

LINCOLN ELECTRIC HOLDINGS INC

Form 10-Q

October 24, 2016

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 x No o

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 x No o

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 x

Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

Yes o No x

The number of shares outstanding of the registrant's common shares as of September 30, 2016 was 66,029,417.

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 OPERATIONS (UNAUDITED)</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (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>21</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 4. Controls and Procedures</u>	<u>33</u>
<u>PART II. OTHER INFORMATION</u>	<u>34</u>
<u>Item 1. Legal Proceedings</u>	<u>34</u>
<u>Item 1A. Risk Factors</u>	<u>34</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>35</u>
<u>Item 6. Exhibits</u>	<u>35</u>
<u>Signatures</u>	<u>36</u>
EX-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.	
EX-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.	
EX-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.	
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 OPERATIONS

(UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$567,646	\$645,166	\$1,710,786	\$1,967,806
Cost of goods sold	367,834	446,272	1,118,945	1,322,741
Gross profit	199,812	198,894	591,841	645,065
Selling, general & administrative expenses	117,983	128,299	352,290	385,945
Rationalization and asset impairment charges	—	18,285	—	19,524
Pension settlement charges	—	136,331	—	136,331
Loss on deconsolidation of Venezuelan subsidiary	—	—	34,348	—
Operating income (loss)	81,829	(84,021)	205,203	103,265
Other income (expense):				
Interest income	360	692	1,225	2,023
Equity earnings in affiliates	619	310	2,084	2,138
Other income	1,303	296	2,552	3,223
Interest expense	(3,815)	(5,803)	(11,828)	(12,034)
Total other income (expense)	(1,533)	(4,505)	(5,967)	(4,650)
Income (loss) before income taxes	80,296	(88,526)	199,236	98,615
Income taxes	20,257	(28,045)	54,264	19,902
Net income (loss) including non-controlling interests	60,039	(60,481)	144,972	78,713
Non-controlling interests in subsidiaries' loss	(10)	(15)	(32)	(73)
Net income (loss)	\$60,049	\$(60,466)	\$145,004	\$78,786
Basic earnings (loss) per share	\$0.90	\$(0.82)	\$2.13	\$1.05
Diluted earnings (loss) per share	\$0.89	\$(0.82)	\$2.11	\$1.04
Cash dividends declared per share	\$0.32	\$0.29	\$0.96	\$0.87

See notes to these consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss) including non-controlling interests	\$60,039	\$(60,481)	\$144,972	\$78,713
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax of \$50 and \$54 in the three and nine months ended September 30, 2016; \$116 and \$334 in the three and nine months ended September 30, 2015	(175)	(210)	16	311
Defined benefit pension plan activity, net of tax of \$778 and \$2,821 in the three and nine months ended September 30, 2016; \$50,079 and \$54,449 in the three and nine months ended September 30, 2015	1,313	80,766	5,548	87,875
Currency translation adjustment	(3,030)	(47,225)	2,222	(88,627)
Other comprehensive income (loss):	(1,892)	33,331	7,786	(441)
Comprehensive income (loss)	58,147	(27,150)	152,758	78,272
Comprehensive income (loss) attributable to non-controlling interests	(16)	(91)	(73)	(663)
Comprehensive income (loss) attributable to shareholders	\$58,163	\$(27,059)	\$152,831	\$78,935

See notes to these consolidated financial statements.

Table of Contents

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

	September 30, 2016 (UNAUDITED)	December 31, 2015 (NOTE 1)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 256,928	\$ 304,183
Accounts receivable (less allowance for doubtful accounts of \$7,115 in 2016; \$7,299 in 2015)	281,039	264,715
Inventories:		
Raw materials	80,214	87,919
Work-in-process	45,080	39,555
Finished goods	159,905	148,456
Total inventory	285,199	275,930
Other current assets	97,312	91,167
Total Current Assets	920,478	935,995
Property, Plant and Equipment		
Land	47,416	45,775
Buildings	343,104	362,325
Machinery and equipment	712,709	696,849
Property, plant and equipment	1,103,229	1,104,949
Less accumulated depreciation	718,412	693,626
Property, Plant and Equipment, Net	384,817	411,323
Goodwill	236,588	187,504
Non-current assets	291,938	249,349
TOTAL ASSETS	\$ 1,833,821	\$ 1,784,171
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt	\$ 183,827	\$ 4,278
Trade accounts payable	164,783	152,620
Other current liabilities	247,449	213,224
Total Current Liabilities	596,059	370,122
Long-Term Liabilities		
Long-term debt, less current portion	359,831	350,347
Other long-term liabilities	125,014	131,254
Total Long-Term Liabilities	484,845	481,601
Shareholders' Equity		
Common shares	9,858	9,858
Additional paid-in capital	290,785	272,908
Retained earnings	2,205,798	2,125,838
Accumulated other comprehensive loss	(288,440)	(296,267)
Treasury shares	(1,465,872)	(1,180,750)

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Total Shareholders' Equity	752,129	931,587
Non-controlling interests	788	861
Total Equity	752,917	932,448
TOTAL LIABILITIES AND EQUITY	\$ 1,833,821	\$ 1,784,171

See notes to these consolidated financial statements.

