

TIMKEN CO
Form 10-Q
November 04, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
OR

o 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: 1-1169
THE TIMKEN COMPANY
(Exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of
incorporation or organization)

34-0577130
(I.R.S. Employer Identification No.)

1835 Dueber Ave., SW, Canton, OH
(Address of principal executive offices)

44706-2798
(Zip Code)

330.438.3000

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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.

Large accelerated filer Accelerated filer

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at September 30, 2010

Common Stock, without par value

97,096,315 shares

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(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| (Dollars in millions, except per share data) | | | | |
| Net sales | \$ 1,059.7 | \$ 763.6 | \$ 2,984.8 | \$ 2,367.0 |
| Cost of products sold | 794.6 | 634.1 | 2,228.7 | 1,957.5 |
| Gross Profit | 265.1 | 129.5 | 756.1 | 409.5 |
| Selling, general and administrative expenses | 140.3 | 107.3 | 414.0 | 358.7 |
| Impairment and restructuring charges | 2.9 | 19.6 | 9.4 | 84.1 |
| Operating Income (Loss) | 121.9 | 2.6 | 332.7 | (33.3) |
| Interest expense | (9.1) | (10.3) | (28.7) | (27.2) |
| Interest income | 0.8 | 0.4 | 2.3 | 1.3 |
| Other (expense) income, net | (2.8) | (4.6) | (0.7) | 3.3 |
| Income (Loss) From Continuing Operations Before Income Taxes | 110.8 | (11.9) | 305.6 | (55.9) |
| Provision for income taxes | 38.6 | 7.1 | 122.7 | 2.9 |
| Income (Loss) From Continuing Operations | 72.2 | (19.0) | 182.9 | (58.8) |
| (Loss) income from discontinued operations, net of income taxes | (1.1) | (30.8) | 3.4 | (59.9) |
| Net Income (Loss) | 71.1 | (49.8) | 186.3 | (118.7) |
| Less: Net income (loss) attributable to noncontrolling interest | 0.8 | 0.4 | 1.8 | (4.9) |
| Net Income (Loss) Attributable to The Timken Company | \$ 70.3 | \$ (50.2) | \$ 184.5 | \$ (113.8) |
| Amounts Attributable to The Timken Company's Common Shareholders: | | | | |
| Income (loss) from continuing operations, net of income taxes | \$ 71.4 | \$ (19.4) | \$ 181.1 | \$ (53.9) |
| (Loss) income from discontinued operations, net of income taxes | (1.1) | (30.8) | 3.4 | (59.9) |
| Net Income (Loss) Attributable to The Timken Company | \$ 70.3 | \$ (50.2) | \$ 184.5 | \$ (113.8) |

Net Income (Loss) per Common Share Attributable to The Timken Company's Common Shareholders

| | | | | |
|---|----------------|------------------|----------------|------------------|
| Earnings (loss) per share - Continuing Operations | \$ 0.74 | \$ (0.20) | \$ 1.87 | \$ (0.55) |
| Earnings (loss) per share - Discontinued Operations | (0.01) | (0.32) | 0.04 | (0.62) |
| Basic earnings (loss) per share | \$ 0.73 | \$ (0.52) | \$ 1.91 | \$ (1.17) |
| Diluted earnings (loss) per share - Continuing Operations | \$ 0.73 | \$ (0.20) | \$ 1.86 | \$ (0.55) |
| Diluted earnings (loss) per share - Discontinued Operations | (0.01) | (0.32) | 0.03 | (0.62) |
| Diluted earnings (loss) per share | \$ 0.72 | \$ (0.52) | \$ 1.89 | \$ (1.17) |
| Dividends per share | \$ 0.13 | \$ 0.09 | \$ 0.35 | \$ 0.36 |

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents**Consolidated Balance Sheets**

| | (Unaudited) September 30, 2010 | December 31, 2009 |
|--|---|-------------------------|
| (Dollars in millions, except share data) | | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 899.8 | \$ 755.5 |
| Accounts receivable, less allowances: 2010 - \$30.8 million; 2009 - \$41.6 million | 552.2 | 411.2 |
| Inventories, net | 771.4 | 671.2 |
| Deferred income taxes | 62.1 | 61.5 |
| Deferred charges and prepaid expenses | 14.0 | 11.8 |
| Other current assets | 69.3 | 111.3 |
| Total Current Assets | 2,368.8 | 2,022.5 |
| Property, Plant and Equipment - Net | 1,256.6 | 1,335.2 |
| Other Assets | | |
| Goodwill | 228.2 | 221.7 |
| Other intangible assets | 125.2 | 132.1 |
| Deferred income taxes | 231.4 | 248.6 |
| Other non-current assets | 38.8 | 46.8 |
| Total Other Assets | 623.6 | 649.2 |
| Total Assets | \$ 4,249.0 | \$ 4,006.9 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Short-term debt | \$ 3.6 | \$ 26.3 |
| Accounts payable | 257.8 | 156.0 |
| Salaries, wages and benefits | 218.5 | 142.5 |
| Income taxes payable | 54.2 | - |
| Deferred income taxes | 9.1 | 9.2 |
| Other current liabilities | 162.3 | 189.3 |
| Current portion of long-term debt | 10.0 | 17.1 |
| Total Current Liabilities | 715.5 | 540.4 |
| Non-Current Liabilities | | |
| Long-term debt | 479.4 | 469.3 |
| Accrued pension cost | 554.9 | 690.9 |
| Accrued postretirement benefits cost | 594.3 | 604.2 |

| | | |
|--|-------------------|------------|
| Deferred income taxes | 6.6 | 6.1 |
| Other non-current liabilities | 104.3 | 100.4 |
| Total Non-Current Liabilities | 1,739.5 | 1,870.9 |
| Shareholders Equity | | |
| Class I and II Serial Preferred Stock without par value: | | |
| Authorized - 10,000,000 shares each class, none issued | - | - |
| Common stock without par value: | | |
| Authorized - 200,000,000 shares | | |
| Issued (including shares in treasury) (2010 - 98,153,317 shares; 2009 - 97,034,033 shares) | | |
| Stated capital | 53.1 | 53.1 |
| Other paid-in capital | 876.4 | 843.4 |
| Earnings invested in the business | 1,553.6 | 1,402.9 |
| Accumulated other comprehensive loss | (676.0) | (717.1) |
| Treasury shares at cost (2010 - 1,057,002 shares; 2009 - 179,963 shares) | (30.0) | (4.7) |
| Total Shareholders Equity | 1,777.1 | 1,577.6 |
| Noncontrolling interest | 16.9 | 18.0 |
| Total Equity | 1,794.0 | 1,595.6 |
| Total Liabilities and Equity | \$ 4,249.0 | \$ 4,006.9 |

See accompanying Notes to the Consolidated Financial Statements.

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(Unaudited)

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2010 | 2009 |
| (Dollars in millions) | | |
| CASH PROVIDED (USED) | | |
| Operating Activities | | |
| Net income (loss) attributable to The Timken Company | \$ 184.5 | \$(113.8) |
| (Earnings) loss from discontinued operations | (3.4) | 59.9 |
| Net income (loss) attributable to noncontrolling interest | 1.8 | (4.9) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 142.2 | 150.8 |
| Impairment charges | 2.0 | 36.1 |
| Loss on disposals of property, plant and equipment | 3.7 | 3.6 |
| Deferred income tax provision (benefit) | 15.3 | (0.9) |
| Stock-based compensation expense | 12.1 | 11.6 |
| Pension and other postretirement expense | 69.0 | 77.1 |
| Pension contributions and other postretirement benefit payments | (164.4) | (89.2) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (140.9) | 128.4 |
| Inventories | (95.2) | 311.5 |
| Accounts payable and accrued expenses | 146.2 | (144.2) |
| Income taxes | 131.5 | 7.6 |
| Other - net | 5.6 | (14.3) |
| Net Cash Provided by Operating Activities - Continuing Operations | 310.0 | 419.3 |
| Net Cash Provided by Operating Activities - Discontinued Operations | 3.4 | 4.9 |
| Net Cash Provided By Operating Activities | 313.4 | 424.2 |
| Investing Activities | | |
| Capital expenditures | (61.2) | (81.0) |
| Acquisitions (net of cash acquired) | (16.1) | (0.4) |
| Proceeds from disposals of property, plant and equipment | 1.0 | 2.9 |
| Investments | (30.0) | - |
| Other | (0.9) | 4.3 |
| Net Cash Used by Investing Activities - Continuing Operations | (107.2) | (74.2) |
| Net Cash Used by Investing Activities - Discontinued Operations | - | (1.5) |
| Net Cash Used by Investing Activities | (107.2) | (75.7) |
| Financing Activities | | |
| Cash dividends paid to shareholders | (33.8) | (34.6) |
| Net proceeds from common share activity | 29.5 | 0.7 |
| Purchase of treasury shares | (29.2) | - |
| Proceeds from issuance of long-term debt | 15.4 | 254.1 |

| | | |
|---|-----------------|-----------------|
| Increase in restricted cash | - | (248.2) |
| Payments on long-term debt | (12.6) | (53.4) |
| Short-term debt activity - net | (22.2) | (37.0) |
| Other | (3.5) | - |
| Net Cash Used by Financing Activities | (56.4) | (118.4) |
| Effect of exchange rate changes on cash | (5.5) | 19.3 |
| Increase In Cash and Cash Equivalents | 144.3 | 249.4 |
| Cash and cash equivalents at beginning of year | 755.5 | 133.4 |
| Cash and Cash Equivalents at End of Period | \$ 899.8 | \$ 382.8 |

See accompanying the Notes to the Consolidated Financial Statements.

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(Dollars in millions, except share and per share data)

Note 1 Basis of Presentation

The accompanying Consolidated Financial Statements (unaudited) for The Timken Company (the Company) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by the accounting principles generally accepted in the United States (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to the Consolidated Financial Statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Certain amounts in the 2009 Consolidated Financial Statements have been reclassified to conform to the 2010 presentation.

During the first quarter of 2009, the Company recorded two adjustments related to its 2008 Consolidated Financial Statements. Net income (loss) attributable to noncontrolling interest increased by \$6.1 million (after-tax) due to a correction of an error related to the \$18.4 million goodwill impairment loss the Company recorded in the fourth quarter of 2008 for the Mobile Industries segment. In recording this goodwill impairment loss, the Company did not recognize that a portion of the loss related to two separate subsidiaries in India and South Africa of which the Company holds less than 100% ownership. In addition, income (loss) from continuing operations before income taxes decreased by \$3.4 million, or \$0.04 per share, (\$2.0 million after-tax or \$0.02 per share) due to a correction of an error related to \$3.4 million of in-process research and development costs that were recorded in other current assets with the anticipation of being paid for by a third-party. However, the Company subsequently realized that the balance could not be substantiated through a contract with a third party. The net effect of these errors understated 2008 net income attributable to The Timken Company of \$267.7 million by \$4.1 million. Furthermore, the net effect of these errors overstated the Company's first quarter 2009 net income attributable to The Timken Company of \$0.9 million by \$4.1 million. Had these adjustments been recorded in the fourth quarter of 2008, rather than the first quarter of 2009, the results for the first quarter of 2009 would have been a net loss attributable to The Timken Company of \$3.2 million. Management of the Company concluded the effect of the first quarter adjustments was immaterial to the Company's 2008 and first-quarter 2009 financial statements, as well as to the full-year 2009 financial statements.

Note 2 New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance that amended the accounting and disclosure requirements for the consolidation of variable interest entities. The implementation of the new accounting guidance related to variable interest entities, effective January 1, 2010, did not have a material impact on the Company's results of operations and financial condition.

Note 3 Inventories

| | September 30, 2010 | December 31, 2009 |
|-----------------------------------|-----------------------------------|-------------------------|
| Inventories, net: | | |
| Manufacturing supplies | \$ 59.4 | \$ 53.0 |
| Work in process and raw materials | 361.0 | 269.1 |
| Finished products | 351.0 | 349.1 |
| Total Inventories, net | \$ 771.4 | \$ 671.2 |

An actual valuation of the inventory under the last-in, first-out (LIFO) method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these calculations are subject to many factors beyond management's control, annual results may differ from interim results as they are subject to the

final year-end LIFO inventory valuation. The LIFO reserve at September 30, 2010 and December 31, 2009 was \$247.9 million and \$237.7 million, respectively. The Company recognized an increase in its LIFO reserve of \$3.6 million and \$10.2 million during the third quarter and first nine months of 2010 compared to a decrease in its LIFO reserve of \$12.9 million and \$26.2 million during the third quarter and first nine months of 2009.

