

LINCOLN ELECTRIC HOLDINGS INC

Form 10-Q

April 26, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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)

Not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares outstanding of the registrant's common shares as of March 31, 2019 was 62,799,738.

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| <u>EX-31.1</u> <u>Certification of the Chairman, President and Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u> | |
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| <u>EX-32.1</u> <u>Certification of the Chairman, President and Chief Executive Officer (Principal Executive Officer) and Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | |
| EX-101 Instance Document | |
| EX-101 Schema Document | |
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LINCOLN ELECTRIC HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(In thousands, except per share amounts)

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2019 | 2018 |
| Net sales (Note 2) | \$759,174 | \$757,696 |
| Cost of goods sold | 500,753 | 501,142 |
| Gross profit | 258,421 | 256,554 |
| Selling, general & administrative expenses | 160,408 | 161,191 |
| Rationalization and asset impairment charges (Note 6) | 3,535 | 10,175 |
| Operating income | 94,478 | 85,188 |
| Interest expense, net | 5,323 | 4,441 |
| Other income (expense) (Note 14) | 3,763 | 3,451 |
| Income before income taxes | 92,918 | 84,198 |
| Income taxes (Note 15) | 21,452 | 23,378 |
| Net income including non-controlling interests | 71,466 | 60,820 |
| Non-controlling interests in subsidiaries' earnings (loss) | (14) | (4) |
| Net income | \$71,480 | \$60,824 |
| Basic earnings per share (Note 3) | \$1.13 | \$0.93 |
| Diluted earnings per share (Note 3) | \$1.12 | \$0.92 |
| Cash dividends declared per share | \$0.47 | \$0.39 |

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (UNAUDITED)
 (In thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2019 | 2018 |
| Net income including non-controlling interests | \$71,466 | \$60,820 |
| Other comprehensive income, net of tax: | | |
| Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax of \$122 and \$334 in the three months ended March 31, 2019 and 2018 | 329 | 855 |
| Defined benefit pension plan activity, net of tax of \$227 and \$431 in the three months ended March 31, 2019 and 2018 | 787 | 1,287 |
| Currency translation adjustment | 5,136 | 19,387 |
| Other comprehensive income: | 6,252 | 21,529 |
| Comprehensive income | 77,718 | 82,349 |
| Comprehensive income attributable to non-controlling interests | 23 | 55 |
| Comprehensive income attributable to shareholders | \$77,695 | \$82,294 |

See notes to these consolidated financial statements.

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

| | March 31, 2019 | December 31, 2018 |
|---|---------------------|----------------------|
| | (UNAUDITED) | (NOTE 1) |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 267,134 | \$ 358,849 |
| Accounts receivable (less allowance for doubtful accounts of \$13,501 in 2019; \$12,827 in 2018) | 423,187 | 396,885 |
| Inventories (Note 9) | 375,737 | 361,829 |
| Other current assets | 127,112 | 120,236 |
| Total Current Assets | 1,193,170 | 1,237,799 |
| Property, plant and equipment (less accumulated depreciation of \$792,447 in 2019; \$778,817 in 2018) | 476,876 | 478,801 |
| Goodwill | 282,512 | 281,294 |
| Other assets | 402,293 | 351,931 |
| TOTAL ASSETS | \$ 2,354,851 | \$ 2,349,825 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Short-term debt (Note 12) | \$ 110 | \$ 111 |
| Trade accounts payable | 252,840 | 268,600 |
| Accrued employee compensation and benefits | 87,126 | 94,202 |
| Other current liabilities | 185,451 | 175,269 |
| Total Current Liabilities | 525,527 | 538,182 |
| Long-term debt, less current portion (Note 12) | 705,725 | 702,549 |
| Other liabilities | 258,934 | 221,502 |
| Total Liabilities | 1,490,186 | 1,462,233 |
| Shareholders' Equity | | |
| Common shares | 9,858 | 9,858 |
| Additional paid-in capital | 364,418 | 360,308 |
| Retained earnings | 2,605,265 | 2,564,440 |
| Accumulated other comprehensive loss | (287,524) | (293,739) |
| Treasury shares | (1,828,025) | (1,753,925) |
| Total Shareholders' Equity | 863,992 | 886,942 |
| Non-controlling interests | 673 | 650 |
| Total Equity | 864,665 | 887,592 |
| TOTAL LIABILITIES AND TOTAL EQUITY | \$ 2,354,851 | \$ 2,349,825 |

See notes to these consolidated financial statements.

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

(In thousands, except per share amounts)

| | Common Shares Outstanding | Common Shares | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Shares | Non-controlling Interests | Ending Total |
|--|---------------------------------|------------------|----------------------------------|----------------------|---|--------------------|------------------------------|-----------------|
| Balance at December 31, 2018 | 63,546 | \$ 9,858 | \$ 360,308 | \$ 2,564,440 | \$ (293,739) | \$ (1,753,925) | \$ 650 | \$ 887,592 |
| Net income | | | | 71,480 | | | (14) | 71,466 |
| Unrecognized amounts from defined benefit pension plans, net of tax | | | | | 787 | | | 787 |
| Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax | | | | | 329 | | | 329 |
| Currency translation adjustment | | | | | 5,099 | | 37 | 5,136 |
| Cash dividends declared – \$0.47 per share | | | | (29,847) | | | | (29,847) |
| Stock-based compensation activity | 148 | | 3,302 | | | 1,484 | | 4,786 |
| Purchase of shares for treasury | (894) | | | | | (75,584) | | (75,584) |
| Other | | | 808 | (808) | | | | — |
| Balance at March 31, 2019 | 62,800 | \$ 9,858 | \$ 364,418 | \$ 2,605,265 | \$ (287,524) | \$ (1,828,025) | \$ 673 | \$ 864,665 |

| | Common Shares Outstanding | Common Shares | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Shares | Non-controlling Interests | Ending Total |
|---|---------------------------------|------------------|----------------------------------|----------------------|---|--------------------|------------------------------|-----------------|
| Balance at December 31, 2017 | 65,663 | \$ 9,858 | \$ 334,309 | \$ 2,388,219 | \$ (247,186) | \$ (1,553,563) | \$ 816 | \$ 932,453 |
| Net income | | | | 60,824 | | | (4) | 60,820 |
| Unrecognized amounts from defined benefit pension plans, net of tax | | | | | 1,287 | | | 1,287 |

| | | | | | | | | |
|--|--------|----------|------------|--------------|--------------|---------------|--------|------------|
| Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax | | | | | 855 | | | 855 |
| Currency translation adjustment | | | | | 19,328 | | 59 | 19,387 |
| Cash dividends declared – \$0.39 per share | | | | (25,787) | | | | (25,787) |
| Stock-based compensation | 55 | | 5,819 | | | 562 | | 6,381 |
| Purchase of shares for treasury | (159) | | | | | (14,724) | | (14,724) |
| Other | | | 5,483 | (5,483) | | | | — |
| Balance at March 31, 2018 | 65,559 | \$ 9,858 | \$ 345,611 | \$ 2,417,773 | \$(225,716) | \$(1,567,725) | \$ 871 | \$ 980,672 |

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

| | Three Months Ended March 31, | |
|---|---------------------------------|------------------|
| | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$71,480 | \$60,824 |
| Non-controlling interests in subsidiaries' loss | (14 |) (4 |
| Net income including non-controlling interests | 71,466 | 60,820 |
| Adjustments to reconcile Net income including non-controlling interests to Net cash provided by operating activities: | | |
| Rationalization and asset impairment net charges (Note 6) | 1,424 | 676 |
| Depreciation and amortization | 18,901 | 18,134 |
| Equity earnings in affiliates, net | (448 |) (538 |
| Deferred income taxes | 1,317 | 7,955 |
| Stock-based compensation | 4,149 | 4,419 |
| Other, net | (1,072 |) (5,072 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Increase in accounts receivable | (26,900 |) (40,468 |
| Increase in inventories | (14,638 |) (28,052 |
| Increase in other current assets | (8,701 |) (1,458 |
| (Decrease) increase in trade accounts payable | (15,107 |) 3,191 |
| (Decrease) increase in other current liabilities | (5,947 |) 22,966 |
| Net change in other assets and liabilities | 1,434 | 1,204 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 25,878 | 43,777 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (16,251 |) (14,657 |
| Acquisition of businesses, net of cash acquired | — | 6,235 |
| Proceeds from sale of property, plant and equipment | 302 | 118 |
| Purchase of marketable securities | — | (89,545 |
| Proceeds from marketable securities | — | 131,966 |
| Other investing activities | 2,000 | — |
| NET CASH (USED BY) PROVIDED BY INVESTING ACTIVITIES | (13,949 |) 34,117 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Amounts due banks, net | — | (60 |
| Payments on long-term borrowings | (3 |) (3 |
| Proceeds from exercise of stock options | 637 | 1,962 |
| Purchase of shares for treasury (Note 8) | (75,584 |) (14,724 |
| Cash dividends paid to shareholders | (30,560 |) (25,661 |
| NET CASH USED BY FINANCING ACTIVITIES | (105,510 |) (38,486 |
| Effect of exchange rate changes on Cash and cash equivalents | 1,866 | 2,947 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (91,715 |) 42,355 |
| Cash and cash equivalents at beginning of period | 358,849 | 326,701 |

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$267,134 \$369,056

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except per share amounts

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

As used in this report, the term “Company,” except as otherwise indicated by the context, means Lincoln Electric Holdings, Inc. and its wholly-owned and majority-owned subsidiaries for which it has a controlling interest.