5

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$145,004	\$78,786
Non-controlling interests in subsidiaries' loss	(32)	(73)
Net income including non-controlling interests	144,972	78,713
Adjustments to reconcile Net income including non-controlling interests to Net cash provided by operating activities:		
Rationalization and asset impairment charges	—	6,120
Loss on deconsolidation of Venezuelan subsidiary	34,348	—
Depreciation and amortization	48,495	47,897
Equity earnings in affiliates, net	(64)	(252)
Deferred income taxes	(12,813)	(57,690)
Stock-based compensation	7,516	5,942
Pension expense and settlement charges	12,472	151,848
Pension contributions and payments	(22,159)	(52,121)
Other, net	(1,840)	(559)
Changes in operating assets and liabilities, net of effects from acquisitions:		
(Increase) decrease in accounts receivable	(11,956)	14,661
(Increase) decrease in inventories	(7,673)	27,824
Decrease (increase) in other current assets	2,481	(4,766)
Increase (decrease) in trade accounts payable	13,922	(34,629)
Increase in other current liabilities	27,943	51,798
Net change in other long-term assets and liabilities	1,122	650
NET CASH PROVIDED BY OPERATING ACTIVITIES	236,766	235,436
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(39,377)	(40,187)
Acquisition of businesses, net of cash acquired	(71,567)	(33,882)
Proceeds from sale of property, plant and equipment	936	2,173
Other investing activities	(283)	(79)
NET CASH USED BY INVESTING ACTIVITIES	(110,291)	(71,975)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	1,892	10,618
Payments on short-term borrowings	(1,822)	(8,739)
Amounts due banks, net	183,395	(37,089)
Proceeds from long-term borrowings	261	356,369
Payments on long-term borrowings	(467)	(6,739)
Proceeds from exercise of stock options	10,418	4,600
Excess tax benefits from stock-based compensation	3,414	1,487
Purchase of shares for treasury	(288,594)	(297,804)
Cash dividends paid to shareholders	(66,180)	(65,942)
Other financing activities	(18,244)	(8,040)

NET CASH USED BY FINANCING ACTIVITIES	(175,927)	(51,279)
Effect of exchange rate changes on Cash and cash equivalents	2,197	(26,216)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(47,255)	85,966
Cash and cash equivalents at beginning of period	304,183	278,379
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$256,928	\$364,345

See notes to these consolidated financial statements.

Table of Contents

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 financial interest. The Company is also considered to have a controlling financial 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 nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016.

The accompanying Consolidated Balance Sheet at December 31, 2015 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, 2015.

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

Venezuela — Deconsolidation

Effective June 30, 2016, the Company determined that deteriorating conditions in Venezuela had led the Company to no longer meet the accounting criteria for control over its Venezuelan subsidiary. The restrictive exchange controls in Venezuela and the lack of access to U.S. dollars through official currency exchange mechanisms resulted in an other-than-temporary lack of exchangeability between the Venezuela bolivar and the U.S. dollar, and restricted the Venezuela operations ability to pay dividends and satisfy other obligations denominated in U.S. dollars. Additionally, other operating restrictions including government controls on pricing, profits, imports and restrictive labor laws significantly impacted the Company’s ability to make key operational decisions, including the ability to manage its capital structure, purchasing, product pricing and labor relations. Therefore, as of June 30, 2016, the Company deconsolidated the financial statements of its subsidiary in Venezuela and began reporting the results under the cost method of accounting.

As a result of the deconsolidation, the Company recorded a pretax charge of \$34,348 (\$33,251 after-tax) in the second quarter of 2016. The pretax charge includes the write-off of the Company’s investment in Venezuela, including all inter-company balances and \$283 of Cash and cash equivalents. Additionally, the charge includes foreign currency translation losses and pension losses previously included in Accumulated other comprehensive loss.