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Note 4 Property, Plant and Equipment

The components of property, plant and equipment are as follows:

| | September 30, 2010 | December 31, 2009 |
|-------------------------------------|-----------------------------------|-------------------------|
| Property, Plant and Equipment: | | |
| Land and buildings | \$ 607.8 | \$ 611.7 |
| Machinery and equipment | 2,813.2 | 2,786.4 |
| Subtotal | 3,421.0 | 3,398.1 |
| Less allowances for depreciation | (2,164.4) | (2,062.9) |
| Property, Plant and Equipment - net | \$ 1,256.6 | \$ 1,335.2 |

At September 30, 2010 and December 31, 2009, machinery and equipment included approximately \$103.2 million and \$104.3 million, respectively, of capitalized software. Depreciation expense for the three months ended September 30, 2010 and 2009 was \$44.5 million and \$45.8 million, respectively. Depreciation expense for the first nine months ended September 30, 2010 and 2009 was \$134.6 million and \$140.6 million, respectively. Depreciation expense on capitalized software for the three months ended September 30, 2010 and 2009 was approximately \$4.7 million and \$5.6 million, respectively. Depreciation expense on capitalized software for the nine months ended September 30, 2010 and 2009 was approximately \$12.6 million and \$15.9 million, respectively.

Note 5 Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2010 is as follows:

| | Beginning Balance | Acquisitions | Impairment | Other | Ending Balance |
|-----------------------|------------------------------|---------------------|-------------------|--------------|---------------------------|
| Segment: | | | | | |
| Process Industries | \$ 49.5 | \$ 7.6 | \$ - | \$ (0.9) | \$ 56.2 |
| Aerospace and Defense | 162.6 | - | - | (0.2) | 162.4 |
| Steel | 9.6 | - | - | - | 9.6 |
| Total | \$ 221.7 | \$ 7.6 | \$ - | \$ (1.1) | \$ 228.2 |

The change related to acquisitions reflects the preliminary purchase price allocation due to the QM Bearings and Power Transmission, Inc. acquisition completed on September 21, 2010. Other primarily includes foreign currency translation adjustments.

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The following table displays intangible assets as of September 30, 2010 and December 31, 2009:

| | As of September 30, 2010 | | | As of December 31, 2009 | | |
|--|--------------------------|--------------------------|---------------------|-------------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets subject to amortization: | | | | | | |
| Customer relationships | \$ 79.1 | \$ 17.5 | \$ 61.6 | \$ 79.1 | \$ 14.3 | \$ 64.8 |
| Engineering drawings | 2.0 | 2.0 | - | 2.0 | 2.0 | - |
| Know-how | 2.0 | 1.0 | 1.0 | 2.1 | 0.9 | 1.2 |
| Industrial license agreements | 0.1 | 0.1 | - | - | - | - |
| Land-use rights | 8.1 | 3.2 | 4.9 | 7.9 | 3.0 | 4.9 |
| Patents | 4.4 | 3.2 | 1.2 | 4.4 | 2.9 | 1.5 |
| Technology use | 35.6 | 5.7 | 29.9 | 35.6 | 4.2 | 31.4 |
| Trademarks | 6.0 | 5.0 | 1.0 | 6.0 | 4.7 | 1.3 |
| PMA licenses | 8.8 | 2.5 | 6.3 | 8.8 | 2.2 | 6.6 |
| Non-compete agreements | 2.7 | 1.7 | 1.0 | 2.7 | 1.2 | 1.5 |
| Unpatented technology | 7.6 | 5.9 | 1.7 | 7.6 | 5.3 | 2.3 |
| | \$ 156.4 | \$ 47.8 | \$ 108.6 | \$ 156.2 | \$ 40.7 | \$ 115.5 |
| Intangible assets not subject to amortization: | | | | | | |
| Goodwill | \$ 228.2 | \$ - | \$ 228.2 | \$ 221.7 | \$ - | \$ 221.7 |
| Tradenname | 1.4 | - | 1.4 | 1.4 | - | 1.4 |
| Industrial license agreements | 1.0 | - | 1.0 | 1.0 | - | 1.0 |
| FAA air agency certificates | 14.2 | - | 14.2 | 14.2 | - | 14.2 |
| | \$ 244.8 | \$ - | \$ 244.8 | \$ 238.3 | \$ - | \$ 238.3 |
| Total intangible assets | \$ 401.2 | \$ 47.8 | \$ 353.4 | \$ 394.5 | \$ 40.7 | \$ 353.8 |

Amortization expense for intangible assets for the three months and nine months ended September 30, 2010 was \$2.4 million and \$7.2 million, respectively. Amortization expense for intangible assets is estimated to be approximately \$11.4 million for 2010; \$11.0 million in 2011; \$10.6 million in 2012; \$8.1 million in 2013 and \$7.7 million in 2014.

Note 6 Financing Arrangements

Short-term debt at September 30, 2010 and December 31, 2009 was as follows:

| September 30, 2010 | December 31, 2009 |
|--------------------|-------------------|
|--------------------|-------------------|

| | | | | |
|---|----|------------|----|------|
| Variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 3.95% to 4.62% and 1.98% to 5.05% at September 30, 2010 and December 31, 2009, respectively | \$ | 3.6 | \$ | 26.3 |
| Short-term debt | \$ | 3.6 | \$ | 26.3 |

The lines of credit for certain of the Company's foreign subsidiaries provide for borrowings up to \$292.0 million. At September 30, 2010, the Company had borrowings outstanding of \$3.6 million, which reduced the availability under these facilities to \$288.4 million.

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The Company has a \$100 million Accounts Receivable Securitization Financing Agreement (Asset Securitization Agreement), which expires November 15, 2010. Under the terms of the Asset Securitization Agreement, the Company sells, on an ongoing basis, certain domestic trade receivables to Timken Receivables Corporation, a wholly-owned consolidated subsidiary that in turn uses the trade receivables to secure borrowings, which are funded through a vehicle that issues commercial paper in the short-term market. Borrowings under the agreement are limited to certain borrowing base calculations. Any amounts outstanding under this Asset Securitization Agreement would be reported on the Company's Consolidated Balance Sheet in short-term debt. As of September 30, 2010, there were no outstanding borrowings under the Asset Securitization Agreement. The cost of this credit facility, which is the commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statement of Income.

Long-term debt at September 30, 2010 and December 31, 2009 was as follows:

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------------------|-------------------------|
| Fixed-rate Medium-Term Notes, Series A, due at various dates through May 2028, with interest rates ranging from 6.74% to 7.76% | \$ 175.0 | \$ 175.0 |
| Fixed-rate Senior Unsecured Notes, due September 15, 2014, with an interest rate of 6.0% | 249.7 | 249.7 |
| Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.24% at September 30, 2010) | 12.2 | 12.2 |
| Variable-rate State of Ohio Air Quality Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.37% at September 30, 2010) | 9.5 | 9.5 |
| Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 (0.38% at September 30, 2010) | 17.0 | 17.0 |
| Variable-rate credit facility with US Bank for Advanced Green Components, LLC, maturing on July 17, 2011 (1.44% at September 30, 2010) | 4.8 | 6.1 |
| Variable-rate credit facility with US Bank for Advanced Green Components, LLC, guaranteed by The Timken Company, maturing on July 17, 2011 (3.76% at September 30, 2010) | 2.5 | 5.6 |
| Other | 18.7 | 11.3 |
| | 489.4 | 486.4 |
| Less current maturities | 10.0 | 17.1 |
| Long-term debt | \$ 479.4 | \$ 469.3 |

On July 10, 2009, the Company entered into a new \$500 million Amended and Restated Credit Agreement (Senior Credit Facility). At September 30, 2010, the Company had no outstanding borrowings under its Senior Credit Facility but had letters of credit outstanding totaling \$17.2 million, which reduced the availability under the Senior Credit Facility to \$482.8 million. This Senior Credit Facility matures on July 10, 2012. Under the Senior Credit Facility, the Company has three financial covenants: a consolidated leverage ratio, a consolidated interest coverage ratio and a consolidated minimum tangible net worth test. At September 30, 2010, the Company was in full compliance with the covenants under the Senior Credit Facility.

Advanced Green Components, LLC (AGC) is a joint venture of the Company. The Company is the guarantor of \$2.5 million of AGC's \$7.3 million credit facility with US Bank. Effective as of July 17, 2010, AGC renewed its credit facility with US Bank for another 365 days.

Lines of credit for certain of the Company's foreign subsidiaries also provide for long-term borrowings up to \$27.1 million. At September 30, 2010, the Company had borrowings outstanding of \$15.8 million, which reduced the availability under these long-term facilities to \$11.3 million.

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Note 7 Product Warranty

The Company provides limited warranties on certain of its products. The Company accrues liabilities for warranty based upon specific claims and a review of historical warranty claim experience in accordance with accounting rules for contingent liabilities. Should the Company become aware of a specific potential warranty claim for which liability is probable and reasonably estimable, a specific charge is recorded and accounted for accordingly. Adjustments are made quarterly to the accruals as claim data and historical experience change.

The following is a rollforward of the warranty accruals for the nine months ended September 30, 2010 and the twelve months ended December 31, 2009:

| | September 30, 2010 | December 31, 2009 |
|------------------------------|-----------------------------------|-------------------------|
| Beginning balance, January 1 | \$ 5.4 | \$ 13.5 |
| Expense | 3.1 | 4.7 |
| Payments | (0.9) | (12.8) |
| Ending balance | \$ 7.6 | \$ 5.4 |

The product warranty accrual at September 30, 2010 and December 31, 2009 was included in other current liabilities on the Consolidated Balance Sheet.

Note 8 Equity

| | Total | The Timken Company Shareholders | | | | | |
|--|------------|---------------------------------|-----------------------------|--|---|-------------------|----------------------------|
| | | Stated Capital | Other Paid-In Capital | Earnings Invested in the Business | Accumulated Other Comprehensive Income | Treasury Stock | Noncontrolling Interest |
| Balance at December 31, 2009 | \$ 1,595.6 | \$ 53.1 | \$ 843.4 | \$ 1,402.9 | \$ (717.1) | \$ (4.7) | \$ 18.0 |
| Net income | 186.3 | | | 184.5 | | | 1.8 |
| Foreign currency translation adjustment | (5.8) | | | | (5.8) | | |
| Pension and postretirement liability adjustment (net of income tax of \$2.1 million) | 47.8 | | | | 47.8 | | |
| Unrealized loss on marketable securities | (0.2) | | | | (0.2) | | |
| Change in fair value of derivative financial instruments, net of reclassifications | (0.7) | | | | (0.7) | | |

| | | | | | | | | |
|---|-------------------|----------------|-----------------|-------------------|-------------------|------------------|-----------|-------------|
| Total comprehensive loss | 227.4 | | | | | | | |
| Change in ownership of Timken Bearing Services South Africa | (3.5) | (1.0) | | | | | (2.5) | |
| Dividends declared to noncontrolling interest | (0.4) | | | | | | (0.4) | |
| Dividends - \$0.35 per share | (33.8) | | | (33.8) | | | | |
| Tax benefit from compensation | 2.0 | 2.0 | | | | | | |
| Stock-based compensation expense | 12.1 | 12.1 | | | | | | |
| Issuance (tender) of 877,039 shares from treasury | (22.9) | 2.4 | | | | (25.3) | | |
| Issuance of 1,119,284 shares from authorized | 17.5 | 17.5 | | | | | | |
| Balance at September 30, 2010 | \$ 1,794.0 | \$ 53.1 | \$ 876.4 | \$ 1,553.6 | \$ (676.0) | \$ (30.0) | \$ | 16.9 |

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The total comprehensive income for the three months and nine months ended September 30, 2010 was \$138.9 million and \$227.4 million, respectively. The total comprehensive income for the three months and nine months ended September 30, 2009 was \$5.7 million and \$46.2 million, respectively.

The pension and postretirement liability adjustment of \$47.8 million for the nine months ended September 30, 2010 includes a \$14.1 million prior period adjustment (benefit) related to deferred taxes on post-retirement prescription drug benefits, specifically the employer subsidy provided by the U.S. government under Medicare Part D. Refer to Note 13 Income Taxes in the Notes to the Consolidated Financial Statements for further discussion on this prior period adjustment.