The consolidated financial statements include the accounts of all legal entities in which the Company holds a controlling interest. The Company is also considered to have a controlling interest in a variable interest entity (“VIE”) if the Company determines it is the primary beneficiary of the VIE. Investments in legal entities in which the Company does not own a majority interest but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method.

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 unaudited 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 unaudited consolidated financial statements contain all the adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position, results of operations and cash flows for the interim periods. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019.

The accompanying Consolidated Balance Sheet at December 31, 2018 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, 2018.

New Accounting Pronouncements:

This section provides a description of new accounting pronouncements (“Accounting Standard Update” or “ASU”) issued by the Financial Accounting Standards Board (“FASB”) that are applicable to the Company.

The following ASUs were adopted as of January 1, 2019:

| Standard | Description |
|---|---|
| ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), issued February 2018. | ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the “U.S. Tax Act”). The ASU only applies to the income tax effects of the U.S. Tax Act; all other existing guidance remains the same. The Company has elected not to reclassify the income tax effects of the U.S. Tax Act from Accumulated other comprehensive loss to Retained earnings. |
| ASU No. 2016-02, Leases (Topic 842), issued February 2016 | ASU 2016-02 (“Topic 842”) aims to increase transparency and comparability among organizations by recognizing a right of use asset and lease liability on the balance sheet for all leases with a lease term greater than twelve months. Topic 842 also requires the disclosure of key information about leasing agreements. The Company adopted Topic 842 using the modified retrospective transition option of applying the new standard at the adoption date. The Company also elected the package of practical expedients, which among other things, allows it to not reassess the identification, classification and initial direct costs of leases commencing before the effective date of Topic 842. Refer to Note 10 to the consolidated financial statements for further details. |

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The Company is currently evaluating the impact on its financial statements of the following ASUs:

| Standard | Description |
|--|---|
| ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20), issued August 2018. | ASU 2018-14 modifies disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU also requires an entity to disclose the weighted-average interest crediting rates for cash balance plans and to explain the reasons for significant gains and losses related to changes in the benefit obligation. The ASU is effective January 1, 2020 and early adoption is permitted. |
| ASU No. 2018-13, Fair Value Measurement (Topic 944), issued August 2018. | ASU 2018-13 eliminates, amends and adds disclosure requirements related to fair value measurements. The ASU impacts various elements of fair value disclosure, including but not limited to, changes in unrealized gains or losses, significant unobservable inputs and measurement uncertainty. The ASU is effective January 1, 2020 and early adoption is permitted. |

NOTE 2 — REVENUE RECOGNITION

The following table presents the Company's Net sales disaggregated by product line:

| | Three Months Ended March 31, | |
|-------------|---------------------------------|-----------|
| | 2019 | 2018 |
| Consumables | \$442,958 | \$441,891 |
| Equipment | 316,216 | 315,805 |
| Net sales | \$759,174 | \$757,696 |

Consumable sales consist of electrodes, fluxes, specialty welding consumables and brazing and soldering alloys. Equipment sales consist of arc welding power sources, welding accessories, fabrication, plasma cutters, wire feeding systems, robotic welding packages, integrated automation systems, automation components, fume extraction equipment, CNC plasma and oxy-fuel cutting systems and regulators and torches used in oxy-fuel welding, cutting and brazing. Consumable and Equipment products are sold within each of the Company's operating segments. Substantially all of the Company's sales arrangements are short-term in nature involving a single performance obligation. The Company recognizes revenue when the performance obligation is satisfied and control of the product is transferred to the customer based upon shipping terms.

Within the Equipment product line, there are certain customer contracts related to automation products that may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines the standalone selling price based on the prices charged to customers or using expected cost plus margin. In addition, certain customized automation performance obligations within the Equipment product line, are accounted for over time. Under this method, revenue recognition is primarily based upon the ratio of costs incurred to date compared with estimated total costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses. Less than 10% of the Company's Net sales are recognized over time. At March 31, 2019, the Company recorded \$15,929 related to advance customer payments and \$12,244 related to billings in excess of revenue recognized. These contract liabilities are included in Other current liabilities in the Condensed Consolidated Balance Sheets. At December 31, 2018, the balances related to advance customer payments and billings in excess of revenue recognized were \$17,023 and \$17,013, respectively. Substantially all of the Company's contract liabilities are recognized within twelve months based on contract duration. The Company records an asset for contracts where it has recognized revenue, but has not yet invoiced the customer for goods or services. At March 31, 2019 and December 31, 2018, \$35,378 and \$25,032, respectively, related to these future customer receivables was included in Other current assets in the Condensed Consolidated Balance Sheets. Contract asset

amounts are expected to be billed within the next twelve months.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 3 — EARNINGS PER SHARE

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2019 | 2018 |
| Numerator: | | |
| Net income | \$71,480 | \$60,824 |
| Denominator (shares in 000's): | | |
| Basic weighted average shares outstanding | 63,160 | 65,579 |
| Effect of dilutive securities - Stock options and awards | 739 | 864 |
| Diluted weighted average shares outstanding | 63,899 | 66,443 |
| Basic earnings per share | \$1.13 | \$0.93 |
| Diluted earnings per share | \$1.12 | \$0.92 |

For the three months ended March 31, 2019 and 2018, common shares subject to equity-based awards of 498,694 and 174,325, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

NOTE 4 — ACQUISITIONS

During April 2019, the Company acquired Baker Industries, Inc. ("Baker"). Baker, based in Detroit, Michigan, is a provider of custom tooling, parts and fixtures primarily serving automotive and aerospace markets. The acquisition will complement the Company's automation portfolio and its metal additive manufacturing service business.

During December 2018, the Company acquired the soldering business of Worthington Industries ("Worthington"). The Worthington business, based in Winston Salem, North Carolina, broadens The Harris Products Group's portfolio of industry-leading consumables with the addition of premium solders and fluxes.

Also during December 2018, the Company acquired Coldwater Machine Company ("Coldwater") and Pro Systems. Coldwater, based in Coldwater, Ohio, is a flexible automation integrator and precision machining and assembly manufacturer serving diverse end markets. Pro Systems, based in Churubusco, Indiana, is an automation systems designer and integrator serving automotive, industrial, electrical and medical applications. The acquisitions accelerate growth and expand the Company's industry-leading portfolio of automated cutting and joining solutions.

Also during December 2018, the Company acquired Inovatech Engineering Corporation ("Inovatech"). Inovatech, based in Ontario, Canada, is a manufacturer of advanced robotic plasma cutting solutions for structural steel applications. The acquisition scales the Company's automated cutting solutions and application expertise and supports long-term growth in that market.

Pro forma information related to the acquisitions discussed above has not been presented because the impact on the Company's Consolidated Statements of Income is not material. Acquired companies are included in the Company's consolidated financial statements as of the date of acquisition.

NOTE 5 — SEGMENT INFORMATION

The Company's business units are aligned into three operating segments. The operating segments consist of Americas Welding, International Welding and The Harris Products Group. The Americas Welding segment includes welding operations in North and South America. The International Welding segment includes welding operations in Europe, Africa, Asia and Australia. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as its retail business in the United States.

