LINCOLN ELECTRIC HOLDINGS INC
Form 10-Q
July 27, 2018
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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 June 30, 2018
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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “small reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 June 30, 2018 was 65,172,057.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LINCOLN ELECTRIC HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales (Note 2)	$790,052	$626,858	$1,547,748	$1,207,755
Cost of goods sold	519,936	410,547	1,021,078	788,781
Gross profit	270,116	216,311	526,670	418,974
Selling, general & administrative expenses	163,940	130,738	325,131	253,994
Rationalization and asset impairment charges (Note 6)	11,542	—	21,717	—
Operating income	94,634	85,573	179,822	164,980
Interest expense, net	4,812	5,052	9,253	10,389
Other income (expense) (Note 13)	4,441	3,445	7,892	7,275
Income before income taxes	94,263	83,966	178,461	161,866
Income taxes (Note 14)	25,404	22,635	48,782	44,687
Net income including non-controlling interests	68,859	61,331	129,679	117,179
Non-controlling interests in subsidiaries' earnings (loss)	(5)	(21)	(9)	(17)
Net income	$68,864	$61,352	$129,688	$117,196
Basic earnings per share (Note 3)	$1.05	$0.93	$1.98	$1.78
Diluted earnings per share (Note 3)	$1.04	$0.92	$1.96	$1.76
Cash dividends declared per share	$0.39	$0.35	$0.78	$0.70

See notes to these consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income including non-controlling interests	$68,859	$61,331	$129,679	$117,179
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax of $(309) and $25 in the three and six months ended June 30, 2018; $97 and $(334) in the three and six months ended June 30, 2017.	(1,232)	(277)	(377)	1,247
Defined benefit pension plan activity, net of tax of $218 and $649 in the three and six months ended June 30, 2018; $149 and $362 in the three months ended June 30, 2017.	721	712	2,008	1,426
Currency translation adjustment	(50,342)	25,356	(30,955)	53,889
Other comprehensive income (loss):	(50,853)	25,791	(29,324)	56,562
Comprehensive income	18,006	87,122	100,355	173,741
Comprehensive income (loss) attributable to non-controlling interests	(95)	5	(40)	31
Comprehensive income attributable to shareholders	$18,101	$87,117	$100,395	$173,710

See notes to these consolidated financial statements.

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

	June 30, 2018	December 31, 2017
	(UNAUDITED)	(NOTE 1)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 357,094	$ 326,701
Accounts receivable (less allowance for doubtful accounts of $14,279 in 2018; $15,943 in 2017)	425,806	395,279
Inventories (Note 8)	365,634	348,667
Marketable securities	139,059	179,125
Other current assets	123,974	123,836
Total Current Assets	1,411,567	1,373,608
Property, plant and equipment (less accumulated depreciation of $794,927 in 2018; $787,780 in 2017)	468,205	477,031
Goodwill	233,982	234,582
Other assets	319,977	321,326
TOTAL ASSETS	$ 2,433,731	$ 2,406,547
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Note 11)	$ 1,889	$ 2,131
Trade accounts payable	269,824	269,763
Other current liabilities	268,045	256,848
Total Current Liabilities	539,758	528,742
Long-term debt, less current portion (Note 11)	700,194	704,136
Other liabilities	250,271	241,216
Total Liabilities	1,490,223	1,474,094
Shareholders’ Equity		
Common shares	9,858	9,858
Additional paid-in capital	351,632	334,309
Retained earnings	2,461,130	2,388,219
Accumulated other comprehensive loss	(276,479)	(247,186)
Treasury shares	(1,603,409)	(1,553,563)
Total Shareholders’ Equity	942,732	931,637
Non-controlling interests	776	816
Total Equity (Note 7)	943,508	932,453
TOTAL LIABILITIES AND TOTAL EQUITY	$ 2,433,731	$ 2,406,547

