TIMKEN CO
Form 10-Q
October 29, 2012

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, 2012

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 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 ý 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 ý 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	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 ý

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, 2012
Common Shares, without par value	95,847,056 shares

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE TIMKEN COMPANY AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(Dollars in millions, except per share data)				
Net sales	$1,142.5	$1,321.8	$3,906.7	$3,905.5
Cost of products sold	843.6	978.5	2,818.9	2,878.4
Gross Profit	298.9	343.3	1,087.8	1,027.1
Selling, general and administrative expenses	152.7	155.1	480.4	459.1
Impairment and restructuring charges	11.9	1.2	28.8	8.5
Operating Income	134.3	187.0	578.6	559.5
Interest expense	(7.3)	(9.1)	(24.0)	(28.2)
Interest income	0.6	1.5	2.0	4.4
Continued Dumping & Subsidy Offset Act (CDSOA) receipts, net of expense	(0.9)	—	108.6	—
Other income (expense), net	1.4	2.9	(3.7)	1.6
Income Before Income Taxes	128.1	182.3	661.5	537.3
Provision for income taxes	47.0	70.1	241.0	189.0
Net Income	81.1	112.2	420.5	348.3
Less: Net income attributable to noncontrolling interest	0.2	1.2	0.3	3.1
Net Income attributable to The Timken Company	$80.9	$111.0	$420.2	$345.2
Net Income per Common Share attributable to The Timken Company Common Shareholders				
Basic earnings per share	$0.84	$1.13	$4.32	$3.53
Diluted earnings per share	$0.83	$1.12	$4.28	$3.48
Dividends per share	$0.23	$0.20	$0.69	$0.58

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(Dollars in millions)				
Net Income	$81.1	$112.2	$420.5	$348.3
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	16.5	(77.2)	0.5	(30.7)
Unrealized (loss) gain on marketable securities	(0.2)	0.2	(0.7)	0.5
Pension and postretirement liability adjustment	12.2	16.4	34.2	34.9
Change in fair value of derivative financial instruments	(0.9)	0.6	0.5	0.7
Other comprehensive income (loss)	27.6	(60.0)	34.5	5.4
Comprehensive Income	108.7	52.2	455.0	353.7
Less: comprehensive income attributable to noncontrolling interest	0.2	1.2	0.2	3.2
Comprehensive Income attributable to The Timken Company	$108.5	$51.0	$454.8	$350.5

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in millions)	(Unaudited) September 30, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$485.5	$464.8
Restricted cash	—	3.6
Accounts receivable, less allowances: 2012 – $12.6 million; 2011 – $19.0 million	629.8	645.5
Inventories, net	928.1	964.4
Deferred income taxes	115.9	113.7
Deferred charges and prepaid expenses	12.9	12.8
Other current assets	61.5	88.1
Total Current Assets	2,233.7	2,292.9
Property, Plant and Equipment-Net	1,344.3	1,308.9
Other Assets		
Goodwill	332.1	332.7
Other intangible assets	221.7	235.7
Deferred income taxes	45.6	117.2
Other non-current assets	41.1	40.0
Total Other Assets	640.5	725.6
Total Assets	$4,218.5	$4,327.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	$12.9	$22.0
Accounts payable, trade	270.0	287.3
Salaries, wages and benefits	213.0	259.3
Income taxes payable	112.7	45.5
Deferred income taxes	3.6	3.1
Other current liabilities	171.1	188.4
Current portion of long-term debt	14.6	14.3
Total Current Liabilities	797.9	819.9
Non-Current Liabilities		
Long-term debt	461.4	478.8
Accrued pension cost	158.3	491.0
Accrued postretirement benefits cost	333.9	395.9
Deferred income taxes	6.7	7.5
Other non-current liabilities	114.5	91.8
Total Non-Current Liabilities	1,074.8	1,465.0
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) (2012 – 98,375,135 shares; 2011 – 98,375,135 shares)		
Stated capital	53.1	53.1
Other paid-in capital	887.7	889.2
Earnings invested in the business	2,358.1	2,004.7

Accumulated other comprehensive loss	(854.9)	(889.5)
Treasury shares at cost (2012 – 2,528,079 shares; 2011 – 708,327 shares)	(112.6)	(29.2)
Total Shareholders’ Equity	2,331.4	2,028.3
Noncontrolling Interest	14.4	14.2
Total Equity	2,345.8	2,042.5
Total Liabilities and Shareholders’ Equity	$4,218.5	$4,327.4