Segment performance is measured and resources are allocated based on a number of factors, the primary measure being the adjusted earnings before interest and income taxes ("Adjusted EBIT") profit measure. EBIT is defined as

Operating income plus Other income (expense). EBIT is adjusted for special items as determined by management such as the impact of rationalization activities, certain asset impairment charges and gains or losses on disposals of assets.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The following table presents Adjusted EBIT by segment:

| | Americas Welding | International Welding | The Harris Products Group | Corporate / Eliminations | Consolidated |
|-------------------------------------|---------------------|--------------------------|---------------------------------|-----------------------------|--------------|
| Three Months Ended March 31, 2019 | | | | | |
| Net sales | \$457,719 | \$ 218,086 | \$ 83,369 | \$ — | \$ 759,174 |
| Inter-segment sales | 29,388 | 4,209 | 1,867 | (35,464) | — |
| Total | \$487,107 | \$ 222,295 | \$ 85,236 | \$ (35,464) | \$ 759,174 |
| Adjusted EBIT | \$81,752 | \$ 13,337 | \$ 10,519 | \$ (3,042) | \$ 102,566 |
| Special items charge ⁽¹⁾ | 1,336 | 2,199 | — | 790 | 4,325 |
| EBIT | \$80,416 | \$ 11,138 | \$ 10,519 | \$ (3,832) | \$ 98,241 |
| Interest income | | | | | 964 |
| Interest expense | | | | | (6,287) |
| Income before income taxes | | | | | \$ 92,918 |
| Three Months Ended March 31, 2018 | | | | | |
| Net sales | \$434,772 | \$ 247,320 | \$ 75,604 | \$ — | \$ 757,696 |
| Inter-segment sales | 26,586 | 4,509 | 1,907 | (33,002) | — |
| Total | \$461,358 | \$ 251,829 | \$ 77,511 | \$ (33,002) | \$ 757,696 |
| Adjusted EBIT | \$77,439 | \$ 14,973 | \$ 9,225 | \$ (158) | \$ 101,479 |
| Special items charge ⁽²⁾ | 758 | 10,175 | — | 1,907 | 12,840 |
| EBIT | \$76,681 | \$ 4,798 | \$ 9,225 | \$ (2,065) | \$ 88,639 |
| Interest income | | | | | 1,472 |
| Interest expense | | | | | (5,913) |
| Income before income taxes | | | | | \$ 84,198 |

In the three months ended March 31, 2019, special items reflect Rationalization and asset impairment charges of (1) \$1,336 in Americas Welding and \$2,199 in International Welding and transaction and integration costs of \$790 in Corporate / Eliminations related to the Air Liquide Welding acquisition.

In the three months ended March 31, 2018, special items reflect pension settlement charges of \$758 in Americas (2) Welding, Rationalization and asset impairment charges of \$10,175 in International Welding and transaction and integration costs of \$1,907 in Corporate / Eliminations related to the Air Liquide Welding acquisition.

NOTE 6 — RATIONALIZATION AND ASSET IMPAIRMENTS

The Company recorded rationalization and asset impairment net charges of \$3,535 in the three months ended March 31, 2019. The 2019 charges are primarily related to employee severance, asset impairments and gains or losses on the disposal of assets.

During 2019, the Company initiated rationalization plans within International Welding. The plans include headcount restructuring and the consolidation of manufacturing operations to better align the cost structure with economic conditions and operating needs. At March 31, 2019, liabilities of \$927 were recognized in Other current liabilities in the Company's Condensed Consolidated Balance Sheet.

During 2018, the Company initiated rationalization plans within International Welding. The plans include headcount restructuring and the consolidation of manufacturing operations to better align the cost structure with economic conditions and operating needs. At March 31, 2019, liabilities of \$4,802 were recognized in Other current liabilities in

the Company's Condensed Consolidated Balance Sheet.

The Company believes the rationalization actions will positively impact future results of operations and will not have a material effect on liquidity and sources and uses of capital. The Company continues to evaluate its cost structure and additional rationalization actions may result in charges in future periods.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The following table summarizes the activity related to rationalization liabilities:

| | |
|--------------------------------|---|
| | Three Months Ended March 31, 2019 |
| Balance at December 31, 2018 | \$11,192 |
| Payments and other adjustments | (6,769) |
| Charged to expense | 2,111 |
| Balance at March 31, 2019 | \$6,534 |

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ("AOCI")

The following tables set forth the total changes in accumulated other comprehensive income (loss) ("AOCI") by component, net of taxes, for the three months ended March 31, 2019 and 2018:

| | | | | |
|---|--|---|---------------------------------------|--------------------|
| | Three Months Ended March 31, 2019 | | | |
| | Unrealized gain (loss) on derivative designated and qualifying activity as cash flow hedges | Defined benefit pension plan activity | Currency translation adjustment | Total |
| Balance at December 31, 2018 | \$1,694 | \$(82,049) | \$(213,384) | \$(293,739) |
| Other comprehensive income (loss) before reclassification | 682 | — | 5,099 | ³ 5,781 |
| Amounts reclassified from AOCI | (353) ¹ | 787 | ² — | 434 |
| Net current-period other comprehensive income (loss) | 329 | 787 | 5,099 | 6,215 |
| Balance at March 31, 2019 | \$2,023 | \$(81,262) | \$(208,285) | \$(287,524) |

| | | | | |
|--|--|---|---------------------------------------|-------|
| | Three Months Ended March 31, 2018 | | | |
| | Unrealized gain (loss) on derivative designated and qualifying activity as cash flow | Defined benefit pension plan activity | Currency translation adjustment | Total |

| | | hedges | | | |
|---|---------|--------------------|----------------|--------------|-------------|
| Balance at December 31, 2017 | \$875 | \$(85,277) | \$(162,784) | | \$(247,186) |
| Other comprehensive income (loss) before reclassification | 1,010 | — | 19,328 | ³ | 20,338 |
| Amounts reclassified from AOCI | (155) | ¹ 1,287 | ² — | | 1,132 |
| Net current-period other comprehensive income (loss) | 855 | 1,287 | 19,328 | | 21,470 |
| Balance at March 31, 2018 | \$1,730 | \$(83,990) | \$(143,456) | | \$(225,716) |

(1) During the 2019 period, this AOCI reclassification is a component of Net sales of \$286 (net of tax of \$102) and Cost of goods sold of \$(67) (net of tax of \$(30)); during the 2018 period, the reclassification is a component of Net sales of \$135 (net of tax of \$8) and Cost of goods sold of \$(20) (net of tax of \$(13)). See Note 16 to the consolidated financial statements for additional details.

(2) This AOCI component is included in the computation of net periodic pension costs (net of tax of \$227 and \$431 during the three months ended March 31, 2019 and 2018, respectively). See Note 13 to the consolidated financial statements for additional details.

(3) The Other comprehensive income (loss) before reclassifications excludes \$37 and \$59 attributable to Non-controlling interests in the three months ended March 31, 2019 and 2018, respectively.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 8 — COMMON STOCK REPURCHASE PROGRAM

The Company has a share repurchase program for up to 55 million shares of the Company's common shares. From time to time at management's discretion, the Company repurchases its common shares in the open market, depending on market conditions, stock price and other factors. During the quarter ended March 31, 2019, the Company purchased a total of 0.8 million shares at an average cost per share of \$84.34. As of March 31, 2019, there remained 5.3 million common shares available for repurchase under this program. The repurchased common shares remain in treasury and have not been retired.

NOTE 9 — INVENTORIES

Inventories in the Condensed Consolidated Balance Sheets are comprised of the following components:

| | March 31, December 31, | |
|-----------------|------------------------|------------|
| | 2019 | 2018 |
| Raw materials | \$ 100,283 | \$ 103,820 |
| Work-in-process | 59,108 | 53,950 |
| Finished goods | 216,346 | 204,059 |
| Total | \$ 375,737 | \$ 361,829 |

At March 31, 2019 and December 31, 2018, approximately 38% and 37%, respectively, of total inventories were valued using the last-in, first out ("LIFO") method. The excess of current cost over LIFO cost was \$79,647 and \$79,626 at March 31, 2019 and December 31, 2018, respectively.

NOTE 10 — LEASES

On January 1, 2019, the Company adopted Topic 842 using the modified retrospective transition option. The adoption of Topic 842 resulted in the recording of right-of-use assets and lease liabilities for the Company's operating leases as detailed below:

| | | March |
|-------------------------|------------------------------|-----------|
| | Balance Sheet Classification | 31, |
| | | 2019 |
| Operating Leases | | |
| Right-of-use assets | Other assets | \$53,159 |
| Current liabilities | Other current liabilities | \$ 14,410 |
| Noncurrent liabilities | Other liabilities | 39,187 |
| Total lease liabilities | | \$53,597 |

Topic 842 did not materially impact our consolidated net earnings, cash flows or debt covenants.

The Company determines if an agreement is a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's operating leases do not provide an implicit rate, the Company uses a discount rate based on information available at commencement date to present value the lease payments.

The Company has operating leases for sales offices, manufacturing facilities, warehouses and distribution centers, transportation equipment, office equipment and information technology equipment. Some of these leases are noncancelable. Most leases include one or more options to renew, which can extend the lease term from one to 15 years or more. The exercise of lease renewal options is at the Company's sole discretion. Certain leases also include options to purchase the leased property. Leases with an initial term of 12 months or less are not recorded on the Company's Condensed Consolidated Balance sheets. The Company recognizes lease expense for these leases on a

straight-line basis over the lease term.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Total lease expense, which is included in Cost of goods sold and Selling, general and administrative expenses in the Company's Consolidated Statements of Income, was \$5,888 in the three months ended March 31, 2019. Cash paid for amounts included in the measurement of lease liabilities for the three months ended March 31, 2019 was \$4,684 and is included in Net cash

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

provided by operating activities in the Company's Consolidated Statements of Cash Flows. Right-of-use assets obtained in exchange for operating lease liabilities for the three months ended March 31, 2019 was \$4,956.

The total future minimum lease payments for noncancelable operating leases were as follows:

| | |
|-----------------------------|-----------|
| | March |
| | 31, 2019 |
| 2019 | \$ 13,770 |
| 2020 | 12,578 |
| 2021 | 9,105 |
| 2022 | 6,669 |
| 2023 | 5,153 |
| After 2023 | 14,766 |
| Total lease payments | \$62,041 |
| Less: Imputed interest | (8,444) |
| Operating lease liabilities | \$53,597 |

As of March 31, 2019, the weighted average remaining lease term is 6.6 years and the weighted average discount rate used to determine the operating lease liability is 3.6%.

NOTE 11 — PRODUCT WARRANTY COSTS

The changes in the carrying amount of product warranty accruals are as follows:

| | | |
|--|-----------------|-----------|
| | Three Months | |
| | Ended March 31, | |
| | 2019 | 2018 |
| Balance at beginning of year | \$ 19,778 | \$ 22,029 |
| Accruals for warranties | 2,847 | 1,111 |
| Settlements | (2,663) | (2,301) |
| Foreign currency translation and other adjustments | (19) | 110 |
| Balance at March 31 | \$ 19,943 | \$ 20,949 |

NOTE 12 — DEBT

Revolving Credit Agreement

The Company has a line of credit totaling \$400,000 through the Amended and Restated Credit Agreement (the "Credit Agreement"). The Credit Agreement has a five-year term and may be increased, subject to certain conditions, by an additional amount up to \$100,000. The interest rate on borrowings is based on either the London Inter-Bank Offered Rate ("LIBOR") or the prime rate, plus a spread based on the Company's leverage ratio, at the Company's election. The Company amended and restated the Credit Agreement on June 30, 2017, extending the maturity of the line of credit to June 30, 2022. The Credit Agreement contains customary affirmative, negative and financial covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to liens, investments, distributions, mergers and acquisitions, dispositions of assets, transactions with affiliates and a fixed charges coverage ratio and total leverage ratio. As of March 31, 2019, the Company was in compliance with all of its covenants and had no outstanding borrowings under the Credit Agreement.

Senior Unsecured Notes

On April 1, 2015 and October 20, 2016, the Company entered into separate Note Purchase Agreements pursuant to which it issued senior unsecured notes (the "Notes") through a private placement. The 2015 Notes and 2016 Notes each have an aggregate principal amount of \$350,000, comprised of four different series ranging from \$50,000 to \$100,000, with maturity dates ranging from August 20, 2025 through April 1, 2045, and interest rates ranging from

2.75% and 4.02%. Interest on the Notes is paid semi-annually. The Company's total weighted average effective interest rate and remaining weighted average tenure of the Notes is 3.3% and 15 years, respectively. The proceeds of the Notes were used for general corporate purposes.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The Notes contain certain affirmative and negative covenants. As of March 31, 2019, the Company was in compliance with all of its debt covenants relating to the Notes.

Shelf Agreements

On November 27, 2018, the Company entered into seven uncommitted master note facilities (the "Shelf Agreements") that allow borrowings up to \$700,000 in the aggregate. The Shelf Agreements have a five-year term and the average life of borrowings cannot exceed 15 years. The Company is required to comply with covenants similar to those contained in the Notes. As of March 31, 2019, the Company was in compliance with all of its covenants and had no outstanding borrowings under the Shelf Agreements.

NOTE 13 — RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

The components of total pension cost were as follows:

| | Three Months Ended March 31, | | | |
|------------------------------------|------------------------------|----------|----------|----------|
| | 2019 | | 2018 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| | pension | pension | pension | pension |
| | plans | plans | plans | plans |
| Service cost | \$35 | \$ 728 | \$35 | \$ 851 |
| Interest cost | 4,653 | 936 | 4,494 | 970 |
| Expected return on plan assets | (6,245) | (1,124) | (6,916) | (1,274) |
| Amortization of prior service cost | — | 16 | — | 1 |
| Amortization of net loss | 413 | 585 | 384 | 575 |
| Settlement charges ⁽¹⁾ | — | — | 758 | — |
| Defined benefit plans | (1,144) | 1,141 | (1,245) | 1,123 |
| Multi-employer plans | — | 247 | — | 227 |
| Defined contribution plans | 5,908 | 499 | 5,894 | 829 |
| Total pension cost | \$4,764 | \$ 1,887 | \$4,649 | \$ 2,179 |

(1) Pension settlement charges resulting from lump sum pension payments in the three months ended March 31, 2018. The defined benefit plan components of Total pension cost, other than service cost, are included in Other income (expense) in the Company's Consolidated Statements of Income.

NOTE 14 — OTHER INCOME (EXPENSE)

The components of Other income (expense) were as follows:

| | Three Months | |
|---|--------------|---------|
| | Ended March | |
| | 2019 | 2018 |
| Equity earnings in affiliates | \$1,006 | \$1,200 |
| Other components of net periodic pension (cost) income ⁽¹⁾ | 766 | 1,008 |
| Other income | 1,991 | 1,243 |
| Total Other income (expense) | \$3,763 | \$3,451 |

(1) Includes pension settlement charges in the three months ended March 31, 2018 of \$758. Refer to Note 13 to the consolidated financial statements for details.

NOTE 15 — INCOME TAXES

The Company recognized \$21,452 of tax expense on pretax income of \$92,918, resulting in an effective income tax rate of 23.1% for the three months ended March 31, 2019. The effective income tax rate was 27.8% for the three months ended March 31, 2018.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The decrease in the effective tax rate for the three months ended March 31, 2019, as compared with the same period in 2018, was primarily due to an increase in the tax benefit related to the vesting of stock based compensation in 2019, rationalization charges in regions with low or no tax benefit recorded in 2018 and adjustments and incremental tax expense recorded in 2018 related to the U.S. Tax Act.

As of March 31, 2019, the Company had \$27,866 of unrecognized tax benefits. If recognized, approximately \$24,328 would be reflected as a component of income tax expense.

The Company files income tax returns in the U.S. and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2014. The Company is currently subject to U.S., various state and non-U.S. income tax audits.

Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted for changing facts and circumstances, including progress of tax audits and closing of statutes of limitations. Based on information currently available, management believes that additional audit activity could be completed and/or statutes of limitations may close relating to existing unrecognized tax benefits. It is reasonably possible there could be a reduction of \$1,753 in previously unrecognized tax benefits by the end of the first quarter 2020.

NOTE 16 — DERIVATIVES

The Company uses derivative instruments to manage exposures to currency exchange rates, interest rates and commodity prices arising in the normal course of business. Both at inception and on an ongoing basis, the derivative instruments that qualify for hedge accounting are assessed as to their effectiveness, when applicable. Hedge ineffectiveness was immaterial in the three months ended March 31, 2019 and 2018.

