TIMKEN CO
Form DEF 14A
March 18, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by**
Rule 14a-6(e)(2)) þ Definitive Proxy Statement o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

The Timken Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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Notice of
2008
Annual Meeting of
Shareholders
and
Proxy Statement

THE TIMKEN COMPANY
Canton, Ohio U.S.A.

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Ward J. Timken, Jr.
Chairman - Board of Directors
The Timken Company
1835 Dueber Avneue, S.W.
P.O. Box 6927
Canton, OH 44706-0927 U.S.A.
Telephone: 330-438-3000

March 15, 2008

Dear Shareholder:

The 2008 Annual Meeting of Shareholders of The Timken Company will be held on Thursday, May 1, 2008, at one o clock in the afternoon at the corporate offices of the Company in Canton, Ohio.

This year, you are being asked to act upon four matters. The first and second are the election of Directors and approval of changes to the Company s Long-Term Incentive Plan recommended by your Board of Directors. The third and fourth are consideration of shareholder proposals that your Directors are recommending you do not support. Details of these matters are contained in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

Please read the enclosed information carefully before voting your shares. Voting your shares as soon as possible will ensure your representation at the meeting, whether or not you plan to attend.

I appreciate the strong support of our shareholders over the years and look forward to a similar vote of support at the 2008 Annual Meeting of Shareholders.

Sincerely,

Ward J. Timken, Jr.

Enclosure

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THE TIMKEN COMPANY
Canton, Ohio

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of The Timken Company will be held on Thursday, May 1, 2008, at 1:00 p.m., at 1835 Dueber Avenue, S.W., Canton, Ohio, for the following purposes:

1. To elect four Directors to serve in Class II for a term of three years.

2. To approve The Timken Company Long-Term Incentive Plan, as Amended and Restated as of February 5, 2008.

3. To consider a shareholder proposal submitted by the New York City Pension Funds requesting that the Company implement equal employment opportunity policies prohibiting discrimination based on sexual orientation and gender identity.

4. To consider a shareholder proposal submitted by Gerald R. Armstrong to eliminate classification of terms of the Board of Directors and require that all Directors stand for election annually.

5. To transact such other business as may properly come before the meeting.

Holders of Common Stock of record at the close of business on February 15, 2008, are the shareholders entitled to notice of and to vote at the meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING OF SHAREHOLDERS, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE POSTAGE-PAID ENVELOPE PROVIDED OR VOTE YOUR SHARES ELECTRONICALLY THROUGH THE INTERNET OR BY TELEPHONE. VOTING INSTRUCTIONS ARE PROVIDED ON THE ENCLOSED PROXY CARD.

SCOTT A. SCHERFF
Corporate Secretary and
Assistant General Counsel
March 15, 2008

YOUR VOTE IS IMPORTANT. PLEASE RETURN YOUR PROXY CARD OR VOTE ELECTRONICALLY.

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THE TIMKEN COMPANY

PROXY STATEMENT

The enclosed proxy is solicited by the Board of Directors of The Timken Company (the Company) in connection with the Annual Meeting of Shareholders to be held on May 1, 2008, at 1:00 p.m. local time at the Company s corporate offices, and at any adjournments and postponements thereof, for the purpose of considering and acting upon the matters specified in the foregoing Notice. The mailing address of the corporate offices of the Company is 1835 Dueber Avenue, S.W., Canton, Ohio 44706-2798. The approximate date on which this Proxy Statement and form of proxy will be first sent or given to shareholders is March 26, 2008.

The Board of Directors is not aware that matters other than those specified in the foregoing Notice will be brought before the meeting for action. However, if any such matters should be brought before the meeting, the persons appointed as proxies may vote or act upon such matters according to their judgment.

ELECTION OF DIRECTORS

The Company presently has thirteen Directors who, pursuant to the Company s Amended Regulations, are divided into three classes with five Directors in Class I, four Directors in Class II and four Directors in Class III. At the 2008 Annual Meeting of Shareholders, four Directors will be elected to serve in Class II for a three-year term to expire at the 2011 Annual Meeting of Shareholders. Under Ohio law and the Company s Amended Regulations, candidates for Director receiving the greatest number of votes will be elected. Abstentions and broker non-votes (where a broker, other record holder, or nominee indicates on a proxy card that it does not have authority to vote certain shares on a particular matter) will not be counted in the election of Directors and will not have any effect on the result of the vote.

If any nominee becomes unable, for any reason, to serve as a Director, or should a vacancy occur before the election (which events are not anticipated), the Directors then in office may substitute another person as a nominee or may reduce the number of nominees as they deem advisable.

ITEM NO. 1

ELECTION OF CLASS II DIRECTORS

The Board of Directors, by resolution at its February 5, 2008 meeting, based on the recommendation of the Nominating and Corporate Governance Committee of the Board, nominated the four individuals set forth below to be elected Directors in Class II at the 2008 Annual Meeting of Shareholders to serve for a term of three years expiring at the Annual Meeting of Shareholders in 2011 (or until their respective successors are elected and qualified). All of the nominees have been previously elected as a Director by the shareholders. Each of the nominees listed below has consented to serve as a Director if elected. At its February 5, 2008 meeting, the Board passed a resolution waiving its policy that a Director retire from the Board at the Annual Meeting of Shareholders after reaching age 72 for Mr. Toot.

Unless otherwise indicated on any proxy, the persons named as proxies on the enclosed proxy form intend to vote the shares covered by such proxy form in favor of the nominees named below. The Board of Directors unanimously recommends a vote FOR the election of the nominees named below.

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The following table, based on information obtained in part from the respective nominees and in part from the records of the Company, sets forth information regarding each nominee as of January 10, 2008.

Name of Nominee	Age; Principal Position or Office; Business Experience for Last Five Years; Directorships of Publicly Held Companies	Director Continuously Since
Phillip R. Cox	60, President and Chief Executive Officer of Cox Financial Corporation, a financial services company, since 1972. Director of: Cincinnati Bell, Inc.; Diebold, Incorporated; Duke Energy Corporation; Touchstone Mutual Funds.	2004
Robert W. Mahoney	71, Chairman Emeritus of Diebold, Incorporated, a company specializing in the automation of self-service transactions, security products, software and service for its products, since 1999. Director of: Cincinnati Bell, Inc.; Sherwin-Williams Co.	1992
Ward J. Timken, Jr.	40, Chairman Board of Directors of The Timken Company, since 2005. Previous positions: Vice Chairman and President Steel, 2005; Executive Vice President and President Steel, 2004-2005; Corporate Vice President Office of the Chairman, 2000-2003.	2002
Joseph F. Toot, Jr.	72, Retired President and Chief Executive Officer of The Timken Company, since 1998. Director of: PSA Peugeot Citroen; Rockwell Automation, Inc.; Rockwell Collins, Inc. Automation, Inc.; Rockwell Collins, Inc.	1968

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CONTINUING DIRECTORS

The remaining nine Directors, named below, will continue to serve in their respective classes until their respective terms expire. The following table, based on information obtained in part from the respective Directors and in part from the records of the Company, sets forth information regarding each continuing Director as of January 10, 2008.