See notes to these consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$129,688	$117,196
Non-controlling interests in subsidiaries' loss	(9)	(17)
Net income including non-controlling interests	129,679	117,179
Adjustments to reconcile Net income including non-controlling interests to Net cash provided by operating activities:		
Rationalization and asset impairment net charges (Note 6)	626	—
Depreciation and amortization	36,323	32,006
Equity earnings in affiliates, net	(1,377)	(75)
Deferred income taxes	4,969	6,396
Stock-based compensation	9,821	6,632
Pension (income) expense and settlement charges (Note 12)	(1,067)	(2,679)
Other, net	(7,075)	1,436
Changes in operating assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(39,907)	(40,006)
Increase in inventories	(27,899)	(24,757)
(Increase) decrease in other current assets	(13,839)	2,639
Increase in trade accounts payable	4,861	12,619
Increase in other current liabilities	26,223	36,230
Net change in other assets and liabilities	2,220	4,067
NET CASH PROVIDED BY OPERATING ACTIVITIES	123,558	151,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(31,383)	(28,131)
Acquisition of businesses, net of cash acquired	6,235	—
Proceeds from sale of property, plant and equipment	227	1,102
Purchase of marketable securities	(218,667)	(69,934)
Proceeds from marketable securities	258,733	4,990
Other investing activities	356	—
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	15,501	(91,973)
CASH FLOWS FROM FINANCING ACTIVITIES		
Amounts due banks, net	216	(192)
Proceeds from long-term borrowings	—	15
Payments on long-term borrowings	(6)	(34)
Proceeds from exercise of stock options	2,599	13,397
Purchase of shares for treasury (Note 7)	(50,232)	(7,748)
Cash dividends paid to shareholders	(51,250)	(46,016)
Other financing activities	—	(15,189)
NET CASH USED BY FINANCING ACTIVITIES	(98,673)	(55,767)
Effect of exchange rate changes on Cash and cash equivalents	(9,993)	12,609

INCREASE IN CASH AND CASH EQUIVALENTS	30,393	16,556
Cash and cash equivalents at beginning of period	326,701	379,179
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$357,094	$395,735

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands, except per share amounts

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES
Principles of Consolidation
As used in this report, the term “Company,” except as otherwise indicated by the context, means Lincoln Electric Holdings, Inc. and its wholly-owned and majority-owned subsidiaries for which it has a controlling interest.
The consolidated financial statements include the accounts of all legal entities in which the Company holds a controlling interest. The Company is also considered to have a controlling interest in a variable interest entity (“VIE”) if the Company determines it is the primary beneficiary of the VIE. Investments in legal entities in which the Company does not own a majority interest but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method.
The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these unaudited consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. However, in the opinion of management, these unaudited consolidated financial statements contain all the adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position, results of operations and cash flows for the interim periods. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.
The accompanying Consolidated Balance Sheet at December 31, 2017 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, 2017.
Certain reclassifications have been made to the prior year financial statements to conform to current year classifications.
New Accounting Pronouncements:
This section provides a description of new accounting pronouncements ("Accounting Standard Update" or "ASU") issued by the Financial Accounting Standards Board ("FASB") that are applicable to the Company.
The following ASUs were adopted as of January 1, 2018 and did not have a significant financial impact on the Company's consolidated financial statements unless otherwise described within the table below:

Standard	Description
ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, issued August 2017.	ASU 2017-12 provides updated guidance to more closely align hedge accounting with a company's risk management strategy, to simplify the application of hedge accounting and to better portray the economic results of hedging instruments in the financial statements. The Company early adopted the ASU on January 1, 2018.
ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Period Pension Cost and Net Periodic Postretirement Benefit Cost, issued March 2017.	ASU 2017-07 requires an entity to report the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs. The other components of the net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside of any subtotal of operating income. Additionally, only the service cost component will be eligible for capitalization in assets. The impact of the adoption resulted in the reclassification of the other components of net periodic benefit cost from Cost of goods sold and Selling, general & administrative expenses to Other periodic pension income. The reclassification resulted in a decrease in Operating income of $2,069 as a result of an increase in Cost of goods sold

of $1,177 and an increase in Selling, general & administrative expenses of $892 for the three months ended June 30, 2017. The reclassification resulted in a decrease in Operating income of $4,148 as a result of an increase in Cost of goods sold of $2,370 and an increase in Selling, general & administrative expenses of $1,778 for the six months ended June 30, 2017. Refer to Note 12 to the consolidated financial statements for details.

LINCOLN ELECTRIC HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Dollars in thousands, except per share amounts

Standard	Description
ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, issued January 2017.	ASU 2017-01 provides updated guidance for evaluating whether certain transactions should be accounted for as an acquisition (or disposal) of an asset or a business.
ASU No. 2016-18, Statement of Cash Flows(Topic 230): Restricted Cash, issued November 2016.	ASU 2016-18 requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.
ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, issued October 2016.	ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, issued August 2016.	ASU 2016-15 reduces 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 2014-09, Revenue from Contracts with Customers (Topic 606) issued May 2014 and ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, issued August 2015.	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. The standard 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. ASU 2015-14 deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective transition method applied to those contracts that were not completed as of that date. The adoption did not have a material impact on the consolidated financial statements. Refer to Note 2 to the consolidated financial statements for further details.