The Company is subject to the credit risk of the counterparties to derivative instruments. Counterparties include a number of major banks and financial institutions. None of the concentrations of risk with any individual counterparty was considered significant at March 31, 2019. The Company does not expect any counterparties to fail to meet their obligations.

Cash Flow Hedges

Certain foreign currency forward contracts were qualified and designated as cash flow hedges. The dollar equivalent gross notional amount of these short-term contracts was \$57,049 at March 31, 2019 and \$45,909 at December 31, 2018.

Fair Value Hedges

Certain interest rate swap agreements were qualified and designated as fair value hedges. At March 31, 2019, the Company had interest rate swap agreements outstanding that effectively convert notional amounts of \$125,000 of debt from a fixed interest rate to a variable interest rate based on three-month LIBOR plus a spread of between 0.5% and 1.8%. The variable rates reset every three months, at which time payment or receipt of interest will be settled.

Net Investment Hedges

From time to time, the Company executes foreign currency forward contracts that qualify and are designated as net investment hedges. No such contracts were outstanding at March 31, 2019 and December 31, 2018.

Derivatives Not Designated as Hedging Instruments

The Company has certain foreign exchange forward contracts that are not designated as hedges. These derivatives are held as economic hedges of certain balance sheet exposures. The dollar equivalent gross notional amount of these contracts was \$326,836 and \$328,534 at March 31, 2019 and December 31, 2018, respectively.

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

Fair values of derivative instruments in the Company's Condensed Consolidated Balance Sheets follow:

| Derivatives by hedge designation | March 31, 2019 | | | | December 31, 2018 | | | |
|--|----------------------|---------------------------|--------------|-------------------|----------------------|---------------------------|--------------|-------------------|
| | Other Current Assets | Other Current Liabilities | Other Assets | Other Liabilities | Other Current Assets | Other Current Liabilities | Other Assets | Other Liabilities |
| Designated as hedging instruments: | | | | | | | | |
| Foreign exchange contracts | \$738 | \$131 | \$— | \$— | \$647 | \$404 | \$— | \$— |
| Interest rate swap agreements | — | — | 1,063 | 4,657 | — | — | 302 | 7,033 |
| Not designated as hedging instruments: | | | | | | | | |
| Foreign exchange contracts | 5,546 | 1,931 | — | — | 6,375 | 829 | — | — |
| Total derivatives | \$6,284 | \$2,062 | \$1,063 | \$4,657 | \$7,022 | \$1,233 | \$302 | \$7,033 |

The effects of undesignated derivative instruments on the Company's Consolidated Statements of Income consisted of the following:

| Derivatives by hedge designation | Classification of gain (loss) | Three Months Ended March 31, | |
|----------------------------------|--|------------------------------|---------|
| | | 2019 | 2018 |
| Not designated as hedges: | | | |
| Foreign exchange contracts | Selling, general & administrative expenses | \$5,407 | \$8,655 |

The effects of designated hedges on AOCI and the Company's Consolidated Statements of Income consisted of the following:

The effects of designated hedges on AOCI and the Company's Consolidated Statements of Income consisted of the following:

| Total gain (loss) recognized in AOCI, net of tax | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| Foreign exchange contracts | \$502 | \$173 |
| Net investment contracts | 1,521 | 1,521 |

The Company expects a gain of \$502 related to existing contracts to be reclassified from AOCI, net of tax, to earnings over the next 12 months as the hedged transactions are realized.

| Derivative type | Gain (loss) recognized in the Consolidated Statements of Income: | Three Months Ended March 31, | |
|----------------------------|--|------------------------------|-------|
| | | 2019 | 2018 |
| Foreign exchange contracts | Sales | \$388 | \$143 |
| | Cost of goods sold | 97 | 33 |

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 17 - FAIR VALUE

The following table provides a summary of assets and liabilities as of March 31, 2019, measured at fair value on a recurring basis:

| Description | Balance as of March 31, 2019 | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|------------------------------|---|---|---|
| Assets: | | | | |
| Foreign exchange contracts | \$6,284 | \$ — | — \$ 6,284 | \$ — |
| Interest rate swap agreements | 1,063 | — | 1,063 | — |
| Total assets | \$7,347 | \$ — | — \$ 7,347 | \$ — |
| Liabilities: | | | | |
| Foreign exchange contracts | \$2,062 | \$ — | — \$ 2,062 | \$ — |
| Interest rate swap agreements | 4,657 | — | 4,657 | — |
| Contingent consideration | 1,000 | — | — | 1,000 |
| Deferred compensation | 28,174 | — | 28,174 | — |
| Total liabilities | \$35,893 | \$ — | — \$ 34,893 | \$ 1,000 |

The following table provides a summary of assets and liabilities as of December 31, 2018, measured at fair value on a recurring basis:

| Description | Balance as of December 31, 2018 | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|---------------------------------|---|---|---|
| Assets: | | | | |
| Foreign exchange contracts | \$ 7,022 | \$ — | — \$ 7,022 | \$ — |
| Interest rate swap agreements | 302 | — | 302 | — |
| Total assets | \$ 7,324 | \$ — | — \$ 7,324 | \$ — |
| Liabilities: | | | | |
| Foreign exchange contracts | \$ 1,233 | \$ — | — \$ 1,233 | \$ — |
| Interest rate swap agreements | 7,033 | — | 7,033 | — |
| Contingent considerations | 2,100 | — | — | 2,100 |
| Deferred compensation | 26,524 | — | 26,524 | — |
| Total liabilities | \$ 36,890 | \$ — | — \$ 34,790 | \$ 2,100 |

The Company's derivative contracts are valued at fair value using the market approach. The Company measures the fair value of foreign exchange contracts and interest rate swap agreements using Level 2 inputs based on observable spot and forward rates in active markets. During the three months ended March 31, 2019, there were no transfers between Levels 1, 2 or 3.

In connection with an acquisition, the Company recorded a contingent consideration liability, which will be paid based upon actual financial results of the acquired entity for a specified future period. The fair value of the contingent

consideration is a Level 3 valuation and fair valued using an option pricing model.

The deferred compensation liability is the Company's obligation under its executive deferred compensation plan. The Company measures the fair value of the liability using the market values of the participants' underlying investment fund elections.

The fair value of Cash and cash equivalents, Accounts receivable, Short-term debt excluding the current portion of long-term debt and Trade accounts payable approximated book value due to the short-term nature of these instruments at both March 31,

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LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

2019 and December 31, 2018. The fair value of long-term debt at March 31, 2019 and December 31, 2018, including the current portion, was approximately \$688,190 and \$649,714, respectively, which was determined using available market information and methodologies requiring judgment. The carrying value of this debt at such dates was \$705,835 and \$702,660, respectively. Since considerable judgment is required in interpreting market information, the fair value of the debt is not necessarily the amount that could be realized in a current market exchange.

The Company has various financial instruments, including cash and cash equivalents, short and long-term debt and forward contracts. While these financial instruments are subject to concentrations of credit risk, the Company has minimized this risk by entering into arrangements with a number of major banks and financial institutions and investing in several high-quality instruments. The Company does not expect any counterparties to fail to meet their obligations.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Company's unaudited consolidated financial statements and other financial information included elsewhere in this Quarterly Report on Form 10-Q.

General

The Company is the world's largest designer and manufacturer of arc welding and cutting products, manufacturing a broad line of arc welding equipment, consumable welding products and other welding and cutting products. Welding products include arc welding power sources, computer numerical control and plasma cutters, wire feeding systems, robotic welding packages, integrated automation systems, automation components, fume extraction equipment, consumable electrodes, fluxes and welding accessories and specialty welding consumables and fabrication. The Company's product offering also includes oxy-fuel cutting systems and regulators and torches used in oxy-fuel welding, cutting and brazing. In addition, the Company has a leading global position in the brazing and soldering alloys market.

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

The Company's business units are aligned into three operating segments. The operating segments consist of Americas Welding, International Welding and The Harris Products Group. The Americas Welding segment includes welding operations in North and South America. The International Welding segment includes welding operations in Europe, Africa, Asia and Australia. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as its retail business in the United States.