Name of Director	Age; Principal Position or Office; Business Experience for Last Five Years; Directorships of Publicly Held Companies	Term Expires	Director Continuously Since
James W. Griffith	54, President and Chief Executive Officer of The Timken Company, since 2002. Director of: Goodrich Corporation.	2010	1999
Jerry J. Jasinowski	69, Retired President and Chief Executive Officer of the National Association of Manufacturers and Retired President of The Manufacturing Institute, the education and research arm of the National Association of Manufacturers, the nation s largest industrial trade association, since 2006. Previous positions: President The Manufacturing Institute, 2005-2006; President and Chief Executive Officer National Association of Manufacturers, 1990-2004. Director of: Harsco Corporation; The Phoenix Companies, Inc.	2010	2004
John A. Luke, Jr.	59, Chairman and Chief Executive Officer of MeadWestvaco Corporation, a leading global producer of packaging, coated and specialty papers, consumer and office products, and specialty chemicals, since 2003. Previous positions: Chairman, President and Chief Executive Officer of MeadWestvaco Corporation, 2003; President and Chief Executive Officer of MeadWestvaco Corporation, 2002-2003; Director of: The Bank of New York Mellon Corporation; FM Global; MeadWestvaco Corporation.	2010	1999
Joseph W. Ralston	64, Vice Chairman, The Cohen Group, an organization that provides clients with comprehensive tools for understanding and shaping their business, political, legal, regulatory and media environments, since 2003. Previous positions: General United States Air Force (Retired); Supreme Allied Commander, Europe, NATO, 2000-2003. Director of: Lockheed Martin Corporation; URS Corporation.	2009	2003

Name of Director	Age; Principal Position or Office; Business Experience for Last Five Years; Directorships of Publicly Held Companies	Term Expires	Director Continuously Since
John P. Reilly	64, Retired Chairman, President and Chief Executive Officer of Figgie International, an international diversified operating company, since 1998. Director of: Exide Corporation (Chairman); Material Sciences Corporation; Marshfield Door Systems.	2009	2006
Frank C. Sullivan	47, President and Chief Executive Officer of RPM International Inc., a world leader in specialty coatings, since 2002. Director of: RPM International Inc.	2010	2003
John M. Timken, Jr.	56, Private Investor.	2009	1986
Ward J. Timken	65, President Timken Foundation of Canton, a private, charitable foundation to promote civic betterment through capital fund grants, since 2004. Previous position: Vice President of The Timken Company, 1992-2003.	2010	1971
Jacqueline F. Woods	60, Retired President of at&t Ohio, a telecommunications company, since 2000. Director of: School Specialty, Inc.; The Anderson s Inc.	2009	2000

Ward J. Timken is the father of Ward J. Timken, Jr. and the cousin of John M. Timken, Jr.

Independence Determinations

The Board of Directors has adopted the independence standards of the New York Stock Exchange listing requirements for determining the independence of Directors. Those standards are annexed to this Proxy Statement as Appendix A. The Board has determined that the following continuing Directors and Director nominees have no material relationship with the Company and meet those independence standards: Phillip R. Cox, Jerry J. Jasinowski, John A. Luke, Jr., Robert W. Mahoney, Joseph W. Ralston, John P. Reilly, Frank C. Sullivan, John M. Timken, Jr., Joseph F. Toot, Jr., and Jacqueline F. Woods. With respect to John M. Timken, Jr., the Board determined that his family relationship to Ward J. Timken and Ward J. Timken, Jr. does not impair his independence. Further, with respect to the finding that Joseph F. Toot, Jr., a former Chief Executive Officer of the Company, is independent, important factors considered by the Board included the fact that Mr. Toot retired as an executive of the Company in 1998 and that he receives no cash compensation from the Company (excluding his pension) other than Director fees. The Board found that the office space and administrative support supplied to Mr. Toot by the Company do not create a material relationship.

Related Party Transactions Approval Policy

The Company s Directors and executive officers are subject to the Company s Standard of Business Ethics Policy, which requires that any potential conflicts of interest, such as significant transactions with related parties, be reported to the Company s General Counsel. The Company s Directors and executive officers are also subject to the Company s Policy Against Conflicts of Interest, which requires that an employee or Director avoid placing himself or herself in a position in which his or her personal interests could interfere in any way with the interests of the Company. While not every situation can be identified in a written policy, the Policy Against Conflicts of Interest does specifically prohibit the following situations:

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Competing against the Company.

Holding a significant financial interest in a company doing business with or competing with the Company.

Accepting gifts, gratuities or entertainment from any customer, competitor or supplier of goods or services to the Company except to the extent they are customary and reasonable in amount and not in consideration for an improper action by the recipient.

Using for personal gain any business opportunities that are identified through a person s position with the Company.

Using Company property, information or position for personal gain. All Company property including proprietary and confidential information, may be used only in connection with Company business. The duty to preserve the confidentiality of proprietary and confidential information continues even after a person has left the Company.

Maintaining other employment or a business that adversely affects a person s job performance at the Company.

Doing business on behalf of the Company with a relative or another company employing a relative.

In the event of any potential conflict of interest, pursuant to the charter of the Nominating and Corporate Governance Committee and the provisions of the Standards of Business Ethics Policy and the Policy Against Conflicts of Interest, the Committee would review and, considering such factors as it deems appropriate under the circumstances, make a determination as to whether to grant a waiver to the policies for any such situation. Any waiver would be promptly disclosed to shareholders.

Board and Committee Meetings

The Board of Directors has an Audit Committee, a Compensation Committee, a Finance Committee, and a Nominating and Corporate Governance Committee. During 2007, there were ten meetings of the Board of Directors, nine meetings of its Audit Committee, five meetings of its Compensation Committee, three meetings of its Nominating and Corporate Governance Committee, and three meetings of its Finance Committee. All nominees for Director and all continuing Directors attended 75 percent or more of the meetings of the Board and its Committees on which they served. It is the policy of the Company that all members of the Board of Directors attend the Annual Meeting of Shareholders, and in 2007, all members except one were available to attend the meeting. At each regularly scheduled meeting of the Board of Directors, the Nonemployee Directors and the independent Directors also meet separately in executive sessions. The Chairpersons of the standing committees preside over those sessions on a rotating basis.

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DIRECTOR COMPENSATION

Cash Compensation

Each Nonemployee Director who served in 2007 was paid at the annual rate of $60,000 for services as a Director. In addition to base Director compensation, the following fees are earned, depending on which committee(s) and in which capacity each Nonemployee Director serves:

Committee	Chairperson Fee	Member Fee
Audit	$ 30,000	$ 15,000
Compensation	$ 15,000	$ 7,500
Finance	$ 15,000	$ 7,500
Nominating & Corporate Governance	$ 15,000	$ 7,500

Stock Compensation

Each Nonemployee Director serving at the time of the Annual Meeting of Shareholders on May 1, 2007, received a grant of 2,500 shares of Common Stock under The Timken Company Long-Term Incentive Plan, as Amended and Restated (the Long-Term Incentive Plan), following the meeting. The shares received are required to be held by each Nonemployee Director until his or her departure from the Board of Directors. Upon a Director s initial election to the Board, each new Nonemployee Director receives a grant of 2,000 restricted shares of Common Stock under the Long-Term Incentive Plan, which vest over a five-year period. No such grants were made in 2007. In 2007, the Compensation Committee of the Board of Directors adopted share ownership guidelines that require Directors to own Common Stock equal to at least three times the value of the annual rate of base cash compensation for Directors. Directors are expected to achieve this ownership level within five years of the time they join the Board.

Compensation Deferral

Any Director may elect to defer the receipt of all or a specified portion of his or her cash and/or stock compensation in accordance with the provisions of The Director Deferred Compensation Plan adopted by the Board on February 4, 2000. Pursuant to the plan, cash fees can be deferred into a notional account and paid at a future date requested by the Director. The account will be adjusted through investment crediting options, which include interest earned quarterly at a rate based on the prime rate plus one percent or the total shareholder return of the Company s Common Stock, with amounts paid either in a lump sum or in installments in cash. Stock compensation can be deferred to a future date and paid either in a lump sum or installments and is payable in shares plus a cash amount representing dividend equivalents during the deferral period.