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

Standard	Description
ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), issued February 2018.	ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Act (as defined within Note 14 to the consolidated financial statements). The ASU only applies to the income tax effects of the U.S. Tax Act, all other existing guidance remains the same. The ASU is effective January 1, 2019, early adoption is permitted and the ASU should be applied retrospectively to each period impacted by the U.S. Tax Act.
ASU No. 2016-02, Leases (Topic 842), issued February 2016 and ASU 2018-10, Codification Improvements to Topic 842, Leases, issued July	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. ASU 2018-10 provides narrow amendments to clarify how to apply certain aspects of the new lease standard. Entities are required to recognize and measure leases at the beginning of the earliest period

2018.	presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The ASU is effective January 1, 2019 and early adoption is permitted. The Company has established a cross-functional team to implement the ASU and is in the process of determining the scope of impact and use of practical expedients, gathering data on all leases and designing a new system solution. The Company is also evaluating its processes and internal controls to meet the ASU’s accounting, reporting and disclosure requirements. While the Company has not yet completed its evaluation of the ASU’s impact, the Company expects to recognize a right of use asset and a corresponding liability on the Consolidated Balance Sheets related to substantially all operating lease arrangements.

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LINCOLN ELECTRIC HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Dollars in thousands, except per share amounts

NOTE 2 — REVENUE RECOGNITION

Adoption of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)"

On January 1, 2018, the Company adopted ASU 2014-09 (“Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. The cumulative impact of adopting Topic 606 as of January 1, 2018 did not have a material impact to the consolidated financial statements. The Company does not expect the impact of the adoption of Topic 606 to be material to the consolidated financial statements on an ongoing basis.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract are satisfied and control is transferred to the customer. Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for goods or services. The Company recognizes any discounts, credits, returns, rebates and incentive programs based on reasonable estimates as a reduction of sales to arrive at Net sales at the same time the related revenue is recorded. Taxes collected by the Company, including sales tax and value add tax, are excluded from Net sales. The Company recognizes freight billed as a component of Net sales and shipping costs as a component of Cost of goods sold when control transfers to the customer. Sales commissions are expensed when incurred because the amortization period is generally one year or less. These costs are recorded within Selling, general and administrative expenses in the Company's Consolidated Statements of Income.

The Company’s payment terms vary by the type and location of the customer and the products or services offered. The Company does not offer any payment terms that would meet the requirements for consideration as a financing component under Topic 606.

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

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Consumables	$461,040	$902,931
Equipment	329,012	644,817
Net sales	$790,052	$1,547,748

Consumable sales consist of electrodes, fluxes, specialty welding consumables and brazing and soldering alloys. Equipment sales consist of arc welding power sources, welding accessories, fabrication, plasma cutters, wire feeding systems, robotic welding packages, integrated automation systems, fume extraction equipment, CNC plasma and oxy-fuel cutting systems and regulators and torches used in oxy-fuel welding, cutting and brazing. Consumable and Equipment products are sold within each of the Company’s operating segments.

Substantially all of the Company's sales arrangements are short-term in nature involving a single performance obligation. The Company recognizes revenue when control of the product is transferred to the customer based upon shipping terms.

Within the Equipment product line, there are certain customer contracts related to automation products that may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines the standalone selling price based on the prices charged to customers or using expected cost plus margin. In addition, for certain customized automation deliverables within the Equipment product line, there are contracts accounted for over time. Under this method, revenue recognition is primarily based upon the ratio of costs incurred to date compared with estimated total costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses. Less than 10% of the Company's Net sales are recognized over time.

At June 30, 2018, the Company recorded $16,247 related to advance customer payments and $14,418 related to billings in excess of revenue recognized. These contract liabilities are included in Other current liabilities in the Condensed Consolidated Balance Sheets. At January 1, 2018, the balances related to advance customer payments and billings in excess of revenue recognized were $19,683 and $11,132, respectively. Substantially all of the Company’s contract liabilities are recognized within twelve months based on contract duration. The Company records an asset for contracts where it has recognized revenue, but has not yet invoiced the customer for goods or services. At June 30, 2018 and January 1, 2018, $32,262 and $22,229, respectively, related to these future customer receivables was included in Other current assets in the Condensed Consolidated Balance Sheets. Contract asset amounts are expected to be billed within the next twelve months.