Beginning July 1, 2016, the Company no longer includes the results of the Venezuelan subsidiary in its consolidated financial statements. Under the cost method of accounting, if cash were to be received from the Venezuela entity in future periods from the sale of inventory, dividends or royalties, income would be recognized. The Company does not anticipate dividend or royalty payments being made in the foreseeable future and has had no purchases from or sales to the Venezuela entity since it was deconsolidated. The factors that led to the Company’s conclusion to deconsolidate at June 30, 2016 continued to exist through September 30, 2016. The Company expects these conditions to continue for the foreseeable future.

Subsequent to the deconsolidation under the voting interest consolidation model, the Company determined that the Venezuelan subsidiary is considered to be a VIE. As the Company does not have the power to direct the activities that most significantly affect the Venezuela subsidiary's economic performance, the Company is not the primary beneficiary of the VIE and therefore would not consolidate the entity under the VIE consolidation model. Due to the lack of ability to settle U.S. dollar obligations, the Company does not intend to sell into nor purchase inventory from the Venezuela entity at this time. Additionally, the Company has no remaining financial commitments to the Venezuelan subsidiary and therefore believes the exposure to future losses are not material.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

Prior to deconsolidation, the financial statements of the Company's Venezuelan operation had been reported under highly inflationary accounting rules since January 1, 2010. Under highly inflationary accounting, the financial statements of the Company's Venezuelan operation had been remeasured into the Company's reporting currency and exchange gains and losses from the remeasurement of monetary assets and liabilities were reflected in current earnings.

In February 2015, the Venezuelan government announced a new exchange market called the Marginal Currency System ("SIMADI"), which allows for trading based on supply and demand. At September 30, 2015, the Company determined that the rate used in remeasuring the Venezuelan operation's financial statements into U.S. dollars would change to the SIMADI rate (now known as "DICOM"), as the SIMADI rate most appropriately approximated the rates used to transact business in its Venezuelan operations. At September 30, 2015, the SIMADI rate was 199.4 bolivars to the U.S. dollar, resulting in a remeasurement charge on the bolivar-denominated monetary net asset position of \$4,334. This foreign exchange loss was recorded in Selling, general & administrative expenses during the three months ended September 30, 2015. Additionally, the Company recorded lower of cost or net realizable value inventory adjustments of \$22,880 within Cost of goods sold, related to the adoption of the SIMADI rate.

New Accounting Pronouncements Yet to be Adopted:

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The objective of ASU 2016-15 is to reduce existing diversity in practice by addressing eight specific cash flow issues related to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. If early adopted, an entity must adopt all of the amendments in the same period. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on the Company's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decrease of expected credit losses that have taken place during the period. The amendment should be applied using a modified-retrospective approach, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 amends several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. If early adopted, an entity must adopt all of the amendments in the same period. The Company is currently evaluating the impact of the adoption of ASU 2016-09 on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing agreements. Entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU

2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the Company's financial statements.

8

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the amendment provides five steps that an entity should apply when recognizing revenue. The amendment also specifies the accounting of some costs to obtain or fulfill a contract with a customer and expands the disclosure requirements around contracts with customers. An entity can either adopt this amendment retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of initial application. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company's financial statements.

NOTE 2 — EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income (loss)	\$60,049	\$(60,466)	\$145,004	\$78,786
Denominator (shares in 000's):				
Basic weighted average shares outstanding	66,477	73,754	68,081	74,999
Effect of dilutive securities - Stock options and awards	705	—	703	765
Diluted weighted average shares outstanding	67,182	73,754	68,784	75,764
Basic earnings (loss) per share	\$0.90	\$(0.82)	\$2.13	\$1.05
Diluted earnings (loss) per share	\$0.89	\$(0.82)	\$2.11	\$1.04

For the three months ended September 30, 2016 and 2015, common shares subject to equity-based awards of 803,741 and 1,279,664, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive. For the nine months ended September 30, 2016 and 2015, common shares subject to equity-based awards of 807,763 and 508,070, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

NOTE 3 — ACQUISITIONS

During May 2016, the Company acquired Vizient Manufacturing Solutions ("Vizient"). Vizient, based in Bettendorf, Iowa, is a robotic integrator specializing in custom engineered tooling and automated arc welding systems for general and heavy fabrication applications. The acquisition will assist in diversifying end-market exposure and broadening global growth opportunities.

During August 2015, the Company acquired Specialised Welding Products ("SWP"). SWP, based in Melbourne, Australia, is a provider of specialty welding consumables and fabrication, maintenance and repair services for alloy and wear resistant products commonly used in mining and energy sector applications. The acquisition broadens the Company's presence and specialty alloy offering in Australia and New Zealand.

During August 2015, the Company acquired Rimrock Holdings Corporation ("Rimrock"). Rimrock is a manufacturer of industrial automation products and robotic systems with two divisions, Wolf Robotics LLC, based in Fort Collins, Colorado, and Rimrock Corporation, based in Columbus, Ohio. Wolf Robotics integrates robotic welding and cutting

systems predominantly for heavy fabrication and transportation OEMs and suppliers. The acquisition advances the Company's leadership position in automated welding and cutting solutions. Rimrock Corporation designs and manufactures automated spray systems and turnkey robotic systems for the die casting, foundry and forging markets.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

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

NOTE 4 — SEGMENT INFORMATION

The Company's primary business is the design and manufacture 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, CNC and plasma cutters, wire feeding systems, robotic welding packages, integrated automation systems, fume extraction equipment, consumable electrodes, fluxes and welding accessories. 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.

During the first quarter of 2016, the Company realigned its organizational and leadership structure into three operating segments to support growth strategies and enhance the utilization of the Company's worldwide resources and global sourcing initiatives. 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 primarily 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. All prior period results have been revised to reflect the realigned segment structure. Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being adjusted earnings before interest and income taxes ("Adjusted EBIT"). EBIT is defined as Operating income plus Equity earnings in affiliates and Other income. Segment 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.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

Financial information for the reportable segments follows:

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three Months Ended September 30, 2016					
Net sales	\$377,520	\$119,564	\$70,562	\$—	\$567,646
Inter-segment sales	22,386	3,688	1,856	(27,930)	—
Total	\$399,906	\$123,252	\$72,418	\$(27,930)	\$567,646
Adjusted EBIT	\$68,285	\$5,796	\$8,757	\$913	\$83,751
Special items charge	—	—	—	—	—
EBIT	\$68,285	\$5,796	\$8,757	\$913	\$83,751
Interest income					360
Interest expense					(3,815)
Income (loss) before income taxes					\$80,296
Three Months Ended September 30, 2015					
Net sales	\$454,172	\$128,072	\$62,922	\$—	\$645,166
Inter-segment sales	25,571	5,400	2,307	(33,278)	—
Total	\$479,743	\$133,472	\$65,229	\$(33,278)	\$645,166
Adjusted EBIT	\$82,765	\$9,268	\$6,422	\$(748)	\$97,707
Special items charge	166,178	14,944	—	—	181,122
EBIT	\$(83,413)	\$(5,676)	\$6,422	\$(748)	\$(83,415)
Interest income					692
Interest expense					(5,803)
Income (loss) before income taxes					\$(88,526)
Nine Months Ended September 30, 2016					
Net sales	\$1,124,900	\$376,684	\$209,202	\$—	\$1,710,786
Inter-segment sales	69,673	11,955	6,983	(88,611)	—
Total	\$1,194,573	\$388,639	\$216,185	\$(88,611)	\$1,710,786
Adjusted EBIT	\$194,924	\$21,699	\$25,752	\$1,812	\$244,187
Special items charge	—	—	—	34,348	34,348
EBIT	\$194,924	\$21,699	\$25,752	\$(32,536)	\$209,839
Interest income					1,225
Interest expense					(11,828)
Income (loss) before income taxes					\$199,236
Nine months ended September 30, 2015					
Net sales	\$1,354,010	\$409,246	\$204,550	\$—	\$1,967,806
Inter-segment sales	72,496	15,738	7,034	(95,268)	—
Total	\$1,426,506	\$424,984	\$211,584	\$(95,268)	\$1,967,806
Adjusted EBIT	\$237,601	\$31,219	\$22,221	\$(54)	\$290,987

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Special items charge	166,178	16,183	—	—	182,361	
EBIT	\$71,423	\$ 15,036	\$ 22,221	\$ (54) \$ 108,626	
Interest income					2,023	
Interest expense					(12,034)
Income (loss) before income taxes					\$98,615	

11

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

In the nine months ended September 30, 2016, special items within Corporate/Eliminations reflect a loss on the deconsolidation of the Venezuelan subsidiary.

In the three and nine months ended September 30, 2015, special items in International Welding reflect rationalization activity charges and charges related to the impairment of long-lived assets and goodwill. Americas Welding special items include rationalization activity charges, charges related to pension settlements and Venezuelan foreign exchange remeasurement losses related to the adoption of a new foreign exchange mechanism.

NOTE 5 — RATIONALIZATION AND ASSET IMPAIRMENTS

In prior periods, the Company initiated various rationalization plans whose costs were substantially recognized in the prior year. As such, no charges were recorded in the nine months ended September 30, 2016. A description of each restructuring plan and the related costs follows:

Americas Welding Plans:

During 2015, the Company initiated a rationalization plan within Americas Welding that included a voluntary separation incentive program covering certain U.S.-based employees. The plan was completed during 2016.

International Welding Plans:

During 2015, the Company initiated rationalization plans within International Welding. The plans include headcount restructuring to better align cost structures with economic conditions and operating needs. The Company does not anticipate any additional charges related to the completion of these plans. At September 30, 2016, liabilities relating to the International Welding plans of \$6,199 were recognized in Other current liabilities.

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. The following table summarizes the activity related to the rationalization liabilities by segment for the nine months ended September 30, 2016:

	Americas Welding	International Welding	Consolidated
Balance, December 31, 2015	\$ 67	\$ 7,598	\$ 7,665
Payments and other adjustments	(67)	(1,399)	(1,466)
Charged to expense	—	—	—
Balance, September 30, 2016	\$ —	\$ 6,199	\$ 6,199

NOTE 6 — EQUITY

Changes in equity for the nine months ended September 30, 2016 are as follows:

	Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2015	\$ 931,587	\$ 861	\$ 932,448
Comprehensive income (loss):			
Net income (loss)	145,004	(32)	144,972
Other comprehensive income (loss)	7,827	(41)	7,786
Total comprehensive income (loss)	152,831	(73)	152,758
Cash dividends declared - \$0.96 per share	(65,043)	—	(65,043)
Issuance of shares under benefit plans	21,348	—	21,348
Purchase of shares for treasury	(288,594)	—	(288,594)
Balance at September 30, 2016	\$ 752,129	\$ 788	\$ 752,917

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

In April 2016, the Company's 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. At management's discretion, the Company repurchases its common shares from time to time in the open market, depending on market conditions, stock price and other factors. During the three and nine month period ended September 30, 2016, the Company purchased a total of 1.4 million and 5.0 million shares, respectively. As of September 30, 2016, there remained 9.7 million common shares available for repurchase under this program. The repurchased common shares remain in treasury and have not been retired.

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 September 30, 2016 and 2015:

	Three Months Ended September 30, 2016			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at June 30, 2016	\$739	\$(95,541)	\$(191,752)	\$(286,554)
Other comprehensive income (loss) before reclassification	170	—	(3,024) ³	(2,854)
Amounts reclassified from AOCI	(345) ¹	1,313	² —	968
Net current-period other comprehensive income (loss)	(175)	1,313	(3,024)	(1,886)
Balance at September 30, 2016	\$564	\$(94,228)	\$(194,776)	\$(288,440)

	Three Months Ended September 30, 2015			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at June 30, 2015	\$512	\$(190,784)	\$(131,608)	\$(321,880)
Other comprehensive income (loss) before reclassification	(51)	—	(47,149) ³	(47,200)

Amounts reclassified from AOCI	(159) ¹	80,766	² —	80,607
Net current-period other comprehensive income (loss)	(210)	80,766	(47,149)	33,407
Balance at September 30, 2015	\$302	\$(110,018)	\$(178,757)	\$(288,473)

During the 2016 period, this AOCI reclassification is a component of Net sales of \$(174) (net of tax of \$(71)) and Cost of goods sold of \$(171) (net of tax of \$(46)); during the 2015 period, the reclassification is a component of Net sales of \$(279) (net of tax of \$(105)) and Cost of goods sold of \$120 (net of tax of \$90). (See Note 14 - Derivatives for additional details.)

¹ This AOCI component is included in the computation of net periodic pension costs (net of tax of \$778 and \$50,079) during the three months ended September 30, 2016 and 2015, respectively). (See Note 12 - Retirement and Postretirement Benefit Plans for additional details.)

² The Other comprehensive income (loss) before reclassifications excludes \$(6) and \$(76) attributable to Non-controlling interests in the three months ended September 30, 2016 and 2015, respectively.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The following tables set forth the total changes in AOCI by component, net of taxes for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at December 31, 2015	\$548	\$(99,776)	\$(197,039)	\$(296,267)
Other comprehensive income (loss) before reclassification	1,530	(15)	(580)	³ 935
Amounts reclassified from AOCI	(1,514) ¹	5,563	² 2,843	⁴ 6,892
Net current-period other comprehensive income (loss)	16	5,548	2,263	7,827
Balance at September 30, 2016	\$564	\$(94,228)	\$(194,776)	\$(288,440)

	Nine Months Ended September 30, 2015			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at December 31, 2014	\$(9)	\$(197,893)	\$(90,720)	\$(288,622)
Other comprehensive income (loss) before reclassification	378	—	(88,037)	³ (87,659)
Amounts reclassified from AOCI	(67) ¹	87,875	² —	87,808
Net current-period other comprehensive income (loss)	311	87,875	(88,037)	149
Balance at September 30, 2015	\$302	\$(110,018)	\$(178,757)	\$(288,473)

¹ During the 2016 period, this AOCI reclassification is a component of Net sales of \$(1,113) (net of tax of \$(418)) and Cost of goods sold of \$(401) (net of tax of \$(41)); during the 2015 period, the reclassification is a component of Net

sales of \$(800) (net of tax of \$(429)) and Cost of goods sold of \$733 (net of tax of \$497). (See Note 14 - Derivatives for additional details.)

This AOCI component is included in the computation of net periodic pension costs (net of tax of \$2,821 and \$54,449² during the nine months ended September 30, 2016 and 2015, respectively). (See Note 12 - Retirement and Postretirement Benefit Plans for additional details.)

The Other comprehensive income (loss) before reclassifications excludes \$(41) and \$(590) attributable to³ Non-controlling interests in the nine months ended September 30, 2016 and 2015, respectively.

The reclassification from AOCI reflects foreign currency translation losses recognized due to the Company's⁴ deconsolidation of its Venezuelan subsidiary. (See Note 1 - Significant Accounting Policies for additional details.)

NOTE 7 — INVENTORY VALUATION

The valuation of last-in, first-out ("LIFO") method inventories is made at the end of each year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Actual year-end costs and inventory levels may differ from interim LIFO inventory valuations. The excess of current cost over LIFO cost was \$62,239 at September 30, 2016 and \$59,765 at December 31, 2015.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 8 — ACCRUED EMPLOYEE BONUS

Other current liabilities at September 30, 2016 and 2015 include accruals for year-end bonuses and related payroll taxes of \$69,433 and \$87,542, respectively, related to the Company's employees worldwide. The payment of bonuses is discretionary and subject to approval by the Board of Directors. A majority of annual bonuses are paid in December, resulting in an increasing bonus accrual during the Company's fiscal year.

NOTE 9 — CONTINGENCIES

The Company, like other manufacturers, is subject from time to time to a variety of civil and administrative proceedings arising in the ordinary course of business. Such claims and litigation include, without limitation, product liability claims, regulatory claims and health, safety and environmental claims, some of which relate to cases alleging asbestos induced illnesses. The claimants in the asbestos cases seek compensatory and punitive damages, in most cases for unspecified amounts. The Company believes it has meritorious defenses to these claims and intends to contest such suits vigorously.

The Company accrues its best estimate of the probable costs, after a review of the facts with management and counsel and taking into account past experience. If an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated, disclosure is provided for material claims or litigation. Many of the current cases are in differing procedural stages and information on the circumstances of each claimant, which forms the basis for judgments as to the validity or ultimate disposition of such actions, varies greatly. Therefore, in many situations a range of possible losses cannot be made. Reserves are adjusted as facts and circumstances change and related management assessments of the underlying merits and the likelihood of outcomes change. Moreover, reserves only cover identified and/or asserted claims. Future claims could, therefore, give rise to increases to such reserves.

Based on the Company's historical experience in litigating product liability claims, including a significant number of dismissals, summary judgments and defense verdicts in many cases and immaterial settlement amounts, as well as the Company's current assessment of the underlying merits of the claims and applicable insurance, the Company believes resolution of these claims and proceedings, individually or in the aggregate, will not have a material effect on the Company's consolidated financial statements.

NOTE 10 — PRODUCT WARRANTY COSTS

The changes in the carrying amount of product warranty accruals for the nine months ended September 30, 2016 and 2015 are as follows:

	Nine Months Ended September 30,	
	2016	2015
Balance at beginning of year	\$ 19,469	\$ 15,579
Accruals for warranties	9,222	14,386
Settlements	(8,529)	(11,101)
Foreign currency translation	111	(414)
Balance at September 30	\$ 20,273	\$ 18,450

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 11 — DEBT

Revolving Credit Agreement

The Company has a line of credit totaling \$400,000 through the Amended and Restated Credit Agreement (the "Credit Agreement"), which was entered into on September 12, 2014. 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 September 30, 2016, the Company was in compliance with all of its covenants and had \$155,000 in outstanding borrowings under the Credit Agreement which was recorded in Short-term debt. 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 LIBOR or the prime rate, plus a spread based on the Company's leverage ratio, at the Company's election.