2007 Compensation

The following table provides details of Director compensation in 2007:

Name (1)	Fees Earned or Paid in Cash	Stock Awards (2)	All Other Compensation	Total
Phillip R. Cox	$ 92,500	$ 91,470	$ 0	$ 183,970
Jerry Jasinowski	$ 75,000	$ 90,340	$ 30,969(3)	$ 196,309
John A. Luke, Jr.	$ 82,500	$ 82,325	$ 32,283(3)	$ 197,108
Robert W. Mahoney	$ 90,000	$ 82,325	$ 30,856(3)	$ 203,181
Joseph W. Ralston	$ 75,000	$ 87,551	$ 23,743(3)	$ 186,294
John P. Reilly	$ 82,500	$ 88,985	$ 26,817(3)	$ 198,302
Frank C. Sullivan	$ 97,500	$ 88,558	$ 0	$ 186,058
John M. Timken, Jr.	$ 82,500	$ 82,325	$ 0	$ 164,825
Ward J. Timken	$ 60,000	$ 82,325	$ 0	$ 142,325

Joseph F. Toot, Jr.	$	75,000	$	82,325	$	50,916(4)	$ 208,241
Jacqueline F. Woods	$	75,000	$	82,325	$	28,463(3)	$ 185,788

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(1) Ward J. Timken, Jr., Chairman of the Board of Directors and James W. Griffith, President and Chief Executive Officer, are not included in this table as they are employees of the company and receive no compensation for their services as Directors.

(2) The entire award of 2,500 shares of Common Stock on May 1, 2007, vested upon grant and expense under FAS 123R was immediately recognized upon grant, amounting to $82,325 for each Director. The remaining amounts shown in this column are the expense recognized under FAS 123R for 2007 from the one-time grant of 2,000 restricted shares received by each Director upon joining the

Board. Those amounts are as follows: Mr. Cox $9,145; Mr. Jasinowski $8,015; Mr. Ralston $5,226; Mr. Reilly $6,660; and Mr. Sullivan $6,233.

As of December 31, 2007, each Nonemployee Director has the following number of outstanding options and unvested shares from previous grants:

Name	Outstanding Options	Unvested Restricted Shares
Phillip R. Cox	3,000	800
Jerry Jasinowski	6,000	800
John A. Luke, Jr.	18,000	0
Robert W. Mahoney	18,000	0
Joseph W. Ralston	6,000	400
John P. Reilly	0	1,600
Frank C. Sullivan	6,000	400
John M. Timken, Jr.	0	0
Ward J. Timken	30,000(a)	0
Joseph F. Toot, Jr.	9,000	0
Jacqueline F. Woods	18,000	0

(a) Outstanding options for Ward J. Timken include grants awarded when he was an employee of the Company.

(3) Represents expenses related to spouses accompanying Directors to a meeting of the Board of Directors in China, including air fare, meals and activities, and the gross-ups to reimburse the Directors for the estimated taxes on the imputed income attributable to these expenses. Tax gross-ups were $13,471 for Mr. Jasinowski; $13,155 for Mr. Luke; $12,872 for Mr. Mahoney; $8,310 for Mr. Ralston; $10,190 for Mr. Reilly; and $11,874 for Mrs. Woods.

(4) As a former Chief Executive Officer of the Company, Mr. Toot is provided an office, administrative support and home security system monitoring. These items are valued at the Company s cost, and the office and administrative

support constitute approximately 99% of the total value.

AUDIT COMMITTEE

The Company has a standing Audit Committee of the Board of Directors. The Audit Committee has oversight responsibility with respect to the Company s independent auditors and the integrity of the Company s financial statements. The Audit Committee is composed of Frank C. Sullivan (Chairman), Phillip R. Cox, Robert W. Mahoney, John P. Reilly, and John M. Timken, Jr. All members of the Audit Committee are independent as defined in the listing standards of the New York Stock Exchange. The Board of Directors of the Company has determined that the Company has at least one audit committee financial expert serving on the Audit Committee, and has designated Frank C. Sullivan as that expert.

The Audit Committee s charter is available on the Company s website at www.timken.com and copies are available upon request to the Company s Corporate Secretary using the process described on page 54 of this Proxy Statement.

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AUDIT COMMITTEE REPORT

The Audit Committee has reviewed and discussed with management and the Company s independent auditors the audited financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The Audit Committee has also discussed with the Company s independent auditors the matters required to be discussed pursuant to Statement of Accounting Standards 61 (Codification of Statements on Auditing Standards, *Communication with Audit Committees*).

The Audit Committee has received and reviewed the written disclosure and the letter from the Company s independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), has discussed with the Company s independent auditors such independent auditors independence, and has considered the compatibility of non-audit services with the auditors independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission.

Frank C. Sullivan, Chairman
Phillip R. Cox
Robert W. Mahoney
John P. Reilly
John M. Timken, Jr.

COMPENSATION COMMITTEE

The Company has a standing Compensation Committee. The Compensation Committee establishes and administers the Company s policies, programs and procedures for compensating its senior management and Board of Directors. Members of the Compensation Committee are John A. Luke, Jr. (Chairman), Jerry J. Jasinowski, Joseph W. Ralston, John P. Reilly, and Jacqueline F. Woods. All members of the Compensation Committee are independent as defined in the listing standards of the New York Stock Exchange.

The Company, with the guidance and approval of the Compensation Committee of the Board of Directors, has developed compensation programs for executive officers, including the Chief Executive Officer and the other executive officers named in the Summary Compensation Table (the named executive officers), that are intended to provide a total compensation package that enables the Company to attract, retain and motivate superior quality executive management; rewards executive management for financial performance and the achievement of strategic objectives; and aligns the financial interests of executive management with those of shareholders. The Compensation Committee determines specific compensation elements for the Chief Executive Officer and considers and acts upon recommendations made by the Chief Executive Officer regarding the other executive officers.

The agenda for meetings of the Compensation Committee is determined by its Chairman with the assistance of the Senior Vice President Human Resources and Organizational Advancement. The meetings are regularly attended by the Chairman of the Board, Chief Executive Officer, Executive Vice President Finance and Administration, Senior Vice President and General Counsel, Senior Vice President Human Resources and Organizational Advancement and Director Total Rewards. At each meeting, the Compensation Committee meets in executive session. The Chairman of the Compensation Committee reports the Committee s actions regarding compensation of executive officers to the full Board of Directors. The Company s Human Resources and Organizational Advancement department supports the Compensation Committee in its duties and may be delegated certain administrative duties in connection with the Company s compensation programs. The Committee has the sole authority to retain and terminate compensation consultants to assist in the evaluation of Director or executive officer compensation and the sole authority to approve the fees and other retention terms of any compensation consultants. The Compensation Committee has engaged Towers Perrin, a global professional services firm, to conduct annual reviews of its total compensation programs for executive officers and, from time-to-time, to review the total compensation of Directors. Towers Perrin also provides information to the Compensation Committee on trends in executive compensation and other market data.

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With respect to Director compensation, as stated above, the Compensation Committee periodically engages Towers Perrin to conduct reviews of total Director compensation, and the Committee then recommends to the full Board of Directors changes in Director compensation that will enhance the Company s ability to attract and retain qualified Directors.

The Compensation Committee s charter is available on the Company s website at www.timken.com and copies are available upon request to the Company s Corporate Secretary using the process described on page 54 of this Proxy Statement.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the CD&A) for the year ended December 31, 2007, with management. In reliance on the review and discussion referred to above, the Compensation Committee recommended to the Board of Directors, and the Board has approved, that the CD&A be included in this Proxy Statement for the year ended December 31, 2007, for filing with the Securities and Exchange Commission.

