

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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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)
ASSETS		
Current Assets		
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
Total Current Assets	951,708	1,024,726
Property, Plant and Equipment		
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
Property, Plant and Equipment, Net	418,066	427,902
Other Assets		
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
Total Other Assets	258,875	266,177
TOTAL ASSETS	\$ 1,628,649	\$ 1,718,805

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)
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
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
Total Current Liabilities	310,409	356,642
Long-Term Liabilities		
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
Total Long-Term Liabilities	341,851	352,190
Shareholders Equity		
Preferred shares, without par value at stated capital amount; authorized - 5,000,000 shares; issued and outstanding - none		
Common shares, without par value at stated capital amount; authorized - 120,000,000 shares; issued - 49,290,717 shares in 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)
Total Shareholders Equity	961,735	995,216
Noncontrolling Interest	14,654	14,757
Total Equity	976,389	1,009,973
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,628,649	\$ 1,718,805

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
CASH FLOWS FROM OPERATING ACTIVITIES		
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
NET CASH PROVIDED BY OPERATING ACTIVITIES	71,663	67,523
CASH FLOWS FROM INVESTING ACTIVITIES		
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
NET CASH USED BY INVESTING ACTIVITIES	(13,373)	(21,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
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)
NET CASH USED BY FINANCING ACTIVITIES	(40,628)	(27,438)

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

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 31,	
	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 31,	
	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: