LINCOLN ELECTRIC HOLDINGS INC
Form 10-Q
April 21, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to _____________
Commission File Number: 0-1402

LINCOLN ELECTRIC HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Ohio	34-1860551
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
22801 St. Clair Avenue, Cleveland, Ohio	44117
(Address of principal executive offices)	(Zip Code)

(216) 481-8100
(Registrant’s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “small reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The number of shares outstanding of the registrant’s common shares as of March 31, 2017 was 65,796,164.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
	2017	2016
Net sales	$580,897	$550,722
Cost of goods sold	377,041	361,620
Gross profit	203,856	189,102
Selling, general & administrative expenses	122,370	113,810
Operating income	81,486	75,292
Other income (expense):		
Interest income	777	430
Equity earnings in affiliates	795	626
Other income	956	661
Interest expense	(6,114)	(3,827)
Total other income (expense)	(3,586)	(2,110)
Income before income taxes	77,900	73,182
Income taxes (Note 12)	22,052	19,558
Net income including non-controlling interests	55,848	53,624
Non-controlling interests in subsidiaries’ income (loss)	4	(14)
Net income	$55,844	$53,638
Basic earnings per share (Note 2)	$0.85	$0.77
Diluted earnings per share (Note 2)	$0.84	$0.76
Cash dividends declared per share	$0.35	$0.32

See notes to these consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	2016
Net income including non-controlling interests	$55,848	$53,624
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax of $(431) and $(203) in the three months ended March 31, 2017 and 2016	1,524	836
Defined benefit pension plan activity, net of tax of $213 and $911 in the three months ended March 31, 2017 and 2016	714	1,618
Currency translation adjustment	28,533	24,249
Other comprehensive income (loss):	30,771	26,703
Comprehensive income (loss)	86,619	80,327
Comprehensive income (loss) attributable to non-controlling interests	26	1
Comprehensive income (loss) attributable to shareholders	$86,593	$80,326

See notes to these consolidated financial statements.

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

	March 31, 2017	December 31, 2016
	(UNAUDITED)	(NOTE 1)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 401,440	$ 379,179
Accounts receivable (less allowance for doubtful accounts of $7,597 in 2017; $7,768 in 2016)	302,599	273,993
Inventories (Note 6)	281,250	255,406
Other current assets	162,781	135,135
Total Current Assets	1,148,070	1,043,713
Property, plant and equipment (less accumulated depreciation of $732,499 in 2017; $716,665 in 2016)	376,120	372,377
Goodwill	233,474	231,919
Other assets	295,013	295,428
TOTAL ASSETS	$ 2,052,677	$ 1,943,437
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Note 10)	$ 2,136	$ 1,889
Trade accounts payable	186,253	176,757
Other current liabilities	233,874	209,461
Total Current Liabilities	422,263	388,107
Long-term debt, less current portion (Note 10)	703,378	703,704
Other liabilities	142,912	139,420
Total Liabilities	1,268,553	1,231,231
Shareholders’ Equity		
Common shares	9,858	9,858
Additional paid-in capital	317,142	309,417
Retained earnings	2,268,707	2,236,071
Accumulated other comprehensive loss	(298,288)	(329,037)
Treasury shares	(1,514,050)	(1,514,832)
Total Shareholders’ Equity	783,369	711,477
Non-controlling interests	755	729
Total Equity (Note 5)	784,124	712,206
TOTAL LIABILITIES AND EQUITY	$ 2,052,677	$ 1,943,437

See notes to these consolidated financial statements.

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

	Three Months Ended March 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$55,844	$53,638
Non-controlling interests in subsidiaries' income (loss)	4	(14)
Net income including non-controlling interests	55,848	53,624
Adjustments to reconcile Net income including non-controlling interests to Net cash provided by operating activities:		
Depreciation and amortization	16,166	15,625
Equity earnings in affiliates, net	(270)	(2)
Deferred income taxes	822	(4,238)
Stock-based compensation	3,268	2,154
Pension (income) expense	(1,345)	4,144
Pension contributions and payments	(550)	(20,865)
Other, net	2,451	5
Changes in operating assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(24,195)	(16,592)
Increase in inventories	(20,946)	(10,780)
Decrease (increase) in other current assets	4,517	(10,546)
Increase in trade accounts payable	7,164	4,657
Increase in other current liabilities	30,816	7,992
Net change in other assets and liabilities	2,494	(460)
NET CASH PROVIDED BY OPERATING ACTIVITIES	76,240	24,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(12,037)	(8,885)
Proceeds from sale of property, plant and equipment	203	458
Purchase of marketable securities	(34,925)	—
Proceeds from marketable securities	3,800	—
NET CASH USED BY INVESTING ACTIVITIES	(42,959)	(8,427)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	—	1,295
Payments on short-term borrowings	—	(563)
Amounts due banks, net	107	21,055
Proceeds from long-term borrowings	15	224
Payments on long-term borrowings	(12)	(255)
Proceeds from exercise of stock options	5,643	2,015
Purchase of shares for treasury (Note 5)	(403)	(102,488)
Cash dividends paid to shareholders	(22,986)	(22,625)
Other financing activities	(7)	(3,806)
NET CASH USED BY FINANCING ACTIVITIES	(17,643)	(105,148)
Effect of exchange rate changes on Cash and cash equivalents	6,623	5,670

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,261	(83,187)
Cash and cash equivalents at beginning of period	379,179	304,183
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$401,440	$220,996

See notes to these consolidated financial statements.

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NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

As used in this report, the term "Company," except as otherwise indicated by the context, means Lincoln Electric Holdings, Inc. and its wholly-owned and majority-owned subsidiaries for which it has a controlling interest.

The consolidated financial statements include the accounts of all legal entities in which the Company holds a controlling interest. The Company is also considered to have a controlling interest in a variable interest entity ("VIE") if the Company determines it is the primary beneficiary of the VIE. Investments in legal entities in which the Company does not own a majority interest but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these unaudited consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. However, in the opinion of management, these unaudited consolidated financial statements contain all the adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position, results of operations and cash flows for the interim periods. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

The accompanying Consolidated Balance Sheet at December 31, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

Effective June 30, 2016, the Company concluded that it no longer met the accounting criteria for control over its Venezuelan subsidiary based on deteriorating conditions in Venezuela; therefore, the Company deconsolidated the financial statements of the Venezuelan subsidiary and began reporting the results under the cost method of accounting. As a result, beginning July 1, 2016, the Company no longer includes the results of the Venezuelan subsidiary in its consolidated financial statements. Under the cost method of accounting, if cash were to be received from the Venezuela entity in future periods from the sale of inventory, dividends or royalties, income would be recognized. The Company does not anticipate dividend or royalty payments being made in the foreseeable future and has no outstanding receivables or payables with the Venezuelan entity. The factors that led to the Company's conclusion to deconsolidate at June 30, 2016 continued to exist through March 31, 2017. The Company expects these conditions to continue for the foreseeable future. Additionally, the Company has no remaining financial commitments to the Venezuelan subsidiary and therefore believes the exposure to future losses is not material.

The following section provides a description of new accounting pronouncements ("Accounting Standard Update" or "ASU") issued by the Financial Accounting Standards Board ("FASB") that are applicable to the Company.

New Accounting Pronouncements Adopted:

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 amends several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted ASU 2016-09 effective January 1, 2017.

ASU 2016-09 requires prospective recognition of excess tax benefits and deficiencies resulting from stock-based compensation awards vesting and exercises be recognized as a discrete income tax adjustment in the income statement. Previously, these amounts were recognized in Additional paid-in capital. Net excess tax benefits of $1,272 for the three months ended March 31, 2017 were recognized as a reduction of income tax expense. In addition, ASU 2016-09 requires excess tax benefits and deficiencies to be prospectively excluded from the assumed future proceeds in the calculation of diluted shares, resulting in an insignificant increase in diluted weighted average shares outstanding for the three months ended March 31, 2017 and an immaterial impact on earnings per share.

ASU 2016-09 requires that excess tax benefits from share based compensation awards be reported as operating activities in the Consolidated Statements of Cash Flows. Previously, this activity was included in financing activities on the Consolidated Statement of Cash Flows. The Company has elected to apply this change on a retrospective basis. As a result, excess tax benefits of $1,272 are reported as Net cash provided by operating activities for the three months ended March 31, 2017, and $357 of excess tax benefits were reclassified from Net cash used by financing activities to Net cash provided by operating activities for the three months ended March 31, 2016.

ASU 2016-09 requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the Consolidated Statements of Cash Flows on a retrospective basis. Previously, this activity was included in operating activities. The impact of this change was immaterial to the Consolidated Statements of Cash Flows.

The Company has elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur.

New Accounting Pronouncements to be adopted:

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment also specifies the accounting of some costs to obtain or fulfill a contract with a customer and expands the disclosure requirements around contracts with customers. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. An entity can either adopt this amendment retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of initial application. To evaluate the impact of adopting this new guidance on the consolidated financial statements, the Company completed a scoping analysis of revenue streams against the requirements of the standard. In addition, the Company is in the process of reviewing customer contracts, as well as identifying and implementing changes to processes and controls to meet the standard’s reporting and disclosure requirements. ASU 2014-09 will accelerate the timing of when certain transactions are recognized as revenue upon adoption of the guidance’s control model. The Company is currently evaluating the impact of the adoption of ASU 2014-09.

Dollars in thousands, except per share amounts

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

Standard	Description
ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Period Pension Cost and Net Periodic Postretirement Benefit Cost, issued March 2017.	ASU 2017-07 requires an entity to report the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs. The other components of the net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside of any subtotal of operating income. Additionally, only the service cost component will be eligible for capitalization in assets. The ASU is effective January 1, 2018, early adoption is permitted and the ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost in the income statement and prospectively for the capitalization of the service cost component.
ASU No. 2017-04, Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, issued January 2017.	ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under this ASU, an entity should perform the Step 1 annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the fair value, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The ASU is effective January 1, 2020, early adoption is permitted and the ASU should be applied prospectively.
ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, issued January 2017.	ASU 2017-01 provides updated guidance for evaluating whether certain transactions should be accounted for as an acquisition (or disposal) of an asset or a business. The ASU is effective January 1, 2018, early adoption is permitted and the ASU should be applied prospectively.
ASU No. 2016-18, Statement of Cash Flows(Topic 230): Restricted Cash, issued November 2016.	ASU 2016-18 requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective January 1, 2018, early adoption is permitted and the ASU should be applied retrospectively.
ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, issued October 2016.	ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective January 1, 2018, early adoption is permitted and the ASU should be applied using a modified retrospective approach, through a cumulative-effect adjustment directly to retained earnings, as of the beginning of the period of adoption.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, issued August 2016.	ASU 2016-15 reduces existing diversity in practice by addressing eight specific cash flow issues related to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective January 1, 2018, early adoption is permitted and the ASU should be applied retrospectively (or prospectively as of earliest date practicable).
ASU No. 2016-02, Leases (Topic 842), issued February 2016.	ASU 2016-02 aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing agreements. Entities are required to recognize and measure leases at the beginning of the earliest period presented using a

modified retrospective approach. The ASU is effective January 1, 2019, early adoption is permitted and the ASU should be applied using either a modified retrospective or modified retrospective with practical expedients approach.

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

NOTE 2 — EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2017	2016
Numerator:		
Net income	$55,844	$53,638
Denominator (shares in 000's):		
Basic weighted average shares outstanding	65,688	69,585
Effect of dilutive securities - Stock options and awards	895	661
Diluted weighted average shares outstanding	66,583	70,246
Basic earnings per share	$0.85	$0.77
Diluted earnings per share	$0.84	$0.76

For the three months ended March 31, 2017 and 2016, common shares subject to equity-based awards of 88,220 and 776,600, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

NOTE 3 — ACQUISITIONS

During May 2016, the Company acquired Vizient Manufacturing Solutions ("Vizient"). Vizient, based in Bettendorf, Iowa, is a robotic integrator specializing in custom engineered tooling and automated arc welding systems for general and heavy fabrication applications. The acquisition assisted in diversifying end-market exposure and broadening global growth opportunities. Pro forma information related to this acquisition has not been presented because the impact on the Company’s Consolidated Statements of Income is not material. Vizient is included in the Company’s consolidated financial statements as of the date of acquisition.

On March 2, 2017, the Company signed a memorandum of understanding and entered into exclusive negotiations to acquire Air Liquide’s subsidiary, Air Liquide Welding (the “proposed acquisition”). Air Liquide Welding is a key player in the manufacturing of welding and cutting technologies. In 2016, the Air Liquide Welding businesses, which have approximately 2,000 employees across the world, generated sales of approximately $400 million. As of March 31, 2017, the Company has incurred $3.6 million of acquisition transaction costs related to the proposed acquisition. The proposed acquisition is subject to the execution of a definitive agreement between the parties and customary conditions and provisions for a transaction of this type, including the “information-consultation” process with the employee representative bodies and the applicable competition authorities’ approval. As the parties have not yet reached a definitive agreement regarding the proposed acquisition, there can be no assurance that a definitive agreement will be entered into, or that the proposed acquisition will be consummated.

NOTE 4 — SEGMENT INFORMATION

As of March 31, 2017, the Company's business units were aligned into three operating segments. The operating segments consist of Americas Welding, International Welding and The Harris Products Group. The Americas Welding segment includes welding operations in North and South America. The International Welding segment primarily includes welding operations in Europe, Africa, Asia and Australia. The Harris Products Group includes the Company’s global cutting, soldering and brazing businesses as well as its retail business in the United States.

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

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

Financial information for the reportable segments follows:

	Americas Welding	International Welding	The Harris Products Group	Corporate / Eliminations (1)	Consolidated
Three Months Ended March 31, 2017					
Net sales	$383,324	$ 128,888	$ 68,685	$ —	$ 580,897
Inter-segment sales	22,460	4,285	2,300	(29,045)	—
Total	$405,784	$ 133,173	$ 70,985	$ (29,045)	$ 580,897
Adjusted EBIT	$68,723	$ 9,605	$ 8,460	$ 64	$ 86,852
Special items charge	—	—	—	3,615	3,615
EBIT	$68,723	$ 9,605	$ 8,460	$ (3,551)	$ 83,237
Interest income					777
Interest expense					(6,114)
Income before income taxes					$ 77,900
Three months ended March 31, 2016					
Net sales	$359,008	$ 124,305	$ 67,409	$ —	$ 550,722
Inter-segment sales	23,831	4,426	2,303	(30,560)	—
Total	$382,839	$ 128,731	$ 69,712	$ (30,560)	$ 550,722
Adjusted EBIT	$61,438	$ 6,233	$ 7,711	$ 1,197	$ 76,579
Special items charge	—	—	—	—	—
EBIT	$61,438	$ 6,233	$ 7,711	$ 1,197	$ 76,579
Interest income					430
Interest expense					(3,827)
Income before income taxes					$ 73,182

(1) In the three months ended March 31, 2017, special items in Corporate / Eliminations reflect transaction costs related to the proposed acquisition as discussed in Note 3.

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

NOTE 5 — EQUITY

Changes in equity for the three months ended March 31, 2017 are as follows:

	Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2016	$ 711,477	$ 729	$ 712,206
Comprehensive income (loss):			
Net income	55,844	4	55,848
Other comprehensive income (loss)	30,749	22	30,771
Total comprehensive income (loss)	86,593	26	86,619
Cash dividends declared - $0.35 per share	(23,208)	—	(23,208)
Issuance of shares under benefit plans	8,910	—	8,910
Purchase of shares for treasury	(403)	—	(403)
Balance at March 31, 2017	$ 783,369	$ 755	$ 784,124

On April 20, 2016, the Company announced that the Board of Directors authorized a new share repurchase program, which increased the total number of the Company's common shares authorized to be repurchased to 55 million shares. At management's discretion, the Company repurchases its common shares from time to time in the open market, depending on market conditions, stock price and other factors. During the three month period ended March 31, 2017, the Company purchased a total of 4.7 thousand shares. As of March 31, 2017, there remained 8.9 million common shares available for repurchase under this program. The repurchased common shares remain in treasury and have not been retired.

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

The following tables set forth the total changes in AOCI by component, net of taxes for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at December 31, 2016	$587	$(95,939)	$(233,685)	$(329,037)
Other comprehensive income (loss) before reclassification	1,543	—	28,511 [3]	30,054
Amounts reclassified from AOCI	(19) [1]	714 [2]	—	695
Net current-period other comprehensive income (loss)	1,524	714	28,511	30,749
Balance at March 31, 2017	$2,111	$(95,225)	$(205,174)	$(298,288)

	Three Months Ended March 31, 2016			
	Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at December 31, 2015	$548	$(99,776)	$(197,039)	$(296,267)
Other comprehensive income (loss) before reclassification	1,699	(20)	24,234 [3]	25,913
Amounts reclassified from AOCI	(863) [1]	1,638 [2]	—	775
Net current-period other comprehensive income (loss)	836	1,618	24,234	26,688
Balance at March 31, 2016	$1,384	$(98,158)	$(172,805)	$(269,579)

(1) During the 2017 period, the AOCI reclassification is a component of Net sales of $(185) (net of tax of $(87)) and Cost of goods sold of $166 (net of tax of $112); during the 2016 period, the AOCI reclassification is a component

of Net sales of $(787) (net of tax of $(278)) and Cost of goods sold of $(76) (net of tax of $22). See Note 13 for additional details.

(2) The AOCI component is included in the computation of net periodic pension costs (net of tax of $213 and $911 during the three months ended March 31, 2017 and 2016, respectively). See Note 11 for additional details.

(3) The Other comprehensive income (loss) before reclassifications excludes $22 and $15 attributable to Non-controlling interests in the three months ended March 31, 2017 and 2016, respectively.

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

NOTE 6 — INVENTORY

Inventories in the Consolidated Balance Sheet is comprised of the following components:

	March 31, 2017	December 31, 2016
Raw materials	$79,604	$ 76,811
Work-in-process	54,291	40,556
Finished goods	147,355	138,039
Total	$281,250	$ 255,406

The valuation of last-in, first-out ("LIFO") method inventories is made at the end of each year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs. Actual year-end costs and inventory levels may differ from interim LIFO inventory valuations. The excess of current cost over LIFO cost was $63,011 at March 31, 2017 and $61,329 at December 31, 2016.

NOTE 7 — ACCRUED EMPLOYEE BONUS

Other current liabilities at March 31, 2017 and 2016 include accruals for year-end bonuses and related payroll taxes of $28,234 and $26,174, respectively, related to the Company’s employees worldwide. The payment of bonuses is discretionary and subject to approval by the Board of Directors. A majority of annual bonuses are paid in December, resulting in an increasing bonus accrual during the Company’s fiscal year.

NOTE 8 — CONTINGENCIES

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

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

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

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

NOTE 9 — PRODUCT WARRANTY COSTS
The changes in the carrying amount of product warranty accruals are as follows:

	Three Months Ended March 31,	
	2017	2016
Balance at beginning of year	$21,053	$19,469
Accruals for warranties	2,553	3,035
Settlements	(2,848)	(3,063)
Foreign currency translation	103	147
Balance at March 31	$20,861	$19,588

NOTE 10 — DEBT
Revolving Credit Agreement
The Company has a line of credit totaling $400,000 through the Amended and Restated Credit Agreement (the “Credit Agreement”), which was entered into on September 12, 2014. The Credit Agreement contains customary affirmative, negative and financial covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to liens, investments, distributions, mergers and acquisitions, dispositions of assets, transactions with affiliates and a fixed charges coverage ratio and total leverage ratio. As of March 31, 2017, the Company was in compliance with all of its covenants and had no outstanding borrowings under the Credit Agreement. The Credit Agreement has a five-year term and may be increased, subject to certain conditions, by an additional amount up to $100,000. The interest rate on borrowings is based on either the London Inter-Bank Offered Rate ("LIBOR") or the prime rate, plus a spread based on the Company’s leverage ratio, at the Company’s election.
Senior Unsecured Notes
On April 1, 2015, the Company entered into a Note Purchase Agreement pursuant to which it issued senior unsecured notes (the "2015 Notes") in the aggregate principal amount of $350,000 through a private placement. The proceeds were used for general corporate purposes. The 2015 Notes, as shown in the table below, have original maturities ranging from 10 to 30 years with a weighted average effective interest rate of 3.5%, excluding accretion of original issuance costs, and an initial average tenure of 19 years. Interest is payable semi-annually. The 2015 Notes contain certain affirmative and negative covenants. As of March 31, 2017, the Company was in compliance with all of its debt covenants relating to the 2015 Notes.
The maturity and interest rates of the 2015 Notes are as follows:

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

On October 20, 2016, the Company entered into a Note Purchase Agreement pursuant to which it issued senior unsecured notes (the "2016 Notes") in the aggregate principal amount of $350,000 through a private placement. The proceeds are being used for general corporate purposes. The 2016 Notes, as shown in the table below, have original maturities ranging from 12 to 25 years with a weighted average effective interest rate of 3.1%, excluding accretion of original issuance costs, and an initial average tenure of 18 years. Interest is payable semi-annually. The 2016 Notes contain certain affirmative and negative covenants. As of March 31, 2017, the Company was in compliance with all of its debt covenants relating to the 2016 Notes.

Dollars in thousands, except per share amounts

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

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

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

NOTE 11 — RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

The components of total pension cost were as follows:

	Three Months Ended March 31,	
	2017	2016
Service cost	$734	$4,430
Interest cost	5,532	6,011
Expected return on plan assets	(8,615)	(8,864)
Amortization of prior service cost	4	(99)
Amortization of net loss	1,000	2,666
Defined benefit plans	(1,345)	4,144
Multi-employer plans	193	202
Defined contribution plans	6,764	1,969
Total pension cost (1)	$5,612	$6,315

(1) The decrease for the three months ended March 31, 2017 as compared to the prior year period reflects lower service cost and lower amortization of net losses related to the defined benefit plan freeze effective December 31, 2016, partially offset by higher defined contribution plan expense related to the Company's amended U.S. defined contribution plan that was effective January 1, 2017.

NOTE 12 — INCOME TAXES

The Company recognized $22,052 of tax expense on pretax income of $77,900, resulting in an effective income tax rate of 28.3% for the three months ended March 31, 2017. The effective income tax rate was 26.7% for the three months ended March 31, 2016. The 2017 effective tax rate was lower than the Company's statutory rate primarily due to the utilization of U.S. tax credits and deductions, excess tax benefits resulting from exercising of stock-based compensation awards and income earned in lower tax rate jurisdictions. The 2016 effective tax rate was lower than the Company's statutory rate primarily due to the utilization of U.S. tax credits and deductions, income earned in lower tax rate jurisdictions and utilization of loss carry-forwards for which valuation allowances had been previously provided.

As of March 31, 2017, the Company had $13,934 of unrecognized tax benefits. If recognized, approximately $10,115 would be reflected as a component of income tax expense.

The Company files income tax returns in the U.S. and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2012. The Company is currently subject to various U.S. state and non-U.S. income tax audits.

Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted for changing facts and circumstances, including progress of tax audits and closing of statutes of limitations. Based on information currently available, management believes that additional audit activity could be completed and/or statutes of limitations may close relating to existing unrecognized tax benefits. It is reasonably possible there could be a reduction of $1,431 in previously unrecognized tax benefits by the end of the first quarter 2018.

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

NOTE 13 — DERIVATIVES
The Company uses derivative instruments to manage exposures to currency exchange rates, interest rates and commodity prices arising in the normal course of business. Both at inception and on an ongoing basis, the derivative instruments that qualify for hedge accounting are assessed as to their effectiveness, when applicable. Hedge ineffectiveness was immaterial in the three months ended March 31, 2017 and 2016.
The Company is subject to the credit risk of the counterparties to derivative instruments. Counterparties include a number of major banks and financial institutions. None of the concentrations of risk with any individual counterparty was considered significant at March 31, 2017. The Company does not expect any counterparties to fail to meet their obligations.
Cash Flow Hedges
Certain foreign currency forward contracts were qualified and designated as cash flow hedges. The dollar equivalent gross notional amount of these short-term contracts was $41,398 at March 31, 2017 and $36,385 at December 31, 2016.
Fair Value Hedges
Certain interest rate swap agreements were qualified and designated as fair value hedges. At March 31, 2017, the Company had interest rate swap agreements outstanding that effectively convert notional amounts of $100,000 of debt from a fixed interest rate to a variable interest rate based on three-month LIBOR plus a spread of between 0.6% and 1.8%. The variable rates reset every three months, at which time payment or receipt of interest will be settled.
Net Investment Hedges
The Company had foreign currency forward contracts that were qualified and designated as net investment hedges. No such contracts were outstanding at March 31, 2017 and December 31, 2016.
Derivatives Not Designated as Hedging Instruments
The Company has certain foreign exchange forward contracts that are not designated as hedges. These derivatives are held as economic hedges of certain balance sheet exposures. The dollar equivalent gross notional amount of these contracts was $260,832 at March 31, 2017 and $261,168 at December 31, 2016.
Fair values of derivative instruments in the Company's Consolidated Balance Sheets follow:

	March 31, 2017			December 31, 2016		
Derivatives by hedge designation	Other Current Assets	Other Current Liabilities	Other Liabilities	Other Current Assets	Other Current Liabilities	Other Liabilities

Designated as hedging instruments:
January 1, 2016
Asset derivatives:

Prepaid expenses and other current assets
$
5.2

$
11.9

Other noncurrent assets
—

		—
Total asset derivatives	$ 5.2	$ 11.9
Liability derivatives:		
Accounts payable and accrued expenses	$ 3.1	$ —
Other noncurrent liabilities	—	—
Total liability derivatives	$ 3.1	$ —

(1) See Note 15, "Fair Value Measurements", for fair value disclosures.
(2) We expect that $2.1 million of the net fair value of hedges recognized as a gain in accumulated other comprehensive income ("AOCI") will be transferred to earnings during the next 12 months, along with the earnings effect of the related forecasted transactions.

FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

14. Derivative Financial Instruments (continued)

The following table reflects the effect of derivative instruments on the Consolidated Statements of Income for the quarters ended April 1, 2016 and March 27, 2015 (U.S. dollars in millions):

Derivatives in effective cash flow hedging relationships	Amount of gain (Loss) recognized in other comprehensive income on derivatives (effective portion)		Location of gain (loss) reclassified from AOCI into income (effective portion)	Amount of gain (loss) reclassified from AOCI into income (effective portion)	
	Quarter ended			Quarter ended	
	April 1, 2016	March 27, 2015		April 1, 2016	March 27, 2015
Foreign exchange contracts	$(10.6)	$ 11.3	Net sales	$1.9	$ 9.1
Foreign exchange contracts	0.7	0.2	Cost of products sold	—	(0.2)
Total	$(9.9)	$ 11.5		$1.9	$ 8.9

15. Fair Value Measurements

We measure fair value for financial instruments, such as derivatives and equity securities, on an ongoing basis. We measure fair value for non-financial assets when a valuation is necessary, such as for impairment of long-lived and indefinite-lived assets when indicators of impairment exist. Fair value is measured in accordance with the ASC on "Fair Value Measurements and Disclosures". The ASC on "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

15. Fair Value Measurements (continued)

Derivative Instruments

We may choose to mitigate the risk of fluctuations in currency exchange rates and bunker fuel prices on our results of operations and financial condition by entering into foreign currency cash flow hedges and bunker fuel hedges, respectively. We account for the fair value of the related forward contracts as either an asset in other current assets or a liability in accrued expenses. We use an income approach to value our outstanding foreign currency and bunker fuel cash flow hedges. An income approach consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contract using current market information as of the measurement date such as foreign currency and bunker fuel spot and forward rates. Additionally, we built an element of default risk based on observable inputs into the fair value calculation. Due to the fact that inputs to fair value these derivative instruments can be observed, they are classified as Level 2.

The following table provides a summary of the fair values of assets and liabilities measured on a recurring basis under the ASC on “Fair Value Measurements and Disclosures” (U.S. dollars in millions):

	Fair value measurements Foreign currency forward contracts, net asset	
	April 1, 2016	January 1, 2016
Quoted prices in active markets for identical assets (Level 1)	$ —	$ —
Significant observable inputs (Level 2)	2.1	11.9
Significant unobservable inputs (Level 3)	—	—

In estimating our fair value disclosures for financial instruments, we use the following methods and assumptions:

Cash and cash equivalents: The carrying amount reported in the Consolidated Balance Sheets for these items approximates fair value due to their liquid nature and are classified as Level 1.

Trade accounts receivable and other accounts receivable, net: The carrying value reported in the Consolidated Balance Sheets for these items is net of allowances for doubtful accounts, which includes a degree of counterparty non-performance risk and are classified as Level 2.

Accounts payable and other current liabilities: The carrying value reported in the Consolidated Balance Sheets for these items approximates their fair value, which is the likely amount for which the liability with short settlement periods would be transferred to a market participant with a similar credit standing as ours and are classified as Level 2.

Capital lease obligations: The carrying value of our capital lease obligations reported in the Consolidated Balance Sheets approximates their fair value based on current interest rates, which contain an element of default risk. The fair value of our capital lease obligations is estimated using Level 2 inputs based on quoted prices for those or similar instruments.

Refer to Note 9, “Long-Term Debt and Capital Lease Obligations”.

Long-term debt: The carrying value of our long-term debt reported in the Consolidated Balance Sheets approximates their fair value since they bear interest at variable rates or fixed rates which contain an element of default risk. The fair value of our long-term debt is estimated using Level 2 inputs based on quoted prices for those or similar instruments.
Refer to Note 9 , “Long-Term Debt and Capital Lease Obligations”.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

15. Fair Value Measurements (continued)

Fair Value of Non-Financial Assets

The fair value of the banana reporting unit's goodwill and the prepared food unit's remaining trade names and trademarks are highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of these assets. We disclosed the sensitivity related to the banana reporting unit's goodwill and the prepared food unit's remaining trade names and trademarks in our annual financial statements included in our Annual Report on Form 10-K for the year ended January 1, 2016.

16. Accumulated Other Comprehensive (Loss) Income

The following table includes the changes in accumulated other comprehensive (loss) income attributable to U.S. by component under the ASC on "Comprehensive Income" (U.S. dollars in millions):

	Changes in accumulated other comprehensive (loss) income by component [1]			
	Quarter ended April 1, 2016			
	Changes in fair value of effective cash flow hedges	Foreign currency translation adjustment	Retirement benefit adjustment	Total
Balance at January 1, 2016	$11.9	$ (14.8)	$ (20.1)	$(23.0)
Other comprehensive (loss) income before reclassifications	(7.9)	5.0 [2]	(0.1)	(3.0)
Amounts reclassified from accumulated other comprehensive (loss) income	(1.9)	—	0.3	(1.6)
Net current period other comprehensive (loss) income	(9.8)	5.0	0.2	(4.6)
Balance at April 1, 2016	$2.1	$ (9.8)	$ (19.9)	$(27.6)
	Quarter ended March 27, 2015			
Balance at December 26, 2014	$25.2	$ (0.8)	$ (21.8)	$2.6
Other comprehensive (loss) income before reclassifications	20.4	(10.3) [2]	(0.1)	10.0
Amounts reclassified from accumulated other comprehensive (loss) income	(8.9)	—	0.4	(8.5)
Net current period other comprehensive (loss) income	11.5	(10.3)	0.3	1.5

Balance at March 27, 2015	$36.7	$ (11.1)	$ (21.5)	$4.1

(1) All amounts are net of tax and noncontrolling interest.
(2) Includes a gain of $4.2 million for the quarter ended April 1, 2016 and a loss of $3.5 million for the quarter ended March 27, 2015 on intra-entity foreign currency transactions that are of a long-term-investment nature; also includes a gain of $0.4 million for the quarter ended April 1, 2016 related to noncontrolling interest.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

16. Accumulated Other Comprehensive (Loss) Income (continued)

The following table includes details about amounts reclassified from accumulated other comprehensive (loss) income by component
(U.S. dollars in millions):

Details about accumulated other comprehensive (loss) income components	Amount reclassified from accumulated other comprehensive (loss) income		Affected line item in the statement where net income is present
	Quarter ended April 1, 2016	Quarter ended March 27, 2015	
Changes in fair value of effective cash flow hedges:			
Foreign currency cash flow hedges	$ (1.9)	$ (9.1)	Sales
Foreign currency cash flow hedges	—	0.2	Cost of Sales
Total	$ (1.9)	$ (8.9)	
Amortization of retirement benefits:			
Actuarial losses	$ 0.2	$ 0.1	Selling, general and administrative expenses
Actuarial losses	0.1	0.3	Cost of Sales
Total	$ 0.3	$ 0.4	

17. Shareholders' Equity

Our shareholders have authorized 50,000,000 preferred shares at $0.01 par value, of which none are issued or outstanding, and 200,000,000 ordinary shares of common stock at $0.01 par value, of which 51,120,115 are issued and outstanding at April 1, 2016.

Ordinary share activity is summarized as follows:

	Quarter ended	
	April 1, 2016	March 27, 2015
Ordinary shares issued (retired) as a result of:		
Stock option exercises	20,966	610,896
Restricted stock grants	22,946	21,875
Restricted and performance stock units	149,857	128,253
Ordinary shares repurchased and retired	(1,616,619)	(2,056,604)

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

17. Shareholders' Equity (continued)

On July 29, 2015, our Board of Directors approved a three-year stock repurchase program of up to $300 million of our ordinary shares, in addition to the three-year stock repurchase program to repurchase up to $300 million of our ordinary shares approved on May 1, 2013. We have repurchased $356.4 million of ordinary shares, or 10,686,830 ordinary shares, under the aforementioned repurchase programs and retired all the repurchased shares. The stock repurchase program approved on May 1, 2013 has been fully utilized as of April 1, 2016. We have a maximum dollar amount value of $243.6 million of shares that we can purchase under the stock repurchase program approved on July 29, 2015.

Subsequent to the quarter ended April 1, 2016, we repurchased 55,916 ordinary shares for $2.3 million with an average price per share of $41.98.

Dividend activity is summarized as follows:

Quarter ended April 1, 2016		Quarter ended March 27, 2015	
Dividend Date	Cash Dividend Declared, per Ordinary Share	Dividend Date	Cash Dividend Declared, per Ordinary Share
April 1, 2016	$ 0.125	March 27, 2015	$ 0.125

We paid $6.4 million in dividends in the quarter ended April 1, 2016 and $6.5 million in dividends in the quarter ended March 27, 2015.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are one of the world's leading vertically integrated producers, marketers and distributors of high-quality fresh and fresh-cut fruit and vegetables, as well as a leading producer and marketer of prepared fruit and vegetables, juices, beverages and snacks in Europe, Africa, the Middle East and countries formerly part of the Soviet Union. We market our products worldwide under the DEL MONTE® brand, a symbol of product innovation, quality, freshness and reliability since 1892. Our global sourcing and logistics system allows us to provide regular delivery of consistently high-quality produce and value-added services to our customers. Our major producing operations are located in North, Central and South America, Asia and Africa. Production operations are aggregated on the basis of our products: bananas, other fresh produce and prepared food. Other fresh produce includes pineapples, melons, tomatoes, avocados, non-tropical fruit (including grapes, apples, pears, peaches, plums, nectarines, citrus and kiwis), fresh-cut produce, other fruit and vegetables, a plastic products business and a third-party ocean freight service. Prepared food includes prepared fruit and vegetables, juices, beverages, snacks, poultry and meat products.

Liquidity and Capital Resources

Net cash provided by operating activities was $92.9 million for the first quarter of 2016, compared with net cash provided by operating activities of $13.5 million for the first quarter of 2015, an increase of $79.4 million. The increase in net cash provided by operating activities was principally attributable to higher net income combined with changes in operating assets and liabilities.

Working capital was $624.4 million at April 1, 2016 compared with $604.0 million at January 1, 2016, an increase of $20.4 million. This increase in working capital is primarily seasonal in nature and results from higher levels of accounts receivables and inventory at the end of the first quarter of the year as compared with year-end.

Net cash used in investing activities for the first quarter of 2016 was $33.7 million compared with $22.3 million for the first quarter of 2015. Net cash used in investing activities for the first quarter of 2016 consisted of capital expenditures of $34.1 million, partially offset by proceeds from sales of property, plant and equipment of $0.4 million. Capital expenditure for the first quarter of 2016 consisted primarily of expansion of our distribution and fresh-cut fruit facilities in North America and Asia related to the other fresh produce and banana segments; expansion and improvements to our banana operations in the Philippines and Central America; expansion and improvements to our manufacturing facilities in the Middle East and Kenya related to the prepared food and other fresh produce segments; and expansion and improvements to production facilities in Costa Rica and Chile in the other fresh produce segment. Proceeds from sale of property, plant and equipment for the first quarter of 2016 consisted primarily of the sale of surplus equipment.

Net cash used in investing activities for the quarter of 2015 consisted of capital expenditures of $25.2 million, partially offset by proceeds from sales of property, plant and equipment of $2.9 million. Capital expenditures for the first quarter of 2015 included expansion of banana operations in the Philippines and Central America; expansion and improvements to our production facilities principally in Kenya, and Costa Rica related to the prepared food segment; improvements and expansion of production facilities in Japan, Chile, Costa Rica related to the other fresh produce segment and for worldwide information technology projects related to all of our business segments. Proceeds from sale of property, plant and equipment for the first quarter of 2015 consisted primarily of the sale of a refrigerated vessel and other surplus equipment.

Net cash used in financing activities for the first quarter of 2016 was $50.2 million compared with net cash provided by financing activities of $0.5 million for the first quarter of 2015. Net cash used in financing activities for the first quarter of 2016 consisted of repurchase and retirement of ordinary shares of $66.4 million and dividends paid of $6.4 million, partially offset by net repayments on long-term debt of $22.1 million and proceeds from stock options exercised of $0.5 million. Cash provided by financing activities for the first quarter of 2015 consisted of net repayments on long-term debt of $74.2, proceeds from stock options exercised of $17.4 million and excess tax benefit from stock-based compensation of $0.2 million, partially offset by dividends paid of $6.5 million and repurchase and retirement of ordinary shares of $84.8 million.

On April 16, 2015, we entered into a new five year, $800 million syndicated senior unsecured revolving credit facility maturing on April 15, 2020 (the "Credit Facility") with Bank of America, N.A. as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as sole lead arranger and sole book manager. Borrowings under the Credit Facility bear interest at a spread over the London Interbank Offer Rate ("LIBOR") that varies with our leverage ratio. The margin for LIBOR advances under the Credit Facility currently is 1.25%. The Credit Facility also includes a swing line facility and a letter of credit facility. We intend to use the Credit Facility from time to time for general corporate purposes, which may include the repayment or refinancing of our existing indebtedness, working capital needs, capital expenditures, funding of possible acquisitions, possible share repurchases and satisfaction of other obligations.

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On June 22, 2015, we entered into a renewable 364-day, $25.0 million commercial and stand-by letter of credit facility with Rabobank Nederland.

At April 1, 2016, we had $277.7 million outstanding under the Credit Facility bearing interest at a per annum rate of 1.69%. In addition, we pay a fee on unused commitments under the Credit Facility.

The Credit Facility is unsecured as long as we maintain a certain leverage ratio and also requires us to comply with certain financial and other covenants, including limitations on capital expenditures, the amount of dividends that can be paid in the future, the amount and types of liens and indebtedness, material asset sales and mergers. As of April 1, 2016, we were in compliance with all of the financial and other covenants contained in the Credit Facility.

At April 1, 2016, we had $546.6 million available under committed working capital facilities, primarily under the Credit Facility. At April 1, 2016, we applied $11.6 million to the Rabobank letter of credit facility, in respect of certain contingent obligations and other governmental agencies and purchases of equipment and raw material guarantees and other trade related letters of credit. We also had $14.0 million in other letters of credit and bank guarantees not included in the Rabobank or Bank of America letter of credit facilities.

As of April 1, 2016, we had $280.2 million of long-term debt and capital lease obligations, including the current portion, consisting of $277.7 million outstanding under the Credit Facility, $1.3 million of capital lease obligations and $1.2 million of other long-term debt and notes payable.

Based on our operating plan, combined with our available borrowing capacity under our Credit Facility, we believe we will have sufficient resources to meet our cash obligations in the foreseeable future.

As of April 1, 2016, we had cash and cash equivalents of $34.9 million.

As a result of the closure of distribution centers and restructuring in Europe, we paid approximately $0.2 million in contractual obligations during the first quarter of 2016. We expect to make additional payments of approximately $0.9 million principally related to the closure of certain facilities in the United Kingdom.

The fair value of our foreign currency cash flow hedges changed from a net gain of $11.9 million as of January 1, 2016, to a net gain of $2.1 million as of April 1, 2016. We expect that a gain of $2.1 million will be transferred to earnings during the next 12 months, along with the earnings effect of the related forecasted transactions.

Recent Developments

On April 28, 2016, we acquired the remaining 60% interest of our pineapple producer in the Philippines for $45.0 million using operating cash flows and available borrowings under the Credit Facility. At April 1, 2016, we owned a 40% interest and consolidated the Philippine pineapple producer based on VIE guidance, refer to Note 5, “Variable Interest Entities”. This acquisition of the remaining 60% will be accounted as an acquisition of a noncontrolling interest. This acquisition allows us to increase efficiency and facilitates expansion of our production capabilities in Asia.

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Results of Operations

The following tables present for each of the periods indicated (i) net sales by geographic region and (ii) net sales and gross profit by product category, and in each case, the percentage of the total represented thereby (U.S. dollars in millions, except percent data):

Net sales by geographic region:

	Quarter ended			
	April 1, 2016		March 27, 2015	
North America	$587.5	58 %	$575.6	57 %
Europe	173.4	17 %	178.9	18 %
Asia	115.3	11 %	100.1	10 %
Middle East	124.0	12 %	129.3	13 %
Other	17.9	2 %	24.5	2 %
Total	$1,018.1	100%	$1,008.4	100%

Product net sales and gross profit:

	Quarter ended							
	April 1, 2016				March 27, 2015			
	Net Sales		Gross Profit		Net Sales		Gross Profit	
Banana	$458.6	45 %	$48.8	35 %	$454.3	45 %	$36.1	36 %
Other fresh produce	480.9	47 %	77.1	55 %	464.6	46 %	50.7	50 %
Prepared food	78.6	8 %	14.8	10 %	89.5	9 %	13.6	14 %
Totals	$1,018.1	100%	$140.7	100%	$1,008.4	100%	$100.4	100%

First Quarter 2016 Compared with First Quarter of 2015

Net Sales. Net sales for the first quarter of 2016 were $1,018.1 million compared with $1,008.4 million for the first quarter of 2015. The increase in net sales of $9.7 million was principally attributable to higher net sales in the other fresh produce and banana business segments, partially offset by lower net sales in the prepared food segment.

- Net sales in the other fresh produce segment increased $16.3 million, principally as a result of higher net sales of fresh-cut products, avocados, pineapples and other fruits, partially offset by lower net sales of tomatoes, non-produce operations and non-tropical fruit.
Net sales of fresh-cut products increased principally due to higher worldwide sales volumes as a result of increased customer demand in all regions.
Net sales of avocados increased due to higher sales volume of avocados in North America primarily due to higher customer demand and increased shipments from Mexico.
Net sales of pineapples increased due to higher sales volume in North America principally as a result of increased customer demand and higher production in Costa Rica. Partially offsetting these increases were lower sales volume in Asia and the Middle East as a result of lower production in the Philippines. Worldwide pineapple sales volume increased 4%.
Net sales of other fruit increased primarily due to higher sales volume of plantains in North America as a result of favorable market conditions.
Net sales of tomatoes decreased due to a planned reduction of planted acreage in our Florida operation during the winter growing season.

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Net sales of non-tropical fruit decreased principally due to lower sales volume of grapes in North America, South America and Asia combined with lower sales volumes of stonefruit in all markets, as a result of lower supplies from Chile.
Net sales of non-produce operations decreased principally due to lower net sales in our Chilean plastic operation as a result of increased competition.

- Net sales of bananas increased by $4.3 million principally due to higher net sales in Asia and the Middle East, partially offset by lower net sales in Europe and North America. Worldwide banana sales volume increased 2%.
Asia banana net sales increased primarily due to higher sales volumes resulting from higher customer demand and our expanded production operations in the Philippines.
Middle East banana net sales increased due to higher sales volume resulting from an expanded customer base and our expanded production operations in the Philippines.
Europe banana net sales decreased due to lower sales volume principally as a result of the loss of customers in Northern Europe due to competition.
North America banana net sales decreased primarily as a result of slightly lower per unit sales prices due to market conditions.
- Net sales in the prepared food segment decreased $10.9 million principally due to lower sales volume and lower per unit sales prices in our poultry business in Jordan as a result of lower production yields and increased competition. Also contributing to the decrease in net sales in our prepared food segment were lower sales volume of canned pineapple principally as a result of decreased production in our Kenya operations. Partially offsetting these decreases in net sales were higher pricing of industrial products and higher sales volume of canned deciduous fruit.

Cost of Products Sold. Cost of products sold was $877.4 million for the first quarter of 2016, compared with $908.0 million for the first quarter of 2015, a decrease of $30.6 million. This decrease was primarily attributable to lower transportation costs combined with lower fruit procurement costs principally for bananas and deciduous fruit and lower production cost in the prepared food segment.

Gross Profit. Gross profit was $140.7 million for the first quarter of 2016, compared with $100.4 million for the first quarter of 2015, an increase of $40.3 million. This increase was attributable to higher gross profit in all of our business segments.

- Gross profit in the other fresh produce segment increased $26.4 million principally due to higher gross profit on tomatoes, non-tropical fruit, fresh-cut products, avocados and pineapples.
Gross profit on tomatoes improved significantly principally due to higher per unit selling prices for the re-pack tomato business combined with the absence of quality problems that we incurred in our Florida growing operations during the first quarter of 2015.
Gross profit on non-tropical fruit increased primarily due to higher selling prices on grapes in North America, Europe, Asia and South America.
Gross profit on fresh-cut products increased principally due to higher sales volume and per unit sales prices in North America and Asia combined with higher sales volume in Europe. Also contributing to the increase in gross profit on fresh-cut products were lower per unit costs in Asia, North America and Europe principally as a result of improved efficiency and favorable exchange rates. Partially offsetting these increases in gross profit were higher costs and lower sales prices in the Middle East.
Gross profit on avocados increased primarily due to increased sales volume and lower fruit procurement costs in North America.
Gross profit on pineapples increased principally due to higher sales volume in North America and higher per unit sales prices in Asia combined with lower transportation costs. Partially offsetting these increase in gross profit was lower per unit selling prices in Europe and the Middle East. Worldwide per unit sales prices decreased 1%, and per unit costs decreased 2%.

- Gross profit in the banana segment increased $12.7 million primarily due to lower per unit costs, partially offset by lower per unit sales prices in the Middle East. Lower per unit costs was principally due to lower transportation costs and lower fruit procurement costs. Worldwide banana per unit sales prices decreased 1%, and per unit costs decreased 3%.

- Gross profit in the prepared food segment increased by $1.2 million principally due to higher gross profit on pineapple products as a result of higher sales prices on industrial pineapple products and canned pineapple primarily due to favorable market conditions combined with lower costs on canned pineapples. Partially offsetting these increases were lower gross profit in our Jordan poultry business primarily as a result of lower selling prices and lower production yields.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $3.2 million from $43.9 million in the first quarter of 2015 to $47.1 million for the first quarter of 2016. The increase was principally due to higher executive compensation, increased information technology costs and higher audit fees.

Loss (Gain) on Disposal of Property, Plant and Equipment. The loss on disposal of property, plant and equipment of $3.1 million during the first quarter of 2016 was principally related to the disposal of low-yield banana plants in Costa Rica and Guatemala in order to replant and improve productivity. The gain on disposal of property, plant and equipment of $(1.2) million during the first quarter of 2015 consisted primarily of the sale of a refrigerated vessel.

Asset Impairment and Other Charges, Net. There were no asset impairments and other charges, net, during the first quarter of 2016. During the first quarter of 2015, asset impairment and other charges, net, were $1.4 million and relate principally to damages incurred as the result of floods in Chile affecting our non-tropical fruit operations

Operating Income. Operating income for the first quarter of 2016 increased by $34.2 million from $56.3 million in the first quarter of 2015 to $90.5 million for the first quarter of 2016. This increase was due to higher gross profit and the absence of asset impairments and other charges, net, partially offset by higher selling, general and administrative expenses and a loss on disposal of property, plant and equipment.

Interest Expense. Interest expense was $0.9 million for the first quarter of 2016 as compared with $1.3 million for the first quarter of 2015. The decrease was due to lower average loan balances and slightly lower interest rates.

Other (Income) Expense, Net. Other (income) expense, net was income of $(2.6) million for the first quarter of 2016, compared to expense of $5.9 million for the first quarter of 2015. The change in other expense (income), net of $8.5 million was principally attributable to foreign exchange gains during the first quarter of 2016 as compared with foreign exchange losses during the first quarter of 2015.

Provision for Income Taxes. Provision for income taxes was $11.1 million for the first quarter of 2016 compared to $5.0 million for the first quarter of 2015. The increase in the provision for income taxes of $6.1 million is primarily due to higher earnings.

Fair Value Measurements

Potential impairment exists if the fair value of a reporting unit to which goodwill has been allocated is less than the carrying value of the reporting unit. The amount of the impairment to recognize, if any, is calculated as the amount by which the carrying value of goodwill exceeds its implied value. Future changes in the estimates used to conduct the impairment review, including revenue projection, market values and changes in the discount rate used, could cause the analysis to indicate that our goodwill or trademarks are impaired in subsequent periods and result in a write-off of a portion or all of goodwill or trademarks. The discount rate used is based on independently calculated risks, our capital mix and an estimated market risk premium. The fair value of the prepared food reporting unit's trademarks is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of these assets. If we are unable to recover from challenging economic conditions in Europe and we fail to meet our current expectations, the prepared food reporting unit's trademarks may be at risk for future impairment. We disclosed the sensitivities related to the banana reporting unit's goodwill and the prepared food reporting unit’s trademarks in our annual financial statements included in our Annual Report on Form 10-K for the year ended January 1, 2016.

Seasonality

Interim results are subject to significant variations and may not be indicative of the results of operations that may be expected for the entire 2016 fiscal year. See the information under the caption “Seasonality” provided in Item 1. Business, of our Annual Report on Form 10-K for the year ended January 1, 2016.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K for the year ended January 1, 2016.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of April 1, 2016. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in our internal control over financial reporting during the quarter ended April 1, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10, “Commitments and Contingencies”, to the Consolidated Financial Statements, Part I, Item 1 included herein.

Item 1A. Risk Factors

There have been no material changes in the risk factors from the information provided in Item 1A. Risk Factors of our annual report on Form 10-K for the year ended January 1, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding our purchases of ordinary shares during the periods indicated:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
January 2, 2016 through January 31, 2016	954,706	$ 39.23	954,706	$ 270,762,816
February 1, 2016 through February 29, 2016	215,348	$ 39.29	215,348	$ 262,301,851
March 1, 2016 through April 1, 2016	446,565	$ 41.79	446,565	$ 243,641,523
Total	1,616,619	$ 39.94	1,616,619	$ 243,641,523

(1) For the quarter ended April 1, 2016, we purchased and retired 1,616,619 of our ordinary shares.
(2) On July 29, 2015, our Board of Directors approved a three-year stock repurchase program of up to $300 million of our ordinary shares.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

31.1*	Certification of Chief Executive Officer filed pursuant to 17 CFR 240.13a-14(a).
31.2*	Certification of Chief Financial Officer filed pursuant to 17 CFR 240.13a-14(a).
32*	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C. Section 1350.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

** Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of April 1, 2016 and January 1, 2016, (ii) Consolidated Statements of Income for the quarters ended April 1, 2016 and March 27, 2015, (iii) Consolidated Statements of Comprehensive Income for the quarters ended April 1, 2016 and March 27, 2015, (iv) Consolidated Statement of Cash Flows for the quarters ended April 1, 2016 and March 27, 2015 and (iv) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements 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.

		Fresh Del Monte Produce Inc.	
Date:	May 3, 2016	By:	/s/ Hani El-Naffy
			Hani El-Naffy
			President & Chief Operating Officer
		By:	/s/ Richard Contreras
			Richard Contreras
			Senior Vice President & Chief Financial Officer

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