Note 9 Earnings Per Share

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share for the three months and nine months ended September 30, 2010 and 2009:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|------------|--|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Numerator: | | | | |
| Income (Loss) from continuing operations attributable to The Timken Company | \$ 71.4 | \$ (19.4) | \$ 181.1 | \$ (53.9) |
| Less: undistributed earnings (loss) allocated to nonvested stock | 0.3 | (0.2) | 0.8 | (0.6) |
| Income (Loss) from continuing operations available to common shareholders for basic earnings (loss) per share and diluted earnings (loss) per share | 71.1 | (19.2) | 180.3 | (53.3) |
| Denominator: | | | | |
| Weighted average number of shares outstanding - basic | 96,400,592 | 96,176,091 | 96,373,151 | 96,111,847 |
| Effect of dilutive options | 1,011,089 | - | 640,933 | - |
| Weighted average number of shares outstanding, assuming dilution of stock options | 97,411,681 | 96,176,091 | 97,014,084 | 96,111,847 |
| Basic earnings (loss) per share from continuing operations | \$ 0.74 | \$ (0.20) | \$ 1.87 | \$ (0.55) |
| Diluted earnings (loss) per share from continuing operations | \$ 0.73 | \$ (0.20) | \$ 1.86 | \$ (0.55) |

The exercise prices for certain stock options that the Company has awarded may exceed the average market price of the Company's common stock. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. There were no antidilutive stock options outstanding for the three months ended September 30, 2010 and 3,759,975 shares of antidilutive stock options in the three months ended September 30, 2009. The antidilutive stock options outstanding were 1,307,303 and 4,275,871 for the nine months ended September 30, 2010 and 2009, respectively.

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Note 10 Segment Information

The primary measurement used by management to measure the financial performance of each segment is adjusted EBIT (earnings before interest and taxes, excluding the effect of amounts related to certain items that management considers not representative of ongoing operations such as impairment and restructuring, manufacturing rationalization and integration costs, one-time gains and losses on disposal of non-strategic assets, allocated receipts received or payments made under the U.S. Continued Dumping and Subsidy Offset Act (CDSOA) and gains and losses on the dissolution of subsidiaries).

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|------------------|--------------------------|-------------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales to external customers: | | | | |
| Mobile Industries | \$ 404.1 | \$ 327.6 | \$ 1,172.0 | \$ 920.4 |
| Process Industries | 233.7 | 186.4 | 650.6 | 616.9 |
| Aerospace and Defense | 81.0 | 100.2 | 255.8 | 318.7 |
| Steel | 340.9 | 149.4 | 906.4 | 511.0 |
| | \$ 1,059.7 | \$ 763.6 | \$ 2,984.8 | \$ 2,367.0 |
| Intersegment sales: | | | | |
| Process Industries | \$ 0.8 | \$ 0.6 | \$ 2.1 | \$ 2.2 |
| Steel | 30.4 | 8.5 | 73.3 | 30.4 |
| | \$ 31.2 | \$ 9.1 | \$ 75.4 | \$ 32.6 |
| Segment EBIT, as adjusted: | | | | |
| Mobile Industries | \$ 60.6 | \$ 13.7 | \$ 171.5 | \$ (0.6) |
| Process Industries | 37.2 | 16.0 | 93.0 | 94.6 |
| Aerospace and Defense | 3.8 | 19.1 | 23.8 | 55.9 |
| Steel | 41.3 | (20.2) | 104.2 | (60.4) |
| Total EBIT, as adjusted, for reportable segments | \$ 142.9 | \$ 28.6 | \$ 392.5 | \$ 89.5 |
| Unallocated corporate expenses | (17.6) | (10.3) | (49.2) | (35.8) |
| Impairment and restructuring | (2.9) | (19.6) | (9.4) | (84.1) |
| Rationalization and integration charges | (2.7) | (1.5) | (4.8) | (5.2) |
| Other | 0.4 | (2.6) | 0.3 | (0.6) |
| Interest expense | (9.1) | (10.3) | (28.7) | (27.2) |
| Interest income | 0.8 | 0.4 | 2.3 | 1.3 |
| Intersegment adjustments | (1.0) | 3.4 | 2.6 | 6.2 |
| Income (loss) from continuing operations before income taxes | \$ 110.8 | \$ (11.9) | \$ 305.6 | \$ (55.9) |

Intersegment sales represent sales between the segments. These sales are eliminated upon consolidation.

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Note 11 Impairment and Restructuring Charges

Impairment and restructuring charges by segment are comprised of the following:

For the three months ended September 30, 2010:

| | Mobile Industries | Process Industries | Aerospace & Defense | Steel | Corporate | Total |
|--|------------------------------|-------------------------------|--|--------------|------------------|--------------|
| Impairment charges | \$ 1.5 | \$ 0.5 | \$ - | \$ - | \$ - | \$ 2.0 |
| Severance expense and related benefit costs | (0.1) | (0.6) | 0.5 | - | - | (0.2) |
| Exit costs | 0.8 | 0.1 | 0.2 | - | - | 1.1 |
| Total | \$ 2.2 | \$ - | \$ 0.7 | \$ - | \$ - | \$ 2.9 |

For the three months ended September 30, 2009:

| | Mobile Industries | Process Industries | Aerospace & Defense | Steel | Corporate | Total |
|--|------------------------------|-------------------------------|--|--------------|------------------|--------------|
| Severance expense and related benefit costs | \$ 11.4 | \$ 6.5 | \$ 0.7 | \$ - | \$ 0.2 | \$ 18.8 |
| Exit costs | 0.6 | 0.2 | - | - | - | 0.8 |
| Total | \$ 12.0 | \$ 6.7 | \$ 0.7 | \$ - | \$ 0.2 | \$ 19.6 |

For the nine months ended September 30, 2010:

| | Mobile Industries | Process Industries | Aerospace & Defense | Steel | Corporate | Total |
|--|------------------------------|-------------------------------|--|--------------|------------------|--------------|
| Impairment charges | \$ 1.5 | \$ 0.5 | \$ - | \$ - | \$ - | \$ 2.0 |
| Severance expense and related benefit costs | 1.6 | 1.0 | 1.9 | (0.1) | 0.6 | 5.0 |
| Exit costs | 1.7 | 0.2 | 0.5 | - | - | 2.4 |
| Total | \$ 4.8 | \$ 1.7 | \$ 2.4 | \$ (0.1) | \$ 0.6 | \$ 9.4 |

For the nine months ended September 30, 2009:

| | Mobile Industries | Process Industries | Aerospace & Defense | Steel | Corporate | Total |
|--|------------------------------|-------------------------------|--|--------------|------------------|--------------|
|--|------------------------------|-------------------------------|--|--------------|------------------|--------------|

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| | | | | | | |
|--|---------|---------|--------|--------|--------|---------|
| Impairment charges | \$ 3.0 | \$ 29.8 | \$ 2.0 | \$ - | \$ - | \$ 34.8 |
| Severance expense and related benefit costs | 27.5 | 11.3 | 2.2 | 3.2 | 2.1 | 46.3 |
| Exit costs | 1.4 | 1.6 | - | - | - | 3.0 |
| Total | \$ 31.9 | \$ 42.7 | \$ 4.2 | \$ 3.2 | \$ 2.1 | \$ 84.1 |

The following discussion explains the major impairment and restructuring charges recorded for the periods presented; however, it is not intended to reflect a comprehensive discussion of all amounts in the tables above.

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Selling and Administrative Reductions

In March 2009, the Company announced the realignment of its organization to improve efficiency and reduce costs as a result of the economic downturn. During the first nine months of 2010, the Company recorded \$0.7 million of severance and related benefit costs related to this initiative to eliminate approximately 25 associates, which primarily related to Corporate. During the first nine months of 2009, the Company recorded \$10.6 million of severance and related benefit costs related to this initiative to eliminate approximately 270 associates. Of the \$10.6 million charge for the first nine months of 2009, \$4.5 million related to the Mobile Industries segment, \$2.1 million related to Corporate, \$1.9 million related to the Process Industries segment, \$1.5 million related to the Steel segment and \$0.6 million related to the Aerospace and Defense segment.

Manufacturing Workforce Reductions

During the third quarter and first nine months of 2010, the Company recorded \$0.5 million and \$4.6 million, respectively, in severance and related benefit costs to eliminate approximately 180 associates to properly align its business as a result of the downturn in the economy and expected market demand. The \$0.5 million charge for the third quarter of 2010 primarily related to the Aerospace and Defense segment. Of the \$4.6 million charge for the first nine months of 2010, \$1.8 million related to the Aerospace and Defense segment, \$1.4 million related to the Mobile Industries segment and \$1.4 million related to the Process Industries segment. In addition, the Company recorded \$0.4 million and \$1.4 million, respectively, of exit costs in the third quarter and first nine months of 2010 related to these reductions. During the third quarter and first nine months of 2009, the Company recorded \$13.6 million and \$28.8 million, respectively, in severance and related benefit costs, including a curtailment of pension benefits of \$1.6 million for the first nine months of 2009, to eliminate approximately 3,000 associates to properly align its business as a result of the economic downturn and expected market demand. Of the \$13.6 million charge for the third quarter of 2009, \$10.3 million related to the Mobile Industries segment, \$2.3 million related to the Process Industries segment and \$1.0 million related to the Aerospace and Defense segment. Of the \$28.8 million charge for the first nine months of 2009, \$20.6 million related to the Mobile Industries segment, \$4.8 million related to the Process Industries segment, \$1.7 million related to the Aerospace and Defense segment and \$1.7 million related to the Steel segment.

Torrington Campus

On July 20, 2009, the Company sold the remaining portion of its Torrington, Connecticut office complex. In anticipation of the loss that the Company expected to record upon completion of the sale of this property, the Company recorded an impairment charge of \$6.4 million during the second quarter of 2009. During the third quarter of 2009, the Company recorded an additional loss of approximately \$0.7 million in other (expense) income, net on the sale of the remaining portion of this office complex.

Mobile Industries

In March 2007, the Company announced the closure of its manufacturing facility in Sao Paulo, Brazil. The Company completed the closure of this manufacturing facility on March 31, 2010. The Company expects to incur pretax costs of up to approximately \$30 million, which includes restructuring costs and rationalization costs recorded in cost of products sold and selling, general and administrative expenses. Mobile Industries has incurred cumulative pretax costs of approximately \$27.6 million as of September 30, 2010 related to this closure. During the third quarter and first nine months of 2010, the Company recorded \$1.1 million of impairment charges associated with the closure of the Company's Sao Paulo, Brazil manufacturing facility. The impairment charges were recorded as a result of the carrying value of certain machinery and equipment exceeding their expected future cash flows. In addition, the Company recorded \$0.3 million of severance and related benefit costs during the first nine months of 2010. During the third quarter and first nine months of 2009, the Company recorded \$1.3 million and \$2.5 million, respectively, of severance and related benefit costs and exit costs of \$0.7 million and \$1.5 million, respectively, associated with the closure of this facility.

In addition to the above charges, the Company recorded impairment charges of \$0.8 million during the first nine months of 2009 related to an impairment of fixed assets at one of its facilities in France as a result of the carrying value of these assets exceeding expected future cash flows.

Process Industries

In May 2004, the Company announced plans to rationalize its three bearing plants in Canton, Ohio within the Process Industries segment. The Company expects to incur pretax costs of approximately \$70 million to \$80 million (including pretax cash costs of approximately \$40 million), by the end of 2010.

The Company recorded impairment charges of \$27.7 million and exit costs of \$1.6 million during the first nine months of 2009 as a result of the Process Industries rationalization plans. The significant impairment charge recorded during the first nine months of 2009 was a result of the rapid deterioration of the market sectors served by one of the rationalized plants resulting in the carrying value of the fixed assets for this plant exceeding their projected future cash flows. The Company then arrived at fair value by either valuing the assets in use, where the assets were still producing product, or in exchange, where the assets had been idled. The fair value was determined based on market comparisons of similar assets. The Company closed this plant at the end of 2009. Including rationalization costs recorded in cost of products sold and selling, general and administrative expenses, the Process Industries segment has incurred cumulative pretax costs of approximately \$70.5 million as of September 30, 2010 for these rationalization plans.

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In October 2009, the Company announced the consolidation of its distribution centers in Bucyrus, Ohio and Spartanburg, South Carolina into a larger, leased facility in the region surrounding the existing Spartanburg location. The closure of the Bucyrus Distribution Center will displace approximately 260 employees. During the third quarter of 2009, the Company recorded \$4.5 million of severance and related benefit costs related to this closure. During the third quarter of 2010, the Company reduced its accruals for severance and related benefits by \$0.7 million. The Company expects to complete the closure of the Bucyrus Distribution Center during the first quarter of 2011.

