

LINCOLN ELECTRIC HOLDINGS INC

Form 10-Q

May 01, 2009

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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 March 31, 2009**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The number of shares outstanding of the registrant's common shares as of March 31, 2009 was 42,513,921.



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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

*(In thousands, except per share data)*

	Three Months Ended March 31,	
	2009	2008
Net sales	\$ 411,751	\$ 620,227
Cost of goods sold	321,503	442,776
Gross profit	90,248	177,451
Selling, general & administrative expenses	77,516	98,961
Rationalization charges	11,699	
Operating income	1,033	78,490
Other income (expense):		
Interest income	1,112	2,434
Equity (loss) earnings in affiliates	(1,986)	549
Other income	393	499
Interest expense	(2,562)	(2,981)
Total other (expense) income	(3,043)	501
(Loss) income before income taxes	(2,010)	78,991
Income taxes	1,584	25,514
Net (loss) income	\$ (3,594)	\$ 53,477
Per share amounts:		
Basic (loss) earnings per share	\$ (0.08)	\$ 1.25
Diluted (loss) earnings per share	\$ (0.08)	\$ 1.24
Cash dividends declared per share	\$ 0.27	\$ 0.25

See notes to these consolidated financial statements.

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

	March 31, 2009 (UNAUDITED)	December 31, 2008 (NOTE A)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 300,452	\$ 284,332
Accounts receivable (less allowance for doubtful accounts of \$8,264 in 2009; \$7,673 in 2008)	260,531	299,171
Inventories		
Raw materials	76,932	94,112
Work-in-process	38,369	49,692
Finished goods	185,344	203,128
Total inventory	300,645	346,932
Deferred income taxes	23,143	16,725
Other current assets	66,937	77,566
<b>Total Current Assets</b>	<b>951,708</b>	<b>1,024,726</b>
<b>Property, Plant and Equipment</b>		
Land	39,673	38,745
Buildings	259,903	258,736
Machinery and equipment	633,066	643,056
	932,642	940,537
Less accumulated depreciation	514,576	512,635
<b>Property, Plant and Equipment, Net</b>	<b>418,066</b>	<b>427,902</b>
<b>Other Assets</b>		
Prepaid pensions	2,553	2,716
Equity investments in affiliates	56,291	62,358
Intangibles, net	64,716	65,262
Goodwill	35,219	36,187
Long-term investments	29,930	29,843
Deferred income taxes	53,600	47,397
Other non-current assets	16,566	22,414
<b>Total Other Assets</b>	<b>258,875</b>	<b>266,177</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,628,649</b>	<b>\$ 1,718,805</b>

See notes to these consolidated financial statements.



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

	March 31, 2009 (UNAUDITED)	December 31, 2008 (NOTE A)
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Amounts due banks	\$ 18,061	\$ 19,436
Trade accounts payable	117,857	124,388
Accrued employee compensation and benefits	39,059	47,405
Accrued expenses	26,700	25,173
Accrued taxes, including income taxes	22,383	13,305
Accrued pensions	3,131	3,248
Dividends payable	11,450	11,444
Other current liabilities	70,738	80,986
Current portion of long-term debt	1,030	31,257
<b>Total Current Liabilities</b>	<b>310,409</b>	<b>356,642</b>
<b>Long-Term Liabilities</b>		
Long-term debt, less current portion	89,964	91,537
Accrued pensions	181,591	188,160
Deferred income taxes	8,170	8,553
Accrued taxes	40,514	40,323
Other long-term liabilities	21,612	23,617
<b>Total Long-Term Liabilities</b>	<b>341,851</b>	<b>352,190</b>
<b>Shareholders Equity</b>		
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 2009 and 2008; outstanding - 42,513,921 shares in 2009 and 42,521,628 shares in 2008	4,929	4,929
Additional paid-in capital	156,734	155,538
Retained earnings	1,221,737	1,236,810
Accumulated other comprehensive loss	(237,529)	(218,254)
Treasury shares, at cost - 6,776,796 shares in 2009 and 6,769,089 shares in 2008	(184,136)	(183,807)
<b>Total Shareholders Equity</b>	<b>961,735</b>	<b>995,216</b>
<b>Noncontrolling Interest</b>	<b>14,654</b>	<b>14,757</b>
<b>Total Equity</b>	<b>976,389</b>	<b>1,009,973</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 1,628,649</b>	<b>\$ 1,718,805</b>



See notes to these consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (3,594)	\$ 53,477
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	13,488	13,907
Equity losses of affiliates, net	3,254	4
Deferred income taxes	(13,452)	1,279
Stock-based compensation	1,192	1,101
Amortization of terminated interest rate swaps	(335)	(233)
Other non-cash items, net	5,854	1,669
Changes in operating assets and liabilities, net of effects from acquisitions:		
Decrease (increase) in accounts receivable	31,417	(37,174)
Decrease (increase) in inventories	37,163	(26,970)
Decrease (increase) in other current assets	8,473	(5,307)
(Decrease) increase in accounts payable	(4,382)	31,172
(Decrease) increase in other current liabilities	(3,855)	37,305
Decrease in accrued pensions	(6,504)	(6,640)
Net change in other long-term assets and liabilities	2,944	3,933
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>71,663</b>	<b>67,523</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(13,565)	(12,812)
Acquisition of businesses, net of cash acquired		(8,675)
Proceeds from sale of property, plant and equipment	192	272
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(13,373)</b>	<b>(21,215)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	7,065	3,394
Payments on short-term borrowings	(5,025)	(713)
Amounts due banks, net	(672)	(3,636)
Payments on long-term borrowings	(30,227)	(140)
Proceeds from exercise of stock options	16	1,591
Tax benefit from exercise of stock options	2	819
Purchase of shares for treasury	(343)	(18,033)
Cash dividends paid to shareholders	(11,444)	(10,720)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(40,628)</b>	<b>(27,438)</b>

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Effect of exchange rate changes on cash and cash equivalents	(1,542)	1,601
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>16,120</b>	<b>20,471</b>
Cash and cash equivalents at beginning of period	284,332	217,382
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 300,452</b>	<b>\$ 237,853</b>

See notes to these consolidated financial statements.

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**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**(In thousands, except share and per share data)**

**March 31, 2009**

**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. 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 three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

The balance sheet at December 31, 2008 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, 2008.

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

**NOTE B STOCK-BASED COMPENSATION**

The Company issued 700 and 58,688 shares of common stock from treasury upon exercise of employee stock options during the three months ended March 31, 2009 and 2008, respectively.

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. Total stock-based compensation expense recognized in the Consolidated Statements of Income for the three months ended March 31, 2009 and 2008 was \$1,192 and \$1,101, 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 first three months of 2009 and 2008. Goodwill totaled \$35,219 and \$36,187 at March 31, 2009 and December 31, 2008, respectively. Goodwill by segment at March 31, 2009 was \$15,979 for North America, \$9,113 for Europe and \$10,127 for Other Countries. At December 31, 2008, goodwill by segment was \$16,085 for North America, \$9,815 for Europe and \$10,287 for Other Countries.

Gross intangible assets other than goodwill as of March 31, 2009 and December 31, 2008 were \$86,922 and \$87,257, respectively, and related accumulated amortization was \$22,206 and \$21,995, respectively. Aggregate amortization expense was \$870 and \$676 for the three months ended March 31, 2009 and 2008, respectively. Gross intangible assets other than goodwill with indefinite lives totaled \$17,067 at March 31, 2009 and \$16,960 at December 31, 2008.

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The following table sets forth the computation of basic and diluted (loss) earnings per share:

	Three Months Ended March	
	2009	2008
Numerator:		
Net (loss) income	\$ (3,594)	\$ 53,477
Denominator:		
Basic weighted average shares outstanding	42,372	42,675
Effect of dilutive securities Stock options and awards	196	415
Diluted weighted average shares outstanding	42,568	43,090
Basic (loss) earnings per share	\$ (0.08)	\$ 1.25
Diluted (loss) earnings per share	\$ (0.08)	\$ 1.24

**NOTE E ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

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

	Three Months Ended March	
	2009	2008
Net (loss) income	\$ (3,594)	\$ 53,477
Other comprehensive (loss) income:		
Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax	595	1,978
Currency translation adjustment	(24,208)	24,668
Unrecognized amounts from defined benefit pension plans, net of tax	4,350	386
Total comprehensive (loss) income	(22,857)	80,509
Comprehensive income attributable to noncontrolling interests	(12)	(291)
Comprehensive (loss) income attributable to Lincoln Electric Holdings, Inc.	\$ (22,869)	\$ 80,218

**NOTE F INVENTORY VALUATION**

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity, and abnormal manufacturing costs are recognized as period costs. For domestic inventories, cost is determined principally by the last-in, first-out (LIFO) method, and for non-U.S. inventories, cost is determined by the first-in, first-out (FIFO) method. The valuation of LIFO inventories is made at the end of each year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations, by necessity, are based on estimates of expected year-end inventory levels and costs and are subject to final year-end LIFO inventory calculations. The excess of current cost over LIFO cost amounted to \$90,914 at March 31, 2009 and December 31, 2008.

**NOTE G ACCRUED EMPLOYEE COMPENSATION AND BENEFITS**

Accrued employee compensation and benefits at March 31, 2009 and 2008 include accruals for year-end bonuses and related payroll taxes of \$7,082 and \$31,565, 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 decrease in the accrual from March 31, 2008 to March 31, 2009 is due to the decrease 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, India, Indonesia, Mexico, People's Republic of China, Taiwan, Venezuela and

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Vietnam. 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 is measured based on income before interest and income taxes. Financial information for the reportable segments follows:

	North America	Europe	Other Countries	Eliminations	Consolidated
<i>Three months ended March 31, 2009:</i>					
Net sales to unaffiliated customers	\$ 246,656	\$ 93,300	\$ 71,795	\$	\$ 411,751
Inter-segment sales	17,608	2,502	1,963	(22,073)	
Total	\$ 264,264	\$ 95,802	\$ 73,758	\$ (22,073)	\$ 411,751
Income (loss) before interest and income taxes	\$ 8,233	\$ (6,604)	\$ (1,623)	\$ (566)	\$ (560)
Interest income					1,112
Interest expense					(2,562)
Loss before income taxes					\$ (2,010)
Rationalization charges	\$ 10,526	\$ 470	\$ 703	\$	\$ 11,699
Total assets	\$ 1,045,086	\$ 420,884	\$ 382,858	\$ (220,179)	\$ 1,628,649
	North America	Europe	Other Countries	Eliminations	Consolidated
<i>Three months ended March 31, 2008:</i>					
Net sales to unaffiliated customers	\$ 371,113	\$ 147,445	\$ 101,669	\$	\$ 620,227
Inter-segment sales	27,066	6,925	1,566	(35,557)	
Total	\$ 398,179	\$ 154,370	\$ 103,235	\$ (35,557)	\$ 620,227
Income before interest and income taxes	\$ 56,533	\$ 18,219	\$ 5,039	\$ (253)	\$ 79,538
Interest income					2,434
Interest expense					(2,981)
Income before income taxes					\$ 78,991
Total assets	\$ 1,011,789	\$ 531,923	\$ 399,135	\$ (147,196)	\$ 1,795,651

**NOTE I RATIONALIZATION**

The Company has taken actions throughout its global operations to align resources to current market conditions that resulted in a charge of \$11,699 in the first quarter of 2009. Charges by segment were \$10,526, \$470 and \$703 in North America, Europe and Other Countries, respectively.

Actions taken in the first quarter of 2009 included a voluntary separation incentive program covering certain U.S.-based employees as announced on February 2, 2009. These actions are expected to affect 350, 48 and 170 employees in North America, Europe and Other Countries, respectively. The total cost is expected to be \$11,797, of which the Company recorded rationalization charges of \$11,685 in the first quarter of 2009. At March 31, 2009, the Company's liability related to these actions was \$9,097 and was recorded in Other current liabilities. These costs relate primarily to employee severance actions that are expected to be completed and paid by the end of 2009.

Actions taken during the fourth quarter of 2008 affected 65 employees in European businesses and 67 employees in North American businesses. The total cost of these actions is expected to be \$2,712 of which \$2,447 was recorded at December 31, 2008 and \$14 was recorded in the three months ended March 31, 2009. At March 31, 2009, the liability related to these actions of \$528 was recorded in Other current liabilities. These costs relate primarily to employee severance actions that are expected to be completed and paid by the end of 2009.

The Company continues evaluating its cost structure and additional rationalization actions are being contemplated that would result in charges in subsequent quarters. On April 21, 2009, the Company initiated a process to rationalize a manufacturing facility in Italy and consolidate production to an existing facility in Poland. This action would likely result in charges in the range of \$2,500 to \$3,000 over the next year.



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**NOTE J ACQUISITIONS**

On March 16, 2009, the Company announced that it signed definitive agreements to acquire the remaining 52% of Jinzhou Jin Tai Welding and Metal Co., Ltd. ( Jin Tai ), based in Jinzhou, China. The transaction will expand the Company's customer base and give the Company control of significant cost-competitive MIG wire manufacturing capacity. The Company currently has a 21% direct interest in Jin Tai and a further 27% indirect interest via its 35% interest in Taiwan-based Kuang Tai Metal Industrial Co., Ltd. ( Kuang Tai ). Under the terms of the agreement, the Company will exchange its 35% interest in Kuang Tai, pay cash of approximately \$38,000 and assume Jin Tai's net debt of approximately \$15,000. The transaction is subject to the approval of government regulatory agencies, with closing expected in the third quarter of 2009, subject to the satisfaction or waiver of customary conditions. Annual sales for Jin Tai were approximately \$200,000 in 2008.

On October 1, 2008, the Company acquired a 90% interest in a leading Brazilian manufacturer of brazing products for approximately \$24,000 in cash and assumed debt. The newly acquired company, based in Sao Paulo, is being operated as Harris Soldas Especiais S.A. 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. 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.

Acquired companies are included in the Company's consolidated financial statements as of the date of acquisition.

**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 \$6,017 at March 31, 2009. The guarantee is provided on four separate loan agreements. Two loans are for \$2,000 each, one which matures in May 2009 and the other maturing in July 2009. The other two loans mature in July 2010, one for \$1,355 and the other for \$662. 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 Accrued expenses.

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The changes in the carrying amount of product warranty accruals for the three months ended March 31, 2009 and 2008 are as follows:

	Three Months Ended March	
	2009	2008
Balance at beginning of period	\$ 13,736	\$ 12,308
Charged to costs and expenses	2,724	5,231
Deductions	(2,547)	(3,267)
Foreign currency translation	(210)	261
Balance at end of period	\$ 13,703	\$ 14,533

Warranty expense was 0.7% and 0.8% of sales for the three months ended March 31, 2009 and 2008, respectively.

**NOTE M DEBT**

During March 2002, the Company issued Senior Unsecured Notes (the Notes) totaling \$150,000 through a private placement. The Notes had 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 and 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 March 31, 2009, the Company was in compliance with all of its debt covenants. The Company repaid the \$30,000 Series B Note on maturity in March 2009, reducing the balance outstanding of the Notes to \$80,000, which is due in March 2012.

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 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 of \$10,163 on the termination of these swaps was 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 \$157 and \$233 in the first three months of 2009 and 2008, respectively, and is expected to reduce annual interest expense by \$313 in 2009. At March 31, 2009, \$598 remains to be amortized and is recorded in Long-term debt, less current portion.

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.

During February 2009, the Company terminated swaps with a notional value of \$80,000 and realized a gain of \$5,079. This gain was deferred and is being amortized over the remaining life of the Notes. The amortization of this gain reduced interest expense by \$178 in the first quarter of 2009 and is expected to reduce annual interest expense by \$1,429 in 2009. At March 31, 2009, \$4,901 remains to be amortized and is recorded in Long-term debt, less current portion. The weighted average effective interest rate on the Notes, net of the impact of swaps, was 4.6% for the first quarter of 2009.

During March 2009, swaps designated as fair value hedges that converted the \$30,000 Series B Note from fixed to floating interest rates matured with the underlying Note. The Company has no outstanding interest rate swaps at March 31, 2009. At December 31, 2008, the fair value of the swaps was an asset of \$6,148 and was recorded in Other current assets and Other non-current assets with corresponding offsets in Current portion of long-term debt and Long-term debt, less current portion, respectively.

*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 affirmative and negative covenants including limitations on the Company with respect to indebtedness, liens, investments, distributions, mergers and

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acquisitions, dispositions of assets, subordinated debt and transactions with affiliates. As of March 31, 2009, there are no borrowings under the Credit Agreement. The Company expects to replace the Credit Agreement prior to its expiration in December 2009.

*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 December 2008, the Financial Accounting Standards Board (FASB) issued Staff Position 132(R)-1 (FSP FAS 132(R)-1), *Employers' Disclosures about Postretirement Benefit Plan Assets*, an amendment of SFAS 132(R). This standard requires disclosure about an entity's investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. The standard, effective for fiscal years beginning after December 15, 2008, will increase the disclosures in the notes to the Company's financial statements related to the assets of the Company's defined benefit pension plans.

In November 2008, the Emerging Issues Task Force issued Issue 08-6 (EITF 08-06), *Equity Method Investment Accounting Considerations*. This Issue addresses the impact that SFAS 141(R) and SFAS 160 might have on the accounting for equity method investments including how the initial carrying value of an equity method investment should be determined, how it should be tested for impairment and how changes in classification from equity method to cost method should be treated. The Issue is to be implemented prospectively and is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 08-06 did not have a significant impact on the Company's financial statements.

In June 2008, the FASB issued Staff Position EITF 03-6-1 (FSP EITF 03-6-1), *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This standard determined that unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share. This standard did not have a significant impact on the Company's disclosure of earnings per share.

In May 2008, the FASB issued 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 generally accepted accounting principles (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 was adopted in the first quarter of 2009. The adoption of SFAS 162 did not have an impact on the Company's financial statements.

In April 2008, the FASB issued Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). 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 SFAS 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. The adoption of FSP 142-3 did not have a significant impact on the Company's financial statements.

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. See Note Q for the Company's disclosures pursuant to the adoption of SFAS 161.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is an amendment of Accounting Research Bulletin 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 Statement of Income 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 fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. The Company adopted SFAS 160 as of January 1, 2009, applying the presentation and disclosure requirements retrospectively resulting in reclassification of noncontrolling interests from Other non-current liabilities to Total equity. Income attributable to noncontrolling interests

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is included in Selling, general and administrative expenses in the Consolidated Statements of Income and is not material to the Company. Therefore, the Company did not present income attributable to non-controlling interests separately in the Consolidated Statements of Income.

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. The adoption of SFAS 141(R) as of January 1, 2009 did not have a material impact on the Company's financial statements.

**NOTE O RETIREMENT AND POSTRETIREMENT BENEFIT PLANS**

The components of total pension expense were as follows:

	Three Months Ended March 31,	
	2009	2008
Service cost	\$ 3,566	\$ 4,264
Interest cost	10,732	9,674
Expected return on plan assets	(10,592)	(12,581)
Amortization of prior service cost	15	20
Amortization of net loss	6,611	420
Defined benefit plans	10,332	1,797
Multi-employer plans	304	393
Defined contribution plans	1,230	1,894
Total pension expense	\$ 11,866	\$ 4,084

The Company has voluntarily contributed \$9,000 to its U.S. plans in the first three months of 2009 and expects to contribute \$30,000 to its U.S. plans in 2009. The actual amounts contributed to the pension plans are determined at the Company's discretion.

The Company is in the process of terminating the Harris Calorific Limited ( Harris Ireland ) Pension Plan. The Company expects to receive approximately \$1,870 in 2009 upon final settlement.

**NOTE P INCOME TAXES**

The Company recorded \$1,584 of tax expense on a pre-tax loss of \$2,010, resulting in an effective tax rate of (78.8)% for the three months ended March 31, 2009. The effective tax rate is lower than the expected benefit at the Company's statutory rate primarily because of losses at certain non-U.S. entities for which no tax benefit has been provided. The rate also includes a benefit for the utilization of foreign tax credits.

The effective income tax rate of 32.3% for the three months ended March 31, 2008 is 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.

The anticipated effective rate for 2009 depends on the amount of earnings in various tax jurisdictions and the level of related tax deductions achieved during the year.

As of March 31, 2009, the Company had \$33,924 of unrecognized tax benefits. If recognized, approximately \$19,989 would be recorded as a component of income tax expense.

The Company files income tax returns in the U.S. and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years

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before 2004. The Company anticipates no significant changes to its total unrecognized tax benefits through the end of the first quarter of 2010. The Company is currently subject to an Internal Revenue Service audit for the 2005-2006 tax years and an Italian tax audit for 2005.

**NOTE Q DERIVATIVES AND FAIR VALUE**

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

All derivatives are recorded at fair value on the balance sheet. The accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting. The Company formally documents the relationship of the hedge with the hedged item as well as the risk-management strategy for all designated hedges. Both at inception and on an ongoing basis, the hedging instrument is assessed as to its effectiveness, when applicable. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, hedge accounting is discontinued. The cash flows from settled derivative contracts are recorded in operating activities in the Consolidated Statements of Cash Flows. Hedge ineffectiveness was immaterial in 2008 and for the three months ended March 31, 2009.

The Company is subject to the credit risk of the counterparties to derivative instruments. Counterparties include a number of major banks and financial institutions. The Company manages individual counterparty exposure by monitoring the credit rating of the counterparty and the size of financial commitments and exposures between the Company and the counterparty. None of the concentrations of risk with any individual counterparty was considered significant at March 31, 2009. The Company does not expect any counterparties to fail to meet their obligations.

*Cash flow hedges*

Certain foreign currency forward contracts were qualified and designated as cash flow hedges. The total notional amount of these short-term contracts at March 31, 2009 was \$27,039. The effective portions of the fair value gains or losses on these cash flow hedges were recorded in Other comprehensive income (OCI) and subsequently reclassified to Cost of goods sold or Sales for hedges of purchases and sales, respectively, as the underlying hedged transactions affect earnings. For the three months ended March 31, 2009, the Company reclassified a loss of \$147 from OCI to Selling, general and administrative expenses based on the probability of the forecasted transactions no longer occurring.

*Fair value hedges*

Certain interest rate contracts (swaps) were qualified and designated as fair value hedges. In February 2009, the Company terminated swaps that were designated as fair value hedges that converted notional amounts of \$80,000 of debt from fixed to floating interest rates. The gain of \$5,079 realized on termination was deferred and is being amortized as an offset to interest expense over the remaining life of the Note. The fair value gains or losses on these contracts prior to settlement were recognized in earnings and offset by fair value losses or gains on the fixed-rate borrowings. See Note M for further information.

In March 2009, swaps designated as fair value hedges that converted notional amounts of \$30,000 of debt from fixed to floating interest rates matured with the underlying Note. The fair value gains or losses on these contracts were recognized in earnings and offset by fair value losses or gains on the fixed-rate borrowings. See Note M for further information.

*Derivatives not designated as hedging instruments*

The Company has certain foreign exchange forward contracts which were not designated as hedges under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. These derivatives were held as economic hedges of certain balance sheet exposures. The total notional amount of these short-term contracts was \$110,875 at March 31, 2009. The fair value gains or losses from these contracts were recognized currently in Selling, general and administrative expenses, offsetting the losses or gains on the exposures being hedged.



The Company dedesignated commodity forward contracts at the inception of 2009 that had previously been designated and qualified as cash flow hedges. These contracts consist of aluminum, copper and nickel forward contracts with notional amounts, in thousands of pounds, of 2,525, 2,325 and 222, respectively, at March 31, 2009. The effective portion of the fair

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value gains or losses on these instruments were recorded in OCI while the instruments were designated and qualified as cash flow hedges. Realized gains and losses were reclassified to Cost of goods sold as the underlying hedged transactions affected earnings. For the three months ended March 31, 2009, the Company reclassified a loss of \$852 from OCI to earnings based on the probability of the forecasted transactions no longer occurring. The Company expects \$1,924 related to existing contracts to be reclassified from OCI to earnings over the next 12 months as the hedged purchase transactions are realized. Subsequent to dedesignation, the fair value gains or losses on these instruments were recognized currently in Selling, general and administrative expenses.

