LINCOLN ELECTRIC HOLDINGS INC
Form 10-K
February 24, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2008 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

(Registrants 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 o

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 o 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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 þ

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. (Check one):

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

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

The aggregate market value of the common shares held by non-affiliates as of June 30, 2008 was $3,169,078,457 (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, 2008 was 42,521,628.

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 to be filed on or about March 19, 2009 with respect to the registrant s 2009 Annual Meeting of Shareholders.

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PART I

ITEM 1. BUSINESS

General

As used in this report, the term Company, except as otherwise indicated by the context, means Lincoln Electric Holdings, Inc., 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 a full-line manufacturer and reseller of welding and cutting products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company s welding product offering also includes regulators and torches used in oxy-fuel welding and cutting. 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 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 wholly-owned subsidiaries or joint venture manufacturing facilities located in the United States, Australia, Brazil, Canada, Colombia, France, Germany, Indonesia, Italy, Mexico, the Netherlands, People s Republic of China, Poland, Portugal, Spain, Taiwan, Turkey, United Kingdom, Venezuela and Vietnam. The Company manages its operations by geographic location and has two reportable segments, North America and Europe, and combines all other operating segments as Other Countries. Other Countries includes results of operations for the Company s businesses in Argentina, Australia, Brazil, Colombia, Indonesia, Mexico, People s Republic of China, Taiwan, Venezuela and Vietnam. See Note J to the Company s Consolidated Financial Statements with respect to segment and geographic area information. Nearly all of the above facilities are ISO 9001 certified.

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. The loss of any one customer would not have a material adverse effect on its business. The Company s business is not seasonal.

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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 in a field of three or four major competitors and numerous smaller competitors. The Company continues to pursue appropriate 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 on the basis of 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.

Virtually all 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, which allow it to assist the consumers of its products in optimizing their welding applications. The Company utilizes this technical expertise to present its Guaranteed Cost Reduction Program to end users through which the Company guarantees that the user will achieve cost savings in its manufacturing process when it utilizes the Company s products. This allows the Company to introduce its products to new users and to establish and maintain close relationships with its consumers. This close relationship between the technical sales force and the direct consumers, 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 various chemicals, electronics, steel, engines, brass, copper and aluminum alloys, 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 effect on the Company s earnings. The Company is ISO 9001 certified at nearly all facilities worldwide. In addition, the Company is ISO 14001 certified at most significant manufacturing facilities in the United States and is working to gain certification at its remaining United States facilities, as well as the remainder of its 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. The Company believes risks related to its foreign operations are mitigated due to the political and economic stability of the countries in which its largest foreign operations are located.

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 A to the consolidated financial statements with respect to total costs of research and development.

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Employees

The number of persons employed by the Company worldwide at December 31, 2008 was 9,329. See Item 10 of Part III for information regarding the Company s executive officers, which is incorporated herein by reference.

Website Access

The Company s internet address is www.lincolnelectric.com. The Company makes available free of charge on its website at www.lincolnelectric.com its annual, quarterly and current reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company also posts its Code of Corporate Conduct and Ethics on its website. However, the information found on the Company s website is not part of this or any other report.

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, and our future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results, including those 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.

The risks and uncertainties described below and all of the other information in this report should be carefully considered. These risks and uncertainties are not the only ones we face. 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 the Company s financial condition, results of operations and access to capital markets.

The Company s operating results are sensitive to changes in general economic conditions. Recessionary economic cycles, higher interest rates, inflation, higher tax rates and other changes in tax laws or other economic factors could adversely affect demand for the Company s products. The deepening industrial downturn affecting the U.S. and global economies will continue to negatively impact investment activity within key geographic and market segments served by the Company. In addition, the continuing financial market turmoil may limit the Company s access to capital markets. There can be no assurances that government responses to the disruptions in the financial and broader industrial markets will restore market confidence.

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 and aluminum alloys, electricity and natural gas). The availability and prices for raw materials 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. The price of the type of steel used to manufacture our products has experienced periods of significant price volatility and has been subject to periodic shortages due to global economic factors. We

have also experienced substantial volatility in prices for other raw materials, including metals, chemicals and energy costs. Our future operating expenses and margins will be dependent on our ability to manage the impact of cost volatility. Our results of operations may be harmed by shortages of supply and by increases in prices to the extent those increases can not be passed on to customers.

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

At December 31, 2008, we were a co-defendant in cases alleging manganese induced illness involving claims by approximately 3,028 plaintiffs and a co-defendant in cases alleging asbestos induced illness involving claims by approximately 21,020 plaintiffs. In each instance, we are one of a large number of defendants. In the manganese cases, the claimants allege that exposure to manganese contained in welding consumables caused the plaintiffs to develop adverse neurological conditions, including a condition known as manganism. In the asbestos cases, the 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 manganese cases that have been resolved as follows: 12,801 of those claims were dismissed, 19 were tried to defense verdicts in favor of us and four were tried to plaintiff verdicts. In addition, 13 claims were resolved by agreement for immaterial amounts and one was decided in favor of us following a motion for summary judgment (which was reversed by an intermediate appellate court on November 26, 2008 and is the subject of further appellate review). Since January 1, 1995, we have been a co-defendant in asbestos cases that have been resolved as follows: 34,460 of those claims were dismissed, eleven were tried to defense verdicts, four were tried to plaintiff verdicts, one was resolved by agreement for an immaterial amount and 553 were decided in favor of us following summary judgment motions.

Defense costs remain significant. The long-term impact of the manganese and asbestos loss contingencies, in each case in the aggregate, on operating cash flows and 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 have applicable insurance relating to these claims, there are several risks and uncertainties that may affect our liability for personal claims relating to exposure to manganese and asbestos, including the future impact of changing cost sharing arrangements or a change in our overall trial experience.

Manganese is an essential element of steel and cannot be eliminated from welding consumables. 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 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 welding products are designed for use in specific applications, and if a product is used inappropriately, personal injury or property damage may result. For example, in the period between 1994 and 2000, we were a defendant or co-defendant in 21 lawsuits filed by building owners or insurers in Los Angeles County, California. The plaintiffs in those cases alleged that certain buildings affected by the 1994 Northridge earthquake sustained property damage in part because a particular electrode used in the construction of those buildings was unsuitable for that use. In the Northridge cases, one case was tried to a defense verdict in favor of us, 12 were voluntarily dismissed, seven were settled and we received summary judgment in our favor in another.

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 it will continue to be available on terms acceptable to us.

The cyclicality and maturity of the United States arc welding and cutting industry may adversely affect our performance.

The United States arc welding and cutting industry is a mature industry that is cyclical in nature. The growth of the domestic arc welding and cutting industry has been and continues to be constrained by factors such as the increased cost of steel and increased offshore production of fabricated steel structures. 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, the Company has completed and continues to pursue acquisitions or joint ventures in the People s Republic of China in order to strategically position resources to increase our presence in this growing market. 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 involve the expenditure of significant funds and management time. 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 would require access to the capital markets. Further, we may not be able to successfully integrate any acquired business with our existing businesses or recognize expected benefits from any completed acquisition.

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 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. Accordingly, we may spend a proportionately greater amount on research and development than some of our competitors. 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. If our products, services, support and cost structure do not enable us to compete successfully based on any of those criteria, our operations, results and prospects could suffer.

Further, in the past decade, the United States arc welding industry 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 harmed by this practice.

We conduct our sales and distribution operations on a worldwide basis and are subject to the risks associated with doing business outside the United States.

Our long-term strategy is to continue to increase our share in growing international markets, particularly Asia (with emphasis in China and India), Latin America, Eastern Europe and other developing markets. There are a number of

risks in doing business abroad, which may impede our ability to achieve our strategic objectives relating to our foreign operations. Many developing countries, like Venezuela, have a significant degree of political and economic uncertainty that may impede our ability to implement and achieve our foreign growth objectives. International business subjects us to numerous U.S. and foreign laws and regulations, including regulations relating to import-export control, technology transfer restrictions, repatriation of earnings, exchange controls, 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 or agents 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.

Moreover, social unrest, the absence of trained labor pools and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries have slowed our business expansion into some developing economies. Our presence in China has been facilitated in part through joint venture agreements with local organizations. While this strategy has allowed us to gain a footprint in China while leveraging the experience of local organizations, it also presents corporate governance and management challenges.

Our foreign operations also subject us to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds.

The share of sales and profits we derive from our international operations and exports from the United States is significant and growing. This trend increases our exposure to the performance of many developing economies in addition to the developed economies outside of the United States.

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

We are dependent on our highly trained technical sales force and the support of our welding research and development staff. Any interruption of our workforce, including interruptions due to unionization efforts, changes in labor relations or shortages of appropriately skilled individuals for our research, production and sales forces 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 settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from manufacturing, marketing or selling certain of our products.

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 and waste management. Further, it is our policy to apply strict standards for environmental protection to sites 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

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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 electrical equipment products that are sold in the European Union. 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 sites can be imposed retroactively and on a joint and several basis.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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.

In addition to the principal facilities in the Cleveland, Ohio area, the Company operates four other manufacturing locations in the United States and 32 manufacturing locations (including joint ventures) in 19 foreign countries, the locations of which are as follows:

United States:	Mason, Ohio; Gainesville, Georgia; Santa Fe Springs, California; Oceanside, California.
Australia:	Sydney.
Brazil:	Sao Paulo; Guarulhos.
Canada:	Toronto; Mississauga.
Colombia:	Bogota.
France:	Grand-Quevilly.
Germany:	Essen.
Indonesia:	Cikarang.
Italy:	Bologna; Genoa; Corsalone.
Mexico:	Mexico City; Torreon; Tijuana.
Netherlands:	Nijmegen.
People s Republic of China:	Shanghai; Jining, Inner Mongolia; Jinzhou; Nanjing; Zhengzhou.
Poland:	Bielawa; Swietochlowice; Dzierzoniow.
Portugal:	Lisbon.
Spain:	Barcelona.
Taiwan:	Tainan.
Turkey:	Istanbul.
United Kingdom:	Sheffield; Chertsey.
Venezuela:	Maracay.
Vietnam:	Ho Chi Minh City.

All properties relating to the Company s Cleveland, Ohio headquarters and manufacturing facilities are owned by the Company. In addition, the Company maintains operating leases for its distribution centers and many sales offices throughout the world. See Note M to the Company s Consolidated Financial Statements with respect to lease

commitments. Most of the Company s foreign subsidiaries own manufacturing facilities in the country where they

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are located. At December 31, 2008, $3.7 million of indebtedness was secured by property, plant and equipment with a book value of $5.7 million.

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

At December 31, 2008, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 21,020 plaintiffs, which is a net decrease of 6,095 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: 34,460 of those claims were dismissed, eleven were tried to defense verdicts, four were tried to plaintiff verdicts, one was resolved by agreement for an immaterial amount and 553 were decided in favor of the Company following summary judgment motions.

At December 31, 2008, the Company was a co-defendant in cases alleging manganese induced illness involving claims by approximately 3,028 plaintiffs, which is a net increase of 684 claims from those previously reported. In each instance, the Company is one of a large number of defendants. The claimants in cases alleging manganese induced illness seek compensatory and punitive damages, in most cases for unspecified sums. The claimants allege that exposure to manganese contained in welding consumables caused the plaintiffs to develop adverse neurological conditions, including a condition known as manganism. At December 31, 2008, cases involving 1,651 claimants were filed in or transferred to federal court where the Judicial Panel on MultiDistrict Litigation has consolidated these cases for pretrial proceedings in the Northern District of Ohio (the MDL Court). Plaintiffs have also filed eight class actions seeking medical monitoring in state courts, six of which have been removed and transferred to the MDL Court. A motion to strike all class action allegations in those six cases was granted by the MDL Court on August 4, 2008. The class action complaint filed in Ohio was also dismissed by the plaintiff on August 22, 2008, leaving only one potential state court class action. In addition, plaintiffs filed a class action complaint seeking medical monitoring on behalf of current and former welders in eight states, including three states covered by the single-state class actions, in the United States District Court for the Northern District of California. This case was also transferred to the MDL Court. A motion to certify a medical monitoring class related to this case was denied on September 14, 2007 and the 16 individual claimants dismissed their claims on March 20, 2008. Since January 1, 1995, the Company has been a co-defendant in similar cases that have been resolved as follows: 12,801 of those claims were dismissed, 19 were tried to defense verdicts in favor of the Company and four were tried to plaintiff verdicts. In addition, 13 claims were resolved by agreement for immaterial amounts and one claim was decided in favor of the Company following a summary judgment motion (which was reversed by an intermediate appellate court on November 26, 2008 and is the subject of further appellate review). On November 20, 2008, a jury returned a verdict in one such case against the Company and a co-defendant for an aggregate amount of $1.855 million in damages (before applicable insurance). Post trial motions are pending. The Company intends to appeal any final judgment. On November 26, 2008, a jury returned a verdict in another such case in the MDL Court for the Company and various co-defendants.

On December 13, 2006, the Company filed a complaint in U.S. District Court (Northern District of Ohio) against Illinois Tool Works, Inc. seeking a declaratory judgment that eight patents owned by the defendant relating to certain inverter power sources have not and are not being infringed and that the subject patents are invalid. Illinois Tool Works filed a motion to dismiss this action, which the Court denied on June 21, 2007. On September 7, 2007, the Court stayed the litigation, referencing pending reexaminations before the U.S. Patent and Trademark Office. On June 17, 2008, the Company filed a motion to amend its pleadings in the foregoing matter to include several additional counts, including specific allegations of fraud on the U.S. Patent and Trademark Office with respect to portable

professional welding machines and resulting monopoly power in that market.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2008.

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PART II

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

The Company s common shares are traded on The NASDAQ Stock Market under the symbol LECO. The number of record holders of common shares at December 31, 2008 was 1,809.

The total amount of dividends paid in 2008 was $42,756,000. For 2008, dividends were paid quarterly on January 15, April 15, July 15 and October 15.

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

	2008			2007		
	Stock Price		Dividends	Stock Price		Dividends
	High	Low	Declared	High	Low	Declared
First quarter	$ 71.48	$ 53.32	$ 0.25	$ 70.19	$ 58.99	$ 0.22
Second quarter	86.97	64.07	0.25	75.75	58.88	0.22
Third quarter	86.47	59.78	0.25	78.09	64.54	0.22
Fourth quarter	65.11	34.27	0.27	86.20	65.23	0.25

Source: The NASDAQ Stock Market

Issuer Purchases of Equity Securities

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
January 1-31, 2008	179,885	$59.81	179,885	4,353,701
February 1-29, 2008	118,101	61.59	118,101	4,235,600
September 1-30, 2008	75,400	67.48	75,400	4,160,200
October 1-31, 2008	254,500	58.02	254,500	3,905,700
November 1-30, 2008	112,683	39.49	112,683	3,793,017
Total	740,569	$57.17	740,569	

See Note C to the Company s Consolidated Financial Statements.

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The following line graph compares the yearly percentage change in the cumulative total shareholder return on Lincoln Electric Holdings, Inc. (Lincoln) common shares 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, 2004 and ending December 31, 2008. This graph assumes that $100 was invested on December 31, 2003 in each of Lincoln common, the S&P 500 and the S&P 400. A compatible peer-group index for the welding industry, in general, was not readily available because the industry is comprised of a relatively small number of competitors, many of whom either are relatively small pieces of large publicly traded companies or are privately held.

Five Year Performance Comparison
Lincoln Common, S&P 500 and S&P 400 Composite Indices

	2003	**2004**	**2005**	**2006**	**2007**	**2008**
Lincoln	100	142	167	257	307	224
S&P 500	100	111	116	134	142	90
S&P 400	100	116	131	144	156	100

ITEM 6. SELECTED FINANCIAL DATA
(In thousands, except per share data)

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Net sales	$ 2,479,131	$ 2,280,784	$ 1,971,915	$ 1,601,190	$ 1,333,675
Net income	212,286	202,736	175,008	122,306	80,596
Basic earnings per share	$ 4.98	$ 4.73	$ 4.11	$ 2.93	$ 1.96
Diluted earnings per share	4.93	4.67	4.07	2.90	1.94
Cash dividends declared	1.02	0.91	0.79	0.73	0.69
Total assets	$ 1,718,805	$ 1,645,296	$ 1,394,579	$ 1,161,161	$ 1,059,164
Long-term debt	91,537	117,329	113,965	157,853	163,931

Results for 2008 include a charge of $2,447 ($1,698 after-tax) relating to the Company s rationalization programs that began in the fourth quarter of 2008 designed to align the business to current market conditions. Results for 2008 also include $16,924 ($16,615 after-tax) in asset impairment charges including $13,194 of goodwill and $2,388 of long-lived assets related to two businesses in China (with no tax benefit) as well as an impairment charge of $1,342 ($1,033 after-tax) for intangible assets in North America and Europe. See Note F to the Company s Consolidated Financial Statements for further discussion.

Results for 2007 include a net gain of $188 ($107 after-tax) relating to the Company s rationalization programs in Europe. See Note F to the Company s Consolidated Financial Statements for further discussion.

Results for 2006 include a charge of $3,478 ($3,478 after-tax) relating to the Company s rationalization programs in Europe and a gain of $9,006 ($7,204 after-tax) on the sale of a facility in Ireland. See Note F to the Company s Consolidated Financial Statements for further discussion.

Results for 2005 include a charge of $1,761 ($1,303 after-tax) relating to the Company s rationalization programs in Europe, a one-time state income tax benefit of $1,807 (net of federal benefit) relating to changes in Ohio tax laws, a favorable adjustment of $8,711 related to the resolution of prior years tax liabilities, a net favorable tax benefit of $1,146 associated with the repatriation of foreign earnings and a gain of $1,418 ($876 after-tax) on the settlement of legal disputes.

Results for 2004 include a charge of $2,440 ($2,061 after-tax) relating to the Company s rationalization programs in Europe and $4,525 ($2,828 after-tax) in pension settlement provisions, accrued base pay, bonus, and stock compensation related to the retirement of the Company s past Chairman and CEO.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands, except share and per share data)

The following discussions 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 report. This report contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in the forward-looking statements. See Risk Factors in Item 1A 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 full 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 both arc welding equipment and consumable products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company s welding product offering also includes regulators and torches used in oxy-fuel welding and cutting. 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 equipment and consumable 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 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.

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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, Australia, Brazil, Canada, Colombia, France, Germany, Indonesia, Italy, Mexico, the Netherlands, People s Republic of China, Poland, Portugal, Spain, Taiwan, Turkey, United Kingdom, Venezuela and Vietnam.

The Company s sales and distribution network, coupled with its manufacturing facilities, are reported as two separate reportable segments, North America and Europe, with all other operating segments combined and reported as Other Countries.

The principal raw materials essential to the Company s business are various chemicals, electronics, steel, engines, brass, copper and aluminum alloys, 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 effect on the Company s earnings. The Company is ISO 9001 certified at nearly all facilities worldwide. In addition, the Company is ISO 14001 certified at all significant manufacturing facilities in the United States and is working to gain certification at its remaining United States facilities, as well as the remainder of its 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; earnings before interest and taxes; earnings before interest, taxes and bonus; 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.

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Results of Operations

The following table shows the Company s results of operations:

	Year Ended December 31,					
	2008		2007		2006	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Net sales	$ 2,479,131	100.0%	$ 2,280,784	100.0%	$ 1,971,915	100.0%
Cost of goods sold	1,758,980	71.0%	1,633,218	71.6%	1,419,638	72.0%
Gross profit	720,151	29.0%	647,566	28.4%	552,277	28.0%
Selling, general & administrative expenses	405,376	16.4%	370,122	16.2%	315,829	16.0%
Rationalization and asset impairment charges (gain)	19,371	0.8%	(188)	(0.0)%	3,478	0.2%
Operating income	295,404	11.9%	277,632	12.2%	232,970	11.8%
Interest income	8,845	0.4%	8,294	0.4%	5,876	0.3%
Equity earnings in affiliates	6,034	0.2%	9,838	0.4%	7,640	0.4%
Other income	1,681	0.1%	2,823	0.1%	1,839	0.1%
Interest expense	(12,155)	(0.5)%	(11,430)	(0.5)%	(10,153)	(0.5)%
Income before income taxes	299,809	12.1%	287,157	12.6%	238,172	12.1%
Income taxes	87,523	3.5%	84,421	3.7%	63,164	3.2%
Net income	$ 212,286	8.6%	$ 202,736	8.9%	$ 175,008	8.9%

2008 Compared to 2007

Net Sales: Net sales for 2008 increased 8.7% to $2,479,131 from $2,280,784 in 2007. The increase in Net sales reflects an $88,436 (3.9%) decrease due to volume, a $176,045 (7.7%) increase due to price, a $67,538 (3.0%) increase from acquisitions and a $43,200 (1.9%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for the North American operations increased 3.6% to $1,451,333 in 2008 compared to $1,401,393 in 2007. This increase reflects a decrease of $68,860 (4.9%) due to volume, a $108,886 (7.8%) increase due to price and a $9,425 (0.7%) increase from acquisitions. Net sales for the European operations increased 13.0% to $576,945 in 2008 compared to $510,514 in 2007. This increase reflects a decrease of $1,723 (0.3%) due to volume, a $6,821 (1.3%) increase due to price, a $29,827 (5.8%) increase from acquisitions and a $31,506 (6.2%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for Other Countries increased 22.2% to $450,853 in 2008 compared to $368,877 in 2007. This increase reflects a decrease of $17,853 (4.8%) due to volume, a $60,338 (16.4%) increase due to price, an $11,205 (3.0%) favorable impact as a result of changes in foreign currency exchange rates and a $28,286 (7.7%) increase from acquisitions.

Gross Profit: Gross profit increased 11.2% to $720,151 during 2008 compared to $647,566 in 2007. As a percentage of net sales, Gross profit increased to 29.0% in 2008 from 28.4% in 2007. This increase was primarily a result of favorable pricing leverage and improved operational effectiveness partially offset by volume decreases and the continuing shift in sales mix to traditionally lower margin geographies and businesses. Foreign currency exchange rates had a $10,621 favorable impact in 2008.

Sales volumes began to decline in the third quarter and the rate of decline accelerated in the fourth quarter. The Company expects declining sales volumes to pressure margins in 2009.

Selling, General & Administrative (SG&A) Expenses: SG&A expenses increased $35,254 (9.5%) in 2008 compared to 2007. The increase was primarily due to higher selling expenses of $10,543 resulting from increased sales activity, incremental selling, general and administrative expenses from acquisitions totaling $9,222, higher bonus expense of $5,706 and higher foreign currency transaction losses of $4,381. Foreign currency exchange rates had a $5,587 unfavorable impact.

Rationalization and Asset Impairment Charges (Gain): In 2008, the Company recorded $19,371 in rationalization and asset impairment charges. This total includes $2,447 ($1,698 after-tax) in rationalization charges related to workforce reductions expected to affect 67 employees in North America and 65 employees in Europe. The actions were taken to align the business to current market conditions. Asset impairment charges of $16,924 ($16,615 after-tax) include $15,582 (with no tax benefit) to write off goodwill and write down long-lived assets related to two businesses in China and $1,342 ($1,033 after-tax) to write down intangible assets in North America and Europe.

In 2007, the Company recorded a net gain of $188 ($107 after-tax) to rationalization charges due to a gain of $816 ($735 after-tax) related to the liquidation of the Harris Ireland Pension Plan offsetting other charges related to severance costs covering 66 employees at the Company s facility in Ireland.

Interest Income: Interest income increased to $8,845 in 2008 from $8,294 in 2007. The increase was a result of higher cash balances partially offset by lower interest rate investments in 2008 when compared to 2007.

Equity Earnings in Affiliates: Equity earnings in affiliates decreased to $6,034 in 2008 from $9,838 in 2007 as a result of lower earnings at the Company s joint venture investments in Turkey and Taiwan.

Interest Expense: Interest expense increased to $12,155 in 2008 from $11,430 in 2007 as a result of a lower level of amortization of the gain associated with previously terminated interest rate swap agreements and higher debt levels. See Note G to the Company s Consolidated Financial Statements for further discussion.

Income Taxes: Income taxes for 2008 were $87,523 on income before income taxes of $299,809, an effective rate of 29.2%, compared with income taxes of $84,421 on income before income taxes of $287,157, or an effective rate of 29.4% for 2007. The decrease in the effective tax rate for 2008 from 2007 was a result of additional utilization of foreign tax credits from the repatriation of higher-taxed earnings partially offset by non-deductible asset impairment charges in China. The effective rate for 2008 and 2007 was lower than the Company s statutory rate primarily because of the utilization of foreign tax credits, lower taxes on non-U.S. earnings and the utilization of foreign tax loss carryforwards, for which valuation allowances had been previously provided.

Net Income: Net income for 2008 was $212,286 compared to $202,736 in the prior year. Diluted earnings per share for 2008 were $4.93 compared to $4.67 per share in 2007. Foreign currency exchange rate movements had a $2,508 and a $3,419 favorable effect on net income for 2008 and 2007, respectively.

2007 Compared to 2006

Net Sales: Net sales for 2007 increased 15.7% to $2,280,784 from $1,971,915 in 2006. The increase in Net sales reflects a $134,000 (6.8%) increase due to volume, a $73,469 (3.8%) increase due to price, a $37,950 (1.9%) increase from acquisitions and a $63,450 (3.2%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for the North American operations increased 7.3% to $1,401,393 in 2007 compared to $1,305,472 in 2006. This increase reflects an increase of $35,894 (2.7%) due to volume and $52,309 (4.0%) due to price. Net sales for the European operations increased 37.1% to $510,514 in 2007 compared to $372,308 in 2006. This increase reflects an increase of $57,070 (15.3%) due to volume, an $8,226 (2.2%) increase due to price, a $31,990 (8.6%) increase from acquisitions and a $40,920 (11.0%) favorable impact as a result of changes in foreign currency exchange rates. Net sales for Other Countries increased 25.4% to $368,877 in 2007 compared to $294,135 in 2006. This increase reflects an increase of $41,036 (14.0%) due to volume, a $12,934 (4.4%) increase due to price, a $14,896 (5.0%) favorable impact as a result of changes in foreign currency exchange rates and a $5,876 (2.0%) increase from acquisitions.

Gross Profit: Gross profit increased 17.3% to $647,566 during 2007 compared to $552,277 in 2006. As a percentage of net sales, Gross profit increased to 28.4% in 2007 from 28.0% in 2006. This increase was primarily a result of

favorable leverage on increased volumes in North America and Europe, a reduction in product liability costs of $9,528 and a reduction in retirement benefit costs in the U.S. of $5,484. This increase was partially offset by the continuing shift in sales mix to traditionally lower margin geographies and businesses. Lower margin geographies were impacted by pricing pressures associated with market share growth, cost increases and start-up costs associated with continued capacity expansion. Foreign currency exchange rates had a $13,613 favorable impact in 2007.

The Company experienced increases in raw material prices, including metals and chemicals. In addition, energy costs trended higher resulting in higher operating costs including transportation and freight. The Company expects these costs to remain at relatively elevated levels as long as worldwide demand remains high. Although the Company believes a number of factors, including price increases, product mix, overhead absorption, and its continuing cost reduction efforts will offset increased costs, future margin levels will be dependent on the Company s ability to manage these cost increases.

Selling, General & Administrative (SG&A) Expenses: SG&A expenses increased $54,293 (17.2%) in 2007 compared to 2006. The increase was primarily due to an increase of $13,393 in general and administrative expense compared to 2006 which included the gain of $9,006 on the sale of the facility in Ireland. In addition, the increase included higher bonus expense of $11,606, higher selling expenses of $8,181 resulting from increased sales activity and higher incremental selling, general and administrative expenses from acquisitions totaling $6,216. Foreign currency exchange rates had an $8,786 unfavorable impact.

Rationalization and Asset Impairment Charges (Gain): In 2007 and 2006, the Company recorded a net gain of $188 ($107 after-tax) and a charge of $3,478 ($3,478 after-tax) to rationalization charges, respectively. Charges in both years were primarily related to severance costs covering 66 employees at the Company s facility in Ireland. The net gain recorded in 2007 was due to a gain of $816 ($735 after-tax) related to the liquidation of the Harris Ireland Pension Plan offsetting other charges.

Interest Income: Interest income increased to $8,294 in 2007 from $5,876 in 2006. The increase was a result of increases in cash balances and interest rates in 2007 when compared to 2006.

Equity Earnings in Affiliates: Equity earnings in affiliates increased to $9,838 in 2007 from $7,640 in 2006 as a result of increased earnings at the Company s joint venture investments in Turkey and Taiwan.

Interest Expense: Interest expense increased to $11,430 in 2007 from $10,153 in 2006 as a result of higher interest rates and a lower level of amortization of the gain associated with previously terminated interest rate swap agreements partially offset by lower debt levels in 2007. See Note G to the Company s Consolidated Financial Statements for further discussion.

Income Taxes: Income taxes for 2007 were $84,421 on income before income taxes of $287,157, an effective rate of 29.4%, compared with income taxes of $63,164 on income before income taxes of $238,172, or an effective rate of 26.5% for 2006. The increase in the effective tax rate for 2007 from 2006 is a result of an increase in income before taxes in higher tax jurisdictions as well as a lower level of foreign tax credits utilized in 2007 when compared with 2006. The effective rate for 2007 and 2006 was lower than the Company s statutory rate primarily because of the utilization of foreign tax credits, lower taxes on non-U.S. earnings and the utilization of foreign tax loss carryforwards, for which valuation allowances have been previously provided.

Net Income: Net income for 2007 was $202,736 compared to $175,008 in 2006. Diluted earnings per share for 2007 were $4.67 compared to $4.07 per share in 2006. Foreign currency exchange rate movements had a $3,419 and a $1,783 favorable effect on net income for 2007 and 2006, respectively.

Liquidity and Capital Resources

The Company s cash flow from operations, while cyclical, has been reliable and consistent. The Company has relatively unrestricted access to capital markets. Operational cash flow is a key driver of liquidity, providing cash and access to capital markets. In assessing liquidity, the Company reviews working capital measurements to define areas of improvement. Management anticipates the Company will be able to satisfy cash requirements for its ongoing

businesses for the foreseeable future primarily with cash generated by operations, existing cash balances and, if necessary, borrowings under its existing credit facilities.

The following table reflects changes in key cash flow measures:

	Year Ended December 31,			Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Cash provided by operating activities:	$ 257,449	$ 249,832	$ 118,680	$ 7,617	$ 131,152
Cash used by investing activities:	(115,800)	(79,705)	(89,715)	(36,095)	10,010
Capital expenditures	(72,426)	(61,633)	(76,002)	(10,793)	14,369
Acquisitions of businesses, net of cash acquired	(44,036)	(18,773)	(25,504)	(25,263)	6,731
Cash used by financing activities:	(67,741)	(77,586)	(17,729)	9,845	(59,857)
Amounts due banks, net	(5,551)	(2,720)	115	(2,831)	(2,835)
Payments on long-term borrowings	(1,033)	(40,142)	(3,147)	39,109	(36,995)
Proceeds from exercise of stock options	7,201	8,644	13,618	(1,443)	(4,974)
Tax benefit from exercise of stock options	3,728	4,289	5,243	(561)	(954)
Purchase of shares for treasury	(42,337)	(15,459)	(126)	(26,878)	(15,333)
Cash dividends paid to shareholders	(42,756)	(37,744)	(32,275)	(5,012)	(5,469)
Increase in Cash and cash equivalents	66,950	97,170	12,205	(30,220)	84,965

Cash and cash equivalents increased 30.8%, or $66,950, to $284,332 as of December 31, 2008, from $217,382 as of December 31, 2007. This compares to a $97,170 increase in cash and cash equivalents during 2007.

Cash provided by operating activities for 2008 increased $7,617 from 2007. The increase was primarily related to an increase in net income excluding the non-cash asset impairment charges and a reduction in accounts receivable partially offset by an increase in inventory levels and a decrease in accounts payable. Average operating working capital to sales was 21.0% at December 31, 2008 compared to 23.5% at December 31, 2007. Days sales in inventory increased to 115.8 days at December 31, 2008 from 101.2 days at December 31, 2007. Accounts receivable days decreased to 55.0 days at December 31, 2008 from 56.9 days at December 31, 2007. Average days in accounts payable decreased to 32.1 days at December 31, 2008 from 36.2 days at December 31, 2007.

Cash used by investing activities increased by $36,095 for 2008 compared to 2007. Cash used in the acquisition of businesses in 2008 increased $25,263 from 2007. Capital expenditures during 2008 were $72,426, a $10,793 increase from 2007. The Company anticipates capital expenditures in 2009 in the range of $45,000 $55,000. Anticipated capital expenditures reflect plans to improve operational effectiveness and the Company s continuing international expansion. Management critically evaluates all proposed capital expenditures and requires each project to increase efficiency, reduce costs, promote business growth, or to improve the overall safety and environmental conditions of the Company s facilities. Management does not currently anticipate any unusual future cash outlays relating to capital expenditures.

The Company has investments in Venezuela, which currently require the approval of a government agency to convert local currency to U.S. dollars at official government rates. Government approval for currency conversion to satisfy U.S. dollar liabilities to foreign suppliers, including payables to Lincoln affiliates, has lagged payment due dates from time to time in the past, resulting in higher cash balances and higher past due U.S. dollar payables within our

Venezuelan subsidiary. If the Company had settled its Venezuelan subsidiary s U.S. dollar liabilities using unofficial, parallel currency exchange mechanisms as of December 31, 2008, it would have resulted in a currency exchange loss of approximately $808.

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Cash used by financing activities for 2008 decreased $9,845 from 2007. The decrease was primarily due to the $40,000 repayment of the Company s Series A Senior Unsecured Notes upon maturity in 2007 partially offset by an increase of $26,878 in purchases of the Company s common stock in 2008 versus 2007.

The Company s debt levels increased from $129,815 at December 31, 2007, to $142,230 at December 31, 2008. Debt to total capitalization increased to 12.5% at December 31, 2008 from 10.7% at December 31, 2007.

The Company s Board of Directors authorized share repurchase programs for up to 15 million shares of the Company s common stock. During 2008, the Company purchased 740,569 shares of its common stock on the open market at a cost of $42,337 for a weighted average cost of $57.17 per share. Total shares purchased through the share repurchase programs were 11,206,983 shares at a cost of $274,188 for a weighted average cost of $24.47 per share through December 31, 2008.

A total of $42,756 in dividends was paid during 2008. In January 2009, the Company paid a quarterly cash dividend of $0.27 cents per share, or $11,444 to shareholders of record on December 31, 2008.

Rationalization and Asset Impairment

In the fourth quarter of 2008, the Company recorded rationalization charges of $2,447 (pre-tax) and asset impairment charges totaling $16,924 (pre-tax) that are recognized on the income statement under the caption Rationalization and asset impairment charges (gain).

The Company took various actions designed to align resources to current market conditions during the fourth quarter of 2008. The actions are expected to affect 65 employees in various European businesses and 67 employees in North American businesses. The implementation of these actions will be substantially completed by March 31, 2009. The Company expects the total cost of these actions to be $2,746 (pre-tax) of which $2,447 (pre-tax) was recorded at December 31, 2008. The costs relate primarily to employee severance costs that will be paid by the end of 2009.

The Company is taking additional cost cutting measures throughout its global operations, including a voluntary separation incentive program covering certain U.S.-based employees as announced on February 2, 2009. The Company expects to record a pre-tax rationalization charge between $10 million and $12 million in the first quarter of 2009.

In the fourth quarter of 2008, the Company determined that poor operating results and a dampened economic outlook indicated the potential for impairment at two of its businesses in China. Impairment testing determined that the carrying value of long-lived assets exceeded fair value at one of these businesses and the Company recorded a charge of $2,388 (pre-tax). In addition, the carrying value of goodwill at both of these businesses exceeded the implied value of goodwill and the Company recorded a charge of $13,194 (pre-tax).

The Company also tested indefinite-lived intangible assets and determined that the carrying value of certain intangible assets in Europe and North America exceeded fair value. As a result, the Company recorded charges of $524 (pre-tax) and $818 (pre-tax), respectively.

In 2005, the Company committed to a plan to rationalize manufacturing operations (the Ireland Rationalization) at Harris Calorific Limited (Harris Ireland). In connection with the Ireland Rationalization, the Company transferred all manufacturing from Harris Ireland to a lower cost facility in Eastern Europe and in 2006 sold the facility in Ireland for a gain of $9,006 (pre-tax) which is reflected in Selling, general and administrative expenses. A total of 66 employees were impacted by the Ireland Rationalization.

The Company incurred a total of $3,920 (pre-tax) in charges related to this plan of which a gain of $188 (pre-tax) was recorded in 2007 and charges of $3,597 (pre-tax) and $511 (pre-tax) were recorded in 2006 and 2005, respectively. Charges incurred relate to employee severance costs, equipment relocation, employee retention and professional services. As of December 31, 2007, all rationalization activities were essentially completed. The Company expects to receive approximately $1,944 in cash receipts during 2009 upon completion of the liquidation of the Harris Ireland Pension Plan.

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Acquisitions

On October 1, 2008, the Company acquired a 90% interest in a leading Brazilian manufacturer of brazing products for approximately $24,000 in cash and assumed debt. The newly acquired company, based in Sao Paulo, will be operated as Harris Soldas Especiais S.A. This acquisition expands the Company s brazing product line and increases the Company s presence in the South American market. Annual sales at the time of the acquisition were approximately $30,000.

On April 7, 2008, the Company acquired all of the outstanding stock of Electro-Arco S.A. (Electro-Arco), a privately held manufacturer of welding consumables headquartered near Lisbon, Portugal, for approximately $24,000 in cash and assumed debt. This acquisition adds to the Company s European consumables manufacturing capacity and widens the Company s commercial presence in Western Europe. Annual sales at the time of the acquisition were approximately $40,000.

On November 30, 2007, the Company acquired the assets and business of Vernon Tool Company Ltd. (Vernon Tool), a privately held manufacturer of computer-controlled pipe cutting equipment used for precision fabrication purposes headquartered near San Diego, California, for approximately $12,434 in cash. This acquisition adds to the Company s ability to support its customers in the growing market for infrastructure development. Annual sales at the time of the acquisition were approximately $9,000.

On November 29, 2007, the Company announced that it had entered into a majority-owned joint venture with Zhengzhou Heli Welding Materials Company Ltd. (Zhengzhou Heli), a privately held manufacturer of subarc flux based in Zhengzhou, China. The Company has contributed $11,700 to Zhengzhou Heli. Annual sales at the time of the acquisition were approximately $8,000.

On July 20, 2007, the Company acquired Nanjing Kuang Tai Welding Materials Company, Ltd. (Nanjing), a manufacturer of stick electrode products based in Nanjing, China, for approximately $4,245 in cash and assumed debt. The Company previously owned 35% of Nanjing indirectly through its investment in Kuang Tai Metal Industrial Company, Ltd. Annual sales at the time of the acquisition were approximately $10,000.

On March 30, 2007, the Company acquired all of the outstanding stock of Spawmet Sp. z o.o. (Spawmet), a privately held manufacturer of welding consumables headquartered near Katowice, Poland, for approximately $5,000 in cash. This acquisition provides the Company with a portfolio of stick electrode products and the Company expects this acquisition to enhance its market position by broadening its distributor network in Poland and Eastern Europe. Annual sales at the time of the acquisition were approximately $5,000.

On October 31, 2006, the Company acquired all of the outstanding stock of Metrode Products Ltd. (Metrode), a privately held manufacturer of specialty welding consumables headquartered near London, England, for approximately $25,000 in cash. The Company expects this acquisition to provide high quality, innovative solutions for many high-end specialty applications, including the power generation and petrochemical industries. Annual sales at the time of acquisition were approximately $25,000.

The Company continues to expand globally and periodically looks at transactions that would involve significant investments. The Company can fund its global expansion plans with operational cash flow, but a significant acquisition may require access to capital markets, in particular, the public and/or private bond market, as well as the syndicated bank loan market. The Company s financing strategy is to fund itself at the lowest after-tax cost of funding. Where possible, the Company utilizes operational cash flows and raises capital in the most efficient market, usually the U.S., and then lends funds to the specific subsidiary that requires funding. If additional acquisitions providing appropriate financial benefits become available, additional expenditures may be made.

Acquired companies are included in the Company s consolidated financial statements as of the date of acquisition.

Debt

During March 2002, the Company issued Senior Unsecured Notes (the Notes) totaling $150,000 through a private placement. The Notes have original maturities ranging from five to ten years with a weighted average interest rate of 6.1% and an average tenure of eight years. Interest is payable semi-annually in March and September. The proceeds are being used for general corporate purposes, including acquisitions. The proceeds are generally invested in short-

term, highly liquid investments. The Notes contain certain affirmative and negative covenants, including restrictions on asset dispositions and financial covenants (interest coverage and funded debt-to-EBITDA, as defined in the Notes Agreement, ratios). As of December 31, 2008, the Company was in compliance with all of its debt covenants. During March 2007, the Company repaid the $40,000 Series A Notes which had matured reducing the total balance outstanding of the Notes to $110,000.

The maturity and interest rates of the Notes outstanding at December 31, 2008 are as follow (in thousands):

	Amount Due	Matures	Interest Rate
Series B	$ 30,000	March 2009	5.89%
Series C	$ 80,000	March 2012	6.36%

During March 2002, the Company entered into floating rate interest rate swap agreements totaling $80,000 to convert a portion of the Notes outstanding from fixed to floating rates. These swaps were designated as fair value hedges and, as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item, were recognized in earnings. Net payments or receipts under these agreements were recognized as adjustments to interest expense. In May 2003, these swap agreements were terminated. The gain of $10,613 on the termination of these swaps was deferred and is being amortized as an offset to interest expense over the remaining life of the Notes. The amortization of this gain reduced interest expense by $958 in 2008, $1,121 in 2007 and $2,117 in 2006 and is expected to reduce annual interest expense by $313 in 2009. At December 31, 2008, $755 remains to be amortized of which $107 is recorded in Current portion of long-term debt and $648 is recorded in Long-term debt, less current portion, respectively.

During July 2003 and April 2004, the Company entered into various floating rate interest rate swap agreements totaling $110,000, to convert a portion of the Notes outstanding from fixed to floating rates based on the London Inter-Bank Offered Rate (LIBOR), plus a spread of between 179.75 and 226.50 basis points. The variable rates are reset every six months, at which time payment or receipt of interest will be settled. These swaps are designated and qualify as fair value hedges and, as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item, are recognized in earnings. Net payments or receipts under these agreements are recognized as adjustments to interest expense.

The fair value of the swaps is recorded in Other current assets and Other non-current assets with corresponding offsets in Current portion of long-term debt and Long-term debt, less current portion, respectively. The fair value of these swaps at December 31, 2008 and 2007 was an asset of $6,148 and $762, respectively. Swaps have increased the value of the Series B Notes from $30,000 to $30,144 and the Series C Notes from $80,000 to $86,759 as of December 31, 2008. The weighted average effective rate on the Notes, net of the impact of swaps, was 4.6% for 2008.

On February 20, 2009, the Company terminated swaps with a notional value of $80,000 and realized a gain of $5,079. This gain will be deferred and amortized over the remaining life of the Series C Note. The amortization of this gain is expected to reduce interest expense by $1,400 in 2009.

Revolving Credit Agreement

The Company has a $175,000 five-year revolving Credit Agreement expiring in December 2009. The Credit Agreement may be used for general corporate purposes and may be increased, subject to certain conditions, by an additional amount up to $75,000. The interest rate on borrowings under the Credit Agreement is based on either LIBOR plus a spread based on the Company s leverage ratio or the prime rate, at the Company s election. A quarterly

facility fee is payable based upon the daily aggregate amount of commitments and the Company s leverage ratio. The Credit Agreement contains affirmative and negative covenants, including limitations on the Company with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, subordinated debt and transactions with affiliates. As of December 31, 2008, there were no borrowings under the Credit Agreement. The Company expects to replace the Credit Agreement prior to its expiration in December 2009.

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Short-term Borrowings

The Company s short-term borrowings included in Amounts due banks were $19,436 and $11,581 at December 31, 2008 and 2007, respectively, and represent the borrowings of foreign subsidiaries at weighted average interest rates of 22.78% and 14.00%, respectively.

Contractual Obligations and Commercial Commitments

The Company s contractual obligations and commercial commitments (as defined by Section 13(j) of the Securities Exchange Act of 1934) as of December 31, 2008 are as follows (in thousands):

	Payments Due By Period				
	Total	2009	2010 to 2011	2012 to 2013	2014 and Beyond
Long-term debt	$ 112,240	$ 30,177	$ 688	$ 80,264	$ 1,111
Interest on long-term debt	13,175	4,211	6,761	2,092	111
Capital lease obligations	3,651	936	1,914	670	131
Short-term debt	19,436	19,436			
Interest on short-term debt	2,543	2,543			
Operating leases	35,893	11,045	11,887	6,775	6,186
Total contractual cash obligations	$ 186,938	$ 68,348	$ 21,250	$ 89,801	$ 7,539

As of December 31, 2008, there were $34,183 of tax liabilities related to unrecognized tax benefits. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, the Company is unable to estimate the years in which settlement will occur with the respective taxing authorities.

The Company expects to contribute $30,000 to the U.S. pension plans in 2009.

The Company has provided a guarantee on loans for an unconsolidated joint venture of approximately $6,733 at December 31, 2008. The guarantee is provided on four separate loan agreements. Two loans are for $2,000 each, one which matures in March 2009 and the other maturing in May 2009. Two loans mature in July 2010, one for $1,806 and the other for $927. The loans were undertaken to fund the joint venture s working capital and capital expansion needs. The Company would become liable for any unpaid principal and accrued interest if the joint venture were to default on payment at the respective maturity dates. The Company believes the likelihood is remote that material payment will be required under these arrangements because of the current financial condition of the joint venture.

Stock-Based Compensation

On April 28, 2006, the shareholders of the Company approved the 2006 Equity and Performance Incentive Plan, as amended (EPI Plan), which replaces the 1998 Stock Plan, as amended and restated in May 2003. The EPI Plan provides for the granting of options, appreciation rights, restricted shares, restricted stock units and performance-based awards up to an additional 3,000,000 of the Company s common shares. In addition, on April 28, 2006, the shareholders of the Company approved the 2006 Stock Plan for Non-Employee Directors, as amended (Director Plan), which replaces the Stock Option Plan for Non-Employee Directors adopted in 2000. The Director Plan provides for the granting of options, restricted shares and restricted stock units up to an additional 300,000 of the Company s

common shares.

There were 316,264, 268,854 and 241,818 options and restricted shares granted under these plans during 2008, 2007 and 2006, respectively. The Company issued 235,650, 348,450 and 561,218 shares of common stock from treasury upon exercise of employee stock options during 2008, 2007 and 2006, respectively. The Company issued 8,411 shares of common stock from authorized but unissued shares upon vesting of deferred shares during 2006.

SFAS 123(R) *Share-Based Payment,* requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company adopted

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SFAS 123(R) on January 1, 2006 using the modified-prospective method. The adoption of this standard did not have a material impact on the Company s financial statements as the Company adopted fair value accounting under SFAS 123 on January 1, 2003.

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options, restricted or deferred shares ultimately forfeited because recipients fail to meet vesting requirements. Total stock-based compensation expense recognized in the consolidated statements of income for 2008, 2007 and 2006 was $4,738, $4,679 and $4,217, respectively. The related tax benefit for 2008, 2007 and 2006 was $1,793, $1,789 and $1,612, respectively.

As of December 31, 2008, total unrecognized stock-based compensation expense related to nonvested stock options and restricted shares was $9,371, which is expected to be recognized over a weighted average period of approximately 37 months.

The aggregate intrinsic value of options outstanding at December 31, 2008, based on the Company s closing stock price of $50.93 as of the last business day of the period ended December 31, 2008, which would have been received by the optionees had all options been exercised on that date was $19,423. The aggregate intrinsic value of options exercisable at December 31, 2008, based on the Company s closing stock price of $50.93 as of the last business day of the period ended December 31, 2008, which would have been received by the optionees had all options been exercised on that date was $16,890. The total intrinsic value of stock options exercised during 2008 and 2007 was $10,366 and $15,413, respectively. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the options.

Product Liability Expense

Product liability expenses have been significant, particularly with respect to welding fume claims. Costs incurred are volatile and are largely related to trial activity. The costs associated with these claims are predominantly defense costs, which are recognized in the periods incurred. These expenditures increased $621 in 2008 compared to 2007. See Note N to the Company s Consolidated Financial Statements for further discussion.

The long-term impact of the welding fume loss contingency, in the aggregate, on operating cash flows and access to capital markets is difficult to assess, particularly since claims are in many different stages of development and the Company benefits significantly from cost sharing with co-defendants and insurance carriers. Moreover, the Company has been largely successful to date in its defense of these claims and indemnity payments have been immaterial. If cost sharing dissipates for some currently unforeseen reason, or the Company s trial experience changes overall, it is possible on a longer term basis that the cost of resolving this loss contingency could materially reduce the Company s operating results and cash flow and restrict capital market access.

Off-Balance Sheet Financial Instruments

The Company utilizes letters of credit to back certain payment and performance obligations. Letters of credit are subject to limits based on amounts outstanding under the Company s Credit Agreement. The Company has also provided a guarantee on loans for an unconsolidated joint venture of approximately $6,733 at December 31, 2008. The Company believes the likelihood is remote that material payment will be required under this arrangement because of the current financial condition of the joint venture.

New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued Staff Position 132(R)-1 (FSP FAS 132(R)-1), *Employers Disclosures about Postretirement Benefit Plan Assets,* an amendment of SFAS 132(R). This standard requires disclosure about an entity s investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. The standard is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP FAS 132(R)-1 to have a significant impact on its financial statements.

In November 2008, the Emerging Issues Task Force issued Issue 08-6 (EITF 08-06), *Equity Method Investment Accounting Considerations.* This Issue addresses the impact that SFAS 141(R) and SFAS 160 might have on the

accounting for equity method investments, including how the initial carrying value of an equity method investment should be determined, how it should be tested for impairment, and how changes in classification from equity method to cost method should be treated. The Issue is to be implemented prospectively and is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF 08-06 to have a significant impact on its financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) 162, *The Hierarchy of Generally Accepted Accounting Principles.* SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. generally accepted accounting principles (GAAP). SFAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. The Company does not expect the adoption of SFAS 162 to have a significant impact on its financial statements.

In April 2008, FASB Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3) was issued. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets.* FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. FSP 142-3 applies prospectively to intangible assets acquired after adoption. The Company does not expect the adoption of FSP 142-3 to have a significant impact on its financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities,* an amendment of SFAS 133. SFAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company does not expect the adoption of SFAS 161 to have a significant impact on its financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is an amendment of Accounting Research Bulletin No. (ARB) 51. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 160 to have a significant impact on its financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations.* SFAS 141(R) replaces SFAS 141, *Business Combinations.* SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after

December 15, 2008.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115,* which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses arising subsequent to adoption are reported in earnings. SFAS 159 is effective for fiscal

years beginning after November 15, 2007. The Company adopted this statement as of January 1, 2008 and elected not to apply the fair value option to any of its financial instruments.

In September 2006, the FASB issued SFAS 157 *Fair Value Measurements.* SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS 157 related to financial assets and liabilities on January 1, 2008. See Note L to the Consolidated Financial Statements for further discussion.

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007. See Note H to the Consolidated Financial Statements for further discussion.

Critical Accounting Policies

The Company s consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make estimates and assumptions. These estimates and assumptions are reviewed periodically by management and compared to historical trends to determine the accuracy of estimates and assumptions used. If warranted, these estimates and assumptions may be changed as current trends are assessed and updated. Historically, the Company s estimates have been determined to be reasonable. No material changes to the Company s accounting policies were made during 2008. The Company believes the following are some of the more critical judgment areas in the application of its accounting policies that affect its financial condition and results of operations.

Legal And Tax 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 and health, safety and environmental claims, some of which relate to cases alleging asbestos and manganese-induced illnesses. The costs associated with these claims are predominantly defense costs, which are recognized in the periods incurred. Insurance reimbursements mitigate these costs and, where reimbursements are probable, they are recognized in the applicable period. With respect to costs other than defense costs (i.e., for liability and/or settlement or other resolution), reserves are recorded when it is probable that the contingencies will have an unfavorable outcome. The Company accrues its best estimate of the probable costs, after a review of the facts with management and counsel and taking into account past experience. If an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated, disclosure is provided for material claims or litigation. Many of the current cases are in differing procedural stages and information on the circumstances of each claimant, which forms the basis for judgments as to the validity or ultimate disposition of such actions, will vary 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. See Note N to the Company s Consolidated Financial Statements and the Legal Proceedings section of this Annual Report on Form 10-K for further discussion of legal contingencies.

The Company is subject to taxation from U.S. federal, state, municipal and international jurisdictions. The calculation of current income tax expense is based on the best information available and involves significant management judgment. The actual income tax liability for each jurisdiction in any year can in some instances be ultimately

determined several years after the financial statements are published.

The Company maintains reserves for estimated income tax exposures for many jurisdictions. Exposures are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Exposures can also be affected by changes in applicable tax law or other factors, which may cause

management to believe a revision of past estimates is appropriate. Management believes that an appropriate liability has been established for income tax exposures; however, actual results may materially differ from these estimates.

Deferred Income Taxes

Deferred income taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards. The Company does not provide deferred income taxes on unremitted earnings of certain non-U.S. subsidiaries which are deemed permanently reinvested. It is not practicable to calculate the deferred taxes associated with the remittance of these earnings. Deferred income taxes of $285 have been provided on earnings of $1,831 that are not expected to be permanently reinvested. At December 31, 2008, the Company had approximately $131,090 of gross deferred tax assets related to deductible temporary differences and tax loss and credit carryforwards which may reduce taxable income in future years.

In assessing the realizability of deferred tax assets, the Company assesses whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. At December 31, 2008, a valuation allowance of $18,295 was recorded against these deferred tax assets based on this assessment. The Company believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable could be increased or reduced in the future if the Company s assessment of future taxable income or tax planning strategies changes.

Pensions

The Company maintains a number of defined benefit and defined contribution plans to provide retirement benefits for employees in the U.S., as well as employees outside the U.S. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), local statutory law or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a domestic non-qualified pension plan for certain key employees and certain foreign plans.

In September 2006, the FASB issued SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158* requires companies to recognize the funded status of a benefit plan as the difference between plan assets at fair value and the projected benefit obligation. Unrecognized gains or losses and prior service costs, as well as the transition asset or obligation remaining from the initial application of Statements 87 and 106 will be recognized in the balance sheet, net of tax, as a component of Accumulated other comprehensive loss and will subsequently be recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements. In addition, SFAS 158 requires additional disclosures about the future effects on net periodic benefit cost that arise from the delayed recognition of gains or losses, prior service costs or credits, and transition assets or obligations. SFAS 158 also requires that defined benefit plan assets and obligations be measured as of the date of the employer s fiscal year-end balance sheet. The recognition and disclosure provisions of SFAS 158 are effective for fiscal years ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end balance sheet is effective for fiscal years ending after December 15, 2008. The Company adopted SFAS 158 as of December 31, 2006. The adoption of SFAS 158 had no impact on the measurement date as the Company had historically measured the plan assets and benefit obligations of its pension and other postretirement plans as of December 31. See Note I to the Company s Consolidated Financial Statements for further discussion.

As of December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158. As a result of adopting SFAS 158, the Company recorded liabilities equal to the underfunded status of defined benefit plans and assets equal to the overfunded status of certain defined benefit plans measured as the difference between the fair value of plan assets and the projected benefit obligation. As of December 31, 2008, December 31, 2007 and December 31, 2006, the Company recognized liabilities of $191,408, $32,954 and $34,900, respectively, prepaid

assets of $2,716, $48,897 and $16,773, respectively, and also recognized accumulated other comprehensive loss of $194,696, $52,274 and $69,978 (after-tax), respectively, for its defined benefit pension plans.

A substantial portion of the Company s pension amounts relates to its defined benefit plan in the United States. The market-related value of plan assets is determined by fair values at December 31.

A significant element in determining the Company s pension expense is the expected return on plan assets. At the end of each year, the expected return on plan assets is determined based on the weighted average expected return of the various asset classes in the plan s portfolio and the targeted allocation of plan assets. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance. The Company determined this rate to be 8.25% for its U.S. plans at December 31, 2008 and 2007, respectively. The assumed long-term rate of return on assets is applied to the market value of plan assets. This produces the expected return on plan assets included in pension expense. The difference between this expected return and the actual return on plan assets is deferred and amortized over the average remaining service period of active employees expected to receive benefits under the plan. The amortization of the net deferral of past losses will increase future pension expense. During 2008, investment returns in the Company s U.S. pension plans were a decline of 22.2% compared to an increase of 8.4% in 2007. A 25 basis point change in the expected return on plan assets would increase or decrease pension expense by approximately $1,400.

Another significant element in determining the Company s pension expense is the discount rate for plan liabilities. To develop the discount rate assumption to be used, the Company refers to the yield derived from matching projected pension payments with maturities of a portfolio of available non-callable bonds rated AA- or better. The Company determined this rate to be 6.13% for its U.S. plans at December 31, 2008. A 25 basis point change in the discount rate would increase or decrease pension expense by approximately $2,000.

Pension expense relating to the Company s defined benefit plans was $4,613, $6,260 and $17,926 in 2008, 2007 and 2006, respectively. The Company expects 2009 pension expense to increase by approximately $38,500.

The Company made voluntary contributions to its U.S. defined benefit plans of $20,000, $10,000 and $17,500 in 2008, 2007 and 2006, respectively. The Company expects to voluntarily contribute $30,000 to its U.S. plans in 2009. Based on current pension funding rules, the Company does not anticipate that contributions to the plans would be required in 2009.

In the first quarter 2006, the Company modified its retirement benefit programs whereby employees of its largest U.S. company hired on or after January 1, 2006 will be covered under a newly enhanced 401(k) defined contribution plan. In the second quarter of 2006, current employees of the U.S. company made an election to either remain in the existing retirement programs or switch to new programs offering enhanced defined contribution benefits, improved vacation and a reduced defined benefit.

Inventories and Reserves

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity and abnormal manufacturing costs are recognized as period costs. For most domestic inventories, cost is determined principally by the last-in, first-out (LIFO) method, and for non-U.S. inventories, cost is determined by the first-in, first-out (FIFO) method. The valuation of LIFO inventories is made at the end of each year based on inventory levels and costs at that time. The excess of current cost over LIFO cost amounted to $90,914 at December 31, 2008 and $72,088 at December 31, 2007. The Company reviews the net realizable value of inventory in detail on an on-going basis, with consideration given to deterioration, obsolescence and other factors. If actual market conditions differ from those projected by management, and the Company s estimates

prove to be inaccurate, write-downs of inventory values and adjustments to cost of sales may be required. Historically, the Company s reserves have approximated actual experience.

Accounts Receivable and Allowances

The Company maintains an allowance for doubtful accounts for estimated losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on the age of the related receivable, knowledge of the financial condition of customers, review of historical receivables and reserve

trends and other pertinent information. If the financial condition of customers deteriorates or an unfavorable trend in receivable collections is experienced in the future, additional allowances may be required. Historically, the Company s reserves have approximated actual experience.

Impairment of Long-Lived Assets

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, a loss is recognized to the extent that carrying value exceeds fair value. Fair value is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

Impairment of Goodwill and Intangibles

The Company performs an annual impairment test of goodwill and other indefinite-lived intangible assets in the fourth quarter using the same dates each year or more frequently if changes in circumstances or the occurrence of events indicate potential impairment as required under SFAS 142, *Goodwill and Other Intangible Assets.* The fair value of each indefinite-lived intangible asset is compared to its carrying value and an impairment charge is recorded if the carrying value exceeds the fair value. Goodwill is tested by comparing the fair value of each reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the implied value of goodwill is compared to its carrying value and impairment is recognized to the extent that the carrying value exceeds the implied fair value.

Fair values are determined using models developed by the Company which incorporate estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates, established business valuation multiples, and management judgments regarding the applicable discount rates to value estimated cash flows. Changes in economic and operating conditions impacting these assumptions could result in asset impairments in future periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s primary financial market risks include fluctuations in currency exchange rates, commodity prices and interest rates. The Company manages these risks by using derivative financial instruments in accordance with established policies and procedures. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes.

Included below is a sensitivity analysis based upon a hypothetical 10% weakening or strengthening in the U.S. dollar compared to foreign currency exchange rates at December 31, 2008, a 10% change in commodity prices, and a 100 basis point increase in effective interest rates under the Company s current borrowing arrangements. The contractual derivative and borrowing arrangements in effect at December 31, 2008 were compared to the hypothetical foreign exchange, commodity price, or interest rates in the sensitivity analysis to determine the effect on income before taxes, interest expense, or accumulated other comprehensive loss. The analysis takes into consideration any offset that would result from changes in the value of the hedged asset or liability.

Foreign Currency Exchange Risk

The Company enters into forward foreign exchange contracts principally to hedge the currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company s risk that would otherwise result from changes in exchange rates. At December 31, 2008, the Company hedged third party and intercompany purchases and sales. At December 31, 2008, the Company had foreign exchange contracts with a notional value of approximately $35,807. At December 31, 2008, a hypothetical 10% weakening of the U.S. dollar would not materially affect the Company s financial statements.

At December 31, 2008, the Company also had foreign exchange contracts with a notional value of approximately $65,040 which hedged certain balance sheet exposures. Any loss resulting from a hypothetical 10% weakening of the U.S. dollar would be offset by the associated gain on the underlying balance sheet exposure and would not materially affect the Company s financial statements.

Commodity Price Risk

From time to time, the Company uses various hedging arrangements to manage exposures to price risk from commodity purchases. These hedging arrangements have the effect of locking in for specified periods the prices the Company will pay for the volume to which the hedge relates. A hypothetical 10% adverse change in commodity prices on the Company s open commodity futures at December 31, 2008 would not materially affect the Company s financial statements.

Interest Rate Risk

At December 31, 2008, the Company had various floating interest rate swaps used to convert its outstanding $110,000 fixed-rate, long-term borrowings into short-term variable interest rates. An increase in interest expense resulting from a hypothetical increase of 100 basis points in the December 31, 2008 floating rate would not materially affect the Company s financial statements. See discussion in Item 7, Debt.

The fair value of the Company s cash and cash equivalents and marketable securities at December 31, 2008, approximated carrying value due to their short-term duration. These financial instruments are also subject to concentrations of credit risk. The Company has minimized this risk by entering into investments with a number of major banks and financial institutions and investing in high-quality instruments. The Company does not expect any counterparties to fail to meet their obligations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted in a separate section of this report following the signature page.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management s Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of

the Company s management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2008 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company s evaluation under such framework, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2008.

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The effectiveness of the Company s internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company s internal controls over financial reporting that occurred during the fourth quarter of 2008 that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company will file its 2009 proxy statement pursuant to Regulation 14A of the Exchange Act prior to April 30, 2009.

Except for the information set forth below concerning our Executive Officers, the information required by this item is incorporated by reference from the 2009 proxy statement.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
John M. Stropki, Jr.	58	Chairman of the Board since October 13, 2004; Director since 1998; Chief Executive Officer and President since June 3, 2004; Chief Operating Officer from May 1, 2003 to June 3, 2004; Executive Vice President from 1995 to June 3, 2004 and President North America from 1996 to 2003.
Vincent K. Petrella	48	Senior Vice President, Chief Financial Officer and Treasurer since October 7, 2005; Vice President, Chief Financial Officer and Treasurer from February 4, 2004 to October 7, 2005 and Vice President, Corporate Controller from 2001 to 2003.
Frederick G. Stueber	55	Senior Vice President, General Counsel and Secretary since 1996.
George D. Blankenship	46	Senior Vice President, Global Engineering since October 7, 2005; Vice President, Global Engineering from May 5, 2005 to October 7, 2005; Senior Vice President; President, Lincoln Cleveland of The Lincoln Electric Company since January 1, 2008; Senior Vice President, U.S. Operations of The Lincoln Electric Company since October 7, 2005; Vice President, Cleveland Operations of The Lincoln Electric Company from June 6, 2005 to October 7, 2005 and Vice President, Engineering and Quality Assurance of The Lincoln Electric Company from 2000 to June 6, 2005.
Gretchen A. Farrell	46	Vice President, Human Resources since May 5, 2005; Vice President, Human Resources of The Lincoln Electric Company since March 1, 2003 and Director, Compensation and Benefits of The Lincoln Electric Company

		from 1997 to 2003.
Thomas A. Flohn	48	Vice President; President, Lincoln Asia Pacific since January 1, 2005 and Vice President of Sales and Marketing, Lincoln Electric Asia Pacific from May 1, 1999 to December 31, 2004.
David M. LeBlanc	44	Vice President; President, Lincoln Electric Europe and Russia since September 1, 2005 and Vice President; President, Lincoln Electric Latin America from January 1, 2002 to August 31, 2005.

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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 was elected as an officer. The executive officers serve at the pleasure of the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the 2009 proxy statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information set forth below regarding our equity plans, the information required by this item is incorporated by reference from the 2009 proxy statement.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans:			
Approved by security holders	1,716,017	$ 43.55	3,631,865
Not approved by security holders			
Total	1,716,017	$ 43.55	3,631,865

For further information on the Company s equity compensation plans see Note A Significant Accounting Policies and Note E Stock Plans to the Company s consolidated financial statements included in Item 8.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from the 2009 proxy statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from the 2009 proxy statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements of the Company are included in a separate section of this report following the signature page and certifications:

Report of Independent Registered Public Accounting Firm
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting
Consolidated Balance Sheets December 31, 2008 and 2007
Consolidated Statements of Income Years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Shareholders Equity Years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows Years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules

The following consolidated financial statement schedule of the Company is included in a separate section of this report following the signature page:

Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

(a) (3) Exhibits

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Lincoln Electric Holdings, Inc. (filed as Annex B to Form S-4 of Lincoln Electric Holdings, Inc., Registration No. 333-50435, filed on April 17, 1998, and incorporated herein by reference and made a part hereof).
3.2	Amended and Restated Code of Regulations of Lincoln Electric Holdings, Inc. (filed as Exhibit 3.2 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended June 30, 2008, SEC File No. 0-01402 and incorporated herein by reference and made part hereof).
10.1	Credit Agreement dated December 17, 2004 among Lincoln Electric Holdings, Inc., The Lincoln Electric Company, Lincoln Electric International Holding Company, Harris Calorific, Inc., Lincoln Global, Inc., the financial institutions listed in Annex A thereof, and KeyBank National Association, as Letter of Credit Issuer and Administrative Agent (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on December 22, 2004, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.2	Note Purchase Agreement dated March 12, 2002 between Lincoln Electric Holdings, Inc. and The Lincoln Electric Company and the Purchasers listed in Schedule A thereof (filed as Exhibit 10(q) to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended March 31, 2002, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.3	Amended and Restated Note Purchase and Private Shelf Agreement between Lincoln Electric Holdings, Inc., The Lincoln Electric Company and The Prudential Insurance Company of America dated as of April 30, 2002 (filed as Exhibit 10(v) to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended June 30, 2002, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.4	Amendment No. 1 to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of December 14, 2006 (filed as Exhibit 10(d) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2006, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.5*	1998 Stock Plan (Amended, Restated and Renamed as of May 1, 2003) (filed as Appendix B to the Lincoln Electric Holdings, Inc. proxy statement dated March 31, 2003, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.6*	Amendment No. 1 to the 1998 Stock Plan (Amended, Restated and Renamed Effective May 1, 2003) dated October 20, 2006 (filed as Exhibit 10.6 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2007, SEC File No. 0-1402 and incorporated herein by

reference and made a part hereof).

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Exhibit No.	Description
10.7*	1988 Incentive Equity Plan (filed as Exhibit 28 to the Form S-8 Registration Statement of The Lincoln Electric Company, SEC File No. 33-25209 and incorporated herein by reference and made a part hereof) as adopted and amended by Lincoln Electric Holdings, Inc. pursuant to an Instrument of Adoption and Amendment dated December 29, 1998 (filed as Exhibit 10(d) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 1998, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.8*	Amendment No. 2 to the 1988 Incentive Equity Plan dated October 20, 2006 (filed as Exhibit 10.8 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2007, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.9*	Form of Indemnification Agreement (filed as Exhibit A to The Lincoln Electric Company 1987 proxy statement, SEC File No. 0-1402, and incorporated herein by reference and made a part hereof).
10.10*	Supplemental Executive Retirement Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009 and incorporated herein by reference and made part hereof).
10.11*	Deferred Compensation Plan for Executives (Amended and Restated as of January 1, 2004) (filed as Exhibit 10(h) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2003, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.12*	Amendment No. 1 to the Deferred Compensation Plan for Executives (Amended and Restated as of January 1, 2004) (filed as Exhibit 10.2 to Form 8-K of Lincoln Electric Holdings, Inc. on February 1, 2005, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.13*	Instrument of Termination of the Deferred Compensation Plan for Executives (filed as Exhibit 10.2 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 4, 2006, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.14*	Deferred Compensation Plan for Certain Retention Agreements and Other Contractual Arrangements (Amended and Restated as of January 1, 2004) (filed as Exhibit 10(i) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2003, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.15*	Non-Employee Directors Deferred Compensation Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.3 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.16*	Description of Management Incentive Plan (filed as Exhibit 10(e) to Form 10-K of The Lincoln Electric Company for the year ended December 31, 1995, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.17*	Description of Long-Term Performance Plan (filed as Exhibit 10(f) to Form 10-K of The Lincoln Electric Company for the year ended December 31, 1997, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.18*	Summary of Employment Agreements (filed as Exhibit 10(l) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2003, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.19*	Form of Severance Agreement (as entered into by the Company and the following executive officers: Messrs. Stropki and Stueber) (filed as Exhibit 10 to Form 10-Q of Lincoln Electric Holdings, Inc. for the nine months ended December 31, 1998, SEC File No. 0-1402 and

	incorporated herein by reference and made a part hereof).
10.20*	Form of Amendment No. 1 to Severance Agreement (as entered into by the Company and the following executive officers: Messrs. Stropki and Stueber) (filed as Exhibit 10(o) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 1999, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).

Exhibit No.	Description
10.21*	Form of Amendment No. 2 to Severance Agreement (as entered into by the Company and the following executive officers: Messrs. Stropki and Stueber) (filed as Exhibit 10.6 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-0402 and incorporated herein by reference and made a part hereof).
10.22*	Stock Option Plan for Non-Employee Directors (filed as Exhibit 10(p) to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended March 31, 2000, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.23*	Amendment No. 1 to the Stock Option Plan for Non-Employee Directors dated October 20, 2006 (filed as Exhibit 10.26 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2007, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.24*	Summary of Cash Long-Term Incentive Plan, as amended (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on April 6, 2005, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.25*	Letter Agreement between John M. Stropki, Jr. and Lincoln Electric Holdings, Inc. dated October 12, 2004 (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on October 18, 2004, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.26*	2005 Deferred Compensation Plan for Executives (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.2 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.27*	2006 Equity and Performance Incentive Plan (filed as Appendix B to the Lincoln Electric Holdings, Inc. proxy statement dated March 28, 2006, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.28*	Amendment No. 1 to the 2006 Equity and Performance Incentive Plan dated October 20, 2006 (filed as Exhibit 10.1 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended March 31, 2007, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.29*	Amendment No. 2 to the 2006 Equity and Performance Incentive Plan (filed as Exhibit 10.5 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.30*	2006 Stock Plan for Non-Employee Directors (filed as Appendix C to the Lincoln Electric Holdings, Inc. proxy statement dated March 28, 2006, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
10.31*	Amendment No. 1 to the 2006 Stock Plan for Non-Employee Directors dated October 20, 2006 (filed as Exhibit 10.2 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended March 31, 2007, SEC file No. 0-1402 and incorporated herein by reference and made a part hereof).
10.32*	Amendment No. 2 to the 2006 Stock Plan for Non-Employee Directors dated July 26, 2007 (filed as Exhibit 10.1 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended September 30, 2007, SEC file No. 0-1402 and incorporated herein by reference and made a part hereof).
10.33*	2007 Management Incentive Compensation Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.4 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).
21	Subsidiaries of the Registrant.

23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31.1	Certification by the President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

Exhibit No.	Description
31.2	Certification by the Senior Vice President, Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Reflects management contract or other compensatory arrangement required to be filed as an exhibit pursuant to Item 15(b) of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN ELECTRIC HOLDINGS, INC.

By: /s/ VINCENT K. PETRELLA

Vincent K. Petrella, *Senior Vice President, Chief Financial Officer and Treasurer (principal financial and accounting officer)*
February 23, 2009

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JOHN M. STROPKI, JR.

John M. Stropki, Jr., Chairman of the Board, President and Chief Executive Officer (principal executive officer)
February 23, 2009

/s/ VINCENT K. PETRELLA
Vincent K. Petrella,
Senior Vice President, Chief Financial Officer and Treasurer (principal financial and accounting officer)
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
Harold L. Adams, Director
February 23, 2009

/s/ VINCENT K. PETRELLA
Vincent K. Petrella as
Attorney-in-Fact for
David H. Gunning, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
Stephen G. Hanks, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
Kathryn Jo Lincoln, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
Robert J. Knoll, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
Hellene S. Runtagh, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
G. Russell Lincoln, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
William E. MacDonald III, Director
February 23, 2009

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as
Attorney-in-Fact for
George H. Walls, Jr., Director
February 23, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Lincoln Electric Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Lincoln Electric Holdings, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index as Item 15 (a) (2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln Electric Holdings, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note I to the financial statements, effective December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pensions and Other Postretirement Plans.* As discussed in Note H to the financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lincoln Electric Holdings, Inc. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 23, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Lincoln Electric Holdings, Inc.

We have audited Lincoln Electric Holdings, Inc. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lincoln Electric Holdings, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lincoln Electric Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lincoln Electric Holdings, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 23, 2009

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 284,332	$ 217,382
Accounts receivable (less allowance for doubtful accounts of $7,673 in 2008; $7,424 in 2007)	299,171	344,058
Inventories		
Raw materials	94,112	92,557
Work-in-process	49,692	48,444
Finished goods	203,128	202,848
Total inventory	346,932	343,849
Deferred income taxes	16,725	10,286
Other current assets	77,566	54,073
Total Current Assets	1,024,726	969,648
Property, Plant and Equipment		
Land	38,745	41,415
Buildings	258,736	255,318
Machinery and equipment	643,056	629,780
	940,537	926,513
Less accumulated depreciation	512,635	496,569
Property, Plant and Equipment, Net	427,902	429,944
Other Assets		
Prepaid pensions	2,716	48,897
Equity investments in affiliates	62,358	59,723
Intangibles, net	65,262	51,194
Goodwill	36,187	42,727
Long-term investments	29,843	30,170
Deferred income taxes	47,397	
Other non-current assets	22,414	12,993
Total Other Assets	266,177	245,704
TOTAL ASSETS	$ 1,718,805	$ 1,645,296

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31,	
	2008	2007
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Amounts due banks	$ 19,436	$ 11,581
Trade accounts payable	124,388	152,301
Accrued employee compensation and benefits	47,405	48,486
Accrued expenses	25,173	25,407
Accrued taxes, including income taxes	13,305	13,130
Accrued pensions	3,248	3,790
Dividends payable	11,444	10,720
Other current liabilities	80,986	45,601
Current portion of long-term debt	31,257	905
Total current liabilities	356,642	311,921
Long-term liabilities		
Long-term debt, less current portion	91,537	117,329
Accrued pensions	188,160	29,164
Deferred income taxes	8,553	36,874
Accrued taxes	40,323	34,132
Other long-term liabilities	38,278	28,656
Total long-term liabilities	366,851	246,155
Shareholders equity		
Preferred shares, without par value at stated capital amount; authorized 5,000,000 shares; issued and outstanding none		
Common shares, without par value at stated capital amount; authorized 120,000,000 shares; issued 49,290,717 shares in 2008 and 2007; outstanding 42,521,628 shares in 2008 and 42,961,679 shares in 2007	4,929	4,929
Additional paid-in capital	155,538	145,825
Retained earnings	1,236,810	1,068,100
Accumulated other comprehensive (loss) income	(218,158)	15,841
Treasury shares, at cost 6,769,089 shares in 2008 and 6,329,038 shares in 2007	(183,807)	(147,475)
Total shareholders equity	995,312	1,087,220
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,718,805	$ 1,645,296

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Year Ended December 31,		
	2008	2007	2006
Net sales	$ 2,479,131	$ 2,280,784	$ 1,971,915
Cost of goods sold	1,758,980	1,633,218	1,419,638
Gross profit	720,151	647,566	552,277
Selling, general & administrative expenses	405,376	370,122	315,829
Rationalization and asset impairment charges (gain)	19,371	(188)	3,478
Operating income	295,404	277,632	232,970
Other income (expense):			
Interest income	8,845	8,294	5,876
Equity earnings in affiliates	6,034	9,838	7,640
Other income	1,681	2,823	1,839
Interest expense	(12,155)	(11,430)	(10,153)
Total other income	4,405	9,525	5,202
Income before income taxes	299,809	287,157	238,172
Income taxes	87,523	84,421	63,164
Net income	$ 212,286	$ 202,736	$ 175,008
Per share amounts:			
Basic earnings per share	$ 4.98	$ 4.73	$ 4.11
Diluted earnings per share	$ 4.93	$ 4.67	$ 4.07
Cash dividends declared per share	$ 1.02	$ 0.91	$ 0.79

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(In thousands, except per share data)

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
Balance January 1, 2006	42,181	$ 4,928	$ 125,925	$ 764,748	$ (91,276)	$ (152,031)	$ 652,294
Comprehensive income:							
Net income				175,008			175,008
Minimum pension liability adjustment, net of tax of $45,093					71,920		71,920
Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax of $637					902		902
Currency translation adjustment					27,323		27,323
Total comprehensive income							275,153
Cash dividends declared $0.79 per share				(33,682)			(33,682)
Issuance of shares under benefit plans	627	1	11,390			11,468	22,859
Purchase of shares for treasury	(2)					(126)	(126)
Adjustment to initially adopt SFAS158, net of tax of $39,380					(63,522)		(63,522)
Balance December 31, 2006	42,806	4,929	137,315	906,074	(54,653)	(140,689)	852,976
Comprehensive income:							
Net income				202,736			202,736
Unrecognized amounts from defined benefit pension plans, net of tax of $10,371					17,704		17,704
Unrealized loss on derivatives designated and qualifying as cash					(2,989)		(2,989)

flow hedges, net of tax of $1,772							
Currency translation adjustment					55,779		55,779
Total comprehensive income							273,230
Cash dividends declared $0.91 per share				(39,120)			(39,120)
Issuance of shares under benefit plans	378		8,939			8,673	17,612
Purchase of shares for treasury	(222)					(15,459)	(15,459)
Adjustment to initially adopt FIN 48			(429)	(1,590)			(2,019)
Balance December 31, 2007	42,962	4,929	145,825	1,068,100	15,841	(147,475)	1,087,220
Comprehensive income:							
Net income				212,286			212,286
Unrecognized amounts from defined benefit pension plans, net of tax of $84,685					(142,422)		(142,422)
Unrealized gain on derivatives designated and qualifying as cash flow hedges, net of tax of $137					842		842
Currency translation adjustment					(92,419)		(92,419)
Total comprehensive loss							(21,713)
Cash dividends declared $1.02 per share				(43,576)			(43,576)
Issuance of shares under benefit plans	301		9,713			6,005	15,718
Purchase of shares for treasury	(741)					(42,337)	(42,337)
Balance December 31, 2008	42,522	$ 4,929	$ 155,538	$ 1,236,810	$ (218,158)	$ (183,807)	$ 995,312

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 212,286	$ 202,736	$ 175,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Rationalization and asset impairment charges (gain)	19,371	(188)	3,478
Depreciation and amortization	56,925	52,610	47,825
Equity earnings of affiliates, net	(3,235)	(7,208)	(5,728)
Deferred income taxes	7,367	(3,711)	4,349
Stock-based compensation	4,738	4,679	4,217
Amortization of terminated interest rate swaps	(958)	(1,121)	(2,117)
(Gain) loss on disposal of property, plant and equipment	(180)	627	(8,738)
Other non-cash items, net	6,644	(1,083)	1,332
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in accounts receivable	30,130	(20,723)	(39,719)
(Increase) decrease in inventories	(27,845)	36,011	(57,299)
(Increase) decrease in other current assets	(27,450)	2,354	(10,656)
(Decrease) increase in accounts payable	(26,768)	(3,333)	12,914
Increase (decrease) in other current liabilities	37,040	(1,798)	(937)
Contributions to pension plans	(23,810)	(13,031)	(20,503)
(Decrease) increase in accrued pensions	(2,165)	3,237	16,248
Net change in other long-term assets and liabilities	(4,641)	(226)	(994)
NET CASH PROVIDED BY OPERATING ACTIVITIES	257,449	249,832	118,680
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(72,426)	(61,633)	(76,002)
Acquisition of businesses, net of cash acquired	(44,036)	(18,773)	(25,504)
Proceeds from sale of property, plant and equipment	662	701	11,791
NET CASH USED BY INVESTING ACTIVITIES	(115,800)	(79,705)	(89,715)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	19,504	6,550	2,035
Payments on short-term borrowings	(7,849)	(1,004)	(3,192)
Amounts due banks, net	(5,551)	(2,720)	115
Proceeds from long-term borrowings	1,352		
Payments on long-term borrowings	(1,033)	(40,142)	(3,147)
Proceeds from exercise of stock options	7,201	8,644	13,618
Tax benefit from exercise of stock options	3,728	4,289	5,243

Purchase of shares for treasury	(42,337)	(15,459)	(126)
Cash dividends paid to shareholders	(42,756)	(37,744)	(32,275)
NET CASH USED BY FINANCING ACTIVITIES	(67,741)	(77,586)	(17,729)
Effect of exchange rate changes on cash and cash equivalents	(6,958)	4,629	969
INCREASE IN CASH AND CASH EQUIVALENTS	66,950	97,170	12,205
Cash and cash equivalents at beginning of year	217,382	120,212	108,007
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 284,332	$ 217,382	$ 120,212

See notes to these consolidated financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars except share and per share data)
December 31, 2008

NOTE A SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Lincoln Electric Holdings, Inc., its wholly-owned and majority-owned subsidiaries for which it has a controlling interest (the Company) after elimination of all intercompany accounts, transactions and profits. Minority ownership interest in consolidated subsidiaries, which is not material, is recorded in Other long-term liabilities.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The Company maintains an allowance for doubtful accounts for estimated losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on the age of the related receivable, knowledge of the financial condition of customers, review of historical receivables and reserve trends and other pertinent information. If the financial condition of customers deteriorates or an unfavorable trend in receivable collections is experienced in the future, additional allowances may be required. Historically, the Company s reserves have approximated actual experience.

Inventories

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity and abnormal manufacturing costs are recognized as period costs. For domestic inventories, cost is determined principally by the last-in, first-out (LIFO) method, and for non-U.S. inventories, cost is determined by the first-in, first-out (FIFO) method. At December 31, 2008 and 2007, approximately 35% and 36%, respectively, of total inventories were valued using the LIFO method. The excess of current cost over LIFO cost amounted to $90,914 at December 31, 2008 and $72,088 at December 31, 2007.

Reserves are maintained for estimated obsolescence or excess inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Historically, the Company s reserves have approximated actual experience.

Equity Investments

Investments in businesses in which the Company does not have a controlling interest and holds between a 20% and 50% ownership interest are accounted for using the equity method of accounting on a one month-lag basis. The Company s 50% ownership interest in equity investments includes investments in Turkey and Chile. In addition, the Company holds a 35% interest in a Taiwanese joint venture and a 21% interest in an investment in the People s Republic of China. The amount of retained earnings that represents undistributed earnings of 50% or less owned equity investments was $26,875 at December 31, 2008 and $23,674 at December 31, 2007.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and include improvements which significantly increase capacities or extend the useful lives of existing plant and equipment. Depreciation and amortization are computed using a straight-line method over useful lives ranging from three to 20 years for machinery, tools and equipment, and up to 50 years for buildings. Net gains or losses related to asset dispositions are recognized in earnings in the period in

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE A SIGNIFICANT ACCOUNTING POLICIES (continued)

which dispositions occur. The following table summarizes assets held under capital leases and included in property, plant and equipment:

	2008	2007
Buildings	$ 6,421	$ 6,323
Machinery and equipment	1,561	390
Less: Accumulated depreciation	(2,257)	(1,701)
Net capital leases	$ 5,725	$ 5,012

Routine maintenance, repairs and replacements are expensed as incurred. The Company capitalizes interest cost associated with construction in progress.

Goodwill and Intangibles

The Company performs an annual impairment test of goodwill and other indefinite-lived intangible assets in the fourth quarter using the same dates each year or more frequently if changes in circumstances or the occurrence of events indicate potential impairment as required under SFAS 142 *Goodwill and Other Intangible Assets* . The fair value of each indefinite-lived intangible asset is compared to its carrying value and an impairment charge is recorded if the carrying value exceeds the fair value. Goodwill is tested by comparing the fair value of each reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the implied value of goodwill is compared to its carrying value and impairment is recognized to the extent that the carrying value exceeds the implied fair value.

Fair values are determined using models developed by the Company which incorporate estimates of future cash flows, allocations of certain assets and cash flows among reporting units, future growth rates, established business valuation multiples, and management judgments regarding the applicable discount rates to value estimated cash flows. Changes in economic and operating conditions impacting these assumptions could result in asset impairments in future periods.

The Company s annual impairment testing indicated that the carrying value of goodwill at two businesses in China exceeded the implied value of goodwill and the Company recorded a charge of $13,194. See Note F for further discussion.

In addition, the Company determined that two indefinite-lived intangible assets were impaired. The Company recorded an impairment charge of $1,342 to reduce the carrying value of these intangible assets to fair value and assigned a definite life to the remaining balances on a prospective basis. See Note F for further discussion.

The Company performed its annual impairment tests in the fourth quarters of 2007 and 2006 and determined that no impairment of goodwill or indefinite-lived intangible assets existed at that time.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE A SIGNIFICANT ACCOUNTING POLICIES (continued)

The changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2008 and 2007 were as follows:

	North America	Europe	Other Countries	Consolidated
Balance as of January 1, 2007	$ 13,334	$ 9,421	$12,453	$35,208
Additions and adjustments	4,248	1,431	(379)	5,300
Foreign exchange effect	249	1,119	851	2,219
Balance as of January 1, 2008	17,831	11,971	12,925	42,727
Additions and adjustments	(1,419)	21	11,603	10,205
Impairment charges			(13,194)	(13,194)
Foreign exchange effect	(327)	(2,177)	(1,047)	(3,551)
Balance as of December 31, 2008	$ 16,085	$ 9,815	$10,287	$36,187

Additions to goodwill for 2008 and 2007 primarily reflect goodwill recorded in the acquisitions of Harris Soldas Especiais S.A. and Vernon Tool Company, Ltd. (See Note K).

Gross intangible assets other than goodwill by asset class as of December 31, 2008 and 2007 were as follows:

	2008		2007	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Trademarks and trade names	$ 26,973	$6,342	$ 22,975	$6,322
Customer relationships	23,900	2,331	19,512	1,424
Patents	13,095	2,192	11,176	1,713
Other	23,289	11,130	17,059	10,069
Total	$ 87,257	$21,995	$ 70,722	$19,528

Intangible assets other than goodwill are recorded at fair value at the time acquired or at cost, if applicable. Intangible assets that do not have indefinite lives are amortized on a straight-line method over the shorter of the legal or estimated life. Included in the above table are intangible assets with indefinite lives totaling $16,960 and $14,436 at December 31, 2008 and 2007, respectively.

The weighted average amortization period for trademarks and trade names, customer relationships, patents and other intangibles is 16, 20, 19 and 17 years, respectively. Aggregate amortization expense was $3,432, $2,349 and $2,102

for 2008, 2007 and 2006, respectively. Estimated annual amortization expense for intangible assets for each of the next five years is $5,544 in 2009, $5,297 in 2010, $4,257 in 2011, $3,974 in 2012 and $3,781 in 2013.

Long-lived Assets

In accordance with Statement of Financial Accounting Standards No. (SFAS) 144 *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, a loss is recognized to the extent that carrying value exceeds fair value. Fair value is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE A SIGNIFICANT ACCOUNTING POLICIES (continued)

Product Warranties

The Company accrues for product warranty claims based on historical experience and the expected material and labor costs to provide warranty service. Warranty services are provided for periods up to three years from the date of sale. The accrual for product warranty claims is included in Accrued expenses. Warranty accruals have increased as a result of the effect of higher sales levels. The changes in the carrying amount of product warranty accruals for 2008, 2007 and 2006 were as follows:

	December 31,		
	2008	2007	2006
Balance at beginning of year	$ 12,308	$ 9,373	$ 7,728
Charged to costs and expenses	14,022	12,460	9,744
Deductions	(11,974)	(9,988)	(8,335)
Foreign currency translation	(620)	463	236
Balance at end of year	$ 13,736	$ 12,308	$ 9,373

Warranty expense was 0.6% of sales for 2008 and 0.5% of sales for 2007 and 2006.

Revenue Recognition

The Company recognizes revenue when the risks and rewards of ownership and title to the product have transferred to the customer. Revenue recognition generally occurs at the point of shipment; however in certain instances as shipping terms dictate, revenue is recognized when the product reaches the point of destination.

Distribution Costs

Distribution costs, including warehousing and freight related to product shipments, are included in Cost of goods sold.

Stock-Based Compensation

SFAS 123(R), *Share-Based Payment,* requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company adopted SFAS 123(R) on January 1, 2006 using the modified-prospective method. The adoption of this standard did not have a material impact on the Company s financial statements as the Company adopted fair value accounting under SFAS 123 on January 1, 2003.

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options, restricted or deferred shares ultimately forfeited because the recipients fail to meet vesting requirements. Total stock-based compensation expense recognized

in the consolidated statement of income for 2008, 2007 and 2006 was $4,738, $4,679 and $4,217, respectively. The related tax benefit for 2008, 2007 and 2006 was $1,793, $1,789, and $1,612, respectively.

Translation of Foreign Currencies

Asset and liability accounts are translated into U.S. dollars using exchange rates in effect at the date of the consolidated balance sheet; revenue and expense accounts are translated at monthly exchange rates. Translation adjustments are reflected as a component of Shareholders equity. For subsidiaries operating in highly inflationary economies, both historical and current exchange rates are used in translating balance sheet accounts, and translation adjustments are included in net income.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE A SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transaction losses are included in Selling, general & administrative expenses and were $10,409, $6,102, and $1,696 in 2008, 2007 and 2006, respectively.

Financial Instruments

The Company uses forward contracts to hedge exposures to commodity prices and exchange rate fluctuations on certain purchase and sales transactions and balance sheet exposures. Contracts are generally written on a short-term basis but may cover exposures for up to two years and are not held for trading or speculative purposes. The Company uses interest rate swaps to hedge changes in the fair value of debt. The Company recognizes derivative instruments as either assets or liabilities in the balance sheets at fair value. The accounting for changes in the fair value of derivative instruments depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

For derivative instruments that qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item are recognized in earnings. For derivative instruments that qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows), the effective portion of the unrealized gain or loss on the derivative instrument is reported as a component of Accumulated other comprehensive loss with offsetting amounts recorded as Other current assets , Other non-current assets , Other current liabilities or Other long-term liabilities depending on the position and the duration of the contract. At settlement, the realized gain or loss is reflected in earnings in the same period or periods during which the hedged transaction affects earnings. Any remaining gain or loss on the derivative instrument is recognized in earnings. The Company does not hedge its net investments in foreign subsidiaries. For derivative instruments not designated as hedges, the gain or loss from changes in their fair values is recognized in earnings.

Advertising Costs

Advertising costs are charged to Selling, general & administrative expenses when incurred and totaled $10,337, $10,245 and $8,887 in 2008, 2007 and 2006, respectively.

Research and Development

Research and development costs are expensed as incurred and totaled $26,736, $25,794 and $24,055 in 2008, 2007 and 2006, respectively.

Bonus

Included in Selling, general & administrative expenses are the costs related to the Company s discretionary employee bonus, net of hospitalization costs, of $100,706 in 2008, $93,958 in 2007 and $81,498 in 2006.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from these estimates.

Reclassification

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

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE A SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued Staff Position 132(R)-1 (FSP FAS 132(R)-1), *Employers Disclosures about Postretirement Benefit Plan Assets* an amendment of SFAS 132(R). This standard requires disclosure about an entity s investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. The standard is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP FAS 132(R)-1 to have a significant impact on its financial statements.

In November 2008, the Emerging Issues Task Force issued Issue 08-6 (EITF 08-06), *Equity Method Investment Accounting Considerations.* This Issue addresses the impact that SFAS 141(R) and SFAS 160 might have on the accounting for equity method investments, including how the initial carrying value of an equity method investment should be determined, how it should be tested for impairment, and how changes in classification from equity method to cost method should be treated. The Issue is to be implemented prospectively and is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF 08-06 to have a significant impact on its financial statements.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles.* SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP). SFAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. The Company does not expect the adoption of SFAS 162 to have a significant impact on its financial statements.

In April 2008, FASB Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3) was issued. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets.* FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. FSP 142-3 applies prospectively to intangible assets acquired after adoption. The Company does not expect the adoption of FSP 142-3 to have a significant impact on its financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities,* an amendment of SFAS 133. SFAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company does not expect the adoption of SFAS 161 to have a significant impact on its financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is an amendment of Accounting Research Bulletin No. (ARB) 51. SFAS 160 clarifies that a noncontrolling

interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 160 to have a significant impact on its financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations.* SFAS 141(R) replaces SFAS 141, *Business Combinations.* SFAS 141(R) retains the fundamental requirements in SFAS 141 that the

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE A SIGNIFICANT ACCOUNTING POLICIES (continued)

acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115,* which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses arising subsequent to adoption are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted this statement as of January 1, 2008 and elected not to apply the fair value option to any of its financial instruments.

In September 2006, the FASB issued SFAS 157 *Fair Value Measurements.* SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS 157 related to financial assets and liabilities on January 1, 2008. See Note L to the Consolidated Financial Statements for further discussion.

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007. See Note H to the Consolidated Financial Statements for further discussion.

NOTE B EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Year Ended December 31,		
	2008	2007	2006
Numerator:			
Net income	$ 212,286	$ 202,736	$ 175,008
Denominator:			
Basic weighted average shares outstanding	42,648	42,899	42,532
Effect of dilutive securities Stock options and awards	406	493	500

Diluted weighted average shares outstanding	43,054	43,392	43,032
Basic earnings per share	$ 4.98	$ 4.73	$ 4.11
Diluted earnings per share	$ 4.93	$ 4.67	$ 4.07

Common stock issuable upon the exercise of employee stock options is excluded from the calculation of diluted earnings per share when the calculation of option equivalent shares is anti-dilutive. The calculation of diluted earnings per share for 2008, 2007 and 2006 excludes 232,044, 29,495 and 27,465 shares, respectively, that were anti-dilutive.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE C SHAREHOLDERS EQUITY

The Company s Board of Directors has authorized share repurchase programs for up to 15 million shares of the Company s common stock. During 2008, the Company purchased 740,569 shares of its common stock on the open market at an average cost of $57.17 per share. Through December 31, 2008, 11,206,983 shares have been purchased under the share repurchase program at an average cost of $24.47 per share.

NOTE D ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of accumulated other comprehensive (loss) income are as follows:

	Defined Benefit Plans	Currency Translation Adjustment	Unrealized Gain (Loss) on Derivatives Designated and Qualifying as Cash Flow Hedges, net of tax	Total Accumulated Other Comprehensive (Loss) Income
Balance January 1, 2006	$ (78,376)	$ (12,057)	$ (843)	$ (91,276)
Other comprehensive income	71,920	27,323	902	100,145
Adjustment to initially adopt SFAS 158	(63,522)			(63,522)
Balance December 31, 2006	(69,978)	15,266	59	(54,653)
Other comprehensive income (loss)	17,704	55,779	(2,989)	70,494
Balance December 31, 2007	(52,274)	71,045	(2,930)	15,841
Other comprehensive (loss) income	(142,422)	(92,419)	842	(233,999)
Balance December 31, 2008	$ (194,696)	$ (21,374)	$ (2,088)	$ (218,158)

As of December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158. As a result of adopting SFAS 158, the Company recorded liabilities equal to the underfunded status of defined benefit plans, and assets equal to the overfunded status of certain defined benefit plans measured as the difference between the fair value of plan assets and the projected benefit obligation. The Company recognized liabilities of $34,900 and prepaids of $16,773 for its defined benefit pension plans and also recognized in Accumulated other comprehensive loss actuarial losses and prior service credits of $69,978 (after-tax).

NOTE E STOCK PLANS

On April 28, 2006, the shareholders of the Company approved the 2006 Equity and Performance Incentive Plan, as amended (EPI Plan), which replaces the 1998 Stock Plan, as amended and restated in May 2003. The EPI Plan provides for the granting of options, appreciation rights, restricted shares, restricted stock units and performance-based awards up to an additional 3,000,000 of the Company s common shares. In addition, on April 28, 2006, the shareholders of the Company approved the 2006 Stock Plan for Non-Employee Directors, as amended (Director Plan), which replaces the Stock Option Plan for Non-Employee Directors adopted in 2000. The Director Plan provides for the granting of options, restricted shares and restricted stock units up to an additional 300,000 of the Company s common shares. At December 31, 2008, there were 3,631,865 common shares available for future grant under all plans.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE E STOCK PLANS (continued)

The following table summarizes the activity for each of the three years in the period ended December 31, 2006 to December 31, 2008, under all Plans:

	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of year	1,663,704	$ 41.63	1,747,050	$ 34.28	2,071,325	$ 28.54
Shares granted	316,264	$ 44.11	268,854	$ 68.48	241,818	$ 60.42
Shares exercised	(235,650)	$ 30.56	(348,450)	$ 25.30	(561,218)	$ 24.34
Shares canceled	(28,301)	$ 45.23	(3,750)	$ 60.72	(4,875)	$ 39.48
Balance at end of year	1,716,017	$ 43.55	1,663,704	$ 41.63	1,747,050	$ 34.28
Exercisable at end of year	1,144,784	$ 39.14	1,152,545	$ 33.45	1,161,034	$ 27.71

Options granted under both the EPI Plan and its predecessor plans are outstanding for a term of ten years from the date of grant. The majority of options granted vest ratably over a period of three years from the grant date. The exercise prices of all options were equal to the fair market value of the Company s common shares at the date of grant. There were no options granted under the Director Plan in 2008. Options granted under the Director Plan and its predecessor plans were 6,000 in 2006. The Company issued shares of common stock from treasury upon all exercises of stock options in 2008, 2007 and 2006.

Restricted shares are valued at the quoted market price on the grant date and vest over a period of three to five years. Under the EPI Plan the Company issued 56,205 restricted shares at a weighted average market price of $44.03 per share in 2008, 25,690 restricted shares at a market price of $68.51 per share in 2007 and 27,000 restricted shares at a market price of $60.51 per share in 2006. The Company issued 10,233 restricted shares at a market price of $43.97 per share, 7,102 restricted shares at a market price of $68.21 per share and 6,568 restricted shares at a market price of $60.85 under the Director Plan in 2008, 2007 and 2006, respectively. The Company issued 8,411 shares of common stock from authorized but unissued shares upon vesting of restricted shares during 2006.

In estimating the fair value of options granted, the expected option life is based on the Company s historical experience. The Company uses the Black-Scholes option pricing model for estimating fair values of options. The weighted average assumptions for each of the three years in the period ended December 31, 2006 to December 31, 2008 were as follows:

	2008	2007	2006

Expected volatility	33.80%	23.05%	24.78%
Dividend yield	3.09%	1.57%	1.53%
Risk-free interest rate	1.63%	3.50%	4.53%
Expected option life	4.5	4.3	4.4
Weighted average fair value of options granted during the year	$ 9.85	$ 14.33	$ 14.72

As of December 31, 2008, total unrecognized stock-based compensation expense related to nonvested stock options and restricted shares was $9,371, which is expected to be recognized over a weighted average period of approximately 37 months.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE E STOCK PLANS (continued)

The following table summarizes nonvested stock options, tandem appreciation rights (TARs) and restricted shares for the year ended December 31, 2008:

	December 31, 2008		
	Number of Options, TARs, and Restricted Shares	Weighted Average Fair Value at Grant Date	
Balance at beginning of year	453,186	$	21.71
Granted	316,264	$	17.03
Vested	(227,616)	$	13.29
Forfeited	(17,251)	$	17.38
Balance at end of year	524,583	$	22.96

The aggregate intrinsic value of awards outstanding at December 31, 2008, based on the Company s closing stock price of $50.93 as of the last business day in the year ended December 31, 2008, which would have been received by the optionees had all awards been exercised on that date was $19,423. The aggregate intrinsic value of awards exercisable at December 31, 2008, based on the Company s closing stock price of $50.93 as of the last business day in the year ended December 31, 2008, which would have been received by the optionees had all awards been exercised on that date was $16,890. The total intrinsic value of awards exercised during 2008 and 2007 was $10,366 and $15,413, respectively. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the awards.

Prior to the adoption of SFAS 123(R) the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the consolidated statements of cash flows, in accordance with the provisions of the Emerging Issues Task Force (EITF) Issue No. 00-15, Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option. SFAS 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount was $3,728, $4,289 and $5,243 for 2008, 2007 and 2006, respectively, and is shown as Tax benefit from the exercise of stock options in the consolidated statement of cash flows.

The following table summarizes information about awards outstanding as of December 31, 2008:

	Outstanding		Exercisable		
		Weighted		Weighted	Weighted
Exercise Price	Number of	Average	Number of	Average	Average

Range	Awards	Exercise Price		Awards	Exercise Price		Remaining Life
$13.00 - $34.99	351,381	$	23.12	351,381	$	23.12	3.8
$35.00 - $39.99	568,342	$	37.75	535,028	$	37.62	6.2
Over $40.00	796,294	$	56.69	258,375	$	64.04	8.2
	1,716,017			1,144,784			6.6

The 1995 Lincoln Stock Purchase Plan provides employees the ability to purchase open market shares on a commission-free basis up to a limit of ten thousand dollars annually. Under this plan, 400,000 shares have been authorized to be purchased. There were 1,085, 6,843 and 1,726 shares purchased in 2008, 2007 and 2006, respectively under this plan.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE F RATIONALIZATION AND ASSET IMPAIRMENT

In the fourth quarter of 2008, the Company recorded rationalization charges of $2,447 (pre-tax) and asset impairment charges totaling $16,924 (pre-tax) that are recognized on the income statement under the caption Rationalization and asset impairment charges (gain).

The Company took various actions designed to align resources to current market conditions during the fourth quarter of 2008. The actions are expected to affect 65 employees in various European businesses and 67 employees in North American businesses. The implementation of these actions will be substantially completed by March 31, 2009. The Company expects the total cost of these actions to be $2,746 (pre-tax) of which $2,447 (pre-tax) was recorded at December 31, 2008. The costs relate primarily to employee severance costs that will be paid by the end of 2009.

The Company is taking additional cost cutting measures throughout its global operations, including a voluntary separation incentive program covering certain U.S.-based employees as announced on February 2, 2009. The Company expects to record a pre-tax rationalization charge between $10 million and $12 million in the first quarter of 2009.

In the fourth quarter of 2008, the Company determined that poor operating results and a dampened economic outlook indicated the potential for impairment at two of its businesses in China. Impairment testing determined that the carrying value of long-lived assets exceeded fair value at one of these businesses and the Company recorded a charge of $2,388 (pre-tax). In addition, the carrying value of goodwill at both of these businesses exceeded the implied value of goodwill and the Company recorded a charge of $13,194 (pre-tax).

The Company also tested indefinite-lived intangible assets and determined that the carrying value of certain intangible assets in Europe and North America exceeded fair value. As a result, the Company recorded charges of $524 (pre-tax) and $818 (pre-tax), respectively.

Fair values of impaired assets were determined using projected discounted cash flows.

In 2005, the Company committed to a plan to rationalize manufacturing operations (the Ireland Rationalization) at Harris Calorific Limited (Harris Ireland). In connection with the Ireland Rationalization, the Company transferred all manufacturing from Harris Ireland to a lower cost facility in Eastern Europe and in 2006 sold the facility in Ireland for a gain of $9,006 (pre-tax) which is reflected in Selling, general and administrative expenses. A total of 66 employees were impacted by the Ireland Rationalization.

The Company incurred a total of $3,920 (pre-tax) in charges related to this plan of which a gain of $188 (pre-tax) was recorded in 2007 and charges of $3,597 (pre-tax) and $511 (pre-tax) were recorded in 2006 and 2005, respectively. Charges incurred relate to employee severance costs, equipment relocation, employee retention and professional services. As of December 31, 2007, all rationalization activities were essentially completed. The Company expects to receive approximately $1,944 in cash receipts during 2009 upon completion of the liquidation of the Harris Ireland Pension Plan.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE G DEBT

At December 31, 2008 and 2007, debt consisted of the following:

	2008	2007
Long-term debt		
Senior Unsecured Notes due 2009, interest at 5.89%	30,144	30,700
Senior Unsecured Notes due 2012, interest at 6.36%	86,759	81,776
Capital leases due through 2015, interest at 3.58% to 28.00%	3,651	3,205
Other borrowings due through 2023, interest at 0.00% to 6.00%	2,240	2,553
	122,794	118,234
Less current portion	31,257	905
Total long-term debt	$ 91,537	$ 117,329
Short-term debt		
Amounts due banks, interest at 22.78% (14.00% in 2007)	19,436	11,581
Current portion long-term debt	31,257	905
Total short-term debt	50,693	12,486
Total debt	$ 142,230	$ 129,815

Senior Unsecured Notes

During March 2002, the Company issued Senior Unsecured Notes (the Notes) totaling $150,000 through a private placement. The Notes have original maturities ranging from five to ten years with a weighted-average interest rate of 6.1% and an average tenure of eight years. Interest is payable semi-annually in March and September. The proceeds are being used for general corporate purposes, including acquisitions. The proceeds are generally invested in short-term, highly liquid investments. The Notes contain certain affirmative and negative covenants, including restrictions on asset dispositions and financial covenants (interest coverage and funded debt-to-EBITDA, as defined in the Notes Agreement, ratios). As of December 31, 2008, the Company was in compliance with all of its debt covenants. During March 2007, the Company repaid the $40,000 Series A Notes which had matured, reducing the total balance outstanding of the Notes to $110,000.

The maturity and interest rates of the Notes outstanding at December 31, 2008 are as follows (in thousands):

	Amount Due	Matures	Interest Rate

Series B	$ 30,000	March 2009	5.89%
Series C	$ 80,000	March 2012	6.36%

During March 2002, the Company entered into floating rate interest rate swap agreements totaling $80,000 to convert a portion of the Notes outstanding from fixed to floating rates. These swaps were designated as fair value hedges and, as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, were recognized in earnings. Net payments or receipts under these agreements were recognized as adjustments to interest expense. In May 2003, these swap agreements were terminated. The gain of $10,613 on the termination of these swaps was deferred and is being amortized as an offset to interest expense over the remaining life of the Notes. The amortization of this gain reduced interest expense by $958 in 2008, $1,121 in 2007 and $2,117 in 2006, and is expected to reduce annual interest expense by $313 in 2009. At December 31, 2008, $755 remains to be amortized of which $107 is recorded in Current portion of long-term debt and $648 is recorded in Long-term debt, less current portion, respectively.

During July 2003 and April 2004, the Company entered into various floating rate interest rate swap agreements totaling $110,000, to convert a portion of the Notes outstanding from fixed to floating rates based on the London Inter-Bank Offered Rate (LIBOR), plus a spread of between 179.75 and 226.50 basis points. The variable rates are

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE G DEBT (continued)

reset every six months, at which time payment or receipt of interest will be settled. These swaps are designated and qualify as fair value hedges and, as such, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item, are recognized in earnings. Net payments or receipts under these agreements are recognized as adjustments to interest expense.

The fair value of the swaps is recorded in Other current assets and Other non-current assets with corresponding offsets in Current portion of long-term debt and Long-term debt, less current portion, respectively. The fair value of these swaps at December 31, 2008 and 2007 was an asset of $6,148 and $762, respectively. Swaps have increased the value of the Series B Notes from $30,000 to $30,144 and the Series C Notes from $80,000 to $86,759 as of December 31, 2008. The weighted average effective rate on the Notes, net of the impact of swaps, was 4.6% for 2008.

On February 20, 2009, the Company terminated swaps with a notional value of $80,000 and realized a gain of $5,079. This gain will be deferred and amortized over the remaining life of the Series C Note. The amortization of this gain is expected to reduce interest expense by $1,400 in 2009.

At December 31, 2008 and 2007, the fair value of long term debt, including the current portion, was approximately $124,446 and $121,329, respectively, which was determined using available market information and methodologies requiring judgment. Since considerable judgment is required in interpreting market information, the fair value of the debt is not necessarily the amount which could be realized in a current market exchange.

Revolving Credit Agreement

The Company has a $175,000 five-year revolving Credit Agreement expiring in December 2009. The Credit Agreement may be used for general corporate purposes and may be increased, subject to certain conditions, by an additional amount up to $75,000. The interest rate on borrowings under the Credit Agreement is based on either LIBOR plus a spread based on the Company s leverage ratio or the prime rate, at the Company s election. A quarterly facility fee is payable based upon the daily aggregate amount of commitments and the Company s leverage ratio. The Credit Agreement contains affirmative and negative covenants, including limitations on the Company with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, subordinated debt and transactions with affiliates. As of December 31, 2008, there were no borrowings under the Credit Agreement. The Company expects to replace the Credit Agreement prior to its expiration in December 2009.

Capital Leases

At December 31, 2008 and 2007, $3,651 and $3,205 of capital lease indebtedness was secured by property, plant and equipment, respectively.

Other

Maturities of long-term debt, including payments under capital leases, for the five years succeeding December 31, 2008 are $50,549 in 2009, $1,318 in 2010, $1,284 in 2011, $80,813 in 2012, $121 in 2013 and $1,242 thereafter. Total interest paid was $13,037 in 2008, $11,537 in 2007 and $11,971 in 2006. The primary difference between interest expense and interest paid is the amortization of the gain on settlement of interest rate swaps realized in 2003.

Amounts reported as Amounts due banks represent short-term borrowings of the Company s foreign subsidiaries.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE H INCOME TAXES

The components of income before income taxes for the three years ended December 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
U.S.	$ 223,672	$ 205,779	$ 153,968
Non-U.S.	76,137	81,378	84,204
Total	$ 299,809	$ 287,157	$ 238,172

Components of income tax expense (benefit) are as follows:

	2008	2007	2006
Current:			
Federal	$ 51,700	$ 61,277	$ 40,399
Non-U.S.	21,880	20,313	16,049
State and local	6,576	6,542	2,367
	80,156	88,132	58,815
Deferred:			
Federal	8,622	(711)	5,859
Non-U.S.	(1,435)	(3,712)	(2,253)
State and local	180	712	743
	7,367	(3,711)	4,349
Total	$ 87,523	$ 84,421	$ 63,164

The differences between total income tax expense and the amount computed by applying the statutory Federal income tax rate to income before income taxes for the three years ended December 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Statutory rate of 35% applied to pre-tax income	$ 104,933	$ 100,505	$ 83,360
Effect of state and local income taxes, net of federal tax benefit	4,454	4,964	2,282
Taxes less than the U.S. tax rate on non-U.S. earnings, including utilization of tax loss carryforwards, losses with no benefit and changes in non-U.S. valuation allowance	(6,203)	(11,881)	(15,676)
U.S. tax (benefit) cost of foreign source income	(6,888)	1,151	(3,064)
Resolution of prior years tax liabilities	(4,309)	(6,818)	(2,421)
Other	(4,464)	(3,500)	(1,317)

Total	$ 87,523	$ 84,421	$ 63,164
Effective tax rate	29.19%	29.40%	26.52%

Total income tax payments, net of refunds, were $72,923 in 2008, $83,950 in 2007 and $55,799 in 2006.

Unrecognized Tax Benefits

In July 2006, the FASB issued FIN 48 which clarifies the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 requires the cumulative effect of adoption to be recorded as an

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE H INCOME TAXES (continued)

adjustment to the opening balance of retained earnings. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007.

The cumulative effects of applying this interpretation were recorded as a decrease of $1,590 to retained earnings. The Company s unrecognized tax benefits upon adoption were $28,997, of which $21,602 would affect the effective tax rate, if recognized.

In conjunction with the adoption of FIN 48, unrecognized tax benefits were classified as Accrued taxes , non-current unless expected to be paid in one year. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense, consistent with the accounting method used prior to adopting FIN 48. For the years ended December 31, 2008 and 2007, current income tax expense included $1,044 and $135 of interest and penalties, respectively. For those same years, the Company s accrual for interest and penalties related to unrecognized tax benefits totaled $6,141 and $4,917, respectively.

The following table summarizes the activity related to unrecognized tax benefits:

	2008	2007
Balance at January 1	$ 29,215	$ 28,997
Increases related to current year tax provisions	7,646	5,755
Increases related to prior years tax positions	2,734	
Resolution of prior years tax liabilities	(4,255)	(5,916)
Other	(1,157)	379
Balance at December 31	$ 34,183	$ 29,215

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $19,945 at December 31, 2008 and $18,867 at December 31, 2007.

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 2005. The Company anticipates no significant changes to its total unrecognized tax benefits through the end of 2009. The Company is currently subject to an Internal Revenue Service (IRS) audit for the 2005 and 2006 tax years and an Italian tax audit for 2005. The Company does not expect the results of these examinations to have a material effect on the financial statements.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE H INCOME TAXES (continued)

Deferred Taxes

Significant components of deferred tax assets and liabilities at December 31, 2008 and 2007, were as follows:

	2008	2007
Deferred tax assets:		
Tax loss and credit carryforwards	$ 16,918	$ 19,743
Inventory	8,548	6,522
Other accruals	12,710	9,875
Employee benefits	13,502	13,856
Pension obligations	63,130	1,753
Other	16,282	16,763
	131,090	68,512
Valuation allowance	(18,295)	(21,421)
	112,795	47,091
Deferred tax liabilities:		
Property, plant and equipment	(31,338)	(31,898)
Intangible assets	(10,998)	(6,794)
Inventory	(10,970)	(11,529)
Pension obligations	(2,052)	(14,458)
Other	(10,314)	(9,000)
	(65,672)	(73,679)
Total	$ 47,123	$ (26,588)

At December 31, 2008, certain subsidiaries had tax loss carryforwards of approximately $54,963 that will expire in various years from 2009 through 2024, except for $26,350 for which there is no expiration date.

In assessing the realizability of deferred tax assets, the Company assesses whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. At December 31, 2008, a valuation allowance of $18,295 had been recorded against these deferred tax assets based on this assessment. The Company believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable could be increased or decreased in the future if the Company s assessment of future taxable income or tax planning strategies changes.

The Company does not provide deferred income taxes on unremitted earnings of certain non-U.S. subsidiaries which are deemed permanently reinvested. It is not practicable to calculate the deferred taxes associated with the remittance of these earnings. Deferred income taxes of $285 have been provided on earnings of $1,831 that are not expected to be permanently reinvested.

NOTE I RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS

The Company maintains a number of defined benefit and defined contribution plans to provide retirement benefits for employees in the U.S. as well as employees outside the U.S. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), local statutory law or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a domestic non-qualified pension plan for certain key employees and certain foreign plans. Substantially all U.S. employees are covered under a 401(k) savings plan in which they may invest 1% or more of eligible compensation, limited to maximum amounts as determined by the Internal Revenue Service. For most participants the plan provides for Company matching contributions of 35% of the first 6% of employee compensation contributed to the plan. The Company matching provision was suspended on

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE I RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS (continued)

January 1, 2009 as part of the Company s actions to reduce costs in light of current market conditions. The plan includes a feature in which participants hired after November 1, 1997 will receive an annual Company contribution of 2% of their base pay. The plan allowed employees hired before November 1, 1997, at their election, to receive this contribution in exchange for forfeiting certain benefits under the pension plan. The Company uses a December 31 measurement date for its plans.

In the first quarter of 2006, the Company modified its retirement benefit programs whereby employees of its U.S. company hired on or after January 1, 2006 will be covered under a newly enhanced 401(k) defined contribution plan. In the second quarter of 2006, current employees of the U.S. company made an election to either remain in the Company s existing retirement programs or switch to new programs offering enhanced defined contribution benefits, improved vacation and a reduced defined benefit. The Company did not incur a significant change in retirement costs immediately after the change; however, the Company does expect cost savings in future years as a result of reduced benefits to be accrued for employees hired on or after January 1, 2006.

In September 2006, the FASB issued SFAS 158 which requires companies to recognize the funded status of a benefit plan as the difference between plan assets at fair value and the projected benefit obligation. Unrecognized gains or losses and prior service costs, as well as the transition asset or obligation remaining from the initial application of Statements 87 and 106 will be recognized in the balance sheet, net of tax, as a component of Accumulated other comprehensive loss and will subsequently be recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements. The Company adopted SFAS 158 on December 31, 2006. The incremental effects on the Company s balance sheet at December 31, 2006 of adopting SFAS 158 were as follows:

	December 31, 2006		
	Prior to Application of SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported
ASSETS			
Prepaid pensions	$ 112,248	$ (95,475)	$ 16,773
Intangibles, net	2,406	(2,406)	
Deferred income taxes	2,872	39,380	42,252
LIABILITIES AND SHAREHOLDERS EQUITY			
Accrued pensions, current	(10,061)	8,578	(1,483)
Accrued pensions, non-current	(15,871)	(17,546)	(33,417)
Accumulated other comprehensive loss	6,456	63,522	69,978

The after-tax amounts of unrecognized actuarial net loss, prior service credits and transition obligations included in "Accumulated other comprehensive loss" at December 31, 2008 were $195,145, $(534) and $85, respectively.

The pre-tax amounts of unrecognized actuarial net loss, prior service credits and transition obligations expected to be recognized as components of net periodic benefit cost during 2009 are $24,515, $(33) and $6, respectively.

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE I RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS (continued)

The changes in the pension plans projected benefit obligations were as follows:

	2008	2007
Obligation at January 1	$ 699,129	$ 696,952
Service cost	16,501	17,829
Interest cost	42,615	40,621
Participant contributions	550	476
Plan amendments	(1)	20
Acquisitions		2,045
Actuarial loss (gain)	15,372	(27,751)
Benefit payments	(38,970)	(34,129)
Settlements		(2,539)
Curtailments	(14)	(142)
Currency translation	(13,715)	5,747
Obligation at December 31	$ 721,467	$ 699,129

The changes in fair value of the pension plans assets were as follows:

	2008	2007
Fair value of plan assets at January 1	$ 715,072	$ 678,826
Actual return on plan assets	(159,522)	51,856
Employer contributions	23,810	13,031
Participant contributions	550	476
Benefit payments	(34,237)	(31,782)
Settlements		(2,466)
Currency translation	(12,898)	5,131
Fair value of plan assets at December 31	$ 532,775	$ 715,072
The funded status of the pension plans was as follows:		
Funded status (plan assets (less than) greater than projected benefit obligations)	$ (188,692)	$ 15,943
Unrecognized net loss	312,071	84,822
Unrecognized prior service cost	(917)	(820)
Unrecognized transition assets, net	109	154
Net amount recognized	$ 122,571	$ 100,099

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the U.S. pension plans with accumulated benefit obligations in excess of plan assets were $670,243, $635,433 and $491,367, respectively, as of December 31, 2008 and $22,467, $19,050 and $0, respectively, as of December 31, 2007. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the non-U.S. pension plans with accumulated benefit obligations in excess of plan assets were $39,362, $37,208 and $26,841, respectively, as of December 31, 2008 and $52,976, $49,592 and $42,512, respectively, as of December 31, 2007. The total accumulated benefit obligation for all plans was $685,565 as of December 31, 2008 and $661,658 as of December 31, 2007.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE I RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS (continued)

The components of total pension expense were as follows:

	Year Ended December 31,		
	2008	2007	2006
Service cost benefits earned during the year	$ 16,501	$ 17,829	$ 18,686
Interest cost on projected benefit obligation	42,615	40,621	38,160
Expected return on plan assets	(56,954)	(55,943)	(50,456)
Amortization of transition assets	10	10	10
Amortization of prior service cost	60	65	621
Amortization of net loss	1,636	4,615	11,056
Settlement/curtailment losses (gains)	745	(937)	(151)
Net pension cost of defined benefit plans	4,613	6,260	17,926
Multi-employer plans	1,509	1,725	1,237
Defined contribution plans	8,471	8,590	6,130
Total net pension expense	$ 14,593	$ 16,575	$ 25,293

The Company is in the process of terminating a pension plan as part of the Ireland Rationalization. For further discussion see Note F. The Company expects to receive $1,944 in 2009 upon final settlement. A gain of $816 was recognized in 2007 related to the curtailment and partial settlement of this plan.

The amounts recognized in the consolidated balance sheets were composed of:

	Year Ended December 31,	
	2008	2007
Prepaid pensions	$ 2,716	$ 48,897
Accrued pension liability, current	(3,248)	(3,790)
Accrued pension liability, long-term	(188,160)	(29,164)
Accumulated other comprehensive loss, excluding tax effects	311,263	84,156
Net amount recognized in the balance sheets	$ 122,571	$ 100,099

Weighted average assumptions used to measure the benefit obligation for the Company s significant defined benefit plans as of December 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	6.2%	6.3%
Rate of increase in compensation	4.1%	4.0%

Weighted average assumptions used to measure the net periodic benefit cost for the Company s significant defined benefit plans as of December 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Discount rate	6.3%	5.9%	5.6%
Rate of increase in compensation	4.1%	4.1%	4.0%
Expected return on plan assets	8.2%	8.4%	8.3%

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE I RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS (continued)

To develop the discount rate assumption to be used for U.S. plans, the Company refers to the yield derived from matching projected pension payments with maturities of a portfolio of available non-callable bonds rated AA- or better. The expected long-term rate of return assumption is based on the weighted average expected return of the various asset classes in the plans portfolio and the targeted allocation of plan assets. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance. The rate of compensation increase is determined by the Company based upon annual reviews.

The primary objective of the pension plans investment policy is to ensure sufficient assets are available to provide benefit obligations when such obligations mature. Investment management practices must comply with ERISA or any other applicable regulations and rulings. The overall investment strategy for the defined benefit pension plans assets is to achieve a rate of return over a normal business cycle relative to an acceptable level of risk that is consistent with the long-term objectives of the portfolio. The assumptions used to determine the expected return on assets for the U.S. plans at December 31, 2008 were as follows:

Asset Category	Target Allocation 2009	Percentage of Plan Assets at December 31, 2008	2007	Weighted Average Expected Long-Term Rate of Return
Equity securities	60% - 70%	52%	65%	9.3% - 10.0%
Debt securities	30% - 40%	48%	35%	5.5% - 7.1 %
Total	100%	100%	100%	8.25%

Actual and expected employer contributions for the U.S. plans are as follows:

2009 (expected)	$ 30,000
2008	20,000
2007	10,000

The actual amounts to be contributed to the pension plans in 2009 will be determined at the Company s discretion.

Contributions by participants to certain non-U.S. plans were $550 and $476 for the years ended December 31, 2008 and 2007, respectively.

Expected future benefit payments for the U.S. plans are as follows:

2009	$ 37,410
2010	37,044
2011	40,514
2012	47,683
2013	42,522
2014 through 2018	243,409

The Company maintains a domestic unfunded supplemental executive retirement plan (SERP) under which non-qualified supplemental pension benefits are paid to certain employees in addition to amounts received under the Company s qualified retirement plan which is subject to IRS limitations on covered compensation. The annual cost of this program has been included in the determination of total net pension expense shown above and was $2,598, $2,411 and $2,329 in 2008, 2007 and 2006, respectively. The projected benefit obligation associated with this plan

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE I RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS (continued)

is also included in the pension disclosure shown above and was $18,764, $19,195 and $18,644 at December 31, 2008, 2007 and 2006, respectively.

The Company participates in multi-employer plans for several of its operations in Europe. Pension expense for these plans is recognized as contributions are funded.

The Company does not have, and does not provide for, any postretirement or postemployment benefits other than pensions and certain non-U.S. statutory termination benefits.

The Cleveland, Ohio, area operations have a Guaranteed Continuous Employment Plan covering substantially all employees which, in general, provides that the Company will provide work for at least 75% of every standard work week (presently 40 hours). This plan does not guarantee employment when the Company s ability to continue normal operations is seriously restricted by events beyond the control of the Company. The Company has reserved the right to terminate this plan effective at the end of a calendar year by giving notice of such termination not less than six months prior to the end of such year.

NOTE J SEGMENT INFORMATION

The Company s primary business is the design and manufacture of arc welding and cutting products, manufacturing a full line of arc welding equipment, consumable welding products and other welding and cutting products. The Company manages its operations by geographic location and has two reportable segments, North America and Europe, and combines all other operating segments as Other Countries. Other Countries includes results of operations for the Company s businesses in Argentina, Australia, Brazil, Colombia, Indonesia, Mexico, People s Republic of China, Taiwan, Venezuela and Vietnam. Each operating segment is managed separately because each faces a distinct economic environment, a different customer base and a varying level of competition and market conditions. Segment performance and resource allocation is measured based on income before interest and income

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE J SEGMENT INFORMATION (continued)

taxes. The accounting policies of the reportable segments are the same as those described in Note A Significant Accounting Policies. Financial information for the reportable segments follows:

	North America	Europe	Other Countries	Eliminations	Consolidated
For the year ended December 31, 2008:					
Net sales to unaffiliated customers	$ 1,451,333	$ 576,945	$ 450,853	$	$ 2,479,131
Inter-segment sales	114,686	25,612	10,590	(150,888)	
Total	$ 1,566,019	$ 602,557	$ 461,443	$ (150,888)	$ 2,479,131
Income before interest and income taxes	$ 224,706	$ 55,407	$ 22,591	$ 415	$ 303,119
Interest income					8,845
Interest expense					(12,155)
Income before income taxes					$ 299,809
Total assets	$ 1,097,716	$ 470,288	$ 402,275	$ (251,474)	$ 1,718,805
Equity investments in affiliates	3,288	13,806	45,264		62,358
Capital expenditures	37,851	15,226	19,349		72,426
Depreciation and amortization	33,815	12,401	10,709		56,925
For the year ended December 31, 2007:					
Net sales to unaffiliated customers	$ 1,401,393	$ 510,514	$ 368,877	$	$ 2,280,784
Inter-segment sales	99,227	24,156	11,645	(135,028)	
Total	$ 1,500,620	$ 534,670	$ 380,522	$ (135,028)	$ 2,280,784
Income before interest and income taxes	$ 211,092	$ 63,170	$ 18,578	$ (2,547)	$ 290,293
Interest income					8,294
Interest expense					(11,430)
Income before income taxes					$ 287,157
Total assets	$ 988,651	$ 452,648	$ 343,532	$ (139,535)	$ 1,645,296
Equity investments in affiliates	2,782	16,149	40,792		59,723
Capital expenditures	26,839	16,069	18,725		61,633

Depreciation and amortization	33,564	10,752	8,294		52,610
For the year ended December 31, 2006:					
Net sales to unaffiliated customers	$ 1,305,472	$ 372,308	$ 294,135	$	$ 1,971,915
Inter-segment sales	91,770	23,787	16,326	(131,883)	
Total	$ 1,397,242	$ 396,095	$ 310,461	$ (131,883)	$ 1,971,915
Income before interest and income taxes	$ 172,613	$ 46,659	$ 25,851	$ (2,674)	$ 242,449
Interest income					5,876
Interest expense					(10,153)
Income before income taxes					$ 238,172
Total assets	$ 872,864	$ 390,733	$ 273,781	$ (142,799)	$ 1,394,579
Equity investments in affiliates	2,374	12,834	33,754		48,962
Capital expenditures	37,269	19,777	18,956		76,002
Depreciation and amortization	33,135	7,993	6,697		47,825

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE J SEGMENT INFORMATION (continued)

In 2008, the North America segment includes a charge of $501 (pre-tax) for rationalization actions and a charge of $818 (pre-tax) for the impairment of an intangible asset. The Europe segment includes a charge of $1,946 (pre-tax) for rationalization actions and a charge of $524 (pre-tax) for the impairment of an intangible asset. The Other Countries segment includes a charge of $15,582 (pre-tax) for the impairment of goodwill and long-lived assets.

In 2007, the Europe segment includes a credit to rationalization charges of $188 (pre-tax). In 2006, the Europe segment includes rationalization charges of $3,478 (pre-tax), and a gain of $9,006 (pre-tax) on the sale of the facility in Ireland. See Note F.

Inter-segment sales between reportable segments are recorded at cost plus an agreed upon intercompany profit, which approximates an arm s length price, and are eliminated in consolidation. Export sales (excluding intercompany sales) from the United States were $242,312 in 2008, $194,476 in 2007 and $154,111 in 2006. No individual customer comprised more than 10% of the Company s total revenues for any of the three years ended December 31, 2006 to December 31, 2008.

The geographic split of the Company s net sales, based on the location of the customer, and property, plant and equipment were as follows:

	Year Ended December 31,		
	2008	2007	2006
Net sales:			
United States	$ 1,072,593	$ 1,064,113	$ 1,004,786
Foreign countries	1,406,538	1,216,671	967,129
Total	$ 2,479,131	$ 2,280,784	$ 1,971,915
Property, plant and equipment:			
United States	$ 169,764	$ 167,659	$ 178,717
Foreign countries	259,469	263,738	212,429
Eliminations	(1,331)	(1,453)	(1,628)
Total	$ 427,902	$ 429,944	$ 389,518

Net sales derived from customers and property, plant and equipment in any individual foreign country were not material.

NOTE K ACQUISITIONS

On October 1, 2008, the Company acquired a 90% interest in a leading Brazilian manufacturer of brazing products for approximately $24,000 in cash and assumed debt. The newly acquired company, based in Sao Paulo, will be operated

as Harris Soldas Especiais S.A. This acquisition expands the Company s brazing product line and increases the Company s presence in the South American market. Annual sales at the time of the acquisition were approximately $30,000.

On April 7, 2008, the Company acquired all of the outstanding stock of Electro-Arco S.A. (Electro-Arco), a privately held manufacturer of welding consumables headquartered near Lisbon, Portugal, for approximately $24,000 in cash and assumed debt. This acquisition adds to the Company s European consumables manufacturing capacity and widens the Company s commercial presence in Western Europe. Annual sales at the time of the acquisition were approximately $40,000.

On November 30, 2007, the Company acquired the assets and business of Vernon Tool Company Ltd. (Vernon Tool), a privately held manufacturer of computer-controlled pipe cutting equipment used for precision fabrication

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE K ACQUISITIONS (continued)

purposes headquartered near San Diego, California, for approximately $12,434 in cash. This acquisition adds to the Company s ability to support its customers in the growing market for infrastructure development. Annual sales at the time of the acquisition were approximately $9,000.

On November 29, 2007, the Company announced that it had entered into a majority-owned joint venture with Zhengzhou Heli Welding Materials Company Ltd. (Zhengzhou Heli), a privately held manufacturer of subarc flux based in Zhengzhou, China. The Company has contributed $11,700 to Zhengzhou Heli. Annual sales at the time of the acquisition were approximately $8,000.

On July 20, 2007, the Company acquired Nanjing Kuang Tai Welding Materials Company, Ltd. (Nanjing), a manufacturer of stick electrode products based in Nanjing, China, for approximately $4,245 in cash and assumed debt. The Company previously owned 35% of Nanjing indirectly through its investment in Kuang Tai Metal Industrial Company, Ltd. Annual sales at the time of the acquisition were approximately $10,000.

On March 30, 2007, the Company acquired all of the outstanding stock of Spawmet Sp. z o.o. (Spawmet), a privately held manufacturer of welding consumables headquartered near Katowice, Poland, for approximately $5,000 in cash. This acquisition provides the Company with a portfolio of stick electrode products and the Company expects this acquisition to enhance its market position by broadening its distributor network in Poland and Eastern Europe. Annual sales at the time of the acquisition were approximately $5,000.

On October 31, 2006, the Company acquired all of the outstanding stock of Metrode Products Ltd. (Metrode), a privately held manufacturer of specialty welding consumables headquartered near London, England, for approximately $25,000 in cash. The Company expects this acquisition to provide high quality, innovative solutions for many high-end specialty applications, including the power generation and petrochemical industries. Annual sales at the time of acquisition were approximately $25,000.

Acquired companies are included in the Company s consolidated financial statements as of the date of acquisition.

NOTE L FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company has various financial instruments, including cash and cash equivalents, short-and long-term debt and forward contracts. While these financial instruments are subject to concentrations of credit risk, the Company has minimized this risk by entering into arrangements with a number of major banks and financial institutions and investing in several high-quality instruments. The Company does not expect any counterparties to fail to meet their obligations. The fair value of cash and cash equivalents approximated book value at December 31, 2008 and 2007, respectively. See Note G for the fair value estimates of debt.

Assets and liabilities that are within the provisions of SFAS 157, such as the Company s derivative contracts, are valued at fair value using the market and income valuation approaches. The Company s derivative contracts include interest rate swaps as well as foreign currency and commodity forward contracts. The Company uses the market approach to value similar assets and liabilities in active markets and the income approach that consists of discounted cash flow models that take into account the present value of future cash flows under the terms of the contracts using current market information as of the reporting date.

SFAS 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
Level 3	Unobservable inputs for the asset or liability.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE L FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table provides a summary of the fair values of assets and liabilities under SFAS 157:

		Fair Value Measurements at December 31, 2008 Using		
Description	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives, net liability	$ 3,216	$	$ 3,216	$

Foreign Exchange Contracts: The Company enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its exposures. This hedging minimizes the impact of foreign exchange rate movements on the Company s operating results. These derivative financial instruments include contracts that qualify for and are designated as cash flow hedges as well as non-designated contracts.

The notional amount of outstanding foreign exchange contracts, translated at current exchange rates at December 31, 2008 was $100,847, of which $35,807 related to contracts designated and qualifying as cash flow hedges to hedge a portion of forecasted transactions and $65,040 related to non-designated contracts to hedge balance sheet exposures. The notional amount of outstanding foreign exchange contracts, translated at current exchange rates at December 31, 2007 was $64,246, of which $45,362 related to contracts designated and qualifying as cash flow hedges to hedge a portion of forecasted transactions and $18,884 related to non-designated contracts to hedge balance sheet exposures.

At December 31, 2008, the fair value of the non-designated contracts and the designated cash flow hedges was an unrealized loss of $4,732 and an unrealized gain of $3,076, respectively, covering transactions expected to occur in 2009. At December 31, 2007, the fair value of the non-designated contracts and designated cash flow hedges represented unrealized losses of $135, and $2,898, respectively.

Interest Rate Swap Agreements: At December 31, 2008 and 2007, the Company had interest rate swap agreements outstanding that effectively convert notional amounts of $110,000 of debt from fixed to floating interest rates. The fair value of the swaps was an unrealized gain of $6,148 and $762 at December 31, 2008 and 2007, respectively.

Commodity Forward Contracts: The Company periodically enters into forward contracts to manage its exposure to commodity price volatility. This hedging minimizes the impact of commodity price movements on the Company s operating results. At December 31, 2008, the Company s derivative contracts consisted of aluminum, copper and nickel forward contracts with notional amounts, in thousands of pounds, of 3,125, 2,925 and 276, respectively. At December 31, 2007, the Company s derivative contracts consisted of aluminum, copper and nickel forward contracts with notional amounts, in thousands of pounds, of 2,200, 1,200 and 216, respectively. These derivative financial instruments qualify and are designated as cash flow hedges. At December 31, 2008, the fair value of these derivative contracts represented an unrealized loss of $7,708 of which $6,838 relates to transactions expected to occur in 2009. At December 31, 2007, the fair value of these derivative contracts represented an unrealized loss of $1,523.

For the three years ended December 31, 2008, hedge ineffectiveness was immaterial.

NOTE M   OPERATING LEASES

The Company leases sales offices, warehouses and distribution centers, transportation equipment, office equipment and data processing equipment. Such leases, some of which are noncancelable and, in many cases, include renewals, expire at various dates. The Company pays most maintenance, insurance and taxes relating to leased assets. Rental expense was $14,679 in 2008, $13,883 in 2007 and $11,613 in 2006.

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LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE M OPERATING LEASES (continued)

At December 31, 2008, total future minimum lease payments for noncancelable operating leases were $11,045 in 2009, $6,708 in 2010, $5,179 in 2011, $3,830 in 2012, $2,945 in 2013 and $6,186 thereafter.

NOTE N 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 and health, safety and environmental claims, some of which relate to cases alleging asbestos and manganese induced illnesses. The claimants in the asbestos and manganese 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. Although defense costs remain significant, all other costs associated with these claims, including indemnity charges and settlements, have been immaterial to the Company s consolidated financial statements. Based on the Company s historical experience in litigating these 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 (exclusive of defense costs), will not have a material adverse impact upon the Company s consolidated financial statements.

The Company has provided a guarantee on loans for an unconsolidated joint venture of approximately $6,733 at December 31, 2008. The guarantee is provided on four separate loan agreements. Two loans are for $2,000 each, one which matures in March 2009 and the other maturing in May 2009. The other two loans mature in July 2010, one for $1,806 and the other for $927. The loans were undertaken to fund the joint venture s working capital and capital expansion needs. The Company would become liable for any unpaid principal and accrued interest if the joint venture were to default on payment at the respective maturity dates. The Company believes the likelihood is remote that material payment will be required under these arrangements based on the current financial condition of the joint venture.

NOTE O QUARTERLY FINANCIAL DATA (UNAUDITED)

	First	Second	Third	Fourth
2008				
Net sales	$ 620,227	$ 699,826	$ 632,892	$ 526,186
Gross profit	177,451	204,714	196,878	141,108
Income before income taxes	78,991	95,100	92,882	32,836
Net income	53,477	70,128	69,211	19,470
Basic earnings per share	$ 1.25	$ 1.64	$ 1.62	$ 0.46
Diluted earnings per share	$ 1.24	$ 1.62	$ 1.60	$ 0.46
2007				
Net sales	$ 549,043	$ 586,638	$ 564,824	$ 580,279
Gross profit	158,216	168,668	159,741	160,941

Income before income taxes		68,965		78,521		70,107		69,564
Net income		48,000		55,249		49,978		49,509
Basic earnings per share	$	1.12	$	1.29	$	1.16	$	1.15
Diluted earnings per share	$	1.11	$	1.27	$	1.15	$	1.14

The quarter ended December 31, 2008 includes a charge of $2,447 ($1,698 after-tax) relating to the Company s rationalization programs designed to align the business to current market conditions and $16,924 ($16,615 after-

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE O QUARTERLY FINANCIAL DATA (UNAUDITED) (continued)

tax) in asset impairment charges including $13,194 of goodwill impairment with no tax benefit, $2,388 in impairment of long-lived assets with no tax benefit and $1,342 ($1,033 after-tax) in impairment of intangible assets. See Note F to the Company s Consolidated Financial Statements for further discussion.

The quarter ended March 31, 2007 includes charges relating to the Company s European rationalization program of $396 ($396 after-tax). The quarter ended December 31, 2007 includes a gain of $584 ($503 after-tax) related to such program. See Note F.

The quarterly earnings per share (EPS) amounts are each calculated independently. Therefore, the sum of the quarterly EPS amounts may not equal the annual totals.

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

LINCOLN ELECTRIC HOLDINGS, INC. AND SUBSIDIARIES

(In thousands)

		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (1)	(2) Deductions	Balance at End of Period
Allowance for doubtful accounts:					
Year ended December 31, 2008	$ 7,424	$ 3,986	$ (735)	$ 3,002	$ 7,673
Year ended December 31, 2007	$ 8,484	$ 3,115	$ 630	$ 4,805	$ 7,424
Year ended December 31, 2006	$ 7,583	$ 3,255	$ 325	$ 2,679	$ 8,484

(1) Currency translation adjustment.

(2) Uncollectible accounts written-off, net of recoveries.

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