John A. Luke, Jr. (Chairman)
Jerry J. Jasinowski
John P. Reilly
Joseph W. Ralston
Jacqueline F. Woods

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The Company has a standing Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for, among other things, evaluating new Director candidates and incumbent Directors, and recommending Directors to serve as members of the Board committees. Members of the Nominating and Corporate Governance Committee are Robert W. Mahoney (Chairman), Jerry J. Jasinowski, John A. Luke, Jr., Joseph W. Ralston, Joseph F. Toot, Jr., and Jacqueline F. Woods. All members of the Committee are independent as defined in the listing standards of the New York Stock Exchange.

Director candidates recommended by shareholders will be considered in accordance with the Company s Amended Regulations. In order for a shareholder to submit a recommendation, the shareholder must deliver a communication by registered mail or in person to the Nominating and Corporate Governance Committee, c/o The Timken Company, 1835 Dueber Avenue, S.W., P.O. Box 6932, Canton, Ohio 44706-0932. Such communication should include the proposed candidate s qualifications, any relationship between the shareholder and the proposed candidate and any other information that the shareholder would consider useful for the Nominating and Corporate Governance Committee to consider in evaluating such candidate. The Board of Directors General Policies and Procedures provide that general criteria for Director candidates include, but are not limited to, the highest integrity and ethical standards, the ability to provide wise and informed guidance to management, a willingness to pursue thoughtful, objective inquiry on important issues before the Company, and a range of experience and knowledge commensurate with the Company s needs as well as the expectations of knowledgeable investors. The Nominating and Corporate Governance Committee will consider individuals it believes to be qualified to become Directors and will recommend candidates to the Board of Directors to fill new or vacant positions. In recommending candidates, the Committee will consider such factors as it deems appropriate, consistent with the factors set forth in the Board of Directors General Policies and Procedures. The Nominating and Corporate Governance Committee is also responsible for reviewing the qualifications of, and making recommendations to the Board of Directors for, Director nominations submitted by shareholders. All Director nominees are evaluated in the same manner by the Nominating and Corporate Governance Committee, without regard to the source of the nominee recommendation.

The Nominating and Corporate Governance Committee s charter is available on the Company s website at www.timken.com and copies are available upon request to the Company s Corporate Secretary using the process described on page 54 of this Proxy Statement.

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The Company s code of business conduct and ethics, called the Standards of Business Ethics Policy, and its corporate governance guidelines, called the Board of Directors General Policies and Procedures, are reviewed annually by the Nominating and Corporate Governance Committee and are available on the Company s website at www.timken.com. Copies are available upon request to the Company s Corporate Secretary using the process described on page 54 of this Proxy Statement.

FINANCE COMMITTEE

The Company has a standing Finance Committee. The Committee advises and consults with management and the Board of Directors regarding capital structure, dividend and investment policies and other financial matters affecting the Company. Members of the Finance Committee are Phillip R. Cox (Chairman), Frank C. Sullivan, John M. Timken, Jr. and Joseph F. Toot, Jr. All members of the Finance Committee are independent as defined in the listing standards of the New York Stock Exchange.

The Finance Committee s charter is available on the Company s website at www.timken.com and copies are available upon request to the Company s Corporate Secretary using the process described on page 54 of this Proxy Statement.

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BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table shows, as of January 10, 2008, the beneficial ownership of Common Stock of the Company by each continuing Director, nominee for Director and executive officer named in the Summary Compensation Table on page 26 of this Proxy Statement, and by all continuing Directors, nominees for Director and executive officers as a group. Beneficial ownership of Common Stock has been determined for this purpose in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 and is based on the sole or shared power to vote or direct the voting or to dispose or direct the disposition of Common Stock. Beneficial ownership as determined in this manner does not necessarily bear on the economic incidents of ownership of Common Stock.

	Amount and Nature of Beneficial Ownership of Common Stock			
Name	**Sole Voting Or Investment Power** (1)	**Shared Voting or Investment Power**	**Aggregate Amount** (1)	**Percent of Class**
Michael C. Arnold	147,074	0	147,074	*
Phillip R. Cox	10,200(2)	0	10,200(2)	*
Glenn A. Eisenberg	110,177	0	110,177	*
James W. Griffith	673,264	40,964	714,228	*
Jerry J. Jasinowski	14,200(2)	0	14,200(2)	*
John A. Luke, Jr.	30,171	0	30,171	*
Robert W. Mahoney	32,281	0	32,281	*
Salvatore J. Miraglia, Jr.	125,790	0	125,790	
Joseph W. Ralston	20,655	0	20,655	*
John P. Reilly	4,599	0	4,599	*
Frank C. Sullivan	16,100(2)	0	16,100(2)	*
John M. Timken, Jr.	579,700(3)	953,160(4)	1,532,860(3) (4)	1.5%
Ward J. Timken	492,765	6,482,121(4)	6,974,886(4)	7.2%
Ward J. Timken, Jr.	387,818	5,309,754(4)	5,697,572(4)	5.9%
Joseph F. Toot, Jr.	73,856	200	74,056	*
Jacqueline F. Woods	28,869	0	28,869	*
All Directors, Nominees for Director and executive officers as a Group (5)	3,000,085	6,985,255	9,985,340	10.2%

* Percent of class is less than 1%.

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(1) The following table provides additional details regarding beneficial ownership of Common Stock:

Name	Outstanding Options (a)	Vested Deferred Restricted Shares (b)	Deferred Common Shares (c)
Michael C. Arnold	72,950	0	0
Phillip R. Cox	3,000	1,200	3,500
Glenn A. Eisenberg	35,000	0	0
James W. Griffith	461,000	20,000	0
Jerry J. Jasinowski	6,000	1,200	6,000
John A. Luke, Jr.	6,000	0	0
Robert W. Mahoney	18,000	0	0
Salvatore J. Miraglia, Jr.	46,500	10,000	0
Joseph W. Ralston	6,000	0	7,000
Frank C. Sullivan	6,000	1,600	0
Ward J. Timken	30,000	0	0
Ward J. Timken, Jr.	201,750	0	0
Joseph F. Toot, Jr.	9,000	0	0
Jacqueline F. Woods	18,000	0	7,500

(a) Includes the shares which the individual named in the table has the right to acquire, on or before March 10, 2008, through the exercise of stock options pursuant to the Long-Term Incentive Plan. Including those listed, all Directors, Nominees and executive officers as a group have the right to acquire 1,089,475 shares on or before March 10, 2008, through the exercise of stock options pursuant to the Long-Term Incentive Plan. These shares have been treated as outstanding for the purpose of calculating the percentage of the class beneficially owned by such individual or group, but not for the purpose of calculating the percentage of the class owned by any other person.

(b) Awarded as annual grants under the Long-Term Incentive Plan, which will not be issued until a later date under The Director Deferred Compensation Plan.

(c) Deferred under the 1996 Deferred Compensation Plan.

(2) Does not include unvested deferred restricted shares held by the following individuals: Phillip R. Cox 800; Jerry J. Jasinowski 800; and Frank C. Sullivan 400.

(3) Includes 197,886 shares for which John M. Timken, Jr. has sole voting and investment power as trustee of three trusts created as the result of distributions from the estate of Susan H. Timken.

(4) Includes shares for which another individual named in the table is also deemed to be the beneficial owner, as follows: John M. Timken, Jr. 500,000; Ward J. Timken 5,800,944; Ward J. Timken, Jr. 5,300,944.

(5) The number of shares beneficially owned by all Directors, nominees for Directors and executive officers as a group has been calculated to eliminate duplication of beneficial ownership. This group consists of 20 individuals.