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

	Other Current Assets	March 31, 2009 Other Current Liabilities	Other Non-current Liabilities
Designated as hedging instruments:			
Foreign exchange contracts	\$ 1,511	\$ 527	\$
Not designated as hedging instruments:			
Foreign exchange contracts	379	408	
Commodity contracts		4,932	212
Total derivatives	\$ 1,890	\$ 5,867	\$ 212

The effects of derivative instruments on the Consolidated Statement of Income for the three months ended March 31, 2009 consisted of the following:

Derivatives by hedge designation	Classification of gains (losses)	Three Months Ended March 31, 2009
Fair value hedges:		
Interest rate swaps	Interest expense	\$ 181
Not designated as hedges:		
Foreign exchange contracts	Selling, general & administrative expenses	(302)
Commodity contracts	Selling, general & administrative expenses	576
Cash flow hedges:		
		Three Months Ended March 31,
Total recognized in OCI, net of tax	March 31, 2009	2009
Foreign exchange contracts	\$ 1,133	Reclassified from OCI to: Sales \$ (177) Cost of goods sold 2,219 (147)

Selling, general &  
administrative expenses

Commodity contracts (2,626) Cost of goods sold (2,804)

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 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.

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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:

Description	Balance as of March 31, 2009	Fair Value Measurements at March 31, 2009 Using Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives, net liability	\$ (4,189)	\$	\$ (4,189)	\$

**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, 2008 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.



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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, India, 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 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 production, 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 steel, 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 invested capital 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.



**Table of Contents****Results of Operations**

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

	2009		Three Months Ended March 31, 2008		Change	
	Amount	% of Sales	Amount	% of Sales	Amount	%
Net sales	\$ 411,751	100.0%	\$ 620,227	100.0%	\$ (208,476)	(33.6%)
Cost of goods sold	321,503	78.1%	442,776	71.4%	(121,273)	(27.4%)
Gross profit	90,248	21.9%	177,451	28.6%	(87,203)	(49.1%)
Selling, general & administrative expenses	77,516	18.8%	98,961	16.0%	(21,445)	(21.7%)
Rationalization charges	11,699	2.8%		0.0%	11,699	NA
Operating income	1,033	0.3%	78,490	12.7%	(77,457)	(98.7%)
Interest income	1,112	0.3%	2,434	0.4%	(1,322)	(54.3%)
Equity (loss) earnings in affiliates	(1,986)	(0.5%)	549	0.1%	(2,535)	(461.7%)
Other income	393	0.1%	499	0.1%	(106)	(21.2%)
Interest expense	(2,562)	(0.6%)	(2,981)	(0.5%)	419	(14.1%)
(Loss) income before income taxes	(2,010)	(0.5%)	78,991	12.7%	(81,001)	(102.5%)
Income taxes	1,584	0.4%	25,514	4.1%	(23,930)	(93.8%)
Net (loss) income	\$ (3,594)	(0.9%)	\$ 53,477	8.6%	\$ (57,071)	(106.7%)

**Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008**

**Net Sales:** Net sales for the first quarter of 2009 decreased 33.6% to \$411,751 from \$620,227 in the first quarter of 2008. The decrease in Net sales reflects a \$208,223 (33.6%) decrease due to volume, a \$28,510 (4.6%) increase due to price, a \$9,385 (1.5%) increase from acquisitions and a \$38,148 (6.2%) unfavorable impact as a result of changes in foreign currency exchange rates. Net sales for the North American operations decreased 33.5% to \$246,656 in the first quarter of 2009 compared to \$371,113 in the first quarter of 2008. This decrease reflects a decrease of \$135,143 (36.4%) due to volume, a \$16,136 (4.3%) increase due to price and a \$5,450 (1.5%) decrease as a result of changes in foreign currency exchange rates. Net sales for the European operations decreased 36.7% to \$93,300 in the first quarter of 2009 compared to \$147,445 in the first quarter of 2008. This decrease reflects a decrease of \$37,772 (25.6%) due to volume, an \$893 (0.6%) increase due to price, a \$5,242 (3.6%) increase from acquisitions and a \$22,508 (15.3%) unfavorable impact as a result of changes in foreign currency exchange rates. Net sales for Other Countries decreased 29.4% to \$71,795 in the first quarter of 2009 compared to \$101,669 in the first quarter of 2008. This decrease reflects a decrease of \$35,308 (34.7%) due to volume, an \$11,481 (11.3%) increase due to price, a \$4,143 (4.1%) increase from acquisitions and a \$10,190 (10.0%) unfavorable impact as a result of changes in foreign currency exchange rates.

**Gross Profit:** Gross profit decreased 49.1% to \$90,248 during the first quarter of 2009 compared to \$177,451 in the first quarter of 2008. As a percentage of Net sales, Gross profit decreased to 21.9% in the first quarter of 2009 from 28.6% in the first quarter of 2008. This decrease was primarily a result of declining volumes, the liquidation of higher cost inventories and higher retirement costs in the U.S. of \$2,376 offset by lower product liability costs of \$3,835 primarily due to an insurance settlement. Foreign currency exchange rates had a \$7,281 unfavorable translation impact in the first quarter of 2009.



*Selling, General & Administrative (SG&A) Expenses:* SG&A expenses decreased \$21,445 (21.7%) in the first quarter of 2009 compared to the first quarter of 2008. The decrease was primarily due to lower bonus expense of \$23,121 and the favorable translation impact of foreign currency exchange rates of \$7,856 partially offset by higher retirement costs in the U.S. of \$3,336.

*Rationalization Charges:* In the first quarter of 2009, the Company recorded \$11,699 (\$7,428 after-tax) in charges related to rationalization activities at facilities around the world. The charges are primarily employee severance as the Company adjusts its cost base to current market conditions.

*Interest Income:* Interest income decreased to \$1,112 in the first quarter of 2009 from \$2,434 in the first quarter of 2008. The decrease was due to lower interest rate investments in 2009 when compared to 2008.

*Equity (Loss) Earnings in Affiliates:* Equity earnings in affiliates was a loss of \$1,986 in the first quarter of 2009 compared to earnings of \$549 in the first quarter of 2008 primarily as a result of decreased earnings at the Company's joint venture investment in Taiwan.

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*Interest Expense:* Interest expense decreased to \$2,562 in the first quarter of 2009 from \$2,981 in the first quarter of 2008 primarily as a result of interest rate swaps lowering the effective interest rate on the Company's Senior Unsecured Notes partially offset by higher debt levels at foreign subsidiaries in the first quarter of 2009. See Note M to the Company's consolidated financial statements for further discussion.

*Income Taxes:* The Company recorded \$1,584 of tax expense on a pre-tax loss of \$2,010, resulting in an effective tax rate of (78.8)% for the three months ended March 31, 2009. The effective tax rate is lower than the expected benefit at the Company's statutory rate primarily because of losses at certain non-U.S. entities for which no tax benefit has been provided. The rate also includes a benefit for the utilization of foreign tax credits.

The effective income tax rate of 32.3% for the three months ended March 31, 2008 is 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.

*Net (Loss) Income:* The net loss for the first quarter of 2009 was \$3,594 compared to net income of \$53,477 in the first quarter of 2008. Diluted loss per share for the first quarter of 2009 was \$(0.08) compared to earnings of \$1.24 per share in the first quarter of 2008. Foreign currency exchange rate movements had a favorable translation effect of \$1,320 and \$1,865 on net income for the first quarter of 2009 and 2008, respectively.

**Liquidity and Capital Resources**

The Company's cash flow from operations, while cyclical, has been reliable and strong. Operational cash flow is a key driver of liquidity, providing cash and access to capital markets. In assessing liquidity, the Company reviews working capital measurements to define areas 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:

	Three Months Ended March 31,		
	2009	2008	Change
Cash provided by operating activities:	\$ 71,663	\$ 67,523	\$ 4,140
Cash used by investing activities:	(13,373)	(21,215)	7,842
Capital expenditures	(13,565)	(12,812)	(753)
Acquisition of businesses, net of cash acquired		(8,675)	8,675
Cash used by financing activities:	(40,628)	(27,438)	(13,190)
Proceeds from (payments on) short-term borrowings, net	1,368	(955)	2,323
Payments on long-term borrowings	(30,227)	(140)	(30,087)
Purchase of shares for treasury	(343)	(18,033)	17,690
Cash dividends paid to shareholders	(11,444)	(10,720)	(724)
Increase in Cash and cash equivalents	16,120	20,471	(4,351)

Cash and cash equivalents increased 5.7% or \$16,120 during the first three months of 2009, to \$300,452 as of March 31, 2009 from \$284,332 as of December 31, 2008. This compares to an increase of 9.4% or \$20,471 to \$237,853 during the first three months of 2008.

Cash provided by operating activities increased by \$4,140 for the first three months of 2009 compared to 2008. The increase was primarily related to lower accounts receivable and inventory as the Company liquidated working capital commensurate with the decline in demand levels when compared to 2008. Average operating working capital to sales was 28.0% at March 31, 2009 compared with 26.1% at December 31, 2008 and 22.4% at March 31, 2008. Days sales in inventory increased to 126.1 days at March 31, 2009 from 115.8 days at December 31, 2008 and 108.4 days at March 31, 2008. Accounts receivable days increased to 61.0 at March 31, 2009 from 55.0 days at December 31, 2008 and 59.6 days at March 31, 2008. Average days in accounts payable increased to 36.9 days at March 31, 2009 from 32.1 days at December 31, 2008 and decreased from 44.5 days at March 31, 2008.

Cash used by investing activities for the first three months of 2009 compared with 2008 decreased by \$7,842. This reflects a decrease in cash used in the acquisition of businesses of \$8,675 partially offset by an increase in capital expenditures of \$753 to \$13,565 from \$12,812 in 2008. The Company anticipates capital expenditures in 2009 in the

range of \$45,000 \$55,000.

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Anticipated capital expenditures reflect investments to improve operational effectiveness and the Company's continuing international expansion. Management critically evaluates all proposed capital expenditures and requires each project to increase efficiency, reduce costs, promote business growth, or to improve the overall safety and environmental conditions of the Company's facilities. Management does not currently anticipate any unusual future cash outlays relating to capital expenditures.

Cash used by financing activities increased \$13,190 to \$40,628 in the first three months of 2009 compared with the first three months of 2008. The increase was primarily due to the repayment of the Company's \$30,000 Series B Senior Unsecured Note on maturity during the first quarter of 2009 partially offset by lower purchases of shares for treasury of \$17,690.

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. If the Company settled its Venezuelan subsidiary's U.S. dollar liabilities using unofficial, parallel currency exchange mechanisms as of March 31, 2009, it would result in a currency exchange loss of approximately \$1,920.

The Company's debt levels decreased from \$142,230 at December 31, 2008, to \$109,055 at March 31, 2009. Debt to total invested capital decreased to 10.0% at March 31, 2009 from 12.3% at December 31, 2008.

The Company's Board of Directors has authorized share repurchase programs for up to 15 million shares of the Company's common stock. Total shares purchased through the share repurchase programs were 11,215,390 shares at a cost of \$274,531 through March 31, 2009.

In April 2009, the Company paid a quarterly cash dividend of \$0.27 per share, or \$11,450, to shareholders of record on March 31, 2009.

**Rationalization**

The Company has taken actions throughout its global operations to align resources to current market conditions that resulted in a charge of \$11,699 in the first quarter of 2009. Charges by segment were \$10,526, \$470 and \$703 in North America, Europe and Other Countries, respectively.

Actions taken in the first quarter of 2009 included a voluntary separation incentive program covering certain U.S.-based employees as announced on February 2, 2009. These actions are expected to affect 350, 48 and 170 employees in North America, Europe and Other Countries, respectively. The total cost is expected to be \$11,797, of which the Company recorded rationalization charges of \$11,685 in the first quarter of 2009. At March 31, 2009, the Company's liability related to these actions was \$9,097 and was recorded in Other current liabilities. These costs relate primarily to employee severance actions that are expected to be completed and paid by the end of 2009.

Actions taken during the fourth quarter of 2008 affected 65 employees in European businesses and 67 employees in North American businesses. The total cost of these actions is expected to be \$2,712 of which \$2,447 was recorded at December 31, 2008 and \$14 was recorded in the three months ended March 31, 2009. At March 31, 2009, the liability related to these actions of \$528 was recorded in Other current liabilities. These costs relate primarily to employee severance actions that are expected to be completed and paid by the end of 2009.

The Company continues evaluating its cost structure and additional rationalization actions are being contemplated that would result in charges in subsequent quarters. On April 21, 2009, the Company initiated a process to rationalize a manufacturing facility in Italy and consolidate production to an existing facility in Poland. This action would likely result in charges in the range of \$2,500 to \$3,000 over the next year.

**Acquisitions**

On March 16, 2009, the Company announced that it signed definitive agreements to acquire the remaining 52% of Jinzhou Jin Tai Welding and Metal Co., Ltd. ( Jin Tai ), based in Jinzhou, China. The transaction will expand the Company's customer base and give the Company control of significant cost-competitive MIG wire manufacturing capacity. The Company currently has a 21% direct interest in Jin Tai and a further 27% indirect interest via its 35% interest in Taiwan-based Kuang Tai Metal Industrial Co., Ltd. ( Kuang Tai ). Under the terms of the agreement, the Company will exchange its 35% interest in Kuang Tai, pay cash of approximately \$38,000 and assume Jin Tai's net

debt of approximately \$15,000. The transaction is subject to

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the approval of government regulatory agencies, with closing expected in the third quarter of 2009, subject to the satisfaction or waiver of customary conditions. Annual sales for Jin Tai were approximately \$200,000 in 2008. On October 1, 2008, the Company acquired a 90% interest in a leading Brazilian manufacturer of brazing products for approximately \$24,000 in cash and assumed debt. The newly acquired company, based in Sao Paulo, is being operated as Harris Soldas Especiais S.A. 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. 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.

Acquired companies are included in the Company's consolidated financial statements as of the date of acquisition.

**Debt**

During March 2002, the Company issued Senior Unsecured Notes (the Notes ) totaling \$150,000 through a private placement. The Notes had 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 and 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 March 31, 2009, the Company was in compliance with all of its debt covenants. The Company repaid the \$30,000 Series B Note on maturity in March 2009, reducing the balance outstanding of the Notes to \$80,000, which is due in March 2012.

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 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 of \$10,163 on the termination of these swaps was 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 \$157 and \$233 in the first three months of 2009 and 2008, respectively, and is expected to reduce annual interest expense by \$313 in 2009. At March 31, 2009, \$598 remains to be amortized and is recorded in Long-term debt, less current portion.

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.

During February 2009, the Company terminated swaps with a notional value of \$80,000 and realized a gain of \$5,079. This gain was deferred and is being amortized over the remaining life of the Notes. The amortization of this gain reduced interest expense by \$178 in the first quarter of 2009 and is expected to reduce annual interest expense by \$1,429 in 2009. At March 31, 2009, \$4,901 remains to be amortized and is recorded in Long-term debt, less current portion. The weighted average effective interest rate on the Notes, net of the impact of swaps, was 4.6% for the first quarter of 2009.

During March 2009, swaps designated as fair value hedges that converted the \$30,000 Series B Note from fixed to floating interest rates matured with the underlying Note. The Company has no outstanding interest rate swaps at March 31, 2009. At December 31, 2008, the fair value of the swaps was an asset of \$6,148 and was recorded in Other current assets and Other non-current assets with corresponding offsets in Current portion of long-term debt and Long-term debt, less current portion, respectively.

**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 affirmative and negative

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covenants 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 March 31, 2009, there are no borrowings under the Credit Agreement. The Company expects to replace the Credit Agreement prior to its expiration in December 2009.

***Short-term Borrowings***

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

**Stock-based compensation**

The Company issued 700 and 58,688 shares of common stock from treasury upon exercise of employee stock options during the three months ended March 31, 2009 and 2008, respectively.

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. Total stock-based compensation expense recognized in the Consolidated Statements of Income for the three months ended March 31, 2009 and 2008 was \$1,192 and \$1,101, respectively.

**Product liability expense**

Product liability expenses have been significant, particularly with respect to welding fume claims. Costs incurred are volatile and 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 access to capital markets 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 \$6,017 at March 31, 2009. 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 December 2008, the Financial Accounting Standards Board (FASB) issued Staff Position 132(R)-1 (FSP FAS 132(R)-1), *Employers' Disclosures about Postretirement Benefit Plan Assets*, an amendment of SFAS 132(R). This standard requires disclosure about an entity's investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. The standard, effective for fiscal years beginning after December 15, 2008, will increase the disclosures in the notes to the Company's financial statements related to the assets of the Company's defined benefit pension plans.

In November 2008, the Emerging Issues Task Force issued Issue 08-6 (EITF 08-06), *Equity Method Investment Accounting Considerations*. This Issue addresses the impact that SFAS 141(R) and SFAS 160 might have on the accounting for equity method investments including how the initial carrying value of an equity method investment should be determined, how it should be tested for impairment and how changes in classification from equity method to cost method should be treated. The Issue is to be implemented prospectively and is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 08-06 did not have a significant impact on the Company's financial statements.

In June 2008, the FASB issued Staff Position EITF 03-6-1 (FSP EITF 03-6-1), *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This standard determined that unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are





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participating securities, and thus, should be included in the two-class method of computing earnings per share. This standard did not have a significant impact on the Company's disclosure of earnings per share.

In May 2008, the FASB issued 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 generally accepted accounting principles (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 was adopted in the first quarter of 2009. The adoption of SFAS 162 did not have an impact on the Company's financial statements.

In April 2008, the FASB issued Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). 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 SFAS 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. The adoption of FSP 142-3 did not have a significant impact on the Company's financial statements.