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LINCOLN ELECTRIC HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Dollars in thousands, except per share amounts

NOTE 3 — EARNINGS PER SHARE
The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$68,864	$61,352	$129,688	$117,196
Denominator (shares in 000's):				
Basic weighted average shares outstanding	65,337	65,811	65,458	65,750
Effect of dilutive securities - Stock options and awards	784	932	799	916
Diluted weighted average shares outstanding	66,121	66,743	66,257	66,666
Basic earnings per share	$1.05	$0.93	$1.98	$1.78
Diluted earnings per share	$1.04	$0.92	$1.96	$1.76

For the three months ended June 30, 2018 and 2017, common shares subject to equity-based awards of 346,168 and 179,178, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive. For the six months ended June 30, 2018 and 2017, common shares subject to equity-based awards of 303,207 and 133,748, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

NOTE 4 — ACQUISITIONS
On July 31, 2017, the Company completed its acquisition of Air Liquide Welding, a subsidiary of Air Liquide. The agreed upon purchase price was $135,123, which was adjusted for certain debt like obligations, for a net purchase price of $61,953, net of cash acquired. The primary debt like obligations were pension liabilities. The acquisition was accounted for as a business combination. The funding of the cash portion of the purchase price and acquisition costs was provided for with available cash.
The complementary business enhanced the Company’s global specialty consumables portfolio and extended its channel reach for equipment systems and cutting, soldering and brazing solutions in Europe. The acquisition also offers European customers more comprehensive welding solutions, greater technical application expertise and improved service levels.
The fair value of the net assets acquired exceeded the purchase consideration by $49,650, resulting in a bargain purchase gain at acquisition, which was included in Bargain purchase gain in the Company’s Consolidated Statements of Income for the year ended December 31, 2017. The Company believes that the bargain purchase gain was primarily the result of the divestiture by Air Liquide of the welding business, which was outside Air Liquide’s core business, as part of an overall repositioning of its core business. The Company anticipates future integration initiatives are necessary in order to achieve commercial and operational synergies. The assets and liabilities assumed and presented in the table below are based on available information and may be revised during the measurement period, not to exceed 12 months from the acquisition date, if additional information becomes available.

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LINCOLN ELECTRIC HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Dollars in thousands, except per share amounts

The following table summarizes the purchase price allocation for the Air Liquide Welding acquisition:

Assets acquired and liabilities assumed	As of July 31, 2017
Accounts receivable	$89,442
Inventory (1)	97,803
Property, plant and equipment (2)	73,056
Intangible assets (3)	11,715
Accounts payable	(65,640)
Pension liability	(67,563)
Bargain purchase gain	(49,650)
Net other assets and liabilities (4)	(27,210)
Total purchase price, net of cash acquired (5)	$61,953

(1) Inventories acquired were sold in 2017 resulting in a $4,578 increase in Cost of goods sold for the year ended December 31, 2017 related to the amortization of step up in the value of acquired inventories.
(2) Property, plant and equipment acquired includes a number of manufacturing and distribution sites, including the related facilities, land and leased sites, and machinery and equipment for use in manufacturing operations.
(3) $7,099 of the intangible asset balance was assigned to a trade name expected to have an indefinite life. Of the remaining amount, $1,183 was assigned to a finite-lived trade name (10 year weighted average useful life) and $3,433 was assigned to other intangible assets (9 year weighted average life).
(4) Consists primarily of other accrued liabilities.
(5) Reflects a receivable from seller for an agreed upon purchase price adjustment. The payment of $10,983 was received in the first quarter of 2018.

In the three and six months ended June 30, 2018, the Company recognized $788 and $2,695, respectively, in acquisition transaction and integration costs related to the acquisition of Air Liquide Welding. In the three and six months ended June 30, 2017, the Company recognized $4,498 and $8,113, respectively, in acquisition transaction and integration costs related to the acquisition of Air Liquide Welding. Such costs were expensed as incurred and are included in Selling, general & administrative expenses in the Company's Consolidated Statements of Income.

In 2016, the Air Liquide Welding businesses generated sales of approximately $400 million. Beginning August 1, 2017, the Company's Consolidated Statements of Income include the results of the Air Liquide Welding businesses, including sales revenue of $207 million for the six months ended June 30, 2018.

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

NOTE 5 — SEGMENT INFORMATION

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

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

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LINCOLN ELECTRIC HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Dollars in thousands, except per share amounts

Financial information for the reportable segments follows:

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations	Consolidated
Three Months Ended June 30, 2018					
Net sales	$462,515	$ 243,373	$ 84,164	$ —	$ 790,052
Inter-segment sales	31,240	5,497	2,003	(38,740)	—
Total	$493,755	$ 248,870	$ 86,167	$ (38,740)	$ 790,052
Adjusted EBIT	$88,158	$ 16,276	$ 10,157	$ (3,186)	$ 111,405
Special items charge (gain) (1)	—	11,542	—	788	12,330
EBIT	$88,158	$ 4,734	$ 10,157	$ (3,974)	$ 99,075
Interest income					1,808
Interest expense					(6,620)
Income before income taxes					$ 94,263
Three Months Ended June 30, 2017					
Net sales	$405,147	$ 141,498	$ 80,213	$ —	$ 626,858
Inter-segment sales	27,374	5,478	2,399	(35,251)	—
Total	$432,521	$ 146,976	$ 82,612	$ (35,251)	$ 626,858
Adjusted EBIT	$74,498	$ 9,496	$ 9,787	$ (265)	$ 93,516
Special items charge (gain) (2)	—	—	—	4,498	4,498
EBIT	$74,498	$ 9,496	$ 9,787	$ (4,763)	$ 89,018
Interest income					1,245
Interest expense					(6,297)
Income before income taxes					$ 83,966
Six Months Ended June 30, 2018					
Net sales	$897,287	$ 490,693	$ 159,768	$ —	$ 1,547,748
Inter-segment sales	57,826	10,006	3,910	(71,742)	—
Total	$955,113	$ 500,699	$ 163,678	$ (71,742)	$ 1,547,748
Adjusted EBIT	$165,597	$ 31,249	$ 19,382	$ (3,344)	$ 212,884
Special items charge (gain) (1)	758	21,717	—	2,695	25,170
EBIT	$164,839	$ 9,532	$ 19,382	$ (6,039)	$ 187,714
Interest income					3,280
Interest expense					(12,533)
Income before income taxes					$ 178,461
Six Months Ended June 30, 2017					
Net sales	$788,471	$ 270,386	$ 148,898	$ —	$ 1,207,755
Inter-segment sales	49,834	9,763	4,699	(64,296)	—
Total	$838,305	$ 280,149	$ 153,597	$ (64,296)	$ 1,207,755
Adjusted EBIT	$143,221	$ 19,101	$ 18,247	$ (201)	$ 180,368
Special items charge (gain) (2)	—	—	—	8,113	8,113
EBIT	$143,221	$ 19,101	$ 18,247	$ (8,314)	$ 172,255
Interest income					2,022

Interest expense	(12,411)
Income before income taxes	$ 161,866

Dollars in thousands, except per share amounts

(1) In the three months ended June 30, 2018, special items reflect rationalization and asset impairment charges of $11,542 in International Welding and transaction and integration costs of $788 in Corporate/Eliminations related to the Air Liquide Welding acquisition as discussed in Note 4 to the consolidated financial statements. In the six months ended June 30, 2018, special items reflect pension settlement charges of $758 in Americas Welding, rationalization and asset impairment charges of $21,717 in International Welding and transaction and integration costs of $2,695 in Corporate / Eliminations related to the Air Liquide Welding acquisition as discussed in Note 4 to the consolidated financial statements.

(2) In the three and six months ended June 30, 2017, special items in Corporate / Eliminations reflect transaction and integration costs of $4,498 and $8,113, respectively, related to the Air Liquide Welding acquisition as discussed in Note 4 to the consolidated financial statements.

NOTE 6 — RATIONALIZATION AND ASSET IMPAIRMENTS

The Company recorded rationalization and asset impairment net charges of $21,717 in the six months ended June 30, 2018. The 2018 charges are primarily related to employee severance, asset impairments and other costs. A description of the Company's restructuring plans and the related costs is as follows:

During 2018, the Company initiated rationalization plans within International Welding. The plans include headcount restructuring and the consolidation of manufacturing operations to better align the cost structures with economic conditions and operating needs. At June 30, 2018, liabilities of $14,043 were recognized in Other current liabilities in the Company's Condensed Consolidated Balance Sheet.

During 2017, the Company initiated rationalization plans within International Welding. The plans includes headcount restructuring and the consolidation of manufacturing operations to better align the cost structures with economic conditions and operating needs. At June 30, 2018, liabilities of $246 were recognized in Other current liabilities in the Company's Condensed Consolidated Balance Sheet.

As of June 30, 2018, the Company expects additional charges of approximately $5,000 to be recorded related to the completion of the International Welding plans.