Senior Unsecured Notes

On April 1, 2015, the Company entered into a Note Purchase Agreement pursuant to which it agreed to issue senior unsecured notes (the "2015 Notes") in the aggregate principal amount of \$350,000 through a private placement. At September 30, 2016, \$349,189, net of debt issuance costs of \$811 and excluding accretion of original issuance costs, was outstanding and recorded in Long-term debt, less current portion. The proceeds are being used for general corporate purposes. The 2015 Notes, as shown in the table below, have maturities ranging from 10 to 30 years with a weighted average effective interest rate of 3.5%, excluding accretion of original issuance costs, and a weighted average term of 19 years. Interest is payable semi-annually. The 2015 Notes contain certain affirmative and negative covenants. As of September 30, 2016, the Company was in compliance with all of its debt covenants.

The maturity and interest rates of the 2015 Notes are as follows:

Amount	Maturity Date	Interest Rate
Series A \$100,000	August 20, 2025	3.15 %
Series B 100,000	August 20, 2030	3.35 %
Series C 50,000	April 1, 2035	3.61 %
Series D 100,000	April 1, 2045	4.02 %

On October 20, 2016, the Company issued senior unsecured notes (the "2016 Notes") in the aggregate principal amount of \$350,000 through a private placement. The 2016 Notes, as shown in the table below, have maturities ranging from 12 to 25 years with a weighted average effective interest rate of 3.1% and a weighted average term of 18 years. Interest is payable semi-annually. The proceeds will be used for general corporate purposes. The 2016 Notes contain certain affirmative and negative covenants.

The maturity and interest rates of the 2016 Notes are as follows:

Amount	Maturity Date	Interest Rate
Series A \$100,000	October 20, 2028	2.75 %
Series B 100,000	October 20, 2033	3.03 %
Series C 100,000	October 20, 2037	3.27 %
Series D 50,000	October 20, 2041	3.52 %

The Company's total weighted average effective interest rate and weighted average term, inclusive of the 2015 Notes and 2016 Notes, is 3.3% and 18 years, respectively.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 12 — RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

The components of total pension cost were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	\$4,116	\$4,693	\$12,985	\$15,153
Interest cost	5,906	6,494	17,935	27,238
Expected return on plan assets	(8,850)	(9,003)	(26,608)	(40,983)
Amortization of prior service cost	(98)	(157)	(296)	(469)
Amortization of net loss	2,142	2,886	8,456	¹ 14,578
Settlement/curtailment loss	—	136,331	—	136,331
Defined benefit plans	3,216	141,244	12,472	151,848
Multi-employer plans	192	196	587	624
Defined contribution plans	2,244	1,904	6,405	7,865
Total pension cost	\$5,652	\$143,344	\$19,464	\$160,337

¹ The amortization of net loss includes a \$959 charge resulting from the deconsolidation of the Venezuelan subsidiary during the nine months ended September 30, 2016.

The Company voluntarily contributed \$20,086 to its defined benefit plans in the United States during the nine months ended September 30, 2016. The decrease in the components of total pension cost for the defined benefit plans in 2016 was primarily due to the purchase of a group annuity contract in August 2015, which triggered a settlement loss. In October 2016, the Company announced an amendment to The Lincoln Electric Company Retirement Annuity Program (“RAP”) to cease all benefit accruals for participants under the RAP effective as of December 31, 2016. The RAP currently includes approximately 1,500 domestic employees who will fully transition to The Lincoln Electric Company Employee Savings Plan (“Savings Plan”), a defined contribution retirement savings plan. Additionally, in October 2016, the Company announced an amendment to the Savings Plan to allow eligible employees to receive company contributions through a combination of matching and automatic employer contributions.

NOTE 13 — INCOME TAXES

The Company recognized \$54,264 of tax expense on pretax income of \$199,236, resulting in an effective income tax rate of 27.2% for the nine months ended September 30, 2016. The effective income tax rate was 20.2% for the nine months ended September 30, 2015. The 2016 effective income tax rate was lower than the Company’s statutory rate primarily due to the utilization of U.S. tax credits, income earned in lower tax rate jurisdictions, the reversal of an income tax valuation allowance as a result of a legal entity change and an income tax benefit related to a worthless stock deduction of a foreign subsidiary. The 2015 effective income tax rate was lower than the Company’s statutory rate primarily due to the utilization of U.S. tax credits, income earned in lower tax rate jurisdictions, the reversal of an income tax valuation allowance and a pension settlement charge’s deferred tax benefit recorded at the higher U.S. statutory rate.