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. See Note Q for the Company's disclosures pursuant to the adoption of SFAS 161.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is an amendment of Accounting Research Bulletin 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 Statement of Income 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 fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. The Company adopted SFAS 160 as of January 1, 2009, applying the presentation and disclosure requirements retrospectively resulting in reclassification of noncontrolling interests from Other non-current liabilities to Total equity. Income attributable to noncontrolling interests is included in Selling, general and administrative expenses in the Consolidated Statements of Income and is not material to the Company. Therefore, the Company did not present income attributable to non-controlling interests separately in the Consolidated Statements of Income.

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. The adoption of SFAS 141(R) as of January 1, 2009 did not have a material impact on the Company's financial statements.

**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.

**Table of Contents***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 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 \$166 have been provided on earnings of \$1,632 that are not expected to be permanently reinvested. At March 31, 2009, the Company had approximately \$144,243 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 March 31, 2009, a valuation allowance of \$20,533 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, 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 and assets equal to the overfunded status of defined benefit plans by measuring the difference between the fair value of plan assets and the projected benefit obligation. The market-related value of plan assets was determined using fair values at December 31. As of December 31, 2008, the Company recognized liabilities of \$191,408, prepaid assets of \$2,716 and accumulated other comprehensive loss of \$194,696 (after-tax)

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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.

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, 2008. 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 2008, investment returns in the Company's U.S. pension plans were a decline of 22.2%. 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, 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 determined this rate to be 6.13% for its U.S. plans at December 31, 2008. A 25 basis point change in the discount rate would increase or decrease pension expense by approximately \$2,000.

Pension expense relating to the Company's defined benefit plans was \$4,613 in 2008. The Company expects 2009 pension expense to increase by approximately \$36,830.

The Company has voluntarily contributed \$9,000 to its U.S. plans in the first three months of 2009 and expects to contribute \$30,000 to its U.S. plans in 2009. The actual amounts contributed to the pension plans are determined at the Company's discretion.

*Inventories and Reserves*

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity, and abnormal manufacturing costs are recognized as period costs. For domestic inventories, cost is determined principally by the last-in, first-out (LIFO) method, and for non-U.S. inventories, cost is determined by the first-in, first-out (FIFO) method. The valuation of LIFO inventories is made at the end of each year based on inventory levels and costs at that time. The excess of current cost over LIFO cost amounted to \$90,914 at March 31, 2009. 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 Allowance*

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, a loss is recognized to the extent that carrying value exceeds fair value. Fair value 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.

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*Impairment of Goodwill and Intangibles*

The Company performs an annual impairment test of goodwill and other indefinite-lived intangible assets in the fourth quarter using the same dates each year or more frequently if changes in circumstances or the occurrence of events indicate potential impairment as required under SFAS 142, *Goodwill and Other Intangible Assets*. The fair value of each indefinite-lived intangible asset is compared to its carrying value and an impairment charge is recorded if the carrying value exceeds the fair value. Goodwill is tested by comparing the fair value of each reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the implied value of goodwill is compared to its carrying value and impairment is recognized to the extent that the carrying value exceeds the implied fair value.

Fair values 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 estimated cash flows. Changes in economic and operating conditions impacting these assumptions could result in asset impairments in future periods.

***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, 2008. See Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures 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 March 31, 2009, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 20,823 plaintiffs, which is a net decrease of 197 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: 34,700 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 555 were decided in favor of the Company following summary judgment motions.

At March 31, 2009, the Company was a co-defendant in cases alleging manganese induced illness involving claims by approximately 3,762 plaintiffs, which is a net increase of 734 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 March 31, 2009, cases involving 2,118 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 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

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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: 12,831 of those claims were dismissed, 20 were tried to defense verdicts in favor of the Company and four 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 (which was reversed by an intermediate appellate court on November 26, 2008 and is the subject of further appellate review). On February 11, 2009, a jury returned a verdict in one such case in favor of the Company and two co-defendants in the Superior Court of California for the County of Alameda. On April 1, 2009, the MDL Court denied post trial motions filed by the co-defendants and entered final judgment against the Company and two co-defendants in one of the cases in which a plaintiff verdict had been obtained on March 6, 2008. The judgment awards an aggregate amount of damages of \$2,420, \$720 of which were compensatory (\$366 of which were allocable to the Company) and \$1,700 of which were punitive (\$750 of which were allocable to the Company). The Court also granted plaintiff's motion for costs and attorney's fees totaling \$2,173 (\$1,105 of which were allocable to the Company). The Company will appeal this judgment.

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.

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 demand for the Company's products. The deepening industrial downturn affecting the U.S. and global economies will continue to negatively impact investment activity within key geographic and market segments served by the Company. In addition, the continuing financial market turmoil may limit the Company's access to capital markets. There can be no assurances that government responses to the disruptions in the financial and broader industrial markets will restore market confidence.

**Availability of and volatility in energy costs or raw material prices may adversely affect our performance.**

In the normal course of business, we are exposed to market risks related to the availability of and price fluctuations in 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

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prices for other raw materials, including metals, chemicals and energy costs. Our operating margins will be dependent on our ability to manage the impact of volatility in supply and related costs.

**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 March 31, 2009, we were a co-defendant in cases alleging manganese induced illness involving claims by approximately 3,762 plaintiffs and a co-defendant in cases alleging asbestos induced illness involving claims by approximately 20,823 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: 12,831 of those claims were dismissed, 20 were tried to defense verdicts in favor of us and four 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 (which was reversed by an intermediate appellate court on November 26, 2008 and is the subject of further appellate review). Since January 1, 1995, we have been a co-defendant in asbestos cases that have been resolved as follows: 34,700 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 555 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 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 cyclicity 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

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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 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 any acquired business with our existing businesses or recognize expected benefits from any completed acquisition.

**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 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. International business subjects us to numerous U.S. and foreign laws and regulations, including regulations relating to import-export control, technology transfer restrictions, repatriation of earnings, exchange controls, anti-boycott provisions and anti-bribery laws (such as the Foreign Corrupt Practices Act and the Organization for Economic Cooperation and Development Convention). Failure by the Company or its sales representatives or agents to comply with these laws and regulations could result in administrative, civil or criminal liabilities, all or any of which could negatively impact our business and reputation.

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

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in China has been facilitated in part 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 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**



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(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)

May 1, 2009

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