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The following table gives information known to the Company about each beneficial owner of more than 5% of Common Stock of the Company.

Beneficial Owner	Amount	Percent of Class
Timken family (1)	10,666,297 shares	11%
Barclays Global Investors, N.A. (2)	8,731,432 shares	9.1%
Massachusetts Financial Services Company (3)	8,164,179 shares	8.5%
Participants in The Timken Company Savings and Investment Pension Plan (4)	6,963,018 shares	7.2%
Lord, Abbett & Co. LLC (5)	6,668,915 shares	7.0%

(1) Members of the Timken family, including John M. Timken, Jr.; Ward J. Timken; and Ward J. Timken, Jr., have in the aggregate sole or shared voting power with respect to at least an aggregate of 10,666,297 shares (11%) of Common Stock, which amount includes 231,750 shares that members of the Timken family have the right to acquire on or before March 10, 2008. The Timken Foundation of Canton, 200 Market Avenue, North, Suite 210, Canton, Ohio 44702, holds 5,247,944

of these shares, representing 5.4% of the outstanding Common Stock. Ward J. Timken; Joy A. Timken; Ward J. Timken, Jr.; and Nancy S. Knudsen are trustees of the Foundation and share the voting and investment power with respect to such shares.

(2) A filing with the Securities and Exchange Commission dated January 10, 2008, by Barclays Global Investors, N.A., 45 Fremont Street, San Francisco, California 94105, indicated that it has or shares voting or investment power over 8,731,432 shares (9.1%) of the Company s outstanding Common Stock.

(3) A filing with the Securities and Exchange Commission dated February 12, 2008, by Massachusetts

Financial Services Company, 500 Boylston Street, Boston, Massachusetts 02116, indicated that it has or shares voting or investment power over 8,164,179 shares (8.5%) of the Company s outstanding Common Stock.

(4) Trustee of the plan is J. P. Morgan Retirement Plan Services LLC, P.O. Box 419784, Kansas City, MO 64179-0654.

(5) A filing with the Securities and Exchange Commission dated February 14, 2008, by Lord, Abbett & Co. LLC, 90 Hudson Street, Jersey City, New Jersey 07302, indicated that it has voting or investment power over 6,668,915 shares (7.0%) of the Company s outstanding Common Stock.

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Company, with the guidance and approval of the Compensation Committee of the Board of Directors, has developed compensation programs for executive officers, including the Chief Executive Officer and the other executive officers named in the Summary Compensation Table (the named executive officers), that are intended to provide a total compensation package that:

- enables the Company to attract, retain and motivate superior quality executive management;
- rewards executive management for financial performance and the achievement of strategic objectives; and
- aligns the financial interests of executive management with those of shareholders.

The Company meets these objectives through a balance of current and long-term as well as cash and non-cash compensation. The elements of executive compensation consist of base salary and annual performance award, long-term incentives including performance units, stock options and restricted shares, retirement income programs and other benefits. Each element of compensation meets one or more of the objectives described above.

For 2007, the Company took the following actions in support of these objectives for the key elements of executive compensation:

Salary: Base salaries for each of the named executive officers were increased by varying percentages ranging from 2.6% to 6.4%, plus an additional increase in one case as a result of a promotion. The increase for the Chief Executive Officer was his first salary increase in 26 months. See Base Salary below.

Annual Performance Award: Payouts under the Senior Executive Management Performance Plan were approved at 77% of the target opportunity for the Chief Executive Officer and the Chairman and between 69% and 88% of target for the other named executive officers. See Annual Performance Award below.

Long-Term Incentives: Company performance for performance units covering the 2004-2007 period exceeded the target levels for both financial performance measures (average return on equity and compound annual sales growth) and payouts were approved for the named executive officers at 112% percent of target level. See Long-Term Incentives Performance Units below. The named executive officers also received awards of stock options and restricted stock as in prior years.

The Compensation Committee believes that executive compensation for 2007 appropriately reflected management s performance. The Company had record sales in 2007, with net income per diluted share among the highest in the Company s history. The Steel and Industrial Groups both generated record sales and profits. And the Company maintained a strong balance sheet while improving its pension funding and advancing its strategic objectives.

Executive Compensation Program Design

The Company s executive compensation programs are designed to deliver fair compensation in light of competitive market practices, balanced with the desire to meet the Company s performance aspirations and create long-term value for shareholders.

The Company annually reviews survey data from nationally recognized consulting firms. Collectively, these databases reflect the pay practices of hundreds of companies from a range of industries. The Company has chosen to use information regarding the pay practices of approximately 340 companies in these databases with annual revenues between $2.5 and $10 billion, because the Company believes the size and complexity of the organization should be reflected in how compensation is determined and believes that revenues are an appropriate indicator of size and complexity. The decision to consider the survey data for companies with annual revenues in this range in setting executive compensation levels reflects the Company s view that general industrial companies of comparable size are the main source of and the market for the Company s senior executive talent and ensures that the Company is positioned to attract and retain qualified senior executives in the face of competitive pressures in its relevant general labor markets.

Guidelines for salaries, annual incentives and long-term incentive grants are based on the 50th percentile of the general industry data for each position. The Company may provide compensation above or below the 50th percentile for a particular position, based on internal factors such as the executive s operating responsibilities, experience level, retention risk and tenure and performance in the position. The Company believes that targeting pay at the median in aggregate and adjusting pay above or below median for individual positions provides the proper balance between establishing fair and reasonable pay levels needed to attract and retain qualified executives and requiring that performance exceed expectations in order to deliver pay that is higher than that provided by the majority of companies in the comparison group.

The Company does not have a prescribed mix between short-term and long-term or cash and non-cash compensation, but rather establishes target compensation levels that are consistent with market practices relative to base salaries, annual incentive awards and long-term incentive values, and the Compensation Committee s assessment of the appropriate mix for the position. Current compensation provides needed personal liquidity, focuses executives on short-term priorities and dampens the impact of a volatile stock market. Providing a significant portion of executive compensation in the form of long-term compensation strengthens the alignment of executives to the long-term performance of the Company and provides a balance against short-term decision making.

The mix between current and long-term or cash and non-cash compensation varies by management level. For example, the Chief Executive Officer and Chairman positions receive more of their total compensation (excluding retirement income) in the form of long-term compensation relative to the other named executive officers, with both receiving approximately 40% in current compensation and 60% in long-term compensation, made up of approximately:

- 20% in current cash base salary;
- 20% in current cash bonus tied to annual performance goals;
- 20% in long-term cash bonus pay tied to performance over a three-year cycle; and
- 40% in long-term equity incentive compensation (stock options and restricted shares).

In comparison, the other named executive officers receive approximately 50% in current compensation and 50% in long-term compensation, with approximately 65% to 70% in cash and 30% to 35% in non-cash compensation. Positions lower in the organization have a greater emphasis on current pay. This reflects the Company s view that more senior executives should have a more significant incentive to focus on and drive the long-term performance of the Company. The Chief Executive Officer and the Chairman are expected to focus more than other senior executives on strategic issues that drive long-term performance, while priorities for executives lower in the organization are more heavily focused on shorter-term operational results.

Cash is used for both current and long-term compensation, while non-cash compensation (i.e., share-based awards) is generally used only for long-term compensation. Cash compensation includes base salary, annual incentive awards and performance units, which are cash-based awards payable at the end of three years subject to attainment of certain corporate performance targets. Non-cash compensation includes stock option grants and restricted share grants. Compensation tied to equity is intended to align the recipient s interests with shareholders and cause changes in stock price to have a meaningful impact on the recipient s personal wealth.