The following is a rollforward of the consolidated restructuring accrual for the nine months ended September 30, 2010 and the twelve months ended December 31, 2009:

| | September 30, 2010 | December 31, 2009 |
|------------------------------|-----------------------------------|-------------------------|
| Beginning balance, January 1 | \$ 34.0 | \$ 17.0 |
| Expense | 7.4 | 55.6 |
| Payments | (24.2) | (38.6) |
| Ending balance | \$ 17.2 | \$ 34.0 |

The restructuring accrual at September 30, 2010 and December 31, 2009 was included in other current liabilities on the Consolidated Balance Sheet. The restructuring accrual at December 31, 2009 excludes costs related to the curtailment of pension benefit plans of \$0.9 million. The accrual at September 30, 2010 includes \$10.0 million of severance and related benefits, with the remainder of the balance primarily representing environmental exit costs. The majority of the \$10.0 million accrual relating to severance and related benefits is expected to be paid by the end of 2011.

Note 12 Retirement and Postretirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company's retirement and postretirement benefit plans. The amounts for the three months and nine months ended September 30, 2010 are based on actuarial calculations prepared during 2009 and updated in June 2010. The net periodic benefit cost recorded for the three months ended and nine months ended September 30, 2010 is the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ended December 31, 2010.

| | Pension | | Postretirement | |
|--|--|---------|--|---------|
| | Three Months Ended September 30, 2010 | 2009 | Three Months Ended September 30, 2010 | 2009 |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 8.4 | \$ 9.6 | \$ 0.5 | \$ 0.7 |
| Interest cost | 39.6 | 39.5 | 8.8 | 9.7 |
| Expected return on plan assets | (50.2) | (48.5) | - | - |
| Amortization of prior service cost (credit) | 2.4 | 2.9 | (0.4) | (0.6) |
| Amortization of net actuarial loss | 13.0 | 9.0 | 1.0 | 0.9 |
| Curtailements and settlements | - | 2.8 | - | 3.4 |
| Net periodic benefit cost | \$ 13.2 | \$ 15.3 | \$ 9.9 | \$ 14.1 |

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| | Pension | | Postretirement | |
|--|--------------------------|-------------|--------------------------|-------------|
| | Nine Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ 24.9 | \$ 28.8 | \$ 1.6 | \$ 2.0 |
| Interest cost | 118.6 | 117.6 | 26.3 | 29.1 |
| Expected return on plan assets | (150.3) | (144.7) | - | - |
| Amortization of prior service cost (credit) | 7.1 | 8.6 | (1.1) | (1.7) |
| Amortization of net actuarial loss | 38.9 | 26.8 | 3.0 | 2.8 |
| Curtailments and settlements | - | 4.4 | - | 3.4 |
| Net periodic benefit cost | \$ 39.2 | \$ 41.5 | \$ 29.8 | \$ 35.6 |

On February 12, 2009, the Company was informed of alleged irregularities in the operation of an equity-related investment in its defined benefit pension plans. A court-appointed receiver is now in control of the investment firm and is conducting an ongoing investigation into the matter. In the fourth quarter of 2009, the Company reduced the value of this investment to its estimated net realizable value of \$19.3 million (the original investment was \$50 million), reflecting the receiver's preliminary findings. The actual net realizable value of this investment may be more or less than estimated. In July 2010, the Company received \$20 million of insurance proceeds related to this loss.

Note 13 Income Taxes

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Provision for income taxes | \$ 38.6 | \$ 7.1 | \$ 122.7 | \$ 2.9 |
| Effective tax rate | 34.8% | (60.4)% | 40.2% | (5.2)% |

The Company's provision for income taxes in interim periods is computed in accordance with Accounting Standards Codification 740 by applying the appropriate annual effective tax rates to income or loss before income taxes for the period. In addition, non-recurring or discrete items, including interest on prior year tax liabilities, are recorded during the period(s) in which they occur.

The effective tax rate on the pretax income for the third quarter of 2010 was favorable relative to the U.S. federal statutory tax rate of 35% primarily due to earnings in certain foreign jurisdictions where the effective tax rate is less than 35% and the U.S. manufacturing deduction, partially offset by losses at certain foreign subsidiaries where no tax benefit could be recorded, U.S. state and local tax and the net effect of other U.S. tax items.

The effective tax rate on the pretax income for the first nine months of 2010 was unfavorable relative to the U.S. federal statutory tax rate of 35% primarily due to a \$21.6 million charge recorded to reflect the deferred tax impact of the enactment of the U.S. Patient Protection and Affordable Care Act (as amended) enacted in the first quarter of 2010, losses at certain foreign subsidiaries where no tax benefit could be recorded, U.S. state and local taxes and the net effect of other U.S. tax items. These increases were partially offset by the earnings in certain foreign jurisdictions where the effective tax rate is less than 35%.

The effective tax rates on the pretax losses for the third quarter and the first nine months of 2009 were unfavorable relative to the U.S. federal statutory tax rate of 35% primarily due to losses in certain foreign jurisdictions where no tax benefit could be recorded, as well as the net impact of discrete tax adjustments recorded during the periods. These

items were partially offset by earnings in certain foreign jurisdictions where the effective tax rate is less than 35% and the net effect of other U.S. items.

In the first nine months of 2010, the Company's unrecognized tax benefits decreased by \$15.3 million. This related to a decrease of \$19.2 million related to settlements with tax authorities, a decrease of \$3.0 million related to lapses in statutes of limitation, offset by an increase of \$6.6 million for tax positions related to prior years, and an increase of \$0.3 million related to tax positions in the current year. As of September 30, 2010, the Company has approximately \$62.5 million of total gross unrecognized tax benefits. Included in this amount is approximately \$45.6 million, which represents the amount of unrecognized tax benefits that would favorably impact the Company's effective income tax rate in any future periods if such benefits were recognized.

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In the first quarter of 2010, the Company recorded a \$14.1 million adjustment to other comprehensive income for deferred taxes on postretirement prescription drug benefits, specifically the employer subsidy provided by the U.S. government under the Medicare Part D program (the Medicare subsidy). The Company determined it had provided deferred taxes on postretirement benefit plan accruals recorded through other comprehensive income net of the Medicare subsidy, rather than on a gross basis. The cumulative impact of this error resulted in a cumulative understatement of deferred tax assets totaling \$14.1 million and a corresponding overstatement of accumulated other comprehensive loss. Management concluded the effect of the adjustment was not material to the Company's prior three fiscal years and the first quarter of 2010 financial statements, as well as the estimated full-year 2010 financial statements.

Note 14 Acquisitions and Divestitures

On September 21, 2010, the Company completed the acquisition of the business of QM Bearings and Power Transmission, Incorporated (QM), based in Ferndale, Washington, for \$16.9 million. QM manufactures spherical roller-bearing steel-housed units and elastomeric and steel couplings used in demanding processes applications such as sawmill, logging and cement operations. QM had sales of more than \$14 million in the last twelve months. The Company has preliminarily allocated the purchase price to assets of \$19.1 million, including \$0.8 million of cash and cash equivalents, \$2.3 million of accounts receivable, \$5.7 million of inventory, \$1.4 million of property, plant and equipment and \$7.6 million of goodwill, and liabilities of \$2.2 million.

On December 31, 2009, the Company completed the sale of the assets of its Needle Roller Bearings (NRB) operations to JTEKT Corporation (JTEKT). The Company received approximately \$304 million in cash proceeds for these operations and retained certain receivables, subject to post-sale working capital adjustments. The NRB operations primarily serve the automotive original-equipment market sectors and manufacture highly engineered needle roller bearings, including an extensive range of radial and thrust needle roller bearings bearing assemblies and loose needles for automotive and industrial applications. The NRB operations have facilities in the United States, Canada, Europe and China. Results for 2009 for the NRB operations are presented as discontinued operations.

The following results of operations for this business have been treated as discontinued operations for all periods presented.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ - | \$ 103.0 | \$ - | \$ 288.9 |
| Cost of goods sold | - | 89.9 | - | 284.8 |
| Gross profit | - | 13.1 | - | 4.1 |
| Selling, administrative and general expenses | - | 15.9 | - | 45.7 |
| Impairment and restructuring charges | - | 48.6 | - | 53.8 |
| Interest expense, net | - | - | - | 0.1 |
| Other (expense) income, net | - | (0.6) | - | (1.5) |
| (Loss) before income taxes on operations | - | (52.0) | - | (97.0) |
| Income tax benefit on operations | - | 21.2 | - | 37.1 |
| (Loss) gain on divestiture | (1.5) | - | 5.4 | - |
| Income tax benefit (expense) on disposal | 0.4 | - | (2.0) | - |
| (Loss) income from discontinued operations | \$ (1.1) | \$ (30.8) | \$ 3.4 | \$ (59.9) |

During the third quarter of 2010, the Company recorded an adjustment related to its 2009 Consolidated Financial Statements. (Loss) income from discontinued operations, net of income taxes, decreased \$1.3 million (after-tax) due to a correction of an error related to a foreign currency translation adjustment for the Company's Canadian operations that were sold as part of the NRB divestiture. The Company realized during the third quarter of 2010 that this adjustment should have been written-off in the fourth quarter of 2009 and recognized as part of the loss on the sale of the NRB operations. Management of the Company concluded the effect of the third quarter adjustment was immaterial to the Company's 2009 and third-quarter 2010 financial statements, as well as to the full-year 2010 financial statements. As of September 30, 2010, there were no assets or liabilities remaining from the divestiture of the NRB operations.

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Note 15 Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The FASB provides accounting rules that classify 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.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2010:

| | Fair Value at September 30, 2010 | | | |
|---------------------------|---|-----------------|----------------|----------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash and cash equivalents | \$ 899.8 | \$ 899.8 | \$ - | \$ - |
| Short-term investments | 30.0 | 30.0 | - | - |
| Foreign currency hedges | 1.6 | - | 1.6 | - |
| Total Assets | \$ 931.4 | \$ 929.8 | \$ 1.6 | \$ - |
| Liabilities: | | | | |
| Foreign currency hedges | \$ 4.9 | \$ - | \$ 4.9 | \$ - |
| Total Liabilities | \$ 4.9 | \$ - | \$ 4.9 | \$ - |

Cash and cash equivalents are highly liquid investments with maturities of three month or less when purchased and are valued at redemption value. Short-term investments are investments with maturities between four months and one year and are valued at amortized cost. The Company uses publicly available foreign currency forward and spot rates to measure the fair value of its foreign currency forward contracts.

The following table presents the fair value hierarchy for those assets measured at fair value on a nonrecurring basis for the nine months ended September 30, 2010:

| | Fair Value at September 30, 2010 | | | | Total Losses |
|---------------------------------|---|----------------|----------------|----------------|---------------------|
| | Total | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Long-lived assets held and used | \$ 0.7 | \$ - | \$ - | \$ 0.7 | \$ (2.0) |
| Total Assets | \$ 0.7 | \$ - | \$ - | \$ 0.7 | \$ (2.0) |

The following table presents the long-lived assets that have been adjusted to their fair value for the first nine months of 2010:

Carrying Fair Value

| | Value | Adjustment | Fair Value |
|--|---------------|-----------------|---------------|
| Long-lived assets held and used: | | | |
| Machinery and equipment at Brazil subsidiary | \$ 1.2 | \$ (1.1) | \$ 0.1 |
| Other fixed assets | 1.5 | (0.9) | 0.6 |
| Total long-lived assets held and used | \$ 2.7 | \$ (2.0) | \$ 0.7 |

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During the third quarter of 2010, machinery and equipment associated with the manufacturing facility in Sao Paulo, Brazil, with a carrying value of \$1.2 million were written down to their fair value of \$0.1 million, resulting in an impairment charge of \$1.1 million. During 2010, other fixed assets at various locations with a carrying value of \$1.5 million were written down to their fair value of \$0.6 million, resulting in the recognition of impairment charges of \$0.9 million. The fair value for these assets was based on the price that would be received in a current transaction to sell the assets on a standalone basis, considering the age and physical attributes of the equipment compared to the cost of similar used machinery and equipment, as these assets have been idled.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, commercial paper, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. The fair value of the Company's long-term fixed-rate debt, based on quoted market prices, was \$488.8 million and \$440.1 million at September 30, 2010 and December 31, 2009, respectively. The carrying value of this debt was \$443.2 million and \$430.6 million at September 30, 2010 and December 31, 2009, respectively.

Note 16 Derivative Instruments and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price risk, foreign currency exchange rate risk and interest rate risk. Forward contracts on various commodities are entered into to manage the price risk associated with forecasted purchases of natural gas used in the Company's manufacturing process. Forward contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk on forecasted revenue denominated in foreign currencies. Other forward exchange contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk associated with certain of the Company's commitments denominated in foreign currencies. Interest rate swaps are entered into to manage interest rate risk associated with the Company's fixed and floating-rate borrowings.