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Nine Months Ended September 30, 2012	2011
CASH PROVIDED (USED)		
Operating Activities		
Net income attributable to The Timken Company	$420.2	$345.2
Net income attributable to noncontrolling interest	0.3	3.1
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	148.8	142.9
Impairment charges	6.4	3.3
Loss (gain) on sale of assets	3.6	(0.9)
Deferred income tax provision	44.6	48.7
Stock-based compensation expense	13.4	13.1
Pension and other postretirement expense	70.1	55.8
Pension contributions and other postretirement benefit payments	(399.8)	(445.2)
Changes in operating assets and liabilities:		
Accounts receivable	13.8	(187.9)
Inventories	35.2	(122.2)
Accounts payable, trade	(17.0)	39.3
Other accrued expenses	(74.5)	(2.3)
Income taxes	99.3	52.6
Other – net	2.1	(12.9)
Net Cash Provided (Used) by Operating Activities	366.5	(67.4)
Investing Activities		
Capital expenditures	(187.3)	(106.0)
Acquisitions	(0.2)	(198.9)
Proceeds from disposals of property, plant and equipment	1.8	5.7
Divestitures	—	4.8
Investments in short-term marketable securities, net	17.2	(23.9)
Other	3.5	0.8
Net Cash Used by Investing Activities	(165.0)	(317.5)
Financing Activities		
Cash dividends paid to shareholders	(66.8)	(56.6)
Net proceeds from common share activity	20.2	23.4
Purchase of treasury shares	(112.3)	(43.8)
Proceeds from issuance of long-term debt	—	9.3
Payments on long-term debt	(17.2)	(4.0)
Short-term debt activity – net	(9.3)	(7.3)
Decrease (increase) in restricted cash	3.6	(3.6)
Other	—	(3.5)
Net Cash Used by Financing Activities	(181.8)	(86.1)
Effect of exchange rate changes on cash	1.0	(3.2)
Increase (Decrease) In Cash and Cash Equivalents	20.7	(474.2)
Cash and cash equivalents at beginning of year	464.8	877.1
Cash and Cash Equivalents at End of Period	$485.5	$402.9

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Dollars in millions, except 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, 2011.

Note 2 - Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): "Testing Indefinite-Lived Intangible Assets for Impairment." The new guidance includes periodic testing of indefinite-lived intangibles for impairment. This allows companies to assess qualitative factors to determine if indefinite-lived intangibles might be impaired and whether is is necessary to perform the two-step impairment test. The effective date of the new guidance is for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. The Company adopted this accounting guidance effective October 1, 2012, and it is not expected to have an impact on the Company's results of operations and financial condition.

Effective January 1, 2012, the Company adopted the two-statement approach for the presentation of other comprehensive income in accordance with Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): "Presentation of Comprehensive Income." The two-statement approach allows for the components of net income and total net income to be presented in a financial statement, immediately followed by a financial statement presenting the components of other comprehensive income and a total for comprehensive income. The Consolidated Financial Statements include the Consolidated Statements of Comprehensive Income as a result of adopting this new guidance.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. As the FASB is considering the presentation requirements, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05.

The Company adopted ASU No. 2011-04, Fair Value Measurement (Topic 820): "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," effective January 1, 2012. The new accounting requirements do not extend the use of fair value accounting; they only provide additional guidance on the application and disclosure of fair value accounting where its use is currently permitted. The new accounting requirements also expand the disclosures about fair value measurement.

Note 3 - Inventories

The components of inventories were as follows:

	September 30, 2012	December 31, 2011
Inventories, net:		
Manufacturing supplies	$68.4	$65.6
Raw materials	117.2	129.8
Work in process	315.5	327.4
Finished products	467.1	472.4
Subtotal	968.2	995.2
Allowance for obsolete and surplus inventory	(40.1)	(30.8)
Total Inventories, net	$928.1	$964.4

Inventories are valued at the lower of cost or market, with approximately 55% valued by the last-in, first-out (LIFO) method and the remaining 45% valued by the first-in, first-out (FIFO) method. The majority of the Company's domestic inventories are valued by the LIFO method and all of the Company's international (outside the United States) inventories are valued by the FIFO method.