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 in the International Welding segment:

	Six Months Ended June 30, 2018
Balance, December 31, 2017	$6,803
Payments and other adjustments	(10,477)
Charged to expense	21,091
Balance, June 30, 2018	$17,417

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NOTE 7 — EQUITY
Changes in equity for the six months ended June 30, 2018 are as follows:

	Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2017	$ 931,637	$ 816	$ 932,453
Comprehensive income (loss):			
Net income	129,688	(9)	129,679
Other comprehensive income (loss)	(29,293)	(31)	(29,324)
Total comprehensive income (loss)	100,395	(40)	100,355
Cash dividends declared - $0.78 per share	(51,488)	—	(51,488)
Issuance of shares under benefit plans	12,420	—	12,420
Purchase of shares for treasury [(1)]	(50,232)	—	(50,232)
Balance at June 30, 2018	$ 942,732	$ 776	$ 943,508

(1) The Company's total common shares authorized to be repurchased under the current repurchase program is 55 million shares. As of June 30, 2018, there remained 7.9 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 June 30, 2018 and 2017:

	Three Months Ended June 30, 2018			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at March 31, 2018	$1,730	$(83,990)	$(143,456)	$(225,716)
Other comprehensive income (loss) before reclassification	(1,241)	—	(50,252) [3]	(51,493)
Amounts reclassified from AOCI	9 [1]	721 [2]	—	730
Net current-period other comprehensive income (loss)	(1,232)	721	(50,252)	(50,763)
Balance at June 30, 2018	$498	$(83,269)	$(193,708)	$(276,479)

	Three Months Ended June 30, 2017			
	Unrealized gain (loss) on derivatives designated	Defined benefit pension plan activity	Currency translation adjustment	Total

	and qualifying as cash flow hedges						
Balance at March 31, 2017	$2,111		$(95,225)		$(205,174)		$(298,288)
Other comprehensive income (loss) before reclassification	(1,276)		—		25,330	3	24,054
Amounts reclassified from AOCI	999	1	712	2	—		1,711
Net current-period other comprehensive income (loss)	(277)		712		25,330		25,765
Balance at June 30, 2017	$1,834		$(94,513)		$(179,844)		$(272,523)

(1) During the 2018 period, this AOCI reclassification is a component of Net sales of $(23) (net of tax of $(14)) and Cost of goods sold of $(14) (net of tax of $(6)); during the 2017 period, the reclassification is a component of Net sales of $797 (net of tax of $291) and Cost of goods sold of $202 (net of tax of $70). See Note 15 to the consolidated financial statements for additional details.

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(2) This AOCI component is included in the computation of net periodic pension costs (net of tax of $218 and $149 during the three months ended June 30, 2018 and 2017, respectively). See Note 12 to the consolidated financial statements for additional details.

(3) The Other comprehensive income (loss) before reclassifications excludes $(90) and $26 attributable to Non-controlling interests in the three months ended June 30, 2018 and 2017, respectively.

The following tables set forth the total changes in AOCI by component, net of taxes, for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			
	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, 2017	$875	$(85,277)	$(162,784)	$(247,186)
Other comprehensive income (loss) before reclassification	(231)	—	(30,924)[3]	(31,155)
Amounts reclassified from AOCI	(146)[1]	2,008[2]	—	1,862
Net current-period other comprehensive income (loss)	(377)	2,008	(30,924)	(29,293)
Balance at June 30, 2018	$498	$(83,269)	$(193,708)	$(276,479)

	Six Months Ended June 30, 2017			
	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, 2016	$587	$(95,939)	$(233,685)	$(329,037)
Other comprehensive income (loss) before reclassification	267	—	53,841[3]	54,108
Amounts reclassified from AOCI	980[1]	1,426[2]	—	2,406
Net current-period other comprehensive income (loss)	1,247	1,426	53,841	56,514

Balance at June 30, 2017	$1,834	$(94,513)	$(179,844)	$(272,523)

(1) During the 2018 period, the AOCI reclassification is a component of Net sales of $112 (net of tax of $(6)) and Cost of goods sold of $(34) (net of tax of $(19)); during the 2017 period, the AOCI reclassification is a component of Net sales of $612 (net of tax of $204) and Cost of goods sold of $368 (net of tax of $181). See Note 15 to the consolidated financial statements for additional details.

(2) The AOCI component is included in the computation of net periodic pension costs (net of tax of $649 and $362 during the six months ended June 30, 2018 and 2017, respectively). See Note 12 to the consolidated financial statements for additional details.

(3) The Other comprehensive income (loss) before reclassifications excludes $(31) and $48 attributable to Non-controlling interests in the six months ended June 30, 2018 and 2017, respectively.