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Results of Operations

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

| | Three Months Ended March 31, | | | | | | Favorable (Unfavorable) 2019 vs 2018 | |
|---|------------------------------|------------|-----------|------------|---------|--------|--|--|
| | 2019 | | 2018 | | | | | |
| | Amount | % of Sales | Amount | % of Sales | \$ | % | | |
| Net sales | \$759,174 | | \$757,696 | | \$1,478 | 0.2 | % | |
| Cost of goods sold | 500,753 | | 501,142 | | 389 | 0.1 | % | |
| Gross profit | 258,421 | 34.0 % | 256,554 | 33.9 % | 1,867 | 0.7 | % | |
| Selling, general & administrative expenses | 160,408 | 21.1 % | 161,191 | 21.3 % | 783 | 0.5 | % | |
| Rationalization and asset impairment charges | 3,535 | | 10,175 | | 6,640 | 65.3 | % | |
| Operating income | 94,478 | 12.4 % | 85,188 | 11.2 % | 9,290 | 10.9 | % | |
| Interest expense, net | 5,323 | | 4,441 | | (882) | (19.9 | %) | |
| Other income (expense) | 3,763 | | 3,451 | | 312 | 9.0 | % | |
| Income before income taxes | 92,918 | 12.2 % | 84,198 | 11.1 % | 8,720 | 10.4 | % | |
| Income taxes | 21,452 | | 23,378 | | 1,926 | 8.2 | % | |
| Effective tax rate | 23.1 | % | 27.8 | % | 4.7 | % | | |
| Net income including non-controlling interests | 71,466 | | 60,820 | | 10,646 | 17.5 | % | |
| Non-controlling interests in subsidiaries' loss | (14) | | (4) | | (10) | (250.0 | %) | |
| Net income | \$71,480 | 9.4 % | \$60,824 | 8.0 % | 10,656 | 17.5 | % | |
| Diluted earnings per share | \$1.12 | | \$0.92 | | \$0.20 | 21.7 | % | |

Net Sales:

The following table summarizes the impact of volume, acquisitions, price and foreign currency exchange rates on Net sales for the three months ended March 31, 2019 on a consolidated basis:

| Three Months Ended March 31, | Change in Net Sales due to: | | | | | |
|---------------------------------|-----------------------------|------------|--------------|----------|---------------------|-------------------|
| | Net Sales 2018 | Volume | Acquisitions | Price | Foreign Exchange | Net Sales 2019 |
| Lincoln Electric Holdings, Inc. | \$757,696 | \$(27,351) | \$18,494 | \$34,353 | \$(24,018) | \$759,174 |
| % Change | | | | | | |
| Lincoln Electric Holdings, Inc. | | (3.6 %) | 2.4 % | 4.5 % | (3.2 %) | 0.2 % |

Net sales increased in the three months ended March 31, 2019 primarily as a result of acquisitions and stronger organic sales, partially offset by unfavorable foreign exchange. The increase in Net sales from acquisitions was driven by the acquisitions of Coldwater, Pro Systems and Inovatech within Americas Welding and Worthington within The Harris Products Group.

Gross Profit:

Gross profit for the three months ended March 31, 2019 increased, as a percent of sales, compared to the prior year due to price management and segment mix.

Selling, General & Administrative ("SG&A") Expenses:

The decrease in SG&A expenses for the three months ended March 31, 2019 as compared to March 31, 2018 is due to favorable foreign exchange, partially offset by higher expense from acquisitions.

Rationalization and Asset Impairment Charges:

The Company recorded net charges of \$3,535, \$2,814 after-tax, and \$10,175, \$7,870 after-tax, in the three months ended March 31, 2019 and 2018, respectively, primarily related to severance, asset impairments and gains or losses on the disposal of assets.

Interest Expense, Net:

The increase in Interest expense, net for the three months ended March 31, 2019 as compared to March 31, 2018 was due to lower interest income on marketable securities.

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Income Taxes:

The effective tax rate was lower for the three months ended March 31, 2019 as compared to March 31, 2018 primarily due to an increase in the tax benefit related to the vesting of stock based compensation in 2019, rationalization charges in regions with low or no tax benefit recorded in 2018 and adjustments and incremental tax expense recorded in 2018 related to the U.S. Tax Cuts and Job Act (the "U.S. Tax Act").

Net Income:

The increase in Net income for the three months ended March 31, 2019 as compared to March 31, 2018 was primarily due to higher Net sales, a lower effective tax rate and lower rationalization and asset impairment charges.

Segment Results

Net Sales: The table below summarizes the impact of volume, acquisitions, price and foreign currency exchange rates on Net sales for the three months ended March 31, 2019:

| Three Months Ended March 31, | Change in Net Sales due to: | | | | | |
|------------------------------|-----------------------------|-----------------------|--------------------------------|----------------------|---------------------|-------------------|
| | Net Sales 2018 | Volume ⁽¹⁾ | Acquisitions ⁽²⁾ | Price ⁽³⁾ | Foreign Exchange | Net Sales 2019 |
| Operating Segments | | | | | | |
| Americas Welding | \$434,772 | \$(12,395) | \$ 12,720 | \$27,428 | \$(4,806) | \$457,719 |
| International Welding | 247,320 | (17,917) | — | 6,475 | (17,792) | 218,086 |
| The Harris Products Group | 75,604 | 2,961 | 5,774 | 450 | (1,420) | 83,369 |
| % Change | | | | | | |
| Americas Welding | | (2.9 %) | 2.9 % | 6.3 % | (1.1 %) | 5.3 % |
| International Welding | | (7.2 %) | — | 2.6 % | (7.2 %) | (11.8 %) |
| The Harris Products Group | | 3.9 % | 7.6 % | 0.6 % | (1.9 %) | 10.3 % |

(1) Decrease for Americas Welding due to softer demand associated with the current economic environment. Decrease for International Welding due to integration activities and softer demand in the European market. Increase for The Harris Products Group driven primarily by higher consumables volume.

(2) Increase due to the acquisition of Coldwater, Pro Systems and Inovatech within Americas Welding and Worthington within The Harris Products Group. Refer to Note 4 to the consolidated financial statements for details.

(3) Increase for Americas Welding and International Welding segments due to increased product pricing as a result of higher input costs.

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Adjusted Earnings Before Interest and Income Taxes:

Segment performance is measured and resources are allocated based on a number of factors, the primary measure being the Adjusted EBIT profit measure. EBIT is defined as Operating income plus Other income (expense). EBIT is adjusted for special items as determined by management such as the impact of rationalization activities, certain asset impairment charges and gains or losses on disposals of assets.

The following table presents Adjusted EBIT by segment:

| | Three Months Ended | | Favorable (Unfavorable) 2019 vs. 2018 | | |
|--|--------------------|-------------|---|----------|----|
| | March 31, | | | | |
| | 2019 | 2018 | \$ | % | |
| Americas Welding: | | | | | |
| Net sales | \$457,719 | \$434,772 | \$22,947 | 5.3 | % |
| Inter-segment sales | 29,388 | 26,586 | 2,802 | 10.5 | % |
| Total Sales | \$487,107 | \$461,358 | 25,749 | 5.6 | % |
| Adjusted EBIT ⁽⁴⁾ | \$81,752 | \$77,439 | 4,313 | 5.6 | % |
| As a percent of total sales ⁽¹⁾ | 16.8 | % 16.8 | % | — | |
| International Welding: | | | | | |
| Net sales | \$218,086 | \$247,320 | (29,234) | (11.8 | %) |
| Inter-segment sales | 4,209 | 4,509 | (300) | (6.7 | %) |
| Total Sales | \$222,295 | \$251,829 | (29,534) | (11.7 | %) |
| Adjusted EBIT ⁽⁵⁾ | \$13,337 | \$14,973 | (1,636) | (10.9 | %) |
| As a percent of total sales ⁽²⁾ | 6.0 | % 5.9 | % | 0.1 | % |
| The Harris Products Group: | | | | | |
| Net sales | \$83,369 | \$75,604 | 7,765 | 10.3 | % |
| Inter-segment sales | 1,867 | 1,907 | (40) | (2.1 | %) |
| Total Sales | \$85,236 | \$77,511 | 7,725 | 10.0 | % |
| Adjusted EBIT | \$10,519 | \$9,225 | 1,294 | 14.0 | % |
| As a percent of total sales ⁽³⁾ | 12.3 | % 11.9 | % | 0.4 | % |
| Corporate / Eliminations: | | | | | |
| Inter-segment sales | \$(35,464) | \$(33,002) | 2,462 | 7.5 | % |
| Adjusted EBIT ⁽⁶⁾ | (3,042) | (158) | (2,884) | (1,825.3 | %) |
| Consolidated: | | | | | |
| Net sales | \$759,174 | \$757,696 | 1,478 | 0.2 | % |
| Net income | \$71,480 | \$60,824 | 10,656 | 17.5 | % |
| As a percent of total sales | 9.4 | % 8.0 | % | 1.4 | % |
| Adjusted EBIT ⁽⁷⁾ | \$102,566 | \$101,479 | 1,087 | 1.1 | % |
| As a percent of sales | 13.5 | % 13.4 | % | 0.1 | % |

(1) Margins were flat for the three months ended March 31, 2019 as compared to March 31, 2018.

(2) Increase for the three months ended March 31, 2019 as compared to March 31, 2018 driven by favorable product mix, partially offset by lower Net sales volumes.

(3) Increase for the three months ended March 31, 2019 as compared to March 31, 2018 driven by favorable sales mix associated with consumables volume increases.

(4) The three months ended March 31, 2019 exclude Rationalization and asset impairment charges of \$1,336 as discussed in Note 6 to the consolidated financial statements. The three months ended March 31, 2018 exclude

pension settlement charges of \$758 related to lump sum pension payments as discussed in Note 13 to the consolidated financial statements.

The three months ended March 31, 2019 and 2018 exclude Rationalization and asset impairment charges of \$2,199 (5) and \$10,175, respectively, related to severance, asset impairments and gains or losses on the disposal of assets as discussed in Note 6 to the consolidated financial statements.

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(6) The three months ended March 31, 2019 and 2018 exclude acquisition transaction and integration costs of \$790 and \$1,907, respectively, related to the Air Liquide Welding acquisition.

(7) See non-GAAP Financial Measures for a reconciliation of Net income as reported and Adjusted EBIT.

Non-GAAP Financial Measures

The Company reviews Adjusted operating income, Adjusted EBIT, Adjusted net income, Adjusted effective tax rate, Adjusted diluted earnings per share and Return on invested capital, all non-GAAP financial measures, in assessing and evaluating the Company's underlying operating performance. These non-GAAP financial measures exclude the impact of special items on the Company's reported financial results. Non-GAAP financial measures should be read in conjunction with the generally accepted accounting principles in the United States ("GAAP") financial measures, as non-GAAP measures are a supplement to, and not a replacement for, GAAP financial measures.

The following table presents the reconciliations of Operating income as reported to Adjusted operating income, Net income as reported to Adjusted net income and Adjusted EBIT, Effective tax rate as reported to Adjusted effective tax rate and Diluted earnings per share as reported to Adjusted diluted earnings per share:

| | Three Months Ended | | | |
|--|--------------------|-----------|--|--|
| | March 31, | | | |
| | 2019 | 2018 | | |
| Operating income as reported | \$94,478 | \$85,188 | | |
| Special items (pre-tax): | | | | |
| Rationalization and asset impairment charges ⁽¹⁾ | 3,535 | 10,175 | | |
| Acquisition transaction and integration costs ⁽²⁾ | 790 | 1,907 | | |
| Adjusted operating income | \$98,803 | \$97,270 | | |
| Net income as reported | \$71,480 | \$60,824 | | |
| Special items: | | | | |
| Rationalization and asset impairment charges ⁽¹⁾ | 3,535 | 10,175 | | |
| Acquisition transaction and integration costs ⁽²⁾ | 790 | 1,907 | | |
| Pension settlement charges ⁽³⁾ | — | 758 | | |
| Tax effect of Special items ⁽⁴⁾ | (813) | (381) | | |
| Adjusted net income | 74,992 | 73,283 | | |
| Non-controlling interests in subsidiaries' earnings (loss) | (14) | (4) | | |
| Interest expense, net | 5,323 | 4,441 | | |
| Income taxes as reported | 21,452 | 23,378 | | |
| Tax effect of Special items ⁽⁴⁾ | 813 | 381 | | |
| Adjusted EBIT | \$102,566 | \$101,479 | | |
| Effective tax rate as reported | 23.1 % | 27.8 % | | |
| Net special item tax impact | (0.2 %) | (3.3 %) | | |
| Adjusted effective tax rate | 22.9 % | 24.5 % | | |
| Diluted earnings per share as reported | \$1.12 | \$0.92 | | |
| Special items per share | \$0.05 | 0.18 | | |
| Adjusted diluted earnings per share | \$1.17 | \$1.10 | | |

(1) Charges primarily related to severance, asset impairments and gains or losses on the disposal of assets as discussed in Note 6 to the consolidated financial statements.

(2) Costs related to the Air Liquide Welding acquisition.

(3) Pension settlement charges related to lump sum pension payments as discussed in Note 13 to the consolidated financial statements.

(4) Includes the net tax impact of Special items recorded during the respective periods.

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The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

Liquidity and Capital Resources

The Company's cash flow from operations can be cyclical. Operational cash flow is a key driver of liquidity, providing cash and access to capital markets. In assessing liquidity, the Company reviews working capital measurements to define areas for improvement. Management anticipates the Company will be able to satisfy cash requirements for its ongoing businesses for the foreseeable future primarily with cash generated by operations, existing cash balances, borrowings under its existing credit facilities and raising debt in capital markets. The Company continues to expand globally and periodically looks at transactions that would involve significant investments. The Company can fund its global expansion plans with operational cash flow, but a significant acquisition may require access to capital markets, in particular, the long-term debt market, as well as the syndicated bank loan market. The Company's financing strategy is to fund itself at the lowest after-tax cost of funding. Where possible, the Company utilizes operational cash flows and raises capital in the most efficient market, usually the United States, and then lends funds to the specific subsidiary that requires funding. If additional acquisitions providing appropriate financial benefits become available, additional expenditures may be made.

The following table reflects changes in key cash flow measures:

| | Three Months Ended March 31, | | |
|---|------------------------------|-----------|-----------|
| | 2019 | 2018 | \$ Change |
| Cash provided by operating activities ⁽¹⁾ | \$25,878 | \$43,777 | (17,899) |
| Cash (used by) provided by investing activities ⁽²⁾ | (13,949) | 34,117 | (48,066) |
| Capital expenditures | (16,251) | (14,657) | (1,594) |
| Proceeds from marketable securities, net of purchases | — | 42,421 | (42,421) |
| Cash used by financing activities ⁽³⁾ | (105,510) | (38,486) | (67,024) |
| Purchase of shares for treasury | (75,584) | (14,724) | (60,860) |
| Cash dividends paid to shareholders | (30,560) | (25,661) | (4,899) |
| (Decrease) increase in Cash and cash equivalents ⁽⁴⁾ | (91,715) | 42,355 | |

(1) Cash provided by operating activities decreased for the three months ended March 31, 2019, compared with the three months ended March 31, 2018 primarily due to the timing of tax payments.

(2) Cash used by investing activities increased for the three months ended March 31, 2019, compared with the three months ended March 31, 2018 predominantly due to the proceeds from marketable securities in 2018. The Company currently anticipates capital expenditures of \$65,000 to \$75,000 in 2019. Anticipated capital expenditures include investments for capital maintenance to improve operational effectiveness. Management critically evaluates all proposed capital expenditures and expects each project to increase efficiency, reduce costs, promote business growth or improve the overall safety and environmental conditions of the Company's facilities.

(3) Cash used by financing activities increased in the three months ended March 31, 2019, compared with the three months ended March 31, 2018 due to higher purchases of common shares for treasury.

(4) Cash and cash equivalents decreased 25.6%, or \$91,715, to \$267,134 during the three months ended March 31, 2019, from \$358,849 as of December 31, 2018. This decrease was predominantly due to purchases of common shares for treasury and cash dividends paid to shareholders partially offset by cash provided by operating activities. The decrease in Cash and cash equivalents during the three months ended March 31, 2019 compares to an increase of 13.0% during the three months ended March 31, 2018. The increase in 2018 was primarily due to cash provided by operating activities and proceeds from marketable securities, partially offset by cash dividends paid to shareholders. At March 31, 2019, \$193,138 of Cash and cash equivalents was held by international subsidiaries.

The Company's total debt remained consistent as compared to December 31, 2018. Total debt to total invested capital increased to 44.9% at March 31, 2019 from 44.2% at December 31, 2018.

In April 2019, the Company paid a cash dividend of \$0.47 per share, or \$29,516, to shareholders of record as of March 29, 2019.

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Working Capital Ratios

| | March 31, 2019 | | December 31, 2018 | | March 31, 2018 | |
|---|----------------|---|-------------------|---|----------------|---|
| Average operating working capital to net sales ⁽¹⁾ | 18.0 | % | 16.5 | % | 18.1 | % |
| Days sales in Inventories | 96.2 | | 95.1 | | 96.8 | |
| Days sales in Accounts receivable | 54.3 | | 52.7 | | 56.7 | |
| Average days in Trade accounts payable | 51.3 | | 55.5 | | 56.5 | |

(1) Average operating working capital to net sales is defined as the sum of Accounts receivable and Inventories less Trade accounts payable as of period end divided by annualized rolling three months of Net sales.

Return on Invested Capital

The Company reviews return on invested capital ("ROIC") in assessing and evaluating the Company's underlying operating performance. ROIC is a non-GAAP financial measure that the Company believes is a meaningful metric to investors in evaluating the Company's financial performance and may be different than the method used by other companies to calculate ROIC. ROIC is defined as rolling 12 months of Adjusted net income excluding tax-effected interest income and expense divided by invested capital. Invested capital is defined as total debt, which includes Short-term debt and Long-term debt, less current portions, plus Total equity.

ROIC for the twelve months ended March 31, 2019 and 2018 were as follows:

| | Twelve Months Ended March 31, | |
|--|----------------------------------|-------------------|
| | 2019 | 2018 |
| Net income | \$297,722 | \$252,483 |
| Rationalization and asset impairment charges | 18,645 | 16,765 |
| Pension settlement charges | 5,928 | 8,908 |
| Acquisition transaction and integration costs | 3,381 | 13,294 |
| Amortization of step up in value of acquired inventories | — | 4,578 |
| Bargain purchase gain | — | (49,650) |
| Tax effect of Special items ⁽¹⁾ | (7,328) | 21,036 |
| Adjusted net income | \$318,348 | \$267,414 |
| Plus: Interest expense, net of tax of \$6,211 and \$5,997 in 2019 and 2018, respectively | 18,666 | 18,022 |
| Less: Interest income, net of tax of \$1,605 and \$1,369 in 2019 and 2018, respectively | 4,825 | 4,114 |
| Adjusted net income before tax effected interest | \$332,189 | \$281,322 |
| | | |
| Invested Capital | March 31, 2019 | March 31, 2018 |
| Short-term debt | \$110 | \$1,981 |
| Long-term debt, less current portion | 705,725 | 700,869 |
| Total debt | 705,835 | 702,850 |
| Total equity | 864,665 | 980,672 |
| Invested capital | \$1,570,500 | \$1,683,522 |
| Return on invested capital | 21.2 | % 16.7 |

(1) Includes the net tax impact of Special items recorded during the respective periods, including net charges of \$31,116 related to the U.S. Tax Act in the twelve months ended March 31, 2018.

The tax effect of Special items impacting pre-tax income was calculated as the pre-tax amount multiplied by the applicable tax rate. The applicable tax rates reflect the taxable jurisdiction and nature of each Special item.

New Accounting Pronouncements

Refer to Note 1 to the consolidated financial statements for a discussion of new accounting pronouncements.

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Acquisitions

Refer to Note 4 to the consolidated financial statements for a discussion of the Company's recent acquisitions.

Debt

Revolving Credit Agreement

The Company has a line of credit totaling \$400,000 through the Amended and Restated Credit Agreement (the "Credit Agreement"). The Credit Agreement has a five-year term and may be increased, subject to certain conditions, by an additional amount up to \$100,000. The interest rate on borrowings is based on either the London Inter-Bank Offered Rate ("LIBOR") or the prime rate, plus a spread based on the Company's leverage ratio, at the Company's election. The Company amended and restated the Credit Agreement on June 30, 2017, extending the maturity of the line of credit to June 30, 2022. The Credit Agreement contains customary affirmative, negative and financial covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to liens, investments, distributions, mergers and acquisitions, dispositions of assets, transactions with affiliates and a fixed charges coverage ratio and total leverage ratio. As of March 31, 2019, the Company was in compliance with all of its covenants and had no outstanding borrowings under the Credit Agreement.

Senior Unsecured Notes

On April 1, 2015 and October 20, 2016, the Company entered into separate Note Purchase Agreements pursuant to which it issued senior unsecured notes (the "Notes") through a private placement. The 2015 Notes and 2016 Notes each have an aggregate principal amount of \$350,000, comprised of four different series ranging from \$50,000 to \$100,000, with maturity dates ranging from August 20, 2025 through April 1, 2045, and interest rates ranging from 2.75% and 4.02%. Interest on the Notes is paid semi-annually. The Company's total weighted average effective interest rate and remaining weighted average tenure of the Notes is 3.3% and 15 years, respectively.

Shelf Agreements

On November 27, 2018, the Company entered into seven uncommitted master note facilities (the "Shelf Agreements") that allow borrowings up to \$700,000 in the aggregate. The Shelf Agreements have a five-year term and the average life of borrowings cannot exceed 15 years. The Company is required to comply with covenants similar to those contained in the Notes. As of March 31, 2019, the Company was in compliance with all of its covenants and had no outstanding borrowings under the Shelf Agreements.

Forward-looking Statements

The Company's expectations and beliefs concerning the future contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect management's current expectations and involve a number of risks and uncertainties. Forward-looking statements generally can be identified by the use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "forecast," "guidance" and words of similar meaning. Actual results may differ materially from such statements due to a variety of factors that could adversely affect the Company's operating results. The factors include, but are not limited to: general economic and market conditions; the effectiveness of operating initiatives; completion of planned divestitures; interest rates; disruptions, uncertainty or volatility in the credit markets that may limit our access to capital; currency exchange rates and devaluations; adverse outcome of pending or potential litigation; actual costs of the Company's rationalization plans; possible acquisitions, including the Company's ability to successfully integrate acquisitions; market risks and price fluctuations related to the purchase of commodities and energy; global regulatory complexity; the effects of changes in tax law; tariff rates in the countries where the Company conducts business; and the possible effects of events beyond our control, such as political unrest, acts of terror and natural disasters, on the Company or its customers, suppliers and the economy in general. For additional discussion, see "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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, 2018. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for

the year ended December 31, 2018.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 Quarterly Report on Form 10-Q. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2019, the Company implemented ASU 2016-02, Leases ("Topic 824"). The adoption of Topic 842 resulted in changes to processes and control activities related to lease accounting, including the implementation of a supporting information technology application.

There have been no other changes in the Company's internal control over financial reporting during the quarter ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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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, regulatory claims and health, safety and environmental claims. Among such proceedings are the cases described below.

As of March 31, 2019, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 3,288 plaintiffs, which is a net decrease of 48 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: 55,032 of those claims were dismissed, 23 were tried to defense verdicts, 7 were tried to plaintiff verdicts (which were reversed or resolved after appeal), 1 was resolved by agreement for an immaterial amount and 893 were decided in favor of the Company following summary judgment motions.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, the reader should carefully consider the factors discussed in “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, which could materially affect the Company’s business, financial condition or future results.

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

Issuer purchases of its common shares during the first quarter of 2019 were as follows:

| Period | Total Number of Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs ⁽²⁾ |
|-----------------------|------------------------------------|------------------------------|--|---|
| January 1 - 31, 2019 | 309,211 | \$ 81.26 | 309,211 | 5,868,013 |
| February 1 - 28, 2019 | 236,200 | ⁽¹⁾ 87.94 | 208,454 | 5,659,559 |
| March 1 - 31, 2019 | 348,746 | ⁽¹⁾ 85.12 | 328,329 | 5,331,230 |
| Total | 894,157 | | 845,994 | |

⁽¹⁾ The above share repurchases include the surrender of the Company's common shares in connection with the vesting of restricted awards.

On April 20, 2016, the Company announced that the Board of Directors authorized a new share repurchase program, which increased the total number of the Company's common shares authorized to be repurchased to 55 million shares. Total shares purchased through the share repurchase programs were 49.7 million shares at a total cost of \$2.0 billion for a weighted average cost of \$39.30 per share through March 31, 2019.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits

31.1 Certification of the Chairman, President and Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of the Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

32.1 Certification of the Chairman, President and Chief Executive Officer (Principal Executive Officer) and Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

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/ Gabriel Bruno

Gabriel Bruno

Executive Vice President, Finance

(principal accounting officer)

April 26, 2019