The Company designates certain foreign currency forward contracts as cash flow hedges of forecasted revenues, and certain interest rate hedges as fair value hedges of fixed-rate borrowings. The majority of the Company's natural gas forward contracts are not subject to any hedge designation as they are considered within the normal purchases exemption.

The Company does not purchase or hold any derivative financial instruments for trading purposes.

As of September 30, 2010, the Company had \$214.5 million of outstanding foreign currency forward contracts at notional value. The total notional value of foreign currency hedges as of December 31, 2009 was \$248.0 million.

Cash Flow Hedging Strategy

For certain derivative instruments that are designated as and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), or hedge components excluded from the assessment of effectiveness, are recognized in the Consolidated Statement of Income during the current period.

To protect against a reduction in the value of forecasted foreign currency cash flows resulting from export sales over the next year, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of its forecasted intra-group revenue or expense denominated in foreign currencies with forward contracts. When the dollar strengthens significantly against the foreign currencies, the decline in the present value of future foreign currency revenue is offset by gains in the fair value of the forward contracts designated as hedges. Conversely, when the dollar weakens, the increase in the present value of future foreign currency cash flows is offset by losses in the fair value of the forward contracts.

Fair Value Hedging Strategy

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the

gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in the same line item associated with the hedged item (i.e., in interest expense when the hedged item is fixed-rate debt).

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The following table presents the fair value and location of all assets and liabilities associated with the Company's hedging instruments within the Consolidated Balance Sheet:

| | Balance Sheet Location | Asset Derivatives Fair Value at | | Liability Derivatives Fair Value at | |
|--|--------------------------------------|---------------------------------|---------------|-------------------------------------|---------------|
| | | Sept. 30, 2010 | Dec. 31, 2009 | Sept. 30, 2010 | Dec. 31, 2009 |
| Derivatives designated as hedging instruments | | | | | |
| Foreign currency forward contracts | Other non-current liabilities | \$ 0.8 | \$ 0.7 | \$ 3.3 | \$ 1.9 |
| Derivatives not designated as hedging instruments | | | | | |
| Foreign currency forward contracts | Other non-current assets/liabilities | \$ 0.8 | \$ 2.0 | \$ 1.6 | \$ 4.0 |
| Total derivatives | | \$ 1.6 | \$ 2.7 | \$ 4.9 | \$ 5.9 |

The following tables present the impact of derivative instruments and their location within the unaudited Consolidated Statement of Income:

| Derivatives in Fair Value Hedging Relationships | Location of gain or (loss) recognized in income on derivative | Amount of gain or (loss) recognized in income on derivative Three Months Ended September 30, 2010 | | Amount of gain or (loss) recognized in income on derivative Nine Months Ended September 30, 2009 | |
|---|---|---|-----------------|--|-----------------|
| | | 2010 | 2009 | 2010 | 2009 |
| Interest rate swaps | Interest expense | \$ - | \$ (0.7) | \$ - | \$ (1.3) |
| Natural gas forward contracts | Other (expense) income, net | - | - | - | (1.6) |
| Total | | \$ - | \$ (0.7) | \$ - | \$ (2.9) |

| Location of gain or (loss) | Amount of gain or (loss) recognized in income on derivative Three Months Ended | | Amount of gain or (loss) recognized in income on derivative Nine Months Ended | |
|----------------------------|--|------|---|------|
| | 2010 | 2009 | 2010 | 2009 |
| | | | | |

| Hedge items in Fair Value Hedge Relationships | recognized in income on derivative | September 30, | | September 30, | |
|--|---|----------------------|---------------|----------------------|---------------|
| | | 2010 | 2009 | 2010 | 2009 |
| Fixed-rate debt | Interest expense | \$ - | \$ 0.7 | \$ - | \$ 1.3 |
| Natural gas | Other (expense) income, net | - | - | - | 1.2 |
| Total | | \$ - | \$ 0.7 | \$ - | \$ 2.5 |

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| | Amount of gain or (loss) recognized in OCI on derivative Three Months Ended September 30, 2010 | | Amount of gain or (loss) reclassified from AOCI into income (effective portion) Three Months Ended September 30, 2009 | |
|---|--|--------|---|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Derivatives in cash flow hedging relationships | | | | |
| Foreign currency forward contracts | \$ 3.6 | \$ 0.7 | \$ 0.3 | \$ (1.6) |
| Total | \$ 3.6 | \$ 0.7 | \$ 0.3 | \$ (1.6) |

| | Amount of gain or (loss) recognized in OCI on derivative Nine Months Ended September 30, 2010 | | Amount of gain or (loss) reclassified from AOCI into income (effective portion) Nine Months Ended September 30, 2009 | |
|---|---|--------|--|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Derivatives in cash flow hedging relationships | | | | |
| Foreign currency forward contracts | \$ 4.4 | \$ 0.3 | \$ 1.5 | \$ (1.6) |
| Total | \$ 4.4 | \$ 0.3 | \$ 1.5 | \$ (1.6) |

| Derivatives not designated as hedging instruments | Location of gain or (loss) recognized in income on derivative | Amount of gain or (loss) recognized in income on derivative Three Months Ended September 30, 2010 | | Amount of gain or (loss) recognized in income on derivative Nine Months Ended September 30, 2009 | |
|---|---|---|----------|--|----------|
| | | 2010 | 2009 | 2010 | 2009 |
| Foreign currency forward contracts | Other (expense) income, net | \$ 3.7 | \$ (4.4) | \$ 8.7 | \$ (1.8) |
| Total | | \$ 3.7 | \$ (4.4) | \$ 8.7 | \$ (1.8) |

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

(Dollars in millions, except per share data)

Overview

Introduction

The Timken Company is a leading global manufacturer of highly engineered anti-friction bearings and assemblies, high-quality alloy steels and aerospace power transmission systems as well as a provider of related products and services. The Company operates under two business groups: the Steel Group and the Bearings and Power Transmission Group. The Bearings and Power Transmission Group is composed of three operating segments: (1) Mobile Industries, (2) Process Industries and (3) Aerospace and Defense. These three operating segments and the Steel Group comprise the Company's four reportable segments.

The Mobile Industries segment provides bearings, power transmission components and related products and services. Customers of the Mobile Industries segment include original equipment manufacturers and suppliers for passenger cars, light trucks, medium and heavy-duty trucks, rail cars, locomotives and agricultural, construction and mining equipment. Customers also include aftermarket distributors of automotive products. The Company's strategy for the Mobile Industries segment is to pursue growth in the automotive aftermarket, off-highway, rail and heavy truck market sectors through geographic expansion, product extensions and product performance. In the light-vehicle sector, the Company's strategy is to maintain market share while delivering financial returns that meet or exceed the cost of capital.

The Process Industries segment provides bearings, power transmission components and related products and services. Customers of the Process Industries segment include original equipment manufacturers of power transmission, energy and heavy industries machinery and equipment including rolling mills, cement and aggregate processing equipment, paper mills, sawmills, printing presses, cranes, hoists, drawbridges, wind energy turbines, gear drives, drilling equipment, coal conveyors and crushers and food processing equipment. Customers also include aftermarket distributors of products other than those for steel and automotive applications. The Company's strategy for the Process Industries segment is to pursue growth in selected industrial market sectors, including the aftermarket, and to achieve a leadership position in Asia. In July 2010, the Company began shipping product from its new ultra-large bore bearing manufacturing facility in Xiangtan, China. This facility is part of the Timken-XEMC Joint Venture, in which the Company has an 80% equity ownership. In September 2010, the Company completed the acquisition of QM Bearings and Power Transmission, Inc. QM Bearings and Power Transmission, Inc. manufactures spherical roller bearing steel housed units and elastomeric and steel couplings used in demanding processes such as sawmill and logging operations.

The Aerospace and Defense segment manufactures bearings, helicopter transmission systems, rotor head assemblies, turbine engine components, gears and other precision flight-critical components for commercial and military aviation applications. The Aerospace and Defense segment also provides aftermarket services, including repair and overhaul of engines, transmissions and fuel controls, as well as aerospace bearing repair and component reconditioning. In addition, the Aerospace and Defense segment manufactures precision bearings, higher-level assemblies and sensors for equipment manufacturers of health and positioning control equipment. The Company's strategy for the Aerospace and Defense segment is to: (1) grow by adding power transmission parts, assemblies and services, utilizing a platform approach; (2) develop new aftermarket channels; and (3) improve global capabilities through manufacturing initiatives.

The Steel segment manufactures more than 450 grades of carbon and alloy steel, which are produced in both solid and tubular sections with a variety of lengths and finishes. The Steel segment also manufactures custom-made steel products for both industrial and automotive applications. The Company's strategy for the Steel segment is to drive profitable growth by focusing on opportunities where the Company can offer differentiated capabilities. In August 2010, the Company announced that it will invest approximately \$50 million in its steel operations for the installation of a new intermediate finishing line at the Gambrinus Steel Plant and the expansion of the steel lay-down yard at the Harrison Steel Plant's small-bar mill.

In addition to specific segment initiatives, the Company has been making strategic investments in business processes and systems. Project O.N.E. is a multi-year program launched in 2005 to improve the Company's business processes

and systems. The Company invested \$215.8 million to implement Project O.N.E, of which approximately \$126.5 million was capitalized on the Consolidated Balance Sheet. During 2008 and 2007, the Company completed the installation of Project O.N.E. for the majority of the Company's domestic Bearings and Power Transmission Group operations and a major portion of its European operations. In April 2009, the Company completed an additional installation of Project O.N.E. for the majority of the Company's remaining European

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operations as well as certain other facilities in North America and India. In May 2010, the Company completed the final installation of Project O.N.E. This installation was for certain parts of the Aerospace and Defense segment and other manufacturing and distribution operations in Asia, Europe and Australia. With the completion of the May 2010 installation of Project O.N.E., approximately 90% of the Bearings and Power Transmission Group's global sales flow through the new system.

On December 31, 2009, the Company completed the sale of the assets of its Needle Roller Bearings (NRB) operations to JTEKT Corporation (JTEKT). The Company received approximately \$304 million in cash proceeds for these operations and retained certain receivables, subject to post-sale working capital adjustments. The NRB operations manufacture needle roller bearings, including a range of radial and thrust needle roller bearings, as well as bearing assemblies and loose needles for automotive and industrial applications. The NRB operations had 2009 sales of approximately \$407 million and approximately 80% of these sales were previously included in the Company's Mobile Industries segment with the remainder included in the Process Industries and Aerospace and Defense reportable segments. Results for 2009 for the NRB operations are presented as discontinued operations. The Company incurred an after-tax loss of approximately \$12.6 million on the sale of the NRB operations during the fourth quarter of 2009. During the first nine months of 2010, the Company recorded an after-tax gain of approximately \$3.4 million on the sale of the NRB operations primarily due to a working capital adjustment related to net retained receivables.