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NOTE 8 — INVENTORY
Inventories in the Condensed Consolidated Balance Sheet is comprised of the following components:

	June 30, 2018	December 31, 2017
Raw materials	$106,464	$ 97,577
Work-in-process	52,827	50,695
Finished goods	206,343	200,395
Total	$365,634	$ 348,667

At June 30, 2018 and December 31, 2017, approximately 37% and 32% of total inventories were valued using the last-in, first out ("LIFO") method, respectively. The excess of current cost over LIFO cost was $74,814 at June 30, 2018 and $68,641 at December 31, 2017.

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, employment-related 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. For claims or litigation that are material, if an unfavorable outcome is determined to be reasonably possible and the amount of loss can be reasonably estimated, or if an unfavorable outcome is determined to be probable and the amount of loss cannot be reasonably estimated, disclosure would be provided. 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 are as follows:

	Six Months Ended June 30,	
	2018	2017
Balance at beginning of year	$22,029	$21,053
Accruals for warranties	4,818	6,464
Settlements	(5,127)	(6,369)
Foreign currency translation and other adjustments	(169)	191
Balance at June 30	$21,551	$21,339

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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"). The Credit Agreement has a five-year term and may be increased, subject to certain conditions, by an additional amount up to $100,000. The interest rate on borrowings is based on either the London Inter-Bank Offered Rate ("LIBOR") or the prime rate, plus a spread based on the Company's leverage ratio, at the Company's election. The Company amended and restated the Credit Agreement on June 30, 2017, extending the maturity of the line of credit to June 30, 2022. The Credit Agreement contains customary affirmative, negative and financial covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to liens, investments, distributions, mergers and acquisitions, dispositions of assets, transactions with affiliates and a fixed charges coverage ratio and total leverage ratio. As of June 30, 2018, the Company was in compliance with all of its covenants and had no outstanding borrowings under the Credit Agreement.
Senior Unsecured Notes
On April 1, 2015 and October 20, 2016, the Company entered into separate Note Purchase Agreements pursuant to which it issued senior unsecured notes (the "Notes") through a private placement. The 2015 Notes and 2016 Notes each have an aggregate principal amount of $350,000, comprised of four different series ranging from $50,000 to $100,000, with maturity dates ranging from August 20, 2025 through April 1, 2045, and interest rates ranging from 2.75% and 4.02%. Interest on the Notes is paid semi-annually. The Company's total weighted average effective interest rate and weighted average initial tenure of the Notes is 3.3% and 18 years, respectively. The proceeds of the Notes were used for general corporate purposes. The Notes contain certain affirmative and negative covenants. As of June 30, 2018, the Company was in compliance with all of its debt covenants relating to the Notes.

NOTE 12 — RETIREMENT AND POSTRETIREMENT BENEFIT PLANS
The components of total pension cost were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	U.S. pension plans	Non-U.S. pension plans	U.S. pension plans	Non-U.S. pension plans	U.S. pension plans	Non-U.S. pension plans	U.S. pension plans	Non-U.S. pension plans
Service cost	$35	$832	$146	$589	$70	$1,683	$296	$1,173
Interest cost	4,493	937	4,870	672	8,987	1,907	9,740	1,334
Expected return on plan assets	(6,915)	(1,266)	(7,671)	(955)	(13,831)	(2,540)	(15,342)	(1,899)
Amortization of prior service cost	—	—	—	4	—	1	—	8
Amortization of net loss	384	555	547	464	768	1,130	1,094	917
Settlement charges (1)	—	—	—	—	758	—	—	—
Defined benefit plans	(2,003)	1,058	(2,108)	774	(3,248)	2,181	(4,212)	1,533
Multi-employer plans	—	234	—	224	—	461	—	417
Defined contribution plans	5,610	1,036	5,436	368	11,504	1,865	11,834	734
Total pension cost	$3,607	$2,328	$3,328	$1,366	$8,256	$4,507	$7,622	$2,684

(1) Pension settlement charges resulting from a lump sum pension payment in the six months ended June 30, 2018.
The defined benefit plan components of Total pension cost, other than service cost, are included Other income (expense) in the Company's Consolidated Statements of Income.

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NOTE 13 — OTHER INCOME (EXPENSE)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Equity earnings in affiliates	$1,559	$440	$2,759	$1,235
Other components of net periodic pension income	1,812	2,069	2,820	4,148
Other income	1,070	936	2,313	1,892
Total Other income (expense)	$4,441	$3,445	$7,892	$7,275

NOTE 14 — INCOME TAXES

The Company recognized $48,782 of tax expense on pretax income of $178,461, resulting in an effective income tax rate of 27.3% for the six months ended June 30, 2018. The effective income tax rate was 27.6% for the six months ended June 30, 2017.