An actual valuation of the inventory under the 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, 2012 and December 31, 2011 was $300.6 million and $287.7 million, respectively. The Company recognized an increase in its LIFO reserve of $3.7 million and $12.9 million during the third quarter and first nine months of 2012, respectively, compared to an increase in its LIFO reserve of $8.1 million and $23.8 million during the third quarter and first nine months of 2011, respectively.

Based on current expectations of inventory levels and costs, the Company expects to recognize approximately $17.9 million in LIFO expense for the year ended December 31, 2012. The expected increase in the LIFO reserve for 2012 reflects anticipated higher costs, especially scrap steel costs. A 1.0% increase in costs would increase the current LIFO expense estimate for 2012 by $6.4 million. A 1.0% increase in inventory quantities would have no effect on the current LIFO expense estimate for 2012.

Note 4 - Property, Plant and Equipment

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

	September 30, 2012	December 31, 2011
Property, Plant and Equipment:		
Land and buildings	$655.2	$637.3
Machinery and equipment	3,072.9	2,952.1
Subtotal	3,728.1	3,589.4
Less allowances for depreciation	(2,383.8)	(2,280.5)
Property, Plant and Equipment – net	$1,344.3	$1,308.9

Depreciation expense for the nine months ended September 30, 2012 and 2011 was $134.5 million and $133.7 million, respectively. At September 30, 2012 and December 31, 2011, machinery and equipment included approximately $84.7 million and $90.5 million, respectively, of capitalized software. Depreciation expense on capitalized software for the nine months ended September 30, 2012 and 2011 was approximately $17.6 million and $17.2 million, respectively.

Note 5 - Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012 were as follows:

	Mobile Industries	Process Industries	Aerospace and Defense	Steel	Total
Beginning balance	$16.9	$141.1	$162.1	$12.6	$332.7
Acquisitions	—	0.2	—	—	0.2
Other	—	(0.7)	—	(0.1)	(0.8)
Ending balance	$16.9	$140.6	$162.1	$12.5	$332.1

During the first nine months of 2012, the Company allocated goodwill acquired as part of the acquisition of Drives, LLC (Drives) between the Mobile Industries and Process Industries segments based on the relative fair value of each reporting unit. The Company also obtained additional information on the fair value of intangible assets acquired in 2011 and, therefore, adjusted the value of goodwill and other intangible assets during the first nine months of 2012 (See Note 14 – Acquisitions for additional information on the purchase price allocation). The purchase price allocation adjustments were made retroactive to December 31, 2011. Other primarily includes foreign currency translation adjustments.

The following table displays intangible assets as of September 30, 2012 and December 31, 2011:

	As of September 30, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	$157.1	$35.4	$121.7	$157.1	$26.3	$130.8
Know-how	22.6	2.5	20.1	22.6	1.5	21.1
Industrial license agreements	0.2	0.1	0.1	0.1	0.1	—
Land-use rights	8.6	4.0	4.6	8.6	3.8	4.8
Patents	2.5	1.8	0.7	2.5	1.7	0.8
Technology use	47.0	10.6	36.4	46.9	8.7	38.2
Trademarks	2.9	2.8	0.1	2.8	2.3	0.5
PMA licenses	8.8	3.5	5.3	8.8	3.1	5.7
Non-compete agreements	3.9	3.2	0.7	3.9	2.5	1.4
Unpatented technology	7.2	6.7	0.5	7.2	6.3	0.9
	$260.8	$70.6	$190.2	$260.5	$56.3	$204.2
Intangible assets not subject to amortization:						
Tradename	$17.3	$—	$17.3	$17.3	$—	$17.3
FAA air agency certificates	14.2	—	14.2	14.2	—	14.2
	$31.5	$—	$31.5	$31.5	$—	$31.5
Total intangible assets	$292.3	$70.6	$221.7	$292.0	$56.3	$235.7

Amortization expense for intangible assets was $14.3 million and $9.2 million for the nine months ended September 30, 2012 and September 30, 2011, respectively. Amortization expense for intangible assets is estimated to be approximately $18.7 million for 2012; $17.4 million in 2013; $16.9 million in 2014; $16.8 million in 2015; and $16.5 million in 2016.

Note 6 - Financing Arrangements

Short-term debt at September 30, 2012 and December 31, 2011 was as follows:

	September 30, 2012	December 31, 2011
Variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 2.53% to 6.16% and 2.24% to 11.0% at September 30, 2012 and December 31, 2011, respectively	$12.9	$22.0
Short-term debt	$12.9	$22.0

The lines of credit for certain of the Company’s foreign subsidiaries provide for short-term borrowings up to $221.3 million. At September 30, 2012, the Company’s foreign subsidiaries had borrowings outstanding of $12.9 million and guarantees of $3.8 million, which reduced the availability under these facilities to $204.6 million.

The Company has a $150 million Accounts Receivable Securitization Financing Agreement (Asset Securitization Agreement), which matures on November 10, 2012. The Company is currently reviewing its options to establish a new agreement prior to the current maturity date. 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 by certain borrowing base calculations. Any amounts outstanding under this Asset Securitization Agreement would be reported in short-term debt on the Company's Consolidated Balance Sheet. As of September 30, 2012, there were no outstanding borrowings under the Asset Securitization Agreement. The cost of this facility, which is the commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statements of Income.

Long-term debt at September 30, 2012 and December 31, 2011 was as follows:

	September 30, 2012	December 31, 2011
Fixed-rate Medium-Term Notes, Series A, mature 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, maturing on September 15, 2014, with an interest rate of 6.0%	249.9	249.8
Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.16% at September 30, 2012)	12.2	12.2
Variable-rate State of Ohio Air Quality Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.34% at September 30, 2012)	9.5	9.5
Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 (0.34% at September 30, 2012)	8.5	17.0
Variable-rate credit facility with US Bank for Advanced Green Components, LLC, maturing on May 23, 2013 (1.35% at September 30, 2012)	0.2	5.1
Other	20.7	24.5
	$476.0	$493.1
Less current maturities	14.6	14.3
Long-term debt	$461.4	$478.8

The Company has a $500 million Amended and Restated Credit Agreement (Senior Credit Facility) which matures on May 11, 2016. At September 30, 2012, the Company had no outstanding borrowings under the Senior Credit Facility but had letters of credit outstanding totaling $8.6 million, which reduced the availability under the Senior Credit Facility to $491.4 million. Under the Senior Credit Facility, the Company has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2012, the Company was in full compliance with the covenants under the Senior Credit Facility.

In 2011, the Company was notified that its variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033, had lost their tax-exempt status and would now be taxable to its bondholders. As part of the negotiation with the Internal Revenue Service (IRS), the Company redeemed half of the balance during the third quarter of 2012. The Company now expects to pay off the remaining balance of $8.5 million on December 31, 2022.

Certain of the Company’s foreign subsidiaries have facilities that also provide for long-term borrowings up to $19.1 million. At September 30, 2012, the Company had outstanding borrowings of $19.1 million, leaving no availability under these long-term facilities.

Note 7 - Product Warranty

The Company generally provides limited warranties on its products. The Company accrues liabilities for warranty costs based upon specific claims and a review of historical warranty claim experience in accordance with accounting rules relating to contingent liabilities. The Company records and accounts for its warranty reserve based on specific claim incidents. 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, 2012 and the twelve months ended December 31, 2011:

	September 30, 2012	December 31, 2011
Beginning balance, January 1	$11.7	$8.0
(Income) expense	(1.6)	9.0
Payments	(4.6)	(5.3)
Ending balance	$5.5	$11.7

The product warranty accrual at September 30, 2012 and December 31, 2011, respectively, was included in other current liabilities on the Consolidated Balance Sheets.

Note 8 - Equity

		The Timken Company Shareholders					
	Total	Stated Capital	Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive (Loss)	Treasury Stock	Non-controlling Interest
Balance at December 31, 2011	$2,042.5	$53.1	$889.2	$2,004.7	$(889.5)	$(29.2)	$14.2
Net income	420.5			420.2			0.3
Foreign currency translation adjustment	0.5				0.5		
Pension and postretirement liability adjustment (net of the income tax benefit of $24.5 million)	34.2				34.2		
Unrealized loss on marketable securities	(0.7)				(0.6)		(0.1)
Change in fair value of derivative financial instruments, net of reclassifications	0.5				0.5		
Dividends – $0.69 per share	(66.8)			(66.8)			
Excess tax benefit from stock compensation	9.6		9.6				
Stock-based compensation expense	13.4		13.4				
Stock purchased at cost	(112.3)					(112.3)	
Stock option exercise activity	12.5		(20.6)			33.1	
Restricted shares (issued) surrendered	—		(3.9)			3.9	

Shares surrendered for taxes	(8.1)					(8.1)	
Balance at September 30, 2012	$2,345.8	$53.1	$887.7	$2,358.1	$(854.9)	$(112.6)	$14.4

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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, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income attributable to The Timken Company	$80.9	$111.0	$420.2	$345.2
Less: undistributed earnings allocated to nonvested stock	0.2	0.4	1.3	1.3
Net income available to common shareholders for basic earnings per share and diluted earnings per share	$80.7	$110.6	$418.9	$343.9
Denominator:				
Weighted average number of shares outstanding – basic	96,356,772	97,489,819	96,981,922	97,509,361
Effect of dilutive securities:				
Stock options and awards - based on the treasury stock method	766,401	996,021	933,878	1,234,225
Weighted average number of shares outstanding, assuming dilution of stock options and awards	97,123,173	98,485,840	97,915,800	98,743,586
Basic earnings per share	$0.84	$1.13	$4.32	$3.53
Diluted earnings per share	$0.83	$1.12	$4.28	$3.48

The exercise prices for certain stock options that the Company has awarded 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. The antidilutive stock options outstanding during the three months ended September 30, 2012 and 2011 were 1,299,460 and 697,500, respectively. The antidilutive stock options outstanding during the nine months ended September 30, 2012 and 2011 were 739,577 and 350,167, respectively.

Note 10 - Segment Information

The primary measurement used by management to measure the financial performance of each segment is EBIT (earnings before interest and taxes). As of January 1, 2012, the Company modified the way in which certain selling, general and administrative (SG&A) expenses are allocated among segments to better reflect the use of shared resources by the business. Prior year amounts have been revised to be consistent with the new allocations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales to external customers:				
Mobile Industries	$396.7	$441.3	$1,314.0	$1,349.3
Process Industries	309.8	328.1	1,000.5	919.7
Aerospace and Defense	84.0	81.8	262.5	244.4
Steel	352.0	470.6	1,329.7	1,392.1
	$1,142.5	$1,321.8	$3,906.7	$3,905.5
Intersegment sales:				
Mobile Industries	$0.2	$0.3	$0.4	$0.5
Process Industries	1.3	0.8	3.9	2.5
Steel	25.0	30.9	82.6	96.0
	$26.5	$32.0	$86.9	$99.0
Segment EBIT:				
Mobile Industries	$37.9	$69.5	$173.4	$213.0
Process Industries	60.1	75.6	213.7	209.6
Aerospace and Defense	7.7	(1.7)	26.3	2.4
Steel	49.7	66.2	226.6	196.8
Total EBIT for reportable segments	$155.4	$209.6	$640.0	$621.8
Unallocated corporate expenses	(20.1)	(18.8)	(63.8)	(59.9)
CDSOA receipts, net of expense	(0.9)	—	108.6	—
Interest expense	(7.3)	(9.1)	(24.0)	(28.2)
Interest income	0.6	1.5	2.0	4.4
Intersegment adjustments	0.4	(0.9)	(1.3)	(0.8)
Income before income taxes	$128.1	$182.3	$661.5	$537.3

Note 11 - Impairment and Restructuring Charges

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

For the three months ended September 30, 2012:

	Mobile Industries	Process Industries	Aerospace & Defense	Total
Impairment charges	$6.4	$—	$—	$6.4
Severance and related benefit costs	0.3	1.0	—	1.3
Exit costs	4.2	—	—	4.2
Total	$10.9	$1.0	$—	$11.9

For the three months ended September 30, 2011:

	Mobile Industries	Process Industries	Aerospace & Defense	Total
Impairment charges	$—	$0.1	$—	$0.1
Severance and related benefit costs	0.1	—	—	0.1
Exit costs	0.9	0.1	—	1.0
Total	$1.0	$0.2	$—	$1.2

For the nine months ended September 30, 2012:

	Mobile Industries	Process Industries	Aerospace & Defense	Total
Impairment charges	$6.4	$—	$—	$6.4
Severance and related benefit costs	16.6	1.3	—	17.9
Exit costs	4.5	—	—	4.5
Total	$27.5	$1.3	$—	$28.8

For the nine months ended September 30, 2011:

	Mobile Industries	Process Industries	Aerospace & Defense	Total
Impairment charges	$0.1	$0.3	$0.1	$0.5
Severance expense and related benefit costs	0.2	—	—	0.2
Exit costs	7.5	0.3	—	7.8
Total	$7.8	$0.6	$0.1	$8.5

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.