Overview:**Three Months Ended
September 30,**

| | 2010 | 2009 | \$ Change | % Change |
|--|-------------------|-------------|----------------------|---------------------|
| Net sales | \$ 1,059.7 | \$ 763.6 | \$ 296.1 | 38.8% |
| Income (loss) from continuing operations | 72.2 | (19.0) | 91.2 | NM |
| Loss from discontinued operations | (1.1) | (30.8) | 29.7 | 96.4% |
| Income attributable to noncontrolling interest | 0.8 | 0.4 | 0.4 | 100.0% |
| Net income (loss) attributable to The Timken Company | 70.3 | (50.2) | 120.5 | 240.0% |
| Diluted earnings (loss) per share: | | | | |
| Continuing operations | \$ 0.73 | \$ (0.20) | \$ 0.93 | NM |
| Discontinued operations | (0.01) | (0.32) | 0.31 | 96.9% |
| Diluted earnings per share | \$ 0.72 | \$ (0.52) | \$ 1.24 | 238.5% |
| Average number of shares - diluted | 97,411,681 | 96,176,091 | - | 1.3% |

**Nine Months Ended
September 30,**

| | 2010 | 2009 | \$ Change | % Change |
|---|-------------------|-------------|----------------------|---------------------|
| Net sales | \$ 2,984.8 | \$ 2,367.0 | \$ 617.8 | 26.1% |
| Income (loss) from continuing operations | 182.9 | (58.8) | 241.7 | NM |
| Income (loss) from discontinued operations | 3.4 | (59.9) | 63.3 | 105.7% |
| Income (loss) attributable to noncontrolling interest | 1.8 | (4.9) | 6.7 | 136.7% |
| | 184.5 | (113.8) | 298.3 | 262.1% |

Net income (loss) attributable to The Timken
Company

Diluted earnings (loss) per share:

| | | | | | | | |
|------------------------------------|----|-------------------|----|------------|----|------|--------|
| Continuing operations | \$ | 1.86 | \$ | (0.55) | \$ | 2.41 | NM |
| Discontinued operations | | 0.03 | | (0.62) | | 0.65 | 105% |
| Diluted earnings per share | \$ | 1.89 | \$ | (1.17) | \$ | 3.06 | 261.5% |
| Average number of shares - diluted | | 97,014,084 | | 96,111,847 | | - | 0.9% |

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The Timken Company reported net sales for the third quarter of 2010 of \$1.1 billion, compared to \$763.6 million in the third quarter of 2009, an increase of 39%. Net sales for the first nine months of 2010 were \$3.0 billion, compared to \$2.4 billion in the first nine months of 2009, an increase of 26%. Higher sales for the third quarter and first nine months of 2010 were primarily driven by strong demand from the Mobile Industries and Steel segments and the industrial distribution channel within the Process Industries segment, as well as higher surcharges, partially offset by lower sales in the Aerospace and Defense segment. For the third quarter of 2010, net income per diluted share was \$0.72 compared to a loss of \$0.52 per share for the third quarter of 2009. Income from continuing operations per diluted share for the third quarter of 2010 was \$0.73 per diluted share compared to a loss of \$0.20 per share for the third quarter of 2009. For the first nine months of 2010, net income per diluted share was \$1.89 compared to a loss of \$1.17 per share for the first nine months of 2009. Income from continuing operations per diluted share for the first nine months of 2010 was \$1.86 per diluted share compared to a loss of \$0.55 per share for the first nine months of 2009.

The Company's third quarter and first nine months results reflect the improvement in the market sectors served by the Mobile Industries and Steel segments, higher surcharges, improved manufacturing performance and the favorable impact of restructuring initiatives, partially offset by lower demand from industrial and aerospace markets, higher LIFO expense and higher expense related to incentive compensation plans. Results for the first nine months of 2010 also reflect a one-time charge of \$21.6 million to record the deferred tax impact of U.S. health care legislation enacted in the first quarter of 2010.

Income (loss) from discontinued operations in the first nine months of 2010 significantly increased from the first nine months of 2009. The income from discontinued operations recognized in the first nine months of 2010 is the result of working capital adjustments related to net retained receivables while the loss from discontinued operations recognized in 2009 was due to the negative impact of the deteriorating global economy on NRB's business operations.

Outlook

The Company's outlook for 2010 reflects an improvement in the global economy following the deteriorating global economic climate that occurred throughout 2009. The Company expects sales in 2010 to be approximately 25% to 30% higher than 2009, primarily driven by stronger sales volume in the Steel and Mobile Industries segments and the Company's industrial distribution channel, as well as higher steel surcharges, partially offset by a decline in sales from the Aerospace and Defense segment. As a result of the Company's improved operating performance and its 2009 cost reduction initiatives, the Company expects to continue to leverage sales growth. The strengthening margins will be partially offset by higher expense related to incentive compensation plans.

The Company expects to continue to generate cash from operations in 2010 as a result of higher earnings in 2010 compared to 2009. Pension contributions are also expected to increase to approximately \$135 million in 2010, including over \$100 million of discretionary U.S. contributions, compared to \$65 million in 2009. As a result of higher earnings, partially offset by higher pension contributions, the Company expects to generate cash from operating activities in excess of \$400 million in 2010. In addition, the Company expects capital expenditures to be approximately \$110 million in 2010.

Table of Contents**Sales by Segment:**

| | Three Months Ended September 30, | | | |
|-----------------------|---|-------------|------------------|---------------------|
| | 2010 | 2009 | \$ Change | % Change |
| Mobile Industries | \$ 404.1 | \$ 327.6 | \$ 76.5 | 23.4% |
| Process Industries | 233.7 | 186.4 | 47.3 | 25.4% |
| Aerospace and Defense | 81.0 | 100.2 | (19.2) | -19.2% |
| Steel | 340.9 | 149.4 | 191.5 | 128.2% |
| Total Company | \$ 1,059.7 | \$ 763.6 | \$ 296.1 | 38.8% |

| | Nine Months Ended September 30, | | | |
|-----------------------|--|-------------|------------------|---------------------|
| | 2010 | 2009 | \$ Change | % Change |
| Mobile Industries | \$ 1,172.0 | \$ 920.4 | \$ 251.6 | 27.3% |
| Process Industries | 650.6 | 616.9 | 33.7 | 5.5% |
| Aerospace and Defense | 255.8 | 318.7 | (62.9) | -19.7% |
| Steel | 906.4 | 511.0 | 395.4 | 77.4% |
| Total Company | \$ 2,984.8 | \$ 2,367.0 | \$ 617.8 | 26.1% |

Net sales for the third quarter of 2010 increased \$296.1 million, or 39%, compared to the third quarter of 2009, primarily due to higher volume of approximately \$230 million primarily across the Mobile Industries off-highway and heavy truck market sectors, the Process Industries distribution channel and the Steel business segment and higher surcharges of \$80 million, partially offset by unfavorable sales mix and the effect of foreign currency exchange rate changes of approximately \$20 million.

Net sales for the first nine months of 2010 increased \$617.8 million, or 26%, compared to the first nine months of 2009, primarily due to higher volume of approximately \$440 million primarily across the Mobile Industries light vehicle, off-highway and heavy truck sectors and the Steel business segment and higher surcharges of \$185 million.

Table of ContentsGross Profit:

| | Three Months Ended September 30, | | | |
|---|---|----------|--------------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Gross profit | \$ 265.1 | \$ 129.5 | \$ 135.6 | 104.7% |
| Gross profit % to net sales | 25.0% | 17.0% | - | 800 bps |
| Rationalization expenses included in cost of products sold | \$ 2.3 | \$ 1.0 | \$ 1.3 | 130.0% |

| | Nine Months Ended September 30, | | | |
|---|--|----------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Gross profit | \$ 756.1 | \$ 409.5 | \$ 346.6 | 84.6% |
| Gross profit % to net sales | 25.3% | 17.3% | - | 800 bps |
| Rationalization expenses included in cost of products sold | \$ 4.1 | \$ 3.6 | \$ 0.5 | 13.9% |

Gross profit increased in the third quarter of 2010 compared to the third quarter of 2009 primarily due to the impact of higher sales volume of approximately \$90 million, an increase in steel surcharges of approximately \$80 million and a favorable sales mix and higher pricing of approximately \$60 million, partially offset by higher material costs of approximately \$100 million.

Gross profit increased in the first nine months of 2010 compared to the first nine months of 2009 primarily due to the impact of higher sales volume of approximately \$185 million, an increase in steel surcharges of approximately \$185 million and improved manufacturing utilization of approximately \$160 million, partially offset by higher material costs of \$180 million.

In the third quarter and first nine months of 2010 and 2009, rationalization expenses included in cost of products sold primarily related to the closure of the manufacturing facility in Sao Paulo, Brazil and the continued rationalization of Process Industries Canton, Ohio bearing manufacturing facilities. Rationalization expenses in the third quarter and the first nine months of 2010 primarily consisted of the relocation and closure costs. Rationalization expenses in the third quarter and the first nine months of 2009 primarily consisted of accelerated depreciation and relocation of equipment.

Table of ContentsSelling, General and Administrative Expenses:

| | Three Months Ended September 30, | | | |
|---|---|----------|--------------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Selling, general and administrative expenses | \$ 140.3 | \$ 107.3 | \$ 33.0 | 30.8% |
| Selling, general and administrative expenses % to net sales | 13.2% | 14.1% | - | (90) bps |
| Rationalization expenses included in selling, general and administrative expenses | \$ 0.4 | \$ 0.5 | \$ (0.1) | (20.0)% |

| | Nine Months Ended September 30, | | | |
|---|--|----------|--------------|-----------|
| | 2010 | 2009 | \$ Change | % Change |
| Selling, general and administrative expenses | \$ 414.0 | \$ 358.7 | \$ 55.3 | 15.4% |
| Selling, general and administrative expenses % to net sales | 13.9% | 15.2% | - | (130) bps |
| Rationalization expenses included in selling, general and administrative expenses | \$ 0.7 | \$ 1.6 | \$ (0.9) | (56.3)% |

The increase in selling, general and administrative expenses in the third quarter of 2010, compared to the third quarter of 2009, was primarily due to higher expense related to incentive compensation plans of approximately \$15 million, with the remainder of the increase relating to higher employee and professional costs. The increase in selling, general and administrative expenses in the first nine months of 2010, compared to the first nine months of 2009, was primarily due to higher expense related to incentive compensation plans of approximately \$60 million.

Impairment and Restructuring Charges:

| | Three Months Ended September 30, | | |
|-------------------------------------|---|---------|-----------|
| | 2010 | 2009 | \$ Change |
| Impairment charges | \$ 2.0 | \$ - | \$ 2.0 |
| Severance and related benefit costs | (0.2) | 18.8 | (19.0) |
| Exit costs | 1.1 | 0.8 | 0.3 |
| Total | \$ 2.9 | \$ 19.6 | \$ (16.7) |

**Nine Months Ended
September 30,**

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| | 2010 | 2009 | \$ Change |
|-------------------------------------|---------------|---------|-----------|
| Impairment charges | \$ 2.0 | \$ 34.8 | \$ (32.8) |
| Severance and related benefit costs | 5.0 | 46.3 | (41.3) |
| Exit costs | 2.4 | 3.0 | (0.6) |
| Total | \$ 9.4 | \$ 84.1 | \$ (74.7) |

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The following discussion explains the major impairment and restructuring charges recorded for the periods presented; however, it is not intended to reflect a comprehensive discussion of all amounts in the tables above. See Note 11 Impairment and Restructuring in the Notes to the Consolidated Financial Statements for further details by segment.

Selling and Administrative Cost Reductions

In March 2009, the Company announced the realignment of its organization to improve efficiency and reduce costs as a result of the economic downturn. The Company targeted pretax savings of approximately \$80 million in annual selling and administrative costs. This target was achieved in 2009. During the first nine months of 2010, the Company recorded \$0.7 million of severance and related benefit costs related to this initiative to eliminate approximately 25 associates, which primarily related to Corporate. During the first nine months of 2009, the Company recorded \$10.6 million of severance and related benefit costs related to this initiative to eliminate approximately 270 associates. Of the \$10.6 million charge for the first nine months of 2009, \$4.5 million related to the Mobile Industries segment, \$2.1 million related to Corporate, \$1.9 million related to the Process Industries segment, \$1.5 million related to the Steel segment and \$0.6 million related to the Aerospace and Defense segment.

Manufacturing Workforce Reductions

During the third quarter and first nine months of 2010, the Company recorded \$0.5 million and \$4.6 million, respectively, in severance and related benefit costs to eliminate approximately 180 associates to properly align its business as a result of the downturn in the economy and expected market demand. The \$0.5 million charge for the third quarter of 2010 primarily related to the Aerospace and Defense segment. Of the \$4.6 million charge for the first nine months of 2010, \$1.8 million related to the Aerospace and Defense segment, \$1.4 million related to the Mobile Industries segment and \$1.4 million related to the Process Industries segment. In addition, the Company recorded \$0.4 million and \$1.4 million, respectively, of exit costs in the third quarter and first nine months of 2010 related to these reductions. During the third quarter and first nine months of 2009, the Company recorded \$13.6 million and \$28.8 million, respectively, in severance and related benefit costs, including a curtailment of pension benefits of \$1.6 million for the first nine months of 2009, to eliminate approximately 3,000 associates to properly align its business as a result of the economic downturn and expected market demand. Of the \$13.6 million charge for the third quarter of 2009, \$10.3 million related to the Mobile Industries segment, \$2.3 million related to the Process Industries segment and \$1.0 million related to the Aerospace and Defense segment. Of the \$28.8 million charge for the first nine months of 2009, \$20.6 million related to the Mobile Industries segment, \$4.8 million related to the Process Industries segment, \$1.7 million related to the Aerospace and Defense segment and \$1.7 million related to the Steel segment.

Torrington Campus

On July 20, 2009, the Company sold the remaining portion of its Torrington, Connecticut office complex. In anticipation of the loss that the Company expected to record upon completion of the sale of this property, the Company recorded an impairment charge of \$6.4 million during the second quarter of 2009. During the third quarter of 2009, the Company recorded an additional loss of approximately \$0.7 million in other (expense) income, net on the sale of the remaining portion of this office complex.

Mobile Industries

In March 2007, the Company announced the closure of its manufacturing facility in Sao Paulo, Brazil. The Company completed the closure of this manufacturing facility on March 31, 2010. This closure is targeted to deliver annual pretax savings of approximately \$5 million, with expected pretax costs of up to approximately \$30 million, which includes restructuring costs and rationalization costs recorded in cost of products sold and selling, general and administrative expenses. The Company expects to realize the \$5 million of annual pretax savings by the end of 2010. Mobile Industries has incurred cumulative pretax costs of approximately \$27.6 million as of September 30, 2010 related to this closure. During the third quarter and first nine months of 2010, the Company recorded \$1.1 million of impairment charges associated with the closure of the Company's Sao Paulo, Brazil manufacturing facility. The impairment charges were recorded as a result of the carrying value of certain machinery and equipment exceeding their expected future cash flows. In addition, the Company recorded \$0.3 million of severance and related benefit costs during the first nine months of 2010. During the third quarter and first nine months of 2009, the Company recorded \$1.3 million and \$2.5 million, respectively, of severance and related benefit costs and exit costs of \$0.7 million and \$1.5 million, respectively, associated with the closure of this facility.

In addition to the above charges, the Company recorded impairment charges of \$0.8 million during the first nine months of 2009 related to an impairment of fixed assets at one of its facilities in France as a result of the carrying value of these assets exceeding expected future cash flows.

Table of Contents**Process Industries**

In May 2004, the Company announced plans to rationalize its three bearing plants in Canton, Ohio within the Process Industries segment. This rationalization initiative is expected to deliver annual pretax savings of approximately \$35 million through streamlining operations and workforce reductions, with expected pretax costs of approximately \$70 million to \$80 million (including pretax cash costs of approximately \$40 million), by the end of 2010.

The Company recorded impairment charges of \$27.7 million and exit costs of \$1.6 million during the first nine months of 2009 as a result of the Process Industries rationalization plans. The significant impairment charge recorded during the first nine months of 2009 was a result of the rapid deterioration of the market sectors served by one of the rationalized plants resulting in the carrying value of the fixed assets for this plant exceeding their projected future cash flows. The Company then arrived at fair value by either valuing the assets in use, where the assets were still producing product, or in exchange, where the assets had been idled. The fair value was determined based on market comparisons of similar assets. The Company closed this plant at the end of 2009. Including rationalization costs recorded in cost of products sold and selling, general and administrative expenses, the Process Industries segment has incurred cumulative pretax costs of approximately \$70.5 million as of September 30, 2010 for these rationalization plans. As of September 30, 2010, the Process Industries segment has realized approximately \$15 million in annual pretax savings.

In October 2009, the Company announced the consolidation of its distribution centers in Bucyrus, Ohio and Spartanburg, South Carolina into a larger, leased facility in the region surrounding the existing Spartanburg location. The closure of the Bucyrus Distribution Center will displace approximately 260 employees. During the third quarter of 2009, the Company recorded \$4.5 million of severance and related benefit costs related to this closure. During the third quarter of 2010, the Company reduced its accruals for severance and related benefits by \$0.7 million. The Company expects to complete the closure of the Bucyrus Distribution Center during the first quarter of 2011.

Rollforward of Restructuring Accruals:

| | September 30, 2010 | December 31, 2009 |
|------------------------------|-----------------------------------|-------------------------|
| Beginning balance, January 1 | \$ 34.0 | \$ 17.0 |
| Expense | 7.4 | 55.6 |
| Payments | (24.2) | (38.6) |
| Ending balance | \$ 17.2 | \$ 34.0 |

The restructuring accrual at September 30, 2010 and December 31, 2009 is included in other liabilities on the Consolidated Balance Sheet. The restructuring accrual at December 31, 2009 excludes costs related to the curtailment of pension benefit plans of \$0.9 million. The accrual at September 30, 2010 includes \$10.0 million of severance and related benefits, which is expected to be paid by the end of 2011. The remainder of the balance primarily represents environmental exit costs.

Interest Expense and Income:

| | Three Months Ended September 30, | | | |
|------------------|---|----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Interest expense | \$ 9.1 | \$ 10.3 | \$ (1.2) | (11.7)% |
| Interest income | \$ (0.8) | \$ (0.4) | \$ (0.4) | (100.0)% |

**Nine Months Ended
September 30,**

| | 2010 | 2009 | \$ Change | % Change |
|------------------|-----------------|----------|-----------|----------|
| Interest expense | \$ 28.7 | \$ 27.2 | \$ 1.5 | 5.5% |
| Interest income | \$ (2.3) | \$ (1.3) | \$ (1.0) | (76.9)% |

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Interest expense for the third quarter of 2010 decreased compared to the third quarter of 2009 primarily due to lower average debt outstanding. Interest expense for the first nine months of 2010 increased compared to the first nine months of 2009 primarily due to the amortization of deferred financing costs associated with the refinancing of the Company's \$500 million Amended and Restated Credit Agreement (Senior Credit Facility) and the issuance of \$250 million aggregate principal amount of fixed-rate 6% unsecured senior notes (Senior Notes), both of which occurred in the third quarter of 2009, and lower capitalized interest. These increases were partially offset by lower interest expense due to lower debt levels. Interest income for the third quarter and the first nine months of 2010 increased compared to the same periods in the prior year primarily due to higher invested cash balances.

Other Income and Expense:

| | Three Months Ended September 30, | | | |
|---|---|----------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Other (expense) income, net: | | | | |
| Gain (loss) on divestitures of non-strategic assets | \$ 0.1 | \$ (0.7) | \$ 0.8 | 114.3% |
| Equity investment impairment loss | - | (1.3) | 1.3 | 100.0% |
| Gain (loss) on dissolution of subsidiaries | 0.3 | (0.6) | 0.9 | 150.0% |
| Other expense | (3.2) | (2.0) | (1.2) | (60.0)% |
| Other (expense), net | \$ (2.8) | \$ (4.6) | \$ 1.8 | 39.1% |

| | Nine Months Ended September 30, | | | |
|--|--|--------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Other (expense) income, net: | | | | |
| Gain on divestitures of non-strategic assets | \$ 0.4 | \$ 0.6 | \$ (0.2) | (33.3)% |
| Equity investment impairment loss | - | (1.3) | 1.3 | 100.0% |
| (Loss) gain on dissolution of subsidiaries | (0.1) | 0.1 | (0.2) | (200.0)% |
| Other (expense) income | (1.0) | 3.9 | (4.9) | (125.6)% |
| Other (expense) income, net | \$ (0.7) | \$ 3.3 | \$ (4.0) | (121.2)% |

The loss on divestitures of non-strategic assets for the third quarter of 2009 reflects a loss of \$0.7 million on the sale of the remaining portion of the Company's former office complex located in Torrington, Connecticut. For the first nine months of 2009, the gain on the divestiture of non-strategic assets represents a gain of \$0.6 million on the sale of the Company's former office complex located in Torrington, Connecticut. The sale of the Torrington office complex occurred in two separate transactions: one in the first quarter of 2009 resulting in a gain of \$1.3 million and the other in the third quarter of 2009 resulting in the loss of \$0.7 million mentioned above. The equity investment impairment loss for the third quarter of 2009 reflects an impairment loss on the Company's joint venture, Endorsia.com International AB, of \$1.3 million.

Other expense of \$3.2 million for the third quarter of 2010 primarily consisted of foreign currency exchange losses and losses on the disposal of fixed assets, partially offset by royalty income. Other expense of \$2.0 million for the third quarter of 2009 primarily consisted of losses on the disposal of fixed assets and foreign currency exchange losses. Other expense of \$1.0 million for the first nine months of 2010 primarily consisted of losses on the disposal of fixed assets and donations, partially offset by royalty income. Other income of \$3.9 million for the first nine months of 2009 primarily consisted of foreign currency exchange gains, royalty income and capital gains income, partially offset by losses on the disposal of fixed assets and losses from equity investments.

Table of ContentsIncome Tax Expense:

| | Three Months Ended September 30, | | | |
|--------------------|---|---------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| } | | | | |
| Income tax expense | \$ 38.6 | \$ 7.1 | \$ 31.5 | NM |
| Effective tax rate | 34.8% | (60.4)% | - | 9,520 bps |

| | Nine Months Ended September 30, | | | |
|--------------------|--|--------|-----------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Income tax expense | \$ 122.7 | \$ 2.9 | \$ 119.8 | NM |
| Effective tax rate | 40.2% | (5.2)% | - | 4,540 bps |

The effective tax rate for the third quarter of 2010 was less than the U.S. Federal statutory tax rate of 35% primarily as a result of lower taxes related to non-U.S. earnings and utilization of the U.S. manufacturing deduction, partially offset by U.S. state and local taxes and the net impact of other items. The change in the effective tax rate compared to the third quarter of 2009 was primarily due to lower taxes on non-U.S. earnings, partially offset by a reduction in U.S. tax benefits as a result of the expiration of the U.S. research tax credit at the end of 2009 and the enactment of the Patient Protection and Affordable Care Act of 2010 (as amended) in the first quarter of 2010. The effective tax rate for the third quarter of 2009 reflects income tax expense on a pretax loss from continuing operations before income taxes primarily due to losses at certain foreign subsidiaries where no tax benefit could be recorded.

The effective tax rate for the first nine months of 2010 was higher than the U.S. Federal statutory tax rate of 35% primarily as a result of a \$21.6 million charge in the first quarter to record the deferred tax impact of the Patient Protection and Affordable Care Act of 2010 (as amended), U.S. state and local taxes and the net impact of other items, partially offset by the impact of lower taxes related to non-U.S. earnings. The change in the effective tax rate versus the first nine months of 2009 was primarily due to the \$21.6 million charge in the first quarter of 2010, partially offset by lower taxes on non-U.S. earnings. The effective tax rate for the first nine months of 2009 reflects income tax expense on a pretax loss from continuing operations before income taxes primarily due to losses at certain foreign subsidiaries where no tax benefit could be recorded.

Discontinued Operations:

| | Three Months Ended September 30, | | | |
|-------------------------------|---|-----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Operating results, net of tax | \$ - | \$ (30.8) | \$ 30.8 | 100.0% |
| Loss on disposal, net of tax | (1.1) | - | (1.1) | NM |

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| | | | | |
|--|--|-----------|-----------|----------|
| Loss from discontinued operations, net of taxes | \$ (1.1) | \$ (30.8) | \$ 29.7 | 96.4% |
| | Nine Months Ended September 30, | | | |
| | 2010 | 2009 | \$ Change | % Change |
| Operating results, net of tax | \$ - | \$ (59.9) | \$ 59.9 | 100.0% |
| Gain on disposal, net of tax | 3.4 | - | 3.4 | NM |
| Income (loss) from discontinued operations, net of taxes | \$ 3.4 | \$ (59.9) | \$ 63.3 | 105.7% |

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In December 2009, the Company completed the divestiture of its NRB operations to JTEKT. Discontinued operations for the third quarter and first nine months of 2009 represent the operating results, net of tax, of these operations. The results of the third quarter and first nine months of 2009 reflect the deterioration of the markets served by the NRB operations. The third quarter of 2009 also reflects a pretax impairment loss of \$33.7 million and pension curtailment of \$6.2 million (a total of \$25.1 million after-tax) as a result of the projected proceeds from the sale of NRB operations being lower than the net book value of the net assets expected to be transferred as a result of the sale of the NRB operations to JTEKT. The third quarter of 2009 also reflects other pretax severance and related benefit costs of \$8.7 million. Including the impairment loss recorded during the third quarter of 2009, the first nine months of 2009 included pretax impairment losses of \$34.5 million, pretax pension curtailments of \$6.2 million and other pretax charges related to severance and related benefits of \$13.1 million.

During the third quarter of 2010, the Company recorded an adjustment related to its 2009 Consolidated Financial Statements. (Loss) income from discontinued operations, net of income taxes, decreased \$1.3 million (after-tax) due to a correction of an error related to a foreign currency translation adjustment for the Company's Canadian operations that were sold as part of the NRB divestiture. The Company realized during the third quarter of 2010 that this adjustment should have been written-off in the fourth quarter of 2009 and recognized as part of the loss on the sale of the NRB operations. Management of the Company concluded the effect of the third quarter adjustment was immaterial to the Company's 2009 and third-quarter 2010 financial statements, as well as to the full-year 2010 financial statements. In the first nine months of 2010, the Company recognized a gain of \$3.4 million on disposal of the NRB operations. The gain, net of tax, primarily represents a working capital adjustment related to net retained receivables. Refer to Note 14 Divestitures in the Notes to the Consolidated Financial Statements for additional discussion.

Net Income (Loss) Attributable to Noncontrolling Interest:

| | Three Months Ended September 30, | | | |
|--|---|--------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net income attributable to noncontrolling interest | \$ 0.8 | \$ 0.4 | \$ 0.4 | 100.0% |

| | Nine Months Ended September 30, | | | |
|---|--|----------|--------------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Net income (loss) attributable to noncontrolling interest | \$ 1.8 | \$ (4.9) | \$ 6.7 | 136.7% |

Net income attributable to noncontrolling interest was income of \$0.8 million for the third quarter of 2010, compared to income of \$0.4 million for the third quarter of 2009. Net income attributable to noncontrolling interest was income of \$1.8 million for the first nine months of 2010, compared to a loss of \$4.9 million for the first nine months of 2009. The improvement in the net income attributable to noncontrolling interest for the third quarter and first nine months of 2010 reflects improvement in the markets served by subsidiaries in which the Company holds less than 100% ownership.

In the first nine months of 2009, net income (loss) attributable to noncontrolling interest increased by \$6.1 million due to a correction of an error related to the \$18.4 million goodwill impairment loss the Company recorded in the fourth quarter of 2008 for the Mobile Industries segment. In recording the goodwill impairment loss in the fourth quarter of 2008, the Company did not recognize that a portion of the goodwill impairment loss related to two separate

subsidiaries in India and South Africa of which the Company holds less than 100% ownership. The net effect of this error understated the Company's 2008 net income attributable to The Timken Company of \$267.7 million by \$6.1 million. The first quarter 2009 adjustment for this error overstated the Company's first quarter 2009 net income attributable to The Timken Company by \$6.1 million. Management concluded the effect of the first-quarter 2009 adjustment was not material to the Company's 2008 and first-quarter 2009 financial statements, as well as the full-year 2009 financial statements.

Table of Contents*Business Segments:*

The primary measurement used by management to measure the financial performance of each segment is adjusted EBIT (earnings before interest and taxes, excluding the effect of amounts related to certain items that management considers not representative of ongoing operations such as impairment and restructuring, manufacturing rationalization and integration charges, one-time gains or losses on disposal of non-strategic assets and gains and losses on the dissolution of subsidiaries). Refer to Note 10 Segment Information in the Notes to the Consolidated Financial Statements for the reconciliation of adjusted EBIT by segment to consolidated income before income taxes. The presentation below reconciles the changes in net sales for each segment reported in accordance with U.S. GAAP to net sales adjusted to remove the effects of currency exchange rates. The effects of currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage change in net sales on a comparable basis from period to period. The effects of acquisitions and divestitures had no impact on the 2010 or 2009 operating results. The acquisition of QM Bearings and Power Transmission, Inc., completed on September 21, 2010, had no impact on 2010 operating results, while the 2009 divestiture of NRB is presented as discontinued operations. The year 2009 represents the base year for which the effects of currency are measured; as such, currency is assumed to be zero for 2009.

Mobile Industries Segment:

| | Three Months Ended September 30, | | | |
|---|---|----------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 404.1 | \$ 327.6 | \$ 76.5 | 23.4% |
| Adjusted EBIT | \$ 60.6 | \$ 13.7 | \$ 46.9 | NM |
| Adjusted EBIT margin | 15.0% | 4.2% | - | 1,080 bps |

| | Three Months Ended September 30, | | | |
|---|---|----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 404.1 | \$ 327.6 | \$ 76.5 | 23.4% |
| Currency | (2.8) | - | (2.8) | NM |
| Net sales, excluding the impact of currency | \$ 406.9 | \$ 327.6 | \$ 79.3 | 24.2% |

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| | Nine Months Ended September 30, | | | |
|---|--|----------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 1,172.0 | \$ 920.4 | \$ 251.6 | 27.3% |
| Adjusted EBIT | \$ 171.5 | \$ (0.6) | \$ 172.1 | NM |
| Adjusted EBIT margin | 14.6% | (0.1)% | - | 1,470 bps |

| | Nine Months Ended September 30, | | | |
|---|--|----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 1,172.0 | \$ 920.4 | \$ 251.6 | 27.3% |
| Currency | 6.6 | - | 6.6 | NM |
| Net sales, excluding the impact of currency | \$ 1,165.4 | \$ 920.4 | \$ 245.0 | 26.6% |

The Mobile Industries segment's net sales, excluding the effects of currency-rate changes, increased 24.2% for the third quarter of 2010 compared to the third quarter of 2009, primarily due to higher volume of approximately \$55 million and higher pricing of approximately \$25 million. The volume increases were seen across all market sectors, led by a 64% increase in off-highway, a 36% increase in heavy truck, an 18% increase from the automotive aftermarket and a 12% increase in light vehicles. Adjusted EBIT was higher in the third quarter of 2010 compared to the third quarter of 2009, primarily due to higher volume and favorable sales mix of approximately \$35 million, higher pricing of approximately \$25 million and better manufacturing utilization of approximately \$10 million. These increases were partially offset by higher selling and administrative costs of approximately \$10 million and higher raw material costs of approximately \$10 million. The higher selling and administrative costs were primarily due to higher performance-based compensation.

The Mobile Industries segment's net sales, excluding the effects of currency-rate changes, increased 26.6% for the first nine months of 2010 compared to the first nine months of 2009, primarily due to higher volume of approximately \$180 million and higher pricing of approximately \$65 million. The volume increases were seen across all market sectors, led by a 36% increase in light vehicles, a 50% increase in heavy truck and a 21% increase in off-highway. Adjusted EBIT was higher in the first nine months of 2010 compared to the first nine months of 2009, primarily due to higher volume and favorable sales mix of approximately \$100 million, better manufacturing utilization of approximately \$70 million and higher pricing of approximately \$65 million. These increases were partially offset by higher raw material costs of approximately \$20 million, higher selling and administrative costs of approximately \$20 million and higher logistics cost of approximately \$20 million.

Sales for the Mobile Industries segment are expected to increase approximately 20% to 25% for 2010, compared to 2009, due to increased demand across most of the Mobile Industries' market sectors, led by increases in heavy truck demand of approximately 42%, off-highway demand of approximately 31% and light-vehicle market demand of approximately 27%. The automotive aftermarket is also expected to increase approximately 20% for 2010 compared to 2009. In addition, adjusted EBIT for the Mobile Industries segment is expected to increase significantly during 2010, compared to 2009, primarily due to higher sales volume and lower manufacturing costs.

Table of Contents**Process Industries Segment:**

| | Three Months Ended September 30, | | | |
|---|---|-------------|------------------|-----------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 234.5 | \$ 187.0 | \$ 47.5 | 25.4% |
| Adjusted EBIT | \$ 37.2 | \$ 16.0 | \$ 21.2 | 132.5% |
| Adjusted EBIT margin | 15.9% | 8.6% | - | 730 bps |

| | Three Months Ended September 30, | | | |
|---|---|-------------|------------------|-----------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 234.5 | \$ 187.0 | \$ 47.5 | 25.4% |
| Currency | (2.6) | - | (2.6) | NM |
| Net sales, excluding the impact of currency | \$ 237.1 | \$ 187.0 | \$ 50.1 | 26.8% |

| | Nine Months Ended September 30, | | | |
|---|--|-------------|------------------|-----------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 652.7 | \$ 619.1 | \$ 33.6 | 5.4% |
| Adjusted EBIT | \$ 93.0 | \$ 94.6 | \$ (1.6) | (1.7)% |
| Adjusted EBIT margin | 14.2% | 15.3% | - | (110) bps |

| | Nine Months Ended September 30, | | | |
|---|--|-------------|------------------|-----------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 652.7 | \$ 619.1 | \$ 33.6 | 5.4% |
| Currency | 3.7 | - | 3.7 | NM |
| Net sales, excluding the impact of currency | \$ 649.0 | \$ 619.1 | \$ 29.9 | 4.8% |

The Process Industries segment's net sales, excluding the effects of currency-rate changes, increased 26.8% in the third quarter of 2010 compared to the same period in the prior year, primarily due to higher volume of approximately \$45 million. The higher volume was primarily seen across the Company's industrial distribution channel. In addition, several market sectors contributed to the increase in volume, led by a 195% increase in global wind energy demand, a 36% increase in gear drive demand and a 16% increase in cement and aggregate processing equipment demand. These increases were partially offset by a 47% decline in global metals demand and a 16% decrease in oil and gas demand. Adjusted EBIT was higher in the third quarter of 2010 compared to the third quarter of 2009, primarily due to the impact of higher volume of approximately \$25 million, partially offset by an increase in performance-based

compensation of approximately \$5 million.

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The Process Industries segment's net sales, excluding the effects of currency-rate changes, increased 4.8% in the first nine months of 2010 compared to the same period in the prior year, primarily due to higher volume of approximately \$35 million. The higher volume resulted from an 80% increase in global wind energy demand and a 10% increase in power generation demand. These increases were partially offset by a 30% decline in oil and gas demand and a 25% decline in gear drive demand. Adjusted EBIT was down slightly in the first nine months of 2010 compared to the first nine months of 2009. The Company expects sales in the Process Industries segment to increase approximately 5% to 10% in 2010, compared to 2009, as the industrial distribution channel strengthens during the second half of 2010. Adjusted EBIT for the Process Industries segment is expected to increase in 2010, compared to 2009, primarily due to the impact of higher volume, partially offset by higher raw material costs and higher performance-based compensation.

Aerospace and Defense Segment:

| | Three Months Ended September 30, | | | |
|---|---|----------|-----------|-------------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 81.0 | \$ 100.2 | \$ (19.2) | (19.2)% |
| Adjusted EBIT | \$ 3.8 | \$ 19.1 | \$ (15.3) | (80.1)% |
| Adjusted EBIT margin | 4.7% | 19.1% | - | (1,440) bps |

| | Three Months Ended September 30, | | | |
|---|---|----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 81.0 | \$ 100.2 | \$ (19.2) | (19.2)% |
| Currency | (0.7) | - | (0.7) | NM |
| Net sales, excluding the impact of currency | \$ 81.7 | \$ 100.2 | \$ (18.5) | (18.5)% |

| | Nine Months Ended September 30, | | | |
|---|--|----------|-----------|-----------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 255.8 | \$ 318.7 | \$ (62.9) | (19.7)% |
| Adjusted EBIT | \$ 23.8 | \$ 55.9 | \$ (32.1) | (57.4)% |
| Adjusted EBIT margin | 9.3% | 17.5% | - | (820) bps |

| | Nine Months Ended September 30, | | | |
|---|--|----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Net sales, including intersegment sales | \$ 255.8 | \$ 318.7 | \$ (62.9) | (19.7)% |
| Currency | (0.7) | - | (0.7) | NM |
| Net sales, excluding the impact of currency | \$ 256.5 | \$ 318.7 | \$ (62.2) | (19.5)% |

The Aerospace and Defense segment's net sales, excluding the impact of currency-rate changes, decreased 18.5% in the third quarter of 2010, compared to the third quarter of 2009, primarily due to a decrease in volume of approximately \$20 million. Volume was down across most key market sectors as the Aerospace and Defense segment continues to experience softening that began in the middle of the prior year. Implementation of new engineering systems and business processes also temporarily dampened sales for the third quarter. Adjusted EBIT for the third quarter of 2010 declined compared to the third quarter of 2009 primarily due to the lower volume.

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The Aerospace and Defense segment's net sales, excluding the impact of currency-rate changes, decreased 19.5% in the first nine months of 2010, compared to the first nine months of 2009, primarily due to a decrease in volume of approximately \$75 million, partially offset by higher pricing. Volume was down across most key market sectors as the Aerospace and Defense segment continues to experience softening that began in the middle of the prior year. Adjusted EBIT declined for the first nine months of 2010 compared to the first nine months of 2009 primarily due to the lower volume. The Company expects the Aerospace and Defense segment to see declines in sales and adjusted EBIT in 2010, compared to 2009, as a result of softer commercial and general aviation market sectors and weakening in defense market sectors.

Steel Segment:

| | Three Months Ended September 30, | | \$ Change | % Change |
|---|---|------------------|----------------------|------------------|
| | 2010 | 2009 | | |
| Net sales, including intersegment sales | \$ 371.3 | \$ 157.9 | \$ 213.4 | 135.1% |
| Adjusted EBIT | \$ 41.3 | \$ (20.2) | \$ 61.5 | NM |
| Adjusted EBIT margin | 11.1% | (12.8)% | - | 2,390 bps |

Three Months Ended