The U.S. Tax Cuts and Jobs Act (the “U.S. Tax Act”) was enacted on December 22, 2017. The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides for a one-year measurement period and provides guidance for the application of ASC Topic 740, Income Taxes. The Company recognized the income tax effects of the U.S. Tax Act to the extent applicable for 2017, the year of enactment. The provisional expense recognized in 2017 primarily related to taxes on the Company’s unremitted foreign earnings, partially offset by the re-measurement of deferred tax assets and liabilities. The amounts recorded in 2017 were based on reasonable estimates at that time.

In the first quarter of 2018, the Department of Treasury and Internal Revenue Service issued Treasury Notice 2018-13. Notice 2018-13 requires the use of the spot exchange rate, instead of the average annual exchange rate, to value unremitted foreign earnings as of December 31, 2017. Based on this new guidance, in the first quarter of 2018 the Company increased the amount recorded in 2017 related to taxes on unremitted foreign earnings by $2,500. No other changes to provisional amounts were recorded in the second quarter of 2018. The Company continues to gather additional information and will complete the accounting within the prescribed measurement period.

The decrease in the effective tax rate for the six months ended June 30, 2018, as compared with the same period in 2017, was primarily due to the U.S. Tax Act's reduction of the U.S. corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. The rate decrease was partially offset by 2018 rationalization charges in regions with low or no tax benefit, the $2,500 adjustment recorded in the first quarter 2018 as discussed above, as well as incremental tax expense related to the U.S. Tax Act recorded in 2018. The incremental tax expense is the result of the Global Intangible Low-Taxed Income (“GILTI”) provisions of the U.S. Tax Act, partially offset by the Foreign-Derived Intangible Income (“FDII”) provisions. The amount recorded is based on a reasonable estimate as of June 30, 2018. The Company has not determined its accounting policy with respect to GILTI and has therefore included the 2018 estimate as a period cost and included as part of the estimated annual effective tax rate. The Company is continuing to gather additional information to complete its analysis within the prescribed measurement period. The Company is also continuing to analyze applicability of the Base Erosion Anti-Abuse Tax ("BEAT") and the interest expense limitation during the prescribed period.

As of June 30, 2018, the Company had $15,837 of unrecognized tax benefits. If recognized, approximately $12,231 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 2013. The Company is currently subject to U.S., various state and non-U.S. income tax audits.

Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted for changing facts and circumstances, including progress of tax audits and closing of statutes of limitations. Based on information currently available, management believes that additional audit activity could be completed and/or statutes of limitations may close relating to existing unrecognized tax benefits. It is reasonably possible there could be a reduction of $1,973 in previously unrecognized tax benefits by the end of the second quarter 2019.

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NOTE 15 — DERIVATIVES

The Company uses derivative instruments to manage exposures to currency exchange rates, interest rates and commodity prices arising in the normal course of business. Both at inception and on an ongoing basis, the derivative instruments that qualify for hedge accounting are assessed as to their effectiveness, when applicable. Hedge ineffectiveness was immaterial in the six months ended June 30, 2018 and 2017.

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 June 30, 2018. 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 $55,468 at June 30, 2018 and $35,489 at December 31, 2017.

Fair Value Hedges

Certain interest rate swap agreements were qualified and designated as fair value hedges. At June 30, 2018, the Company had interest rate swap agreements outstanding that effectively convert notional amounts of $125,000 of debt from a fixed interest rate to a variable interest rate based on three-month LIBOR plus a spread of between 0.5% and 1.8%. The variable rates reset every three months, at which time payment or receipt of interest will be settled.

Net Investment Hedges

The Company has foreign currency forward contracts that qualify and are designated as net investment hedges. The dollar equivalent gross notional amount of these short-term contracts was $48,686 at June 30, 2018. The effective portions of the fair value gains or losses on these net investment hedges are recognized in AOCI and subsequently reclassified to Selling, general and administrative expenses, as the underlying hedged investment is liquidated.

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 $317,311 at June 30, 2018 and $340,884 at December 31, 2017.

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

	June 30, 2018			December 31, 2017		
Derivatives by hedge designation	Other Current Assets	Other Current Liabilities	Other Liabilities	Other Current Assets	Other Current Liabilities	Other Liabilities
Designated as hedging instruments:						