LINCOLN ELECTRIC HOLDINGS INC
Form 10-K
February 20, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014	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)	

Securities registered pursuant to Section 12(b) of the Act:

Common Shares, without par value	The NASDAQ Stock Market LLC
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 þ 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 þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨
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 "smaller reporting company" in Rule 12b-2 of the Exchange Act.

þ 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 þ
The aggregate market value of the common shares held by non-affiliates as of June 30, 2014 was $5,428,273,439 (affiliates, for this purpose, have been deemed to be Directors and Executive Officers of the Company and certain

significant shareholders).

The number of shares outstanding of the registrant's common shares as of December 31, 2014 was 76,997,161.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement with respect to the registrant's 2015 Annual Meeting of Shareholders.

PART I

ITEM 1. BUSINESS

General

As used in this Annual Report on Form 10-K, 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 Lincoln Electric Company began operations in 1895 and was incorporated under the laws of the State of Ohio in 1906. During 1998, The Lincoln Electric Company reorganized into a holding company structure, and Lincoln Electric Holdings, Inc. became the publicly-held parent of Lincoln Electric subsidiaries worldwide, including The Lincoln Electric Company.

The Company is one of only a few worldwide broad-line manufacturers of welding, cutting and brazing products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company's product offering also includes computer numeric controlled ("CNC") plasma and 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 arc welding power sources and wire feeding systems manufactured by the Company range in technology from basic units used for light manufacturing and maintenance to highly sophisticated robotic applications for high volume production welding and fabrication. Three primary types of arc welding electrodes are produced: (1) coated manual or stick electrodes; (2) solid electrodes produced in coil, reel or drum forms for continuous feeding in mechanized welding; and (3) cored electrodes produced in coil form for continuous feeding in mechanized welding.

The Company has, through wholly-owned subsidiaries or joint ventures, manufacturing facilities located in the United States, Brazil, Canada, China, Colombia, France, Germany, India, Indonesia, Italy, Mexico, the Netherlands, Poland, Portugal, Russia, Turkey, the United Kingdom and Venezuela.

The Company has aligned its business units into five operating segments to enhance the utilization of the Company's worldwide resources and global end user and sourcing initiatives. The operating segments consist of North America Welding, Europe Welding, Asia Pacific Welding, South America Welding and The Harris Products Group. The North America Welding segment includes welding operations in the United States, Canada and Mexico. The Europe Welding segment includes welding operations in Europe, Russia, Africa and the Middle East. The Asia Pacific Welding segment primarily includes welding operations in China and Australia. The South America Welding segment primarily includes welding operations in Brazil, Colombia and Venezuela. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as the retail business in the United States. See Note 5 to the Company's consolidated financial statements for segment and geographic area information, which is incorporated herein by reference.

Customers

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

The Company's major end-user markets include:

- general metal fabrication,
- power generation and process industry,
- structural steel construction (buildings and bridges),
- heavy equipment fabrication (farming, mining and rail),
- shipbuilding,
- automotive,
- pipe mills and pipelines, and
- offshore oil and gas exploration and extraction.

The Company is not dependent on a single customer or a few customers and no individual customer currently accounts for more than ten percent of total Net sales. However, the loss of a large customer could have an adverse effect on the Company's business. The Company's operating results are sensitive to changes in general economic conditions. The arc welding and cutting industry is generally a mature industry in developed markets such as North America and Western Europe and is cyclical in nature. Overall demand for arc welding and cutting products is largely determined by economic cycles and the level of capital spending in manufacturing and other industrial sectors. The Company experiences some variability in reported period-to-period results as demand for the Company's products are mildly seasonal with generally higher demand in the second and third quarters. See "Item 1A. Risk Factors" for further discussion regarding risks associated with customers, general economic conditions and demand.

Competition

Conditions in the arc welding and cutting industry are highly competitive. The Company believes it is the world's largest manufacturer of consumables and equipment with relatively few major broad-line competitors worldwide, but numerous smaller competitors in specific geographic markets. The Company continues to pursue strategies to heighten its competitiveness in domestic and international markets, which includes positioning low cost manufacturing facilities in most geographical markets. Competition in the arc welding and cutting industry is based on brand preference, product quality, price, performance, warranty, delivery, service and technical support. The Company believes its performance against these factors has contributed to the Company's position as the leader in the industry.

Most of the Company's products may be classified as standard commercial articles and are manufactured for stock. The Company believes it has a competitive advantage in the marketplace because of its highly trained technical sales force and the support of its welding research and development staff to assist customers in optimizing their welding applications. This allows the Company to introduce its products to new users and to establish and maintain close relationships with its customers. This close relationship between the technical sales force and the direct customers, together with its supportive relationship with its distributors, who are particularly interested in handling the broad range of the Company's products, is an important element of the Company's market success and a valuable asset of the Company.

Raw Materials

The principal raw materials essential to the Company's business are steel, electronic components, engines, brass, copper, silver, aluminum alloys and various chemicals, all of which are normally available for purchase in the open market.

Patents and Trademarks

The Company holds many valuable patents, primarily in arc welding, and has increased the application process as research and development has progressed in both the United States and major international jurisdictions. The Company believes its trademarks are an important asset and aggressively pursues brand management.

Environmental Regulations

The Company's facilities are subject to environmental regulations. To date, compliance with these environmental regulations has not had a material adverse effect on the Company's earnings. The Company is ISO 14001 certified at most significant manufacturing facilities in North America and Europe and is progressing towards certification at its remaining facilities worldwide. In addition, the Company is ISO 9001 certified at 37 facilities worldwide.

International Operations

The Company conducts a significant amount of its business and has a number of operating facilities in countries outside the United States. As a result, the Company is subject to business risks inherent to non-U.S. activities, including political uncertainty, import and export limitations, exchange controls and currency fluctuations.

Research and Development

Research activities, which the Company believes provide a competitive advantage, relate to the development of new products and the improvement of existing products. Research activities are Company-sponsored. Refer to Note 1 to the Company's consolidated financial statements with respect to total costs of research and development, which is incorporated herein by reference.

Employees

The number of persons employed by the Company worldwide at December 31, 2014 was approximately 10,000. See "Part I, Item 1C" for information regarding the Company's executive officers, which is incorporated herein by reference.

Website Access

The Company's website, www.lincolnelectric.com, is used as a channel for routine distribution of important information, including news releases and financial information. The Company posts its filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC, including annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K; proxy statements; and any amendments to those reports or statements. The Company also posts its Code of Corporate Conduct and Ethics on its website. All such postings and filings are available on the Company's website free of charge. In addition, this website allows investors and other interested persons to sign up to automatically receive e-mail alerts when news releases and financial information is posted on the website. The SEC also maintains a website, www.sec.gov, that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Annual Report unless expressly noted.

ITEM 1A. RISK FACTORS

From time to time, information we provide, statements by our employees or information included in our filings with the SEC may contain forward-looking statements that are not historical facts. Those statements are "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "forecast," "guidance" or 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. Forward-looking statements, and our future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results, including those risks described below. Any forward-looking statements made in this report or otherwise speak only as of the date of the statement, and, except as required by law, we undertake no obligation to update those statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

In the ordinary course of our business, we face various strategic, operating, compliance and financial risks. These risks could have a material impact on our business, financial condition, operating results and cash flows.

Our Enterprise Risk Management ("ERM") process seeks to identify and address significant risks. Our ERM process is a company-wide initiative that is designed with the intent of prioritizing risks and allocating appropriate resources to address such risks. We use the integrated risk framework of the Committee of Sponsoring Organizations to assess, manage and monitor risks.

Management has identified and prioritized critical risks based on the severity and likelihood of each risk and assigned an executive to address each major identified risk area and lead action plans to monitor and mitigate risks, where possible. Our Board of Directors provides oversight of the ERM process and systematically reviews identified critical risks. The Audit Committee also reviews major financial risk exposures and the steps management has taken to monitor and control them.

Our goal is to pro-actively manage risks in a structured approach and in conjunction with the strategic planning process, with the intent to preserve and enhance shareholder value. However, these and other risks and uncertainties could cause our results to vary materially from recent results or from our anticipated future results. The risk factors and uncertainties described below, together with information incorporated by reference or otherwise included elsewhere in this Annual Report on Form 10-K, should be carefully considered. Additional risks and uncertainties of which we are currently unaware or that we currently believe to be immaterial may also adversely affect our business.

General economic and market conditions may adversely affect our financial condition, results of operations and access to capital markets.

Our operating results are sensitive to changes in general economic conditions. Further recessionary economic cycles, higher interest rates, inflation, higher labor costs, trade barriers in the world markets, financial turmoil related to sovereign debt and changes in tax laws or other economic factors affecting the countries and industries in which we do business could adversely affect demand for our products, thereby impacting our results of operations, collection of accounts receivable and our expected cash flow generation from current and acquired businesses, which may adversely impact our financial condition and access to capital markets.

Economic and supply disruptions associated with events beyond our control, such as war, acts of terror, political unrest, public health concerns, labor disputes or natural disasters could adversely affect our supply chain and distribution channels or result in loss of sales and customers.

Our facilities and operations, and the facilities and operations of our suppliers and customers, could be disrupted by events beyond our control, such as war, political unrest, public health concerns, labor disputes or natural disasters. Any such disruption could cause delays in the production and distribution of our products and the loss of sales and customers. Insurance proceeds may not adequately compensate the Company for the losses.

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

In the normal course of business, we are exposed to market risks related to the availability of and price fluctuations in the purchase of energy and commodities used in the manufacture of our products (primarily steel, brass, copper, silver, aluminum alloys, electronic components, electricity and natural gas). The availability and prices for energy costs and raw materials, including steel, nonferrous metals and chemicals, are subject to volatility and are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, our competitors' production costs, anticipated or perceived shortages and other factors.

Increases in the cost of raw materials and components may adversely affect our profitability if we are unable to pass along to our customers these cost increases in the form of price increases or otherwise reduce our cost of goods sold. Although most of the raw materials and components used in our products are commercially available from a number of sources and in adequate supply, any disruption in the availability of such raw materials and components, our inability to timely or otherwise obtain substitutes for such items, or any deterioration in our relationships with or the financial viability of our suppliers could adversely affect our business.

We are a co-defendant in litigation alleging asbestos induced illness. Liabilities relating to such litigation could reduce our profitability and impair our financial condition.

At December 31, 2014, we were a co-defendant in cases alleging asbestos induced illness involving claims by approximately 14,634 plaintiffs. In each instance, we are one of a large number of defendants. The asbestos claimants allege that exposure to asbestos contained in welding consumables caused the plaintiffs to develop adverse pulmonary diseases, including mesothelioma and other lung cancers.

Since January 1, 1995, we have been a co-defendant in asbestos cases that have been resolved as follows: 42,296 of those claims were dismissed, 22 were tried to defense verdicts, seven were tried to plaintiff verdicts (one of which was vacated on appeal), one was resolved by agreement for an immaterial amount and 670 were decided in favor of the Company following summary judgment motions.

The long-term impact of the asbestos loss contingency, in the aggregate, on operating results, operating cash flows and access to capital markets is difficult to assess, particularly since claims are in many different stages of development and we benefit significantly from cost-sharing with co-defendants and insurance carriers. While we intend to contest these lawsuits vigorously, and believe we have applicable insurance relating to these claims, there are several risks and uncertainties that may affect our liability for personal injury claims relating to exposure to asbestos, including the future impact of changing cost sharing arrangements or a change in our overall trial experience. Asbestos use in welding consumables in the U.S. ceased in 1981.

We may incur material losses and costs as a result of product liability claims that may be brought against us.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, sale and application of our products and the products of third-party suppliers that we utilize or resell. Our products are used in a variety of applications, including infrastructure projects such as oil and gas pipelines and platforms, buildings, bridges and power generation facilities, the manufacture of transportation and heavy equipment and machinery and various other construction projects. We face risk of exposure to product liability claims in the event that accidents or failures on these projects result, or are alleged to result, in bodily injury or property damage. Further, our products are designed for use in specific applications, and if a product is used inappropriately, personal injury or property damage may result.

The occurrence of defects in or failures of our products, or the misuse of our products in specific applications, could cause termination of customer contracts, increased costs and losses to us, our customers and other end users. We cannot be assured that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend those claims. Further, we cannot be assured that our product liability insurance coverage will be adequate for any liabilities that we may ultimately incur or that product liability insurance will continue to be available on terms acceptable to us.

The cyclical nature and maturity of the arc welding and cutting industry in developed markets may adversely affect our performance.

The arc welding and cutting industry is generally a mature industry in developed markets such as North America and Western Europe and is cyclical in nature. Overall demand for arc welding and cutting products is largely determined by the level of capital spending in manufacturing and other industrial sectors, and the welding industry has historically experienced contraction during periods of slowing industrial activity. If economic, business and industry conditions deteriorate, capital spending in those sectors may be substantially decreased, which could reduce demand for our products, our revenues and our results of operations.

We may not be able to complete our acquisition strategy or successfully integrate acquired businesses.

Part of our business strategy is to pursue targeted business acquisition opportunities, including foreign investment opportunities. For example, we have completed and continue to pursue acquisitions in emerging markets including, but not limited to, Brazil, Russia, India and China in order to strategically position resources to increase our presence in growing markets. We cannot be certain that we will be successful in pursuing potential acquisition candidates or that the consequences of any acquisition would be beneficial to us. Future acquisitions may expose us to unexpected liabilities and involve the expenditure of significant funds and management time. Further, we may not be able to successfully integrate any acquired business with our existing businesses or recognize the expected benefits from any completed acquisition.

Depending on the nature, size and timing of future acquisitions, we may be required to raise additional financing, which may not be available to us on acceptable terms. Our current operational cash flow is sufficient to fund our current acquisition plans, but a significant acquisition could require access to the capital markets.

Our ability to complete the divestiture of assets, or interests in assets, may be subject to factors beyond our control, and in certain cases we may be required to retain liabilities for certain matters.

We may identify assets for strategic divestitures that would increase capital resources available for other activities and create organizational and operational efficiencies. Various factors could materially affect our ability to dispose of such assets or complete announced divestitures, including the receipt of approvals of governmental agencies or third parties and the availability of purchasers willing to acquire the interests or purchase the assets on terms and at prices acceptable to us.