As of September 30, 2016, the Company had \$16,447 of unrecognized tax benefits. If recognized, approximately \$10,860 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 2012. The Company is currently subject to various U.S. 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 \$2,059 in previously unrecognized tax benefits by the end of the third quarter 2017.

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

NOTE 14 — DERIVATIVES

The Company uses derivatives 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 nine months ended September 30, 2016 and 2015.

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 September 30, 2016. 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 \$42,501 at September 30, 2016 and \$30,388 at December 31, 2015.

Fair Value Hedges

Certain interest rate swap agreements were qualified and designated as fair value hedges. The interest rate swap agreements designated as fair value hedges meet the shortcut method requirements under accounting standards for derivatives and hedging. Accordingly, changes in the fair value of these agreements are considered to exactly offset changes in the fair value of the underlying long-term debt. The effective portion of the changes in fair value are recorded in Non-current assets or Other long-term liabilities with offsetting amounts recorded as a fair value adjustment to the carrying value of Long-term debt, less current portion. At September 30, 2016, the Company had interest rate swap agreements outstanding that effectively convert notional amounts of \$25,000 of debt from a fixed interest rate to a variable interest rate based on three-month LIBOR plus a spread.

Net Investment Hedges

The Company has foreign currency forward contracts that were qualified and designated as net investment hedges. No such contracts were outstanding at September 30, 2016 and December 31, 2015.

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 \$285,826 at September 30, 2016 and \$267,626 at December 31, 2015.

The Company had short-term silver forward contracts with notional amounts of \$2,804 at December 31, 2015.

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

	September 30, 2016			December 31, 2015	
	Other Current Assets	Other Current Liabilities	Other Long-Term Liabilities	Other Current Assets	Other Current Liabilities
Derivatives by hedge designation					
Designated as hedging instruments:					
Foreign exchange contracts	\$ 199	\$ 670	\$ —	\$ 178	\$ 731
Interest rate swap agreements	—	—	165	—	—
Not designated as hedging instruments:					
Foreign exchange contracts	941	553	—	625	2,303
Commodity contracts	—	—	—	40	8
Total derivatives	\$ 1,140	\$ 1,223	\$ 165	\$ 843	\$ 3,042

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The effects of undesignated derivative instruments on the Company's Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015 consisted of the following:

Derivatives by hedge designation	Classification of gain (loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Not designated as hedges:					
Foreign exchange contracts	Selling, general & administrative expenses	\$(2,952)	\$(7,993)	\$(9,862)	\$(15,085)
Commodity contracts	Cost of goods sold	—	182	(742)	232

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

Total gain (loss) recognized in AOCI, net of tax	September 30, 2016	December 31, 2015
Foreign exchange contracts	\$ (535)	\$ (551)
Net investment contracts	1,099	1,099

The Company expects a loss of \$535 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) reclassified from AOCI to:	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Foreign exchange contracts	Sales	\$(174)	\$(279)	\$(1,113)	\$(800)
	Cost of goods sold	(171)	120	(401)	733

NOTE 15 - FAIR VALUE

The following table provides a summary of assets and liabilities as of September 30, 2016, measured at fair value on a recurring basis:

Description	Balance as of September 30, 2016	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	\$ 1,140	\$ —	\$ 1,140	\$ —
Total assets	\$ 1,140	\$ —	\$ 1,140	\$ —
Liabilities:				
Foreign exchange contracts	\$ 1,223	\$ —	\$ 1,223	\$ —
Interest rate swap agreements	165	—	165	—
Contingent considerations	9,377	—	—	9,377
Forward contract	14,489	—	—	14,489
Deferred compensation	24,934	—	24,934	—
Total liabilities	\$ 50,188	\$ —	\$ 26,322	\$ 23,866

Table of Contents

LINCOLN ELECTRIC HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dollars in thousands, except per share amounts

The following table provides a summary of assets and liabilities as of December 31, 2015, measured at fair value on a recurring basis:

Description	Balance as of December 31, 2015	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	\$ 803	\$ —	\$ 803	\$ —
Commodity contracts	40	—	40	—
Total assets	\$ 843	\$ —	\$ 843	\$ —
Liabilities:				
Foreign exchange contracts	\$ 3,034	\$ —	\$ 3,034	\$ —
Commodity contracts	8	—	8	—
Contingent considerations	9,184	—	—	9,184
Forward contract	26,484	—	—	26,484
Deferred compensation	23,201	—	23,201	—
Total liabilities	\$ 61,911	\$ —	\$ 26,243	\$ 35,668

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. The Company measures the fair value of commodity contracts using Level 2 inputs through observable market transactions in active markets provided by financial institutions. During the nine months ended September 30, 2016