 18 were tried to defense verdicts in favor of the Company and three were tried to plaintiff verdicts. In addition, 13 claims were resolved by agreement for immaterial amounts and one claim 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 1A. Risk Factors

From time to time, information we provide, statements by our employees or information included in our filings with the SEC may contain forward-looking statements that are not historical facts. Those statements are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, and our

future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results, including those described below. Any forward-looking statements made in this report or otherwise speak only as of the date of the statement, and, except as required by law, we undertake no obligation to update those statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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The risks and uncertainties described below and all of the other information in this report should be carefully considered. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties of which we are currently unaware or that we currently believe to be immaterial may also adversely affect our business.

General economic and market conditions may adversely affect the Company's financial condition, results of operations and access to capital markets.

The Company's operating results are sensitive to changes in general economic conditions. Recessionary economic cycles, higher interest rates, inflation, higher tax rates and other changes in tax laws or other economic factors could adversely affect the demand for the Company's products. In addition, the recent turmoil in the financial markets may have an adverse effect on U.S. and global economies, which could negatively impact investment activity within key geographic and market segments served and access to capital markets. There can be no assurances that government responses to the disruptions in the financial markets will restore market confidence.

Volatility in energy costs or raw material prices may adversely affect our performance.

In the normal course of business, we are exposed to market risk and price fluctuations related to the purchase of energy and commodities used in the manufacture of our products (primarily steel, brass, copper and aluminum alloys, electricity and natural gas). The availability and prices for raw materials are subject to volatility and are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, our competitors' production costs, anticipated or perceived shortages and other factors. The price of the type of steel used to manufacture our products has experienced periods of significant price volatility and has been subject to periodic shortages due to global economic factors. We have also experienced substantial volatility in prices for other raw materials, including metals, chemicals and energy costs. Our future operating expenses and margins will be dependent on our ability to manage the impact of cost volatility. Our results of operations may be harmed by shortages of supply and by increases in prices to the extent those increases can not be passed on to customers.

We are a co-defendant in litigation alleging manganese induced illness and litigation alleging asbestos induced illness. Liabilities relating to such litigation could reduce our profitability and impair our financial condition.

At September 30, 2008, we were a co-defendant in cases alleging manganese induced illness involving claims by approximately 2,344 plaintiffs and a co-defendant in cases alleging asbestos induced illness involving claims by approximately 27,115 plaintiffs. In each instance, we are one of a large number of defendants. In the manganese cases, the claimants allege that exposure to manganese contained in welding consumables caused the plaintiffs to develop adverse neurological conditions, including a condition known as manganism. In the asbestos cases, the claimants allege that exposure to asbestos contained in welding consumables caused the plaintiffs to develop adverse pulmonary diseases, including mesothelioma and other lung cancers.

Since January 1, 1995, we have been a co-defendant in manganese cases that have been resolved as follows: 12,795 of those claims were dismissed, 18 were tried to defense verdicts in favor of us and three were tried to plaintiff verdicts. In addition, 13 claims were resolved by agreement for immaterial amounts and one was decided in favor of us following a motion for summary judgment. Since January 1, 1995, we have been a co-defendant in asbestos cases that have been resolved as follows: 28,315 of those claims were dismissed, eleven were tried to defense verdicts, four were tried to plaintiff verdicts, one was resolved by agreement for an immaterial amount and 551 were decided in favor of us following summary judgment motions.

Defense costs remain significant. The long-term impact of the manganese and asbestos loss contingencies, in each case in the aggregate, on operating cash flows and capital markets is difficult to assess, particularly since claims are in many different stages of development and we benefit significantly from cost-sharing with co-defendants and insurance carriers. While we intend to contest these lawsuits vigorously, and have applicable insurance relating to these claims, there are several risks and uncertainties that may affect our liability for personal claims relating to exposure to manganese and asbestos, including the future impact of changing cost sharing arrangements or a change in our overall trial experience.

Manganese is an essential element of steel and cannot be eliminated from welding consumables. Asbestos use in welding consumables in the U.S. ceased in 1981.

We may incur material losses and costs as a result of product liability claims that may be brought against us.

Our products are used in a variety of applications, including infrastructure projects such as oil and gas pipelines and platforms, buildings, bridges and power generation facilities, the manufacture of transportation and heavy equipment and machinery, and

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various other construction projects. We face risk of exposure to product liability claims in the event that accidents or failures on these projects result, or are alleged to result, in bodily injury or property damage. Further, our welding products are designed for use in specific applications, and if a product is used inappropriately, personal injury or property damage may result. For example, in the period between 1994 and 2000, we were a defendant or co-defendant in 21 lawsuits filed by building owners or insurers in Los Angeles County, California. The plaintiffs in those cases alleged that certain buildings affected by the 1994 Northridge earthquake sustained property damage in part because a particular electrode used in the construction of those buildings was unsuitable for that use. In the Northridge cases, one case was tried to a defense verdict in favor of us, 12 were voluntarily dismissed, seven were settled and we received summary judgment in our favor in another.

The occurrence of defects in or failures of our products, or the misuse of our products in specific applications, could cause termination of customer contracts, increased costs and losses to us, our customers and other end users. We cannot be assured that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend those claims. Further, we cannot be assured that our product liability insurance coverage will be adequate for any liabilities that we may ultimately incur or that it will continue to be available on terms acceptable to us.

The cyclical nature and maturity of the United States arc welding and cutting industry may adversely affect our performance.

The United States arc welding and cutting industry is a mature industry that is cyclical in nature. The growth of the domestic arc welding and cutting industry has been and continues to be constrained by factors such as the increased cost of steel and increased offshore production of fabricated steel structures. Overall demand for arc welding and cutting products is largely determined by the level of capital spending in manufacturing and other industrial sectors, and the welding industry has historically experienced contraction during periods of slowing industrial activity. If economic, business and industry conditions deteriorate, capital spending in those sectors may be substantially decreased, which could reduce demand for our products, our revenues and our results of operations.