Sellers typically retain certain liabilities or indemnify buyers for certain matters. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, as is typical in divestitures, third parties may be unwilling to release us from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a divestiture, we may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations.

If we cannot continue to develop, manufacture and market products that meet customer demands, our revenues and gross margins may suffer.

Our continued success depends, in part, on our ability to continue to meet our customers' needs for welding and cutting products through the introduction of innovative new products and the enhancement of existing product design and performance characteristics. We must remain committed to product research and development and customer service in order to remain competitive. We cannot be assured that new products or product improvements, once developed, will meet with customer acceptance and contribute positively to our operating results, or that we will be able to continue our product development efforts at a pace to sustain future growth. Further, we may lose customers to our competitors if they demonstrate product design, development or manufacturing capabilities superior to ours.

The competitive pressures we face could harm our revenue, gross margins and prospects.

We operate in a highly competitive global environment and compete in each of our businesses with other broad-line manufacturers and numerous smaller competitors specializing in particular products. We compete primarily on the basis of brand, product quality, price, performance, warranty, delivery, service and technical support. We have previously initiated, and may in the future initiate significant rationalization activities to align our business to market conditions. Such rationalization activities could fail to deliver the desired competitive cost structure and could result in disruptions in customer service. If our products, services, support and cost structure do not enable us to compete successfully based on any of the criteria listed above, our operations, results and prospects could suffer.

Further, in the past decade, the arc welding industry in the United States and other developed countries has been subject to increased levels of foreign competition as low cost imports have become more readily available. Our competitive position could also be harmed if new or emerging competitors become more active in the arc welding business. For example, while steel manufacturers traditionally have not been significant competitors in the domestic arc welding industry, some foreign integrated steel producers manufacture selected consumable arc welding products. Our sales and results of operations, as well as our plans to expand in some foreign countries, could be adversely affected by this practice.

The loss of any of our largest customers could adversely affect our revenue, gross margins and profit.

We have a large and varied customer base due, in part, to our extensive distribution channels in the industries and regions that we serve. Although no individual customer currently accounts for more than ten percent of total net sales, there are customers to which we sell a large amount of product. The loss of any of these customers could have an adverse affect on our revenue, gross margins and profit.

We conduct our sales and distribution operations on a worldwide basis and maintain manufacturing facilities in a number of foreign countries, which subjects us to risks associated with doing business outside the United States.

Our long-term strategy is to continue to increase our market share in growing international markets. The share of sales and profits we derive from our international operations and exports from the United States is significant. This trend increases our exposure to the performance of many developing economies in addition to the developed economies outside of the United States. If international economies were to experience significant slowdowns, it could adversely affect our financial condition, results of operations and cash flows.

There are a number of risks in doing business internationally, which may impede our ability to achieve our strategic objectives relating to our foreign operations. Many developing countries have a significant degree of political and economic uncertainty and social turmoil that may impede our ability to implement and achieve our international growth objectives. Conducting business internationally subjects us to corporate governance and management challenges in consideration of the numerous U.S. and foreign laws and regulations, including regulations relating to import-export control, technology transfer restrictions, repatriation of earnings and funds, exchange controls, labor regulations, nationalization, anti-boycott provisions and anti-bribery laws (such as the Foreign Corrupt Practices Act and the Organization for Economic Cooperation and Development Convention). Failure by the Company or its sales representatives, agents or distributors to comply with these laws and regulations could result in administrative, civil or criminal liabilities, all or any of which could negatively impact our business and reputation. Our foreign operations also subject us to the risks of international terrorism and hostilities.

In particular, the economic and political environment in Venezuela exposes us to various risks. Currency exchange restrictions limit our ability to convert bolivars to U.S. dollars, which impacts our ability to repatriate earnings and to purchase goods and services necessary to operate our Venezuelan business. The restrictions could cause a slowdown, temporary shutdown or complete shutdown of operations at our Venezuelan subsidiary, which could negatively affect our earnings and cash flows.

Our operations depend on maintaining a skilled workforce, and any interruption in our workforce could negatively impact our results of operations and financial condition.

Our success depends in part on the efforts and abilities of our management team and key employees. Their skills, experience and industry knowledge significantly benefit our operations and performance. Our future success will also depend on our ability to identify, attract, and retain highly qualified managerial, technical (including research and development), sales and marketing, and customer service personnel. Competition for these individuals is intense, and we may not succeed in identifying, attracting, or retaining qualified personnel. With our strategy to expand internationally into developing markets, we may incur additional risks as some developing economies lack a sufficiently trained labor pool.

Any interruption of our workforce, including interruptions due to unionization efforts, changes in labor relations or shortages of appropriately skilled individuals could impact our results of operations and financial condition.

Our revenues and results of operations may suffer if we cannot continue to enforce the intellectual property rights on which our business depends or if third parties assert that we violate their intellectual property rights.

We rely upon patent, trademark, copyright and trade secret laws in the United States and similar laws in foreign countries, as well as agreements with our employees, customers, suppliers and other third parties, to establish and maintain our intellectual property rights. However, any of our intellectual property rights could be challenged, invalidated or circumvented, or our intellectual property rights may not be sufficient to provide a competitive advantage. Further, the laws and their application in certain foreign countries do not protect our proprietary rights to the same extent as U.S. laws. Accordingly, in certain countries, we may be unable to protect our proprietary rights against unauthorized third-party copying or use, which could impact our competitive position.

Further, third parties may claim that we or our customers are infringing upon their intellectual property rights. Even if we believe that those claims are without merit, defending those claims and contesting the validity of patents can be time consuming and costly. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlements or license agreements, pay costly damage awards or face a temporary or permanent injunction prohibiting us from manufacturing, marketing or selling certain of our products.

Our defined benefit pension plans are subject to financial market trends, such as changes in discount rates and actual investment return on pension assets, which could adversely affect our results of operations and cash flows.

The performance of the financial markets and interest rates impact our funding obligations under our defined benefit pension plans. Significant changes in discount rates, decreases in the fair value of plan assets and investment losses on plan assets may increase our benefit obligations and adversely impact our results of operations, shareholders' equity and cash flows through our annual measurement of plan assets and liabilities. For a discussion regarding how the financial statements have been affected by significant changes in 2014, refer to the pension related disclosure under "Part II, Item 7 – Critical Accounting Policies" and Note 11 to the Company's consolidated financial statements.

We are subject to changes in the U.S. regulatory environment, which could adversely affect our results of operations, cash flows and financial condition.

Our businesses, results of operations or financial condition could be adversely affected if laws, regulations or standards relating to us, our products or the markets in which we operate are newly implemented or changed. New or revised laws, regulations or standards could increase our cost of doing business or restrict our ability to operate our business and execute our strategies.

A significant fluctuation between the U.S. dollar and other currencies could adversely impact our operating income.

Although our financial results are reported in U.S. dollars, a significant portion of our sales and operating costs are realized in other currencies. Our profitability is affected by movements of the U.S. dollar against other foreign currencies in which we generate revenues and incur expenses. Significant fluctuations in relative currency values, in particular an increase in the value of the U.S. dollar against foreign currencies, could have an adverse effect on our profitability and financial condition.