Pay-Setting Process

The Chief Executive Officer and the Senior Vice President - Human Resources and Organizational Advancement prepare compensation recommendations for the named executive officers (other than the Chief Executive Officer and the Chairman) and present these recommendations to the Compensation Committee. The Chief Executive Officer s and Chairman s compensation packages are determined by the Compensation Committee and approved by the independent members of the Board of Directors during executive session.

The Company compares each element of compensation provided to its executive officers to the market data, and considers the total compensation package in relation to the target established for the position, taking into account the scope of responsibilities of the particular position. Total compensation (base salary, annual incentives and long-term incentive grants) is evaluated in relation to the total compensation of comparable positions derived from the general market data. For example, the amount of Mr. Griffith s compensation is higher than the other named executives because it reflects the competitive market for chief executive officer services, and not because of compensation policies different from those applied to the other named executive officers.

Following completion of this analysis and development of proposed base salary ranges, target annual performance award opportunities and long-term incentive grants, an external compensation consultant reviews the information and discusses the findings with the Compensation Committee. As part of this process, the Compensation Committee reviews all the components of the Chief Executive Officer s and the other named executive officers compensation and determines that each individual s total compensation is reasonable and consistent with the Company s compensation philosophy. The Compensation Committee may also consider additional factors that may cause it to adjust a particular element of an executive s compensation, such as the executive s operating responsibilities, experience level, retention risk and tenure and performance in the position. The Compensation Committee then approves, with any modifications it deems appropriate, base salary ranges, target annual performance award opportunities and long-term incentive grants for the Company s executive officers. The amount of past compensation realized or potentially realizable does not directly impact the level at which current and long-term pay opportunities are set.

The company analyzes the overall expense arising from aggregate executive compensation levels and awards and the components of the Company s pay, as well as the accounting and tax treatment of such programs. The Company has addressed the impact of Section 162(m) of the Internal Revenue Code by obtaining shareholder approval of the Senior Executive Management Performance Plan and the Long-Term Incentive Plan and by allowing certain grants under the Long-Term Incentive Plan to qualify as performance-based compensation. The Chief Executive Officer and the other named executive officers all participated in the Senior Executive Management Performance plan for 2007. The Compensation Committee considers the deductibility of compensation and benefits for Federal income tax purposes, along with other relevant factors, when determining executive compensation practices.

The Compensation Committee engages an external compensation consultant in connection with its oversight of the design, development and implementation of the Company s executive pay programs. During 2007, the Compensation Committee determined that Towers Perrin would provide this service for a multi-year engagement. In 2007, Towers Perrin s primary areas of assistance were:

- Gathering market compensation practice information related to questions raised by the Compensation Committee and management;
- Reviewing information developed by management for the Compensation Committee and providing its input on such information to the Committee;
- Attending and participating in meetings with the Committee, as well as briefings with the Committee Chair and management prior to meetings; and
- Reviewing with management and the Committee materials to be used in the Company s Proxy Statement.

The Compensation Committee has authorized Towers Perrin to interact with the Company s management, as needed, on behalf of the Compensation Committee, such as to obtain or confirm information.

Base Salary

Base salaries for the named executive officers are intended to reflect the scope of their responsibilities, the length of their experience performing those responsibilities and their performance. Base salary ranges for executive officers are determined by the Compensation Committee based on external surveys of salary practices for positions with similar levels of responsibility. Base salaries for the named executive officers are reviewed by the Compensation Committee annually in light of each officer s experience, leadership, current salary and position in the salary range.

Following this review process in 2007, the Compensation Committee determined to increase Mr. Griffith s base salary by 4%, to $988,000. Mr. Griffith s base salary increase was implemented 26 months after his last increase. Mr. Timken s base salary was also increased by 4%, to $780,000, effective 19 months after

his last increase. Messrs. Eisenberg, Arnold and Miraglia received base salary increases of 2.6%, 4.2% and 6.4%, respectively, effective in each case 12 months after the last increase. In addition, on September 1, 2007, Mr. Arnold received a base salary increase of 18% in connection with his promotion to Executive Vice President and President Bearings and Power Transmission, to reflect his increased responsibility as an Executive Vice President of the Company.

Annual Performance Award

The Company s Senior Executive Management Performance Plan provides the named executive officers with the opportunity to earn annual incentive compensation based on the achievement of corporate performance goals established by the Compensation Committee and approved by the Board of Directors. It is intended to focus the named executive officers on specific performance goals in the current year.

Funding the Annual Plan

The Senior Executive Management Performance Plan is structured to comply with Section 162(m) of the Internal Revenue Code. In order to qualify the amounts earned under the plan as performance based, the Compensation Committee can exercise discretion only to reduce an award. As a result, target levels are set with the expectation that the plan will be funded above the level of the Company s other annual incentive plans. This provides the Compensation Committee with the flexibility to determine actual awards under the Senior Executive Management Performance Plan for the named executive officers that are consistent with the awards made to other annual incentive plan participants, which has been the historical practice.

Two performance measures were used for funding this plan for 2007: (1) earnings before interest and taxes as a percentage of beginning invested capital, excluding the effects of restructuring and impairment charges and accounting change charges, in each case as defined by generally accepted accounting principles (EBIT/BIC); and (2) working capital as a percentage of sales. EBIT/BIC constituted 80% of the total award calculation and working capital as a percentage of sales constituted 20% of the total award calculation. EBIT/BIC was the primary performance measure because the Compensation Committee believes that EBIT/BIC is closely correlated with the creation of shareholder value. Working capital as a percentage of sales was used to focus the named executives on managing working capital.

Target performance levels for each measure are established each year. The Compensation Committee reviews the prior year s target performance levels in light of performance expectations for the current year to determine whether any increases or decreases in the levels are warranted. For 2007, the target performance level for funding was 7.0% for the EBIT/BIC measure and 27.5% for the working capital measure. Performance at the target level would have resulted in the plan being funded at 100% of target level. Because the Compensation Committee has determined that it does not want to pay incentives for financial results that fall below minimum acceptable levels, a threshold level of performance for each measure is also established each year, below which there is no funding for annual performance awards. For 2007, this threshold funding level was 2.0% for the EBIT/BIC measure and 32.1% for the working capital measure. Similarly, because the Compensation Committee believes that making additional annual cash award payments for performance above certain performance levels has no beneficial incentive effect, maximum performance levels for each measure are also established each year. No additional funding is provided for performance above the maximum level. For 2007, the maximum performance level was 12.0% for the EBIT/BIC measure and 22.9% for the working capital measure. Performance at the threshold levels would have resulted in the plan being funded at 20% of the target level, and performance at the maximum level would have resulted in the plan being funded at 200% of the target levels, in each case prior to the exercise of discretion by the Compensation Committee to reduce the awards.

For 2007, Company performance under the Senior Executive Management Performance Plan equaled 11.1% for the EBIT/BIC measure and 22.6% for the working capital measure. These results meant that the Senior Executive Management Performance Plan was eligible to be funded at 186% of target.

Determining the Awards

For 2007, the Senior Executive Management Performance Plan provided the Chief Executive Officer and the Chairman a target award opportunity of 100% of base salary. The Plan provided the other named executive officers a target award opportunity of 60% of base salary. Target award opportunity levels for executive officers were determined by the Compensation Committee based on external surveys of practices

for positions with similar levels of responsibility. The actual awards could be higher or lower than the target opportunity based on the results for each performance measure, and the extent to which the Compensation Committee uses discretion to reduce the awards.

The Compensation Committee determined the actual award for each named executive officer based on:

the actual payouts, as a percentage of target opportunity, under the Company s annual incentive plan for management level employees other than the named executive officers;

the actual performance of the Company in 2007 in relation to the aspirations of the Company for performance over the course of a full business cycle; and

in the case of Messrs. Arnold and Miraglia, the strong performance of the specific business unit for which the officer is responsible.

As a result, the Compensation Committee approved annual incentive payouts for the named executive officers that were consistent, as a percentage of target opportunity, with the awards made to other annual incentive plan participants. The 2007 cash award payout under the Senior Executive Management Performance Plan equaled 77% of the target opportunity (100% of base salary) for the Chief Executive Officer and the Chairman and between 69% and 88% of the target opportunities (60% of base salary) for the other named executive officers.

The goals for the annual performance award plans for 2008 were set by the Compensation Committee at the February 2008 meeting. The performance measures for the Senior Executive Management Performance Plan for 2008 are: (1) corporate EBIT/BIC; and (2) working capital as a percentage of sales. Corporate EBIT/BIC will constitute 80% of the total award calculation and working capital as a percentage of sales will constitute 20% of the total award calculation. The performance levels for the Senior Executive Management Performance Plan were raised for 2008, at target, threshold and maximum levels, consistent with the goals for the Company s other annual incentive plan participants. Achievement of the target level of EBIT/BIC performance, for example, will require the highest level of performance for the past 10 years.

The target award opportunity for 2008 is 100% of base salary for the Chief Executive Officer and the Chairman and 70% of base salary for the other named executive officers, although the actual awards could be higher or lower than the target percentages based upon the actual results for each performance measure against the established targets and the extent to which the Compensation Committee reduces the awards.

Long-Term Incentives

The Compensation Committee administers the Long-Term Incentive Plan, which is approved by shareholders. Awards under the Long-Term Incentive Plan can be made in the form of non-qualified stock options, incentive stock options, appreciation rights, performance shares, performance units, restricted shares and deferred shares. In 2007, the Company utilized three different types of long-term incentive grants for executive officers:

Performance units, which are designed to reward executives with cash payments contingent on the attainment of specified multi-year corporate performance goals;

Nonqualified stock options, which vest over time (typically four years) and are intended to provide value to the holder only if shareholders receive additional value after the date of grant; and

Restricted shares, which also vest over time (typically four years) and are intended to foster stock ownership among executives and focus executives on total shareholder return (including dividends).

In total, the Company believes that these three programs provide a balanced focus on shareholder value creation and retention of key managers over the course of a full business cycle. These programs also serve to balance the short-term operating focus of the Company and align the long-term financial interests of executive management with those of shareholders.

The value of each type of long-term incentive grant is linked directly to the performance of the Company or the price of Common Stock. For performance units, payouts are entirely contingent on the attainment of corporate performance targets over a three-year performance period. In the case of stock options, the recipient recognizes value only to the extent that the stock price increases above the market price of the stock at the time the option is granted. And for restricted shares, value is directly related to the stock price and dividends paid by the Company. In each case, the executive must remain employed by the company for a minimum of three years (four years for stock options and restricted shares) to earn the full value of any award, which aids the Company in retaining executives.

Guideline grant levels for each of the three forms of long-term incentive were established in 2004 and have been held constant since that time. The guidelines were established in order to deliver a total value, at grant, equal to each executive s targeted level of long-term incentive value, based on competitive market practice for comparable positions. The allocation of grant value between the three long-term incentive programs was based on a combination of market practice, internal equity considerations and relative importance of the objectives behind each of the three programs (i.e., reward attainment of multi-year performance goals, provide value tied to stock price appreciation and foster stock ownership).

On average, for the named executive officers, each of the Company s long-term incentive vehicles represents approximately one-third of the total long-term incentive value. For the Chief Executive Officer and the Chairman, however, there is greater emphasis placed on the stock option component, with their long-term incentive mix being approximately 30% in cash-based performance units, 40% in stock options and 30% in restricted shares. This allocation reflects the Company s belief that the Chief Executive Officer and the Chairman, more than other officers, are directly accountable for long-term shareholder value creation.

Performance units, stock options and restricted shares are typically granted by the Compensation Committee at the first regularly scheduled meeting of each year, when the Committee determines all elements of the officers compensation for the year. Board and committee meetings are generally scheduled at least a year in advance. Approval of grants for newly hired or promoted executives during the course of the year occur at the Compensation Committee meeting immediately following the hiring or promotion.

Performance Units

The named executive officers receive awards of performance units at the start of three-year performance periods, and the awards are designed to focus the officers efforts on medium-term performance goals of the Company. A new three-year performance cycle starts on January 1 of each year. Cash payouts in respect of performance units are made by March following the end of each performance cycle. Performance units serve as a strong incentive for the named executive officers to achieve the Company s medium-term financial and strategic objectives. They also encourage retention, as they are subject to forfeiture if the officer voluntarily leaves the Company before the end of the three year period.

The Compensation Committee established two performance measures for the awards granted for the 2005-2007 performance cycle (which were granted in 2005): (1) average return on equity; and (2) compound annual sales growth. The Compensation Committee selected these goals because it believed they were key components of the Company s business strategy and important contributors to long-term shareholder value. Each measure was weighted equally because they were viewed as equally important for this performance cycle.

Each named executive officer received a target payout opportunity for the performance units, determined as a percentage of the officer s base salary in effect on January 1, 2005. For the 2005-2007 cycle, the plan provided the Chief Executive Officer a target payout opportunity of 100% of base salary and the other named executive officers target payout opportunities from 60% to 80% of their January 1, 2005 base salaries. These target percentages were determined to provide the appropriate allocation of value among the long-term incentives, as described above.

For the 2005-2007 cycle, the target performance level was 10.5% for the average return on equity measure and 4.2% for the compound annual sales growth measure. The specific performance targets for each measure were derived from the Company s internal, confidential three-year strategic plan at the time the awards were established. A minimum level of performance for each measure was also established, and no performance awards are earned for performance below these minimum levels. For the 2005-2007 cycle, this minimum, or threshold, level was 4.7% for the average return on equity measure and 0.6% (compound annual growth rate, or CAGR) for the sales growth measure. The Compensation Committee has also determined that, because both of these measures should be taken into account in measuring achievement of the strategic plan, failure to reach threshold levels of performance on either measure results in no award being paid. Maximum performance levels for each measure were also established, above which no additional payouts will be made. For the 2005-2007 cycle, the maximum performance level was 16.3% for the average return on equity measure and 7.6% for the compound annual sales growth measure.

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For the 2005-2007 performance cycle, performance at the target level on both measures would have resulted in funding at 150% of the target levels, performance at the threshold levels would have resulted in funding at 75% of the target levels and performance at the maximum levels would have resulted in funding at 200% of the target levels. Funding was set at 150% for target level performance because compliance with Section 162(m) of the Internal Revenue Code does not allow the Compensation Committee to use discretion to increase awards under any circumstances.

For the 2005-2007 cycle, Company performance exceeded the target level for both measures, with 11.7% average return on equity and 5.1% compound annual sales growth, resulting in eligible funding at 153% of target level for the named executive officers. The Compensation Committee approved payouts of 112% of target level, identical to the payout percentage calculated for other senior managers under a similar incentive plan. As a result, the Chief Executive Officer received a cash payment equal to 112% of his base salary and the other named executive officers were entitled to cash payments equal to between 67% and 90% of their January 1, 2005 base salaries.

The Compensation Committee established two performance measures for the performance units granted for the 2007-2009 performance cycle (which were granted in 2007): (1) average return on equity; and (2) compound annual sales growth. Each measure is weighted equally. As in the past, the specific performance targets for each measure are tied to the Company s internal, confidential three-year strategic plan. As a result, the Compensation Committee believes that the targets for the 2007-2009 cycle are challenging, but achievable. They will require a high level of financial performance over the three year period to be achieved.