We may not be able to complete our acquisition strategy or successfully integrate acquired businesses.

Part of our business strategy is to pursue targeted business acquisition opportunities, including foreign investment opportunities. For example, the Company has completed and continues to pursue acquisitions or joint ventures in the People's Republic of China in order to strategically position resources to increase our presence in this rapidly growing market. We cannot be certain that we will be successful in pursuing potential acquisition candidates or that the consequences of any acquisition would be beneficial to us. Future acquisitions may involve the expenditure of significant funds and management time. Depending on the nature, size and timing of future acquisitions, we may be required to raise additional financing, which may not be available to us on acceptable terms. Our current operational cash flow is sufficient to fund our current acquisition plans, but a significant acquisition would require access to the capital markets. Further, we may not be able to successfully integrate acquired businesses within our existing businesses or recognize expected benefits from completed acquisitions.

If we cannot continue to develop, manufacture and market products that meet customer demands, our revenues and gross margins may suffer.

Our continued success depends, in part, on our ability to continue to meet our customers' needs for welding products through the introduction of innovative new products and the enhancement of existing product design and performance characteristics. We must remain committed to product research and development and customer service in order to remain competitive. Accordingly, we may spend a proportionately greater amount on research and development than some of our competitors. We cannot be assured that new products or product improvements, once developed, will meet with customer acceptance and contribute positively to our operating results, or that we will be able to continue our product development efforts at a pace to sustain future growth. Further, we may lose customers to our competitors if they demonstrate product design, development or manufacturing capabilities superior to ours.

The competitive pressures we face could harm our revenue, gross margins and prospects.

We operate in a highly competitive global environment and compete in each of our businesses with other broad line manufacturers and numerous smaller competitors specializing in particular products. We compete primarily on the basis of brand, product quality, price, performance, warranty, delivery, service and technical support. If our products,

services, support and cost structure do not enable us to compete successfully based on any of those criteria, our operations, results and prospects could suffer.

Further, in the past decade, the United States arc welding industry has been subject to increased levels of foreign competition as low cost imports have become more readily available. Our competitive position could also be harmed if new or emerging

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competitors become more active in the arc welding business. For example, while steel manufacturers traditionally have not been significant competitors in the domestic arc welding industry, some foreign integrated steel producers manufacture selected consumable arc welding products. Our sales and results of operations, as well as our plans to expand in some foreign countries, could be harmed by this practice.

We conduct our sales and distribution operations on a worldwide basis and are subject to the risks associated with doing business outside the United States.

Our long-term strategy is to continue to increase our share in growing international markets, particularly Asia (with emphasis in China and India), Latin America, Eastern Europe and other developing markets. There are a number of risks in doing business abroad, which may impede our ability to achieve our strategic objectives relating to our foreign operations. Many developing countries, like Venezuela, have a significant degree of political and economic uncertainty that may impede our ability to implement and achieve our foreign growth objectives. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive.

Moreover, social unrest, the absence of trained labor pools and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries have slowed our business expansion into some developing economies. Our presence in China has been facilitated through joint venture agreements with local organizations. While this strategy has allowed us to gain a footprint in China while leveraging the experience of local organizations, it also presents corporate governance and management challenges.

Our foreign operations also subject us to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds.

The share of sales and profits we derive from our international operations and exports from the United States is significant and growing. This trend increases our exposure to the performance of many developing economies in addition to the developed economies outside of the United States.

Our operations depend on maintaining a skilled workforce, and any interruption in our workforce could negatively impact our results of operations and financial condition.

We are dependent on our highly trained technical sales force and the support of our welding research and development staff. Any interruption of our workforce, including interruptions due to unionization efforts, changes in labor relations or shortages of appropriately skilled individuals for our research, production and sales forces could impact our results of operations and financial condition.

Our revenues and results of operations may suffer if we cannot continue to enforce the intellectual property rights on which our business depends or if third parties assert that we violate their intellectual property rights.

We rely upon patent, trademark, copyright and trade secret laws in the United States and similar laws in foreign countries, as well as agreements with our employees, customers, suppliers and other third parties, to establish and maintain our intellectual property rights. However, any of our intellectual property rights could be challenged, invalidated or circumvented, or our intellectual property rights may not be sufficient to provide a competitive advantage. Further, the laws and their application in certain foreign countries do not protect our proprietary rights to the same extent as U.S. laws. Accordingly, in certain countries, we may be unable to protect our proprietary rights against unauthorized third-party copying or use, which could impact our competitive position.

Further, third parties may claim that we or our customers are infringing upon their intellectual property rights. Even if we believe that those claims are without merit, defending those claims and contesting the validity of patents can be time-consuming and costly. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from manufacturing, marketing or selling certain of our products.

Our global operations are subject to increasingly complex environmental regulatory requirements.

We are subject to increasingly complex environmental regulations affecting international manufacturers, including those related to air and water emissions and waste management. Further, it is our policy to apply strict standards for environmental protection to sites inside and outside the United States, even when we are not subject to local government regulations. We may incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, liabilities resulting from third-party

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property damage or personal injury claims, or our products could be enjoined from entering certain jurisdictions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws.

We also face increasing complexity in our products design and procurement operations as we adjust to new and future requirements relating to the design, production and labeling of our products that are sold in the European Union. The ultimate costs under environmental laws and the timing of these costs are difficult to predict, and liability under some environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None.

Item 3. Defaults Upon Senior Securities None.

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information None.

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.

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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)

October 27, 2008

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