Changes in tax rates or exposure to additional income tax liabilities could affect profitability.

Our business is subject to income taxes in the United States and various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix among earnings in countries with differing statutory tax rates, changes in the valuation allowances of deferred tax assets or changes in tax laws.

The amount of income taxes paid is subject to ongoing audits by United States federal, state and local tax authorities and by foreign tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments which could have a material adverse effect on our results of operations.

We are subject to risks relating to our information technology systems.

The conduct and management of our business relies extensively on information technology systems. If these systems are damaged, cease to function properly or are subject to a significant cyber security breach, we may suffer an interruption in our ability to manage and operate the business and our results of operations and financial condition could be adversely affected.

Our global operations are subject to increasingly complex environmental regulatory requirements.

We are subject to increasingly complex environmental regulations affecting international manufacturers, including those related to air and water emissions, waste management and climate change.

There is a growing political and scientific belief that emissions of greenhouse gases ("GHG") alter the composition of the global atmosphere in ways that are affecting the global climate. Various stakeholders, including legislators and regulators, shareholders and non-governmental organizations, as well as companies in many business sectors, are considering ways to reduce GHG emissions. These concerns may lead to international, national, regional or local legislative or regulatory responses in the future. Such regulation could result in new or additional regulatory or product standard requirements for the Company's global businesses. We are unable, at this time, to predict the significance of these requirements as the impact of any future GHG legislative, regulatory or product standards is dependent on the timing and design of the mandates or standards. Furthermore, the potential physical impacts of theorized climate change on the Company's customers, and therefore on the Company's operations, are speculative and highly uncertain, and would be particular to the circumstances developing in various geographical regions. These potential physical effects may adversely impact the cost, production, sales and financial performance of the Company's operations which we are unable, at this time, to predict.

It is our policy to apply strict standards for environmental protection to all of our operations inside and outside the United States, even when we are not subject to local government regulations. We may incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, liabilities resulting from third-party property damage or personal injury claims, or our products could be enjoined from entering certain jurisdictions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws.
We also face increasing complexity in our products design and procurement operations as we adjust to new and future requirements relating to the design, production and labeling of our products that are sold worldwide in multiple jurisdictions. The ultimate costs under environmental laws and the timing of these costs are difficult to predict, and liability under some environmental laws relating to contaminated locations can be imposed retroactively and on a joint and several basis.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 1C. EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
Christopher L. Mapes	53	Chairman of the Board effective December 21, 2013. President and Chief Executive Officer effective December 31, 2012; Chief Operating Officer from September 1, 2011 to December 31, 2012; Director since February 2010. Prior to his service with the Company, Mr. Mapes was an Executive Vice President of A.O. Smith Corporation (a global manufacturer with a water heating and water treatment technologies business), a position he held from 2004 through August 2011, and the President of its former Electrical Products unit, a position he held from September 2004 through August 2011.
Vincent K. Petrella	54	Executive Vice President, Chief Financial Officer and Treasurer since February 19, 2014; Senior Vice President, Chief Financial Officer and Treasurer from October 7, 2005 to February 19, 2014.
Frederick G. Stueber	61	Executive Vice President, General Counsel and Secretary since February 19, 2014; Senior Vice President, General Counsel and Secretary from 1996 to February 19, 2014.
George D. Blankenship	52	Executive Vice President, President, Lincoln Electric North America since February 19, 2014; Senior Vice President; President, Lincoln Electric North America from July 30, 2009 to February 19, 2014; Senior Vice President, Global Engineering from October 7, 2005 to July 30, 2009; Senior Vice President; President, Lincoln Cleveland of The Lincoln Electric Company from January 8, 2008 to July 30, 2009; Senior Vice President, U.S. Operations of The Lincoln Electric Company from October 7, 2005 to January 8, 2008.
Gabriel Bruno	47	Executive Vice President, Chief Information Officer since February 19, 2014; Vice President, Chief Information Officer from May 1, 2012 to February 19, 2014; Vice President, Corporate Controller from 2005 to May 1, 2012.
Gretchen A. Farrell	52	Executive Vice President, Chief Human Resources Officer since February 19, 2014; Senior Vice President, Human Resources and Compliance from July 30, 2009 to February 19, 2014 ; Vice President, Human Resources from May 5, 2005 to July 30, 2009.
Geoffrey P. Allman	44	Senior Vice President, Corporate Controller since January 14, 2014; Corporate Controller from July 1, 2012 to January 14, 2014; Director, Regional Finance North America from October 1, 2009 to June 30, 2012.
Thomas A. Flohn	54	Senior Vice President, President, Asia Pacific Region since February 19, 2014; Vice President, Regional President, Lincoln Electric Asia Pacific Region from November 4, 2013 to January 14, 2014. Vice President; President, Lincoln Electric Europe, Middle East & Africa (EMEA) from July 1, 2010 to November 4, 2013; Vice President; President, Lincoln Asia Pacific from January 1, 2005 to June 30, 2010.
Mathias Hallmann	52	Senior Vice President, President, LE Europe since February 19, 2014; Vice President; President, Lincoln Electric Europe from November 4, 2013 to February 19, 2014. Prior to his service with the Company, Mr. Hallmann was Chief Executive Officer of Bohler

		Welding Holding GmbH (a leading manufacturer and provider of auxiliary materials and consumables for industrial welding and soldering applications) from December 2008 to March 2012, and its Chief Operating Officer from April 2008 to November 2008.
Steven B. Hedlund	48	Senior Vice President and President, Global Automation since January 22, 2015; Senior Vice President, Strategy & Business Development from February 19, 2014 to January 22, 2015; Vice President, Strategy and Business Development from September 15, 2008 to February 19, 2014. Prior to his service with the Company, Mr. Hedlund was the Vice President, Growth and Innovations with Master Lock, LLC (a security products company) from June 1, 2005 to July 1, 2008.
David J. Nangle	58	Senior Vice President, President, Harris Products Group since February 19, 2014; Vice President, Group President of Brazing, Cutting and Retail Subsidiaries from January 12, 2006 to February 19, 2014.

The Company has been advised that there is no arrangement or understanding among any one of the officers listed and any other persons pursuant to which he or she was elected as an officer. The executive officers are elected by the Board of Directors normally for a term of one year and/or until the election of their successors.

ITEM 2. PROPERTIES

The Company's corporate headquarters and principal United States manufacturing facilities are located in the Cleveland, Ohio area. Total Cleveland area property consists of 233 acres, of which present manufacturing facilities comprise an area of approximately 2,940,000 square feet.