The target award opportunity for the performance units granted in 2007 is 100% of base salary (as of January 1, 2007) for the Chief Executive Officer and the Chairman and ranges from 70% to 80% of base salary (as of January 1, 2007) for the other named executive officers, although the actual awards could be higher or lower than the target percentages depending upon the attainment of the specific performance targets. For the 2007-2009 performance cycle, performance at the target level on both measures would result in funding at 100% of the target levels, performance at the threshold levels would result in funding at 50% of the target levels and performance at the maximum levels would result in funding at 150% of the target levels, in each case subject to the exercise of discretion by the Compensation Committee to reduce the awards.

Under the accounting rules, performance units result in variable accounting, whereby the Company s expense equals the value paid to the executives. As such, the ultimate expense is not determinable until the end of the three-year performance period. When the executives earn and receive a payout, the Company receives a corresponding tax deduction.

Stock Options

Executives (including the named executive officers) receive nonqualified stock options that:

- have an exercise price equal to the market price of Common Stock on the date of grant;
- typically vest over a four-year period in equal amounts each year; and
- expire ten years after the date of grant.

The Compensation Committee believes that this structure aids the Company in retaining executives and motivating longer-term performance. Stock options are an effective motivational tool because they only have value to the extent the price of Common Stock on the date of exercise exceeds the exercise price on the grant date. They are an effective element of compensation and retention, however, only if the stock price grows over the term of the award.

Under the accounting rules, the fair value of the stock options on the grant date is expensed over the vesting period in the year the options are earned. When executives exercise stock options, they are taxed at ordinary income tax rates (subject to withholding) and the Company receives a corresponding tax deduction.

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Restricted Shares

Executives (including the named executive officers) receive restricted shares that typically vest over a four year period in equal amounts each year. Restricted shares serve to both reward and retain executives, as the value of the restricted shares is linked to the price of Common Stock when the restrictions lapse.

Under the accounting rules, the grant date fair value is expensed over the service/vesting period based on the shares that are earned. The executives are taxed at ordinary income tax rates (subject to withholding) when the shares vest, and the Company receives a corresponding tax deduction.

Share ownership targets have been established for all senior executives and are intended to align the interests of executive management with those of shareholders by requiring executives to be subject to long-term stock price volatility like shareholders. These targets set a specific level of ownership of 5 times base salary for the Chief Executive Officer and the Chairman and 3 times base salary for the other named executive officers. The Company recognizes all shares owned by the executive, including restricted shares still subject to forfeiture but not including shares that are subject to unexercised option rights, in determining whether ownership targets have been met. As of February 1, 2008, the named executive officers all exceeded their ownership targets. The Company has a formal policy that prohibits hedging the economic risk related to such stock ownership.

Retirement Income Programs

The Company s retirement income programs are an important retention tool. The Company maintains both qualified and nonqualified retirement income programs. The named executive officers participate in qualified plans on the same terms and conditions as all other salaried employees and also participate in the Company s nonqualified retirement income programs. The Company currently provides nonqualified retirement income through two types of plans:

Nonqualified defined contribution plan, which provides for after-tax savings based on each executive s contributions, company match and core defined contributions in excess of tax limits. The nonqualified defined contribution plan in which the named executive officers participate is the Post-tax Savings Plan. This plan is primarily intended to restore benefits that would be provided under the qualified retirement plans were it not for limits on benefits and compensation imposed by the Internal Revenue Code.

Nonqualified defined benefit plan, which provides for a targeted percentage of salary and annual incentive income that will be continued through retirement. The nonqualified defined benefit plan in which the named executive officers participate is the Supplemental Executive Retirement Program for Executive Officers (the SERP). The SERP provides for a benefit based on final average earnings with offsets for benefits provided under the Company s other retirement programs. The SERP promotes retention of executive officers because it requires 10 years of service, including 5 years as an officer, for full benefits to be earned.

Although the policies and procedures underlying the Company s retirement income programs are the same for all participants, the age and length of service (including service as an officer of the Company) of each participant can have a significant effect on their benefit calculation because the programs have changed over time. In addition, because benefits under the Company s retirement income programs are based on base salary and cash annual incentive compensation for the five highest non-consecutive years (out of the final ten years), the pension value can increase significantly as salary and cash annual incentive compensation increases.

The value of the nonqualified retirement income programs is quantified each year and these programs are periodically reviewed for their competitiveness. To date, the value of these programs has not had a significant impact on decisions regarding salary, annual incentive awards or long-term incentive grants.

Termination-Related Payments

In addition to retirement payments, the company provides termination-related payments in the event of involuntary termination without cause and involuntary termination without cause following a change in control.

The Company provides payments in the event of involuntary termination without cause through Severance Agreements with individual executives. Severance Agreements are provided based on competitive market practice and the Company s desire to provide some level of income continuity should an executive s employment be terminated without cause. The Company believes that providing for such income continuity results in greater management stability and lower unwanted management turnover.

Severance Agreements also provide for termination payments following involuntary termination without cause following a change in control. These provisions are based on competitive practice and are designed to ensure that executives interests remain aligned with shareholders should a potential change of control occur. They are also intended to provide some level of income continuity should an executive s employment be terminated without cause. The Company believes that providing for such income continuity results in greater management stability and lower unwanted management turnover.

The level of severance benefits under the applicable scenario reflects the Company s perception of competitive market practice for the named executive officers positions, based an assessment by Towers Perrin. Severance pay was established as a multiple of base salary and target annual incentive compensation, based on competitive market practice. Specific dollar values were not targeted by the Compensation Committee or management, although the Compensation Committee did review tally sheets that showed the estimated cost of such benefits under various scenarios. The amounts of potential payouts are indicated in the Termination Scenarios table on page 36.

Deferred Compensation

The Company maintains a Deferred Compensation Plan that allows certain employees, including the named executive officers, to defer receipt of all or a portion of their salary, employee contributions and company match that would otherwise be directed to the Post-Tax Savings and Investment Plan and/or incentive compensation payable in cash or shares of Common Stock until a specified point in the future. Cash deferrals earn interest quarterly at a rate based on the prime rate plus one percent. None of the named executive officers earned above-market interest, as defined by the Securities and Exchange Commission.

The Deferred Compensation Plan is not funded by the Company and participants have an unsecured contractual commitment by the Company to pay the amounts due under the plan. When such payments are due, they will be distributed from the Company s general assets. In the event of a change in control in the Company, as defined in the plan, participants are entitled to receive deferred amounts immediately. The Company believes that providing employees with tax deferral opportunities aids in the attraction and retention of such employees.

The value of deferred compensation amounts is quantified each year and this program is periodically reviewed for its competitiveness. To date, the value of deferred compensation has not had a significant impact on decisions regarding salary, annual incentive awards or long-term incentive grants.

Perquisite Programs

The Company s executive officers, including all of the named executive officers, are eligible to participate in a number of broad-based benefit programs, including health, disability and life insurance programs. The named executive officers may also receive certain perquisites including term life insurance coverage, financial counseling and tax preparation, annual physical examinations, access to corporate country club memberships (although personal expenses are not reimbursed) and home security systems. The value of these benefits is reflected in the All Other Compensation column in the Summary Compensation Table on page 26. These benefits are intended to provide executives with a competitive perquisite program that is reasonable and consistent with the Company s overall executive compensation program. The total cost of these benefits is a small percentage of each named executive officer s total compensation.

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SUMMARY COMPENSATION TABLE

The following table sets forth information concerning compensation for the Company s principal executive officer, principal financial officer and three other most highly compensated executive officers for 2007.

Name and Principal Position	Year	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation