

LINCOLN ELECTRIC HOLDINGS INC

Form 10-Q

November 01, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 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 (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

The number of shares outstanding of the registrant's common shares as of September 30, 2013 was 81,614,694.

1

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)</u>	<u>4</u>
<u>CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)</u>	<u>5</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)</u>	<u>6</u>
<u>NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>34</u>
<u>PART II. OTHER INFORMATION</u>	<u>35</u>
<u>Item 1. Legal Proceedings</u>	<u>35</u>
<u>Item 1A. Risk Factors</u>	<u>35</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>36</u>
<u>Item 6. Exhibits</u>	<u>36</u>
<u>Signatures</u>	<u>37</u>
EX-31.1	Certification of the President and Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
EX-31.2	Certification of the Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
EX-32.1	Certification of the President and Chief Executive Officer (Principal Executive Officer) and Senior 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.
EX-101	Instance Document
EX-101	Schema Document
EX-101	Calculation Linkbase Document
EX-101	Label Linkbase Document
EX-101	Presentation Linkbase Document
EX-101	Definition Linkbase Document

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LINCOLN ELECTRIC HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2013	2012	2013	2012
Net sales	\$691,875	\$697,552	\$2,137,880	\$2,168,719
Cost of goods sold	459,178	484,190	1,438,273	1,515,095
Gross profit	232,697	213,362	699,607	653,624
Selling, general & administrative expenses	131,217	121,602	403,323	372,931
Rationalization and asset impairment charges	6,302	3,059	8,204	4,317
Operating income	95,178	88,701	288,080	276,376
Other income (expense):				
Interest income	536	916	2,452	2,648
Equity earnings in affiliates	1,170	1,566	3,687	4,264
Other income	1,514	746	3,141	2,015
Interest expense	(558)	(1,040)	(2,307)	(3,338)
Total other income	2,662	2,188	6,973	5,589
Income before income taxes	97,840	90,889	295,053	281,965
Income taxes	33,588	26,153	91,431	86,715
Net income including non-controlling interests	64,252	64,736	203,622	195,250
Non-controlling interests in subsidiaries' loss	(1,792)	(29)	(1,834)	(77)
Net income	\$66,044	\$64,765	\$205,456	\$195,327
Basic earnings per share	\$0.81	\$0.78	\$2.50	\$2.35
Diluted earnings per share	\$0.80	\$0.77	\$2.47	\$2.32
Cash dividends declared per share	\$0.20	\$0.17	\$0.60	\$0.51

See notes to these consolidated financial statements.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income including non-controlling interests	\$64,252	\$64,736	\$203,622	\$195,250
Other comprehensive income (loss), net of tax:				
Unrealized loss on derivatives designated and qualifying as cash flow hedges, net of tax of \$276 and \$(55) in the three and nine months ended September 30, 2013; \$147 and \$148 in the three and nine months ended September 30, 2012	(734	) (5	) (147	) (564
Defined benefit pension plan activity, net of tax of \$2,050 and \$8,232 in the three and nine months ended September 30, 2013; \$2,755 and \$8,593 in the three and nine months ended September 30, 2012	4,314	4,794	14,391	14,009
Currency translation adjustment	19,891	16,928	(15,209	) 11,958
Other comprehensive income (loss):	23,471	21,717	(965	) 25,403
Comprehensive income	87,723	86,453	202,657	220,653
Comprehensive (loss) income attributable to non-controlling interests	(1,678	) 179	(1,769	) (389
Comprehensive income attributable to shareholders	\$89,401	\$86,274	\$204,426	\$221,042

See notes to these consolidated financial statements.

Table of Contents

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

	September 30, 2013 (UNAUDITED)	December 31, 2012 (NOTE 1)
ASSETS		
Current Assets		
Cash and cash equivalents	\$330,309	\$286,464
Accounts receivable (less allowance for doubtful accounts of \$8,445 in 2013; \$8,654 in 2012)	375,224	360,662
Inventories:		
Raw materials	108,698	119,963
Work-in-process	45,794	41,805
Finished goods	215,371	203,122
Total inventory	369,863	364,890
Other current assets	107,253	120,800
Total Current Assets	1,182,649	1,132,816
Property, Plant and Equipment		
Land	45,539	44,510
Buildings	367,090	343,867
Machinery and equipment	720,913	732,461
	1,133,542	1,120,838
Less accumulated depreciation	654,869	634,602
Property, Plant and Equipment, Net	478,673	486,236
Non-current assets	458,319	470,811
TOTAL ASSETS	\$2,119,641	\$2,089,863
LIABILITIES AND EQUITY		
Current Liabilities		
Amounts due banks	\$14,469	\$18,220
Trade accounts payable	177,006	209,647
Other current liabilities	289,297	211,944
Current portion of long-term debt	423	456
Total Current Liabilities	481,195	440,267
Long-Term Liabilities		
Long-term debt, less current portion	1,251	1,599
Accrued pensions	127,085	216,189
Other long-term liabilities	81,291	73,487
Total Long-Term Liabilities	209,627	291,275
Shareholders' Equity		
Common shares	9,858	9,858
Additional paid-in capital	230,086	205,124
Retained earnings	1,838,770	1,682,668
Accumulated other comprehensive loss	(236,430)	(235,400)

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

Treasury shares	(427,644	) (319,877)
Total Shareholders' Equity	1,414,640	1,342,373	
Non-controlling interests	14,179	15,948	
Total Equity	1,428,819	1,358,321	
TOTAL LIABILITIES AND EQUITY	\$2,119,641	\$2,089,863	

See notes to these consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$205,456	\$195,327
Non-controlling interests in subsidiaries' loss	(1,834	) (77
Net income including non-controlling interests	203,622	195,250
Adjustments to reconcile Net income including non-controlling interests to Net cash provided by operating activities:		
Rationalization and asset impairment charges	5,049	357
Depreciation and amortization	51,881	48,220
Equity earnings in affiliates, net	(1,313	) (1,449
Deferred income taxes	21,023	(288
Stock-based compensation	7,511	6,711
Pension expense	22,261	26,590
Pension contributions and payments	(84,417	) (57,814
Other, net	1,223	(512
Changes in operating assets and liabilities, net of effects from acquisitions:		
(Increase) decrease in accounts receivable	(17,982	) 13,750
Increase in inventories	(9,889	) (6,832
Decrease (increase) in other current assets	10,860	(12,180
Decrease in trade accounts payable	(32,703	) (1,182
Increase in other current liabilities	64,767	85,593
Net change in other long-term assets and liabilities	198	(52,873
NET CASH PROVIDED BY OPERATING ACTIVITIES	242,091	243,341
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(59,691	) (39,307
Acquisition of businesses, net of cash acquired	(4,936	) (52,851
Proceeds from sale of property, plant and equipment	796	538
Other investing activities	(4,217	) (1,541
NET CASH USED BY INVESTING ACTIVITIES	(68,048	) (93,161
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	788	2,291
Payments on short-term borrowings	(1,732	) (3,813
Amounts due banks, net	(1,110	) (1,858
Proceeds from long-term borrowings	—	914
Payments on long-term borrowings	(297	) (85,535
Proceeds from exercise of stock options	16,077	12,695
Excess tax benefits from stock-based compensation	6,973	5,594
Purchase of shares for treasury	(113,641	) (60,155
Cash dividends paid to shareholders	(32,987	