The Company has 47 manufacturing facilities, including operations and joint ventures in 19 countries, the significant locations (grouped by operating segment) of which are as follows:

North America Welding:	
United States	Cleveland and Fort Loramie, Ohio; San Diego and Anaheim, California; Reno, Nevada; Ladson, South Carolina; Chattanooga, Tennessee; Detroit, Michigan.
Canada	Toronto; Mississauga; Hamilton.
Mexico	Mexico City; Torreon.
Europe Welding:	
France	Grand-Quevilly.
Germany	Essen.
Italy	Genoa; Corsalone.
Netherlands	Nijmegen.
Poland	Bielawa; Dzierzoniow.
Portugal	Lisbon.
Russia	Mtsensk.
Turkey	Istanbul.
United Kingdom	Sheffield and Chertsey, England.
Asia Pacific Welding:	
China	Shanghai; Jinzhou; Nanjing; Zhengzhou; Luan County.
India	Chennai.
Indonesia	Cikarang.
South America Welding:	
Brazil	Sao Paulo.
Colombia	Bogota.
Venezuela	Maracay.
The Harris Products Group:	
United States	Mason, Ohio; Gainesville, Georgia; Santa Fe Springs, California.
Brazil	Guarulhos.
Mexico	Tijuana.
Poland	Dzierzoniow.

All properties relating to the Company's Cleveland, Ohio headquarters and manufacturing facilities are owned by the Company. Most of the Company's foreign subsidiaries own manufacturing facilities in the country where they are located. The Company believes that its existing properties are in good condition and are suitable for the conduct of its business.

In addition, the Company maintains operating leases for some manufacturing facilities, distribution centers and sales offices throughout the world. See Note 16 to the Company's consolidated financial statements for information regarding the Company's lease commitments.

ITEM 3. 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 December 31, 2014, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 14,634 plaintiffs, which is a net decrease of 124 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: 42,296 of those claims were dismissed, 22 were tried to defense verdicts, seven were tried to plaintiff verdicts (one of which was vacated on appeal), one was resolved by agreement for an immaterial amount and 670 were decided in favor of the Company following summary judgment motions.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common shares are traded on The NASDAQ Global Select Market under the symbol "LECO." The number of record holders of common shares at December 31, 2014 was 1,766.

The total amount of dividends paid in 2014 was $73.3 million. During 2014, dividends were paid on January 15, April 15, July 15 and October 15.

Quarterly high and low stock prices and dividends declared per share for the last two years were:

	2014			2013		
	Stock Price		Dividends	Stock Price		Dividends
	High	Low	Declared	High	Low	Declared
First quarter	$76.26	$66.68	$0.23	$57.63	$49.06	$0.20
Second quarter	72.88	63.23	0.23	60.58	49.94	0.20
Third quarter	73.75	65.44	0.23	69.35	56.75	0.20
Fourth quarter	75.49	61.12	0.29	74.57	65.45	0.23

Issuer purchases of equity securities for the fourth quarter 2014 were:

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)
October 1-31, 2014	86,845	$69.02	86,845	12,028,499
November 1-30, 2014	229,247	74.01	229,247	11,799,252
December 1-31, 2014	495,576 (1)	70.25	493,116	11,306,136
Total	811,668	71.18	809,208	

(1) Includes the surrender of 2,460 shares of the Company's common shares in connection with the vesting of restricted shares granted pursuant to the Company's 2006 Equity and Performance Incentive Plan.

(2) On July 26, 2013, the Company announced a new share repurchase program, which increased the total number of the Company’s common shares authorized to be repurchased to 45 million. Total shares purchased through the share repurchase program were 33,693,864 shares at a cost of $899.6 million for a weighted average cost of $26.70 per share through December 31, 2014.

The following line graph compares the yearly percentage change in the cumulative total shareholder return on the Company's common stock against the cumulative total return of the S&P Composite 500 Stock Index ("S&P 500") and the S&P 400 MidCap Index ("S&P 400") for the five-year calendar period commencing January 1, 2010 and ending December 31, 2014. This graph assumes that $100 was invested on December 31, 2009 in each of the Company's common shares, the S&P 500 and the S&P 400. A peer-group index for the welding industry, in general, was not readily available because the industry is comprised of a large number of privately held competitors and competitors that are smaller parts of large publicly traded companies.

ITEM 6. SELECTED FINANCIAL DATA
(Dollars in thousands, except per share amounts)

	Year Ended December 31,				
	2014 (1)	2013 (2)	2012 (3)	2011 (4)	2010 (5)
Net sales	$2,813,324	$2,852,671	$2,853,367	$2,694,609	$2,070,172
Net income	254,686	293,780	257,411	217,186	130,244
Basic earnings per share	3.22	3.58	3.10	2.60	1.54
Diluted earnings per share	3.18	3.54	3.06	2.56	1.53
Cash dividends declared per share	0.980	0.830	0.710	0.635	0.575
Total assets	1,939,215	2,151,867	2,089,863	1,976,776	1,783,788
Long-term debt	2,488	3,791	1,599	1,960	84,627

(1) Results for 2014 include net rationalization and asset impairment charges of $30,053 ($30,914 after-tax) which primarily include $32,742 ($32,706 after-tax) in non-cash asset impairment charges partially offset by gains of $3,930 ($2,754 after-tax) related to the sale of assets. Associated with the impairment of long-lived assets is an offsetting special item of $805 representing portions attributable to non-controlling interests. Results also include charges of $21,133 ($21,133 after-tax) related to Venezuelan remeasurement losses.

(2) Results for 2013 include net rationalization and asset impairment charges of $8,463 ($7,573 after-tax) which include $3,658 ($2,965 after-tax) in rationalization charges and impairment charges net of gains on disposals of $4,805 ($4,608 after-tax). Results also include a charge of $12,198 ($12,198 after-tax) related to the devaluation of the Venezuelan currency and a loss of $705 ($705 after-tax) related to a loss on the sale of land. Associated with the impairment of long-lived assets and loss on the sale of land is an offsetting special item of $1,068 representing portions attributable to non-controlling interests.

(3) Results for 2012 include net rationalization and asset impairment charges of $9,354 ($7,442 after-tax) which include $7,512 ($6,153 after-tax) in rationalization charges and asset disposal and impairment charges of $1,842 ($1,289 after-tax). Results also include a charge of $1,381 ($906 after-tax) related to a change in Venezuelan labor law, which provides for increased employee severance obligations.

(4) Results for 2011 include net rationalization and asset impairment charges of $282 ($237 after-tax) resulting from rationalization activities primarily initiated in 2009 and a gain of $4,844 related to a favorable adjustment for tax audit settlements.

(5) Results for 2010 include net rationalization and asset impairment gains of $384 ($894 after-tax) which include net gains of $3,684 ($3,725 after-tax) related to the sale of property and asset disposals, impairment charges of $883 ($801 after-tax) and $2,417 ($2,030 after-tax) in rationalization charges. Results also include a net charge of $3,123 ($3,560 after-tax) related to the change in functional currency and devaluation of the Venezuelan currency, income of $5,092 was recognized due to an adjustment in tax liabilities for a change in applicable tax regulations, a gain of $108 after-tax in non-controlling interests related to the impairment of assets for a majority-owned consolidated subsidiary and a charge of $1,890 after-tax in non-controlling interests related to gains on the disposal of assets in a majority-owned consolidated subsidiary.

ITEM 7. 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 "Selected Financial Data," the Company's consolidated financial statements and other financial information included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in the forward-looking statements. See "Item 1A. Risk Factors" for more information regarding forward-looking statements.
General
The Company is the world's largest designer and manufacturer of arc welding and cutting products, manufacturing a broad line of arc welding equipment, consumable welding products and other welding and cutting products.
The Company is one of only a few worldwide broad-line manufacturers of welding, cutting and brazing products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company's product offering also includes CNC plasma and 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 invests in the research and development of arc welding products in order to continue its market leading product offering. The Company continues to invest in technologies that improve the quality and productivity of welding products. In addition, the Company continues to actively increase its patent application process in order to secure its technology advantage in the United States and other major international jurisdictions. The Company believes its significant investment in research and development and its highly trained technical sales force coupled with its extensive distributor network provide a competitive advantage in the marketplace.
The Company's products are sold in both domestic and international markets. In North America, products are sold principally through industrial distributors, retailers and also directly to users of welding products. Outside of North America, the Company has an international sales organization comprised of Company employees and agents who sell products from the Company's various manufacturing sites to distributors and product users.
The Company's major end-user markets include:

- general metal fabrication,
- power generation and process industry,
- structural steel construction (buildings and bridges),
- heavy equipment fabrication (farming, mining and rail),
- shipbuilding,
- automotive,
- pipe mills and pipelines, and
- offshore oil and gas exploration and extraction.

The Company has, through wholly-owned subsidiaries or joint ventures, manufacturing facilities located in the United States, Brazil, Canada, China, Colombia, France, Germany, India, Indonesia, Italy, Mexico, the Netherlands, Poland, Portugal, Russia, Turkey, the United Kingdom and Venezuela.
The Company has aligned its business units into five operating segments to enhance the utilization of the Company's worldwide resources and global end user and sourcing initiatives. The operating segments consist of North America Welding, Europe Welding, Asia Pacific Welding, South America Welding and The Harris Products Group. The North America Welding segment includes welding operations in the United States, Canada and Mexico. The Europe Welding segment includes welding operations in Europe, Russia, Africa and the Middle East. The Asia Pacific Welding segment primarily includes welding operations in China and Australia. The South America Welding segment primarily includes welding operations in Brazil, Colombia and Venezuela. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as the retail business in the United States. See Note 5 to the Company's consolidated financial statements for segment and geographic area information.

The principal raw materials essential to the Company's business are steel, electronic components, engines, brass, copper, silver, aluminum alloys and various chemicals, all of which are normally available for purchase in the open market.

The Company's facilities are subject to environmental regulations. To date, compliance with these environmental regulations has not had a material adverse effect on the Company's earnings. The Company is ISO 14001 certified at most significant manufacturing facilities in North America and Europe and is progressing towards certification at its remaining facilities worldwide. In addition, the Company is ISO 9001 certified at 37 facilities worldwide.

Key Indicators

Key economic measures relevant to the Company include industrial production trends, steel consumption, purchasing manager indices, capacity utilization within durable goods manufacturers and consumer confidence indicators. Key industries which provide a relative indication of demand drivers to the Company include steel, farm machinery and equipment, construction and transportation, fabricated metals, electrical equipment, ship and boat building, defense, truck manufacturing, energy and railroad equipment. Although these measures provide key information on trends relevant to the Company, the Company does not have available a more direct correlation of leading indicators which can provide a forward-looking view of demand levels in the markets which ultimately use the Company's welding products.

Key operating measures utilized by the operating units to manage the Company include orders, sales, inventory and fill-rates, all of which provide key indicators of business trends. These measures are reported on various cycles including daily, weekly and monthly depending on the needs established by operating management.

Key financial measures utilized by the Company's executive management and operating units in order to evaluate the results of its business and in understanding key variables impacting the current and future results of the Company include: sales; gross profit; selling, general and administrative expenses; operating income; earnings before interest and taxes; earnings before interest, taxes and bonus; net income; adjusted operating income; adjusted earnings before interest and income taxes, adjusted net income; adjusted diluted earnings per share; operating cash flows; and capital expenditures, including applicable ratios such as return on invested capital and average operating working capital to sales. These measures are reviewed at monthly, quarterly and annual intervals and compared with historical periods, as well as objectives established by the Board of Directors of the Company.

Results of Operations

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

	Year Ended December 31,														
	2014					2013					2012				
	Amount		% of Sales			Amount		% of Sales			Amount		% of Sales		
Net sales	$2,813,324		100.0	%		$2,852,671		100.0	%		$2,853,367		100.0	%	
Cost of goods sold	1,864,027		66.3	%		1,910,017		67.0	%		1,986,711		69.6	%	
Gross profit	949,297		33.7	%		942,654		33.0	%		866,656		30.4	%	
Selling, general & administrative expenses	545,497		19.4	%		527,206		18.5	%		495,221		17.4	%	
Rationalization and asset impairment charges	30,053		1.1	%		8,463		0.3	%		9,354		0.3	%	
Operating income	373,747		13.3	%		406,985		14.3	%		362,081		12.7	%	
Interest income	3,093		0.1	%		3,320		0.1	%		3,988		0.1	%	
Equity earnings in affiliates	5,412		0.2	%		4,806		0.2	%		5,007		0.2	%	
Other income	3,995		0.1	%		4,194		0.1	%		2,685		0.1	%	
Interest expense	(10,434	)	(0.4	%	)	(2,864	)	(0.1	%	)	(4,191	)	(0.1	%	)
Income before income taxes	375,813		13.4	%		416,441		14.6	%		369,570		13.0	%	
Income taxes	121,933		4.3	%		124,754		4.4	%		112,354		3.9	%	
Net income including non-controlling interests	253,880		9.0	%		291,687		10.2	%		257,216		9.0	%	
Non-controlling interests in subsidiaries' loss	(806	)	—			(2,093	)	(0.1	%	)	(195	)	—		

Net income	$254,686	9.1	%	$293,780	10.3	%	$257,411	9.0	%

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2014 Compared with 2013

Net Sales: Net sales for 2014 decreased 1.4% from 2013. The sales decrease reflects volume decreases of 2.0%, price increases of 1.8%, increases from acquisitions of 1.5% and unfavorable impacts from foreign exchange of 2.6%. Sales volumes decreased primarily as a result of softer volumes in South America Welding. Product pricing increased from prior year levels, reflecting the highly inflationary environment in Venezuela partially offset by pricing declines in The Harris Products Group due to decreases in the costs of silver and copper. Net sales for 2014 include $71,793 in sales from the Company's Venezuelan operations compared with $109,139 in sales from the Company's Venezuelan operations in 2013.

Gross Profit: Gross profit increased 0.7% to $949,297 during 2014 compared with $942,654 in 2013. As a percentage of Net sales, Gross profit increased to 33.7% in 2014 compared with 33.0% in 2013. The increase was the result of geographic mix and operational improvements. Foreign currency exchange rates had a $28,377 unfavorable translation impact in 2014, which includes $3,468 related to the liquidation of Venezuelan inventory valued at a historical exchange rate.

Selling, General & Administrative ("SG&A") Expenses: SG&A expenses increased 3.5% to $545,497 during 2014 compared with $527,206 in 2013. The increase was primarily due to higher foreign exchange transaction losses of $16,472, incremental SG&A expenses from acquisitions of $8,051 and higher bonus expense of $5,511, partially offset by lower foreign currency translation of $14,627. Foreign exchange transaction losses in 2014 include a charge of $17,665 relating to a Venezuelan remeasurement loss compared with a charge of $8,081 in 2013 due to the devaluation of the Venezuelan currency.

Rationalization and Asset Impairment Charges: In 2014, the Company recorded $30,053 in charges primarily related to non-cash long-lived asset impairment charges partially offset by gains on the sale of assets. See "Rationalization and Asset Impairments" for additional information.

Equity Earnings in Affiliates: Equity earnings in affiliates were $5,412 in 2014 compared with earnings of $4,806 in 2013. The increase was primarily due to an increase in earnings in Turkey.

Interest Expense: Interest expense increased to $10,434 in 2014 from $2,864 in 2013. The increase was due to an adjustment to the consideration expected to be paid to acquire additional ownership interests of a majority-owned subsidiary and the accretion of the related liability.

Income Taxes: The Company recorded $121,933 of tax expense on pre-tax income of $375,813, resulting in an effective tax rate of 32.4% for 2014. The effective income tax rate is lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.

The effective income tax rate of 30.0% for 2013 was lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.

Net Income: Net income for 2014 was $254,686 compared with $293,780 in the prior year. Diluted earnings per share for 2014 were $3.18 compared with diluted earnings of $3.54 per share in 2013. Net income for 2014 included a loss of $8,238, or $0.10 per diluted share, from the Company's Venezuelan operations compared with Net income of $25,614, or $0.31 per diluted share, from the Company's Venezuelan operations in 2013. Foreign currency exchange rate movements had an unfavorable translation effect of $8,258 and $1,572 on Net income for 2014 and 2013, respectively.

Segment Results

Net Sales: The table below summarizes the impacts of volume, acquisitions, price and foreign currency exchange rates on Net sales for the twelve months ended December 31, 2014:

		Change in Net Sales due to:				
	Net Sales 2013	Volume	Acquisitions	Price	Foreign Exchange	Net Sales 2014
Operating Segments						
North America Welding	$1,652,769	$4,335	$42,184	$13,247	$(11,611)	$1,700,924
Europe Welding	429,548	8,107	—	(3,722)	(8,158)	425,775
Asia Pacific Welding	266,282	(17,516)	—	1,351	(6,317)	243,800
South America Welding	195,895	(59,554)	—	57,461	(45,207)	148,595
The Harris Products Group	308,177	6,722	—	(18,411)	(2,258)	294,230
Consolidated	$2,852,671	$(57,906)	$42,184	$49,926	$(73,551)	$2,813,324
% Change						
North America Welding		0.3 %	2.6 %	0.8 %	(0.7 %)	2.9 %
Europe Welding		1.9 %	—	(0.9 %)	(1.9 %)	(0.9 %)
Asia Pacific Welding		(6.6 %)	—	0.5 %	(2.4 %)	(8.4 %)
South America Welding		(30.4 %)	—	29.3 %	(23.1 %)	(24.1 %)
The Harris Products Group		2.2 %	—	(6.0 %)	(0.7 %)	(4.5 %)
Consolidated		(2.0 %)	1.5 %	1.8 %	(2.6 %)	(1.4 %)

Net sales volumes for 2014 decreased for South America Welding due to the lack of available raw materials in Venezuela and Asia Pacific Welding due to lower demand. North America Welding, Europe Welding and The Harris Products Group increased as a result of stronger end market demand in those geographies. Product pricing in North America Welding increased slightly due to the realization of price increases. Product pricing in South America Welding reflects a highly inflationary environment, particularly in Venezuela. Product pricing decreased for The Harris Products Group because of decreases in the costs of silver and copper. The increase in Net sales from acquisitions was due to the acquisitions of Easom Automation Systems, Inc. ("Easom") in October 2014, Robolution GmbH ("Robolution") in November 2013 and Burlington Automation Corporation ("Burlington") in November 2013 (see Note 3 to the consolidated financial statements for additional information regarding the acquisitions). With respect to changes in Net sales due to foreign exchange, all segments decreased due to a stronger U.S. dollar.

Earnings Before Interest and Income Taxes ("EBIT"), as Adjusted: Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being EBIT, as adjusted. The following table presents EBIT, as adjusted for 2014 by segment compared with 2013:

	Twelve Months Ended December 31, 2014	2013	$ Change	% Change
North America Welding:				
Net sales	$1,700,924	$1,652,769	48,155	2.9 %
Inter-segment sales	124,732	127,254	(2,522)	(2.0%)
Total Sales	$1,825,656	$1,780,023	45,633	2.6 %
EBIT, as adjusted	$335,465	$318,507	16,958	5.3 %
As a percent of total sales	18.4 %	17.9 %		0.5 %
Europe Welding:				
Net sales	$425,775	$429,548	(3,773)	(0.9%)
Inter-segment sales	19,586	19,911	(325)	(1.6%)
Total Sales	$445,361	$449,459	(4,098)	(0.9%)
EBIT, as adjusted	$48,822	$36,247	12,575	34.7 %
As a percent of total sales	11.0 %	8.1 %		2.9 %
Asia Pacific Welding:				
Net sales	$243,800	$266,282	(22,482)	(8.4%)
Inter-segment sales	14,820	14,906	(86)	(0.6%)
Total Sales	$258,620	$281,188	(22,568)	(8.0%)
EBIT, as adjusted	$1,321	$1,815	(494)	(27.2%)
As a percent of total sales	0.5 %	0.6 %		(0.1%)
South America Welding:				
Net sales	$148,595	$195,895	(47,300)	(24.1%)
Inter-segment sales	144	233	(89)	(38.2%)
Total Sales	$148,739	$196,128	(47,389)	(24.2%)
EBIT, as adjusted	$15,953	$57,306	(41,353)	(72.2%)
As a percent of total sales	10.7 %	29.2 %		(18.5%)
The Harris Products Group:				
Net sales	$294,230	$308,177	(13,947)	(4.5%)
Inter-segment sales	8,210	9,605	(1,395)	(14.5%)
Total Sales	$302,440	$317,782	(15,342)	(4.8%)
EBIT, as adjusted	$28,563	$27,826	737	2.6 %
As a percent of total sales	9.4 %	8.8 %		0.6 %

EBIT, as adjusted as a percent of total sales increased for North America Welding in 2014 as compared with 2013 due to operational improvements and lower pension expense, partially offset by higher SG&A expenses. The increase for Europe Welding is primarily due to volume increases, lower manufacturing costs and improved product mix, partially offset by higher SG&A expenses. The South America Welding decrease was a result of lower volumes related to disruptions of manufacturing operations due to the lack of available raw materials in Venezuela and higher SG&A expenses due to foreign exchange losses in Venezuela.

In 2014, EBIT, as adjusted, excluded net charges primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. Asia Pacific Welding EBIT, as adjusted, also excluded charges of $32,742 related to impairment of long-lived assets and a gain of $3,930 related to the sale of assets. South America Welding EBIT, as adjusted, excluded special item charges of $21,133, related to the adoption of a new foreign exchange mechanism in the first quarter.
In 2013, EBIT, as adjusted, excluded special item charges primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. Asia Pacific Welding EBIT, as adjusted, also excluded charges of $4,444 related to impairment of long-lived assets and a charge of $705 related to a loss on the sale of land. South America Welding EBIT, as adjusted, excluded special item charges of $12,198, related to the devaluation of the Venezuelan currency.
2013 Compared with 2012
Net Sales: Net sales for 2013 remained flat with 2012. The sales change reflects volume decreases of 2.7%, price increases of 0.1%, increases from acquisitions of 3.2% and unfavorable impacts from foreign exchange of 0.6%. Sales volumes decreased as a result of soft demand in both domestic and international markets. Product pricing increased from prior year levels reflecting the highly inflationary environment in Venezuela offset by pricing declines in The Harris Products Group due to significant decreases in the costs of silver and copper. Net sales for 2013 include $109,139 in sales from the Company's Venezuelan operations.
Gross Profit: Gross profit increased 8.8% to $942,654 during 2013 compared with $866,656 in 2012. As a percentage of Net sales, Gross profit increased to 33.0% in 2013 compared with 30.4% in 2012. The increase was the result of geographic mix and pricing stability in the wake of lower year over year input costs. The 2013 period includes incremental costs of $4,117 due to the devaluation of the Venezuelan currency and charges of $2,521 for inventory write-downs, partially offset by a gain of $1,672 from insurance proceeds. In 2012, the Company recorded charges of $2,334 related to the initial accounting for recent acquisitions and charges of $1,039 due to a change in Venezuelan labor law, which provides for increased employee severance obligations. Foreign currency exchange rates had a $5,622 unfavorable translation impact in 2013.
Selling, General & Administrative ("SG&A") Expenses: SG&A expenses increased 6.5% to $527,206 during 2013 compared with $495,221 in 2012. The increase was primarily due to incremental SG&A expenses from acquisitions of $18,620, general and administrative spending primarily related to additional employee compensation costs of $17,160 and higher foreign exchange transaction losses of $3,280, which include a charge of $8,081 due to the devaluation of the Venezuelan currency, partially offset by foreign currency translation of $3,264, lower bonus expense of $3,112 and lower U.S. retirement costs of $1,415.
Rationalization and Asset Impairment Charges: In 2013, the Company recorded $8,463 in charges primarily related to asset impairments and rationalization actions. See "Rationalization and Asset Impairments" for additional information.
Equity Earnings in Affiliates: Equity earnings in affiliates were $4,806 in 2013 compared with earnings of $5,007 in 2012. The decrease was due to decreased earnings in Chile of $161 and Turkey of $40.
Interest Expense: Interest expense decreased to $2,864 in 2013 from $4,191 in 2012, primarily as a result of lower levels of debt in the current period.
Income Taxes: The Company recorded $124,754 of tax expense on pre-tax income of $416,441, resulting in an effective tax rate of 30.0% for 2013. The effective income tax rate is lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.
The effective income tax rate of 30.4% for 2012 was lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.
Net Income: Net income for 2013 was $293,780 compared with $257,411 in the prior year. Diluted earnings per share for 2013 were $3.54 compared with diluted earnings of $3.06 per share in 2012. Net income for 2013 included $25,614, or $0.31 per diluted share, from the Company's Venezuelan operations. Foreign currency exchange rate movements had an unfavorable translation effect of $1,572 and $2,879 on Net income for 2013 and 2012, respectively.

Segment Results

Net Sales: The table below summarizes the impacts of volume, acquisitions, price and foreign currency exchange rates on Net sales for the twelve months ended December 31, 2013:

		Change in Net Sales due to:				
	Net Sales 2012	Volume	Acquisitions	Price	Foreign Exchange	Net Sales 2013
Operating Segments						
North America Welding	$1,580,818	$(22,962)	$91,442	$7,785	$(4,314)	$1,652,769
Europe Welding	452,227	(18,518)	—	(5,696)	1,535	429,548
Asia Pacific Welding	324,482	(48,964)	—	(4,947)	(4,289)	266,282
South America Welding	161,483	13,269	—	29,730	(8,587)	195,895
The Harris Products Group	334,357	1,276	—	(24,748)	(2,708)	308,177
Consolidated	$2,853,367	$(75,899)	$91,442	$2,124	$(18,363)	$2,852,671
% Change						
North America Welding		(1.5%)	5.8%	0.5%	(0.3%)	4.6%
Europe Welding		(4.1%)	—	(1.3%)	0.3%	(5.0%)
Asia Pacific Welding		(15.1%)	—	(1.5%)	(1.3%)	(17.9%)
South America Welding		8.2%	—	18.4%	(5.3%)	21.3%
The Harris Products Group		0.4%	—	(7.4%)	(0.8%)	(7.8%)
Consolidated		(2.7%)	3.2%	0.1%	(0.6%)	—

Net sales volumes for 2013 decreased for all operating segments except for South America Welding and The Harris Products Group, as a result of soft demand in both domestic and international markets. Net sales volumes in South America Welding increased as a result of improved demand in the South American markets. Net sales volumes in The Harris Products Group increased as a result of improved sales volumes on equipment. Product pricing in North America Welding increased slightly due to the realization of price increases and improved pricing management. Product pricing in Europe Welding decreased due to declining raw material costs. Product pricing decreased for Asia Pacific Welding due to lower raw material costs and competitive pricing conditions. Product pricing in South America Welding reflects a highly inflationary environment, particularly in Venezuela. Product pricing decreased for The Harris Products Group because of significant decreases in the costs of silver and copper as compared to the prior year period. The increase in Net sales from acquisitions was due to the acquisitions of Robolution in November 2013, Burlington in November 2013, Tennessee Rand, Inc. ("Tenn Rand") in December 2012, Kaliburn, Burny and Cleveland Motion Control businesses (collectively, "Kaliburn") in November 2012, Wayne Trail Technologies, Inc. ("Wayne Trail") in May 2012 and Weartech International, Inc. ("Weartech") in March 2012 (see Note 3 to the consolidated financial statements for additional information regarding the acquisitions). With respect to changes in Net sales due to foreign exchange, all segments, except for Europe Welding, decreased due to a stronger U.S. dollar.

Earnings Before Interest and Income Taxes (“EBIT”), as Adjusted: Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being EBIT, as adjusted. The following table presents EBIT, as adjusted for 2013 by segment compared with 2012:

	Twelve Months Ended December 31, 2013	2012	$ Change	% Change
North America Welding:				
Net sales	$1,652,769	$1,580,818	71,951	4.6 %
Inter-segment sales	127,254	131,062	(3,808)	(2.9 %)
Total Sales	$1,780,023	$1,711,880	68,143	4.0 %
EBIT, as adjusted	$318,507	$293,070	25,437	8.7 %
As a percent of total sales	17.9 %	17.1 %		0.8 %
Europe Welding:				
Net sales	$429,548	$452,227	(22,679)	(5.0 %)
Inter-segment sales	19,911	16,048	3,863	24.1 %
Total Sales	$449,459	$468,275	(18,816)	(4.0 %)
EBIT, as adjusted	$36,247	$37,299	(1,052)	(2.8 %)
As a percent of total sales	8.1 %	8.0 %		0.1 %
Asia Pacific Welding:				
Net sales	$266,282	$324,482	(58,200)	(17.9