Mobile Industries

In May 2012, the Company announced the closure of its manufacturing facility in St. Thomas, Ontario, Canada (St. Thomas), expected to be completed in approximately one year, and its intent to consolidate bearing production at this plant with its existing U.S. operations to better align the Company's manufacturing footprint and customer base. The Company will also move customer service for the Canadian market to its offices in Toronto. Production is expected to be transferred to the Company's operations in Ohio, North Carolina and South Carolina by mid-2013. The closure of the St. Thomas manufacturing facility will displace approximately 190 employees. The Company expects to incur pretax costs of approximately $55 million to $65 million in connection with this closure, of which approximately $20

million to $25 million is expected to be pretax cash costs.

The Company has incurred pretax costs of approximately $26.1 million as of September 30, 2012, including rationalization costs recorded in cost of products sold. During the third quarter of 2012, the Company recorded $6.4 million of impairment charges. During the first nine months of 2012, the Company recorded $16.8 million of severance and related benefits, including a curtailment of pension benefits of $10.7 million, and impairment charges of $6.4 million. The majority of the $16.8 million charge was incurred by the Mobile Industries segment.

In March 2007, the Company announced the closure of its manufacturing facility in Sao Paulo, Brazil (Sao Paulo). The Company completed the closure of this manufacturing facility on March 31, 2010. Pretax costs associated with the closure could be as high as approximately $60 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 $56.8 million as of September 30, 2012 related to this closure. During the third quarter and first nine months of 2012, the Company recorded $4.2 million and $7.1 million of exit costs associated with the closure of this facility primarily related to environmental remediation costs. During the third quarter and first nine months of 2011, the Company recorded $0.9 million and $6.9 million, respectively, of exit costs associated with this closure. The exit costs recorded in the third quarter and first nine months of 2011 were primarily related to environmental remediation costs and workers' compensation claims for former employees. The Company accrues environmental remediation costs and workers' compensation claims when they are probable and estimable.

In addition to the above charges, the Company recorded a favorable adjustment of $2.7 million during the first nine months of 2012 for environmental exit costs at the site of its former plant in Columbus, Ohio. The favorable adjustment was a result of the sale of the real estate at the site of this former plant during the first quarter of 2012. The buyer assumed responsibility for the environmental remediation as a result of the sale. The buyer was able to obtain funding from the State of Ohio to remediate the site.

The following is a rollforward of the consolidated restructuring accrual for the nine months ended September 30, 2012 and the twelve months ended December 31, 2011:

	September 30, 2012	December 31, 2011
Beginning balance, January 1	$21.8	$22.1
Expense	11.7	13.9
Payments	(15.1)	(14.2)
Ending balance	$18.4	$21.8

The restructuring accrual at September 30, 2012 and December 31, 2011 was included in other current liabilities on the Consolidated Balance Sheets. The restructuring accrual at September 30, 2012 excluded costs related to the curtailment of pension benefit plans of $10.7 million. The restructuring accrual at September 30, 2012 included $6.8 million of environmental remediation costs, of which $5.8 million relates to Sao Paulo. The Company adjusts environmental remediation accruals based on the best available estimate of costs to be incurred, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties. The Company's estimated total liability for this site ranges from a minimum of $5.8 million to a maximum of $9.7 million. It is possible that the estimates may change in the near term.

Note 12 - Retirement and Postretirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company's defined benefit pension and postretirement benefit plans. The amounts for the three months and nine months ended September 30, 2012 are based on updated actuarial calculations prepared during the second quarter of 2012. The net periodic benefit cost recorded for the three months and nine months ended September 30, 2012 is the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ending December 31, 2012.

	Pension Three Months Ended September 30,		Postretirement Three Months Ended September 30,	
	2012	2011	2012	2011
Components of net periodic benefit cost:				
Service cost	$8.7	$8.0	$0.6	$0.7
Interest cost	37.7	39.6	7.0	8.1
Expected return on plan assets	(55.3)	(53.7)	(2.7)	(1.2)
Amortization of prior service cost	2.3	2.4	—	—
Amortization of net actuarial loss	20.8	14.0	0.6	0.7
Net periodic benefit cost	$14.2	$10.3	$5.5	$8.3

	Pension Nine Months Ended September 30,		Postretirement Nine Months Ended September 30,	
	2012	2011	2012	2011
Components of net periodic benefit cost:				
Service cost	$25.9	$24.2	$1.9	$1.9
Interest cost	113.3	119.0	20.9	24.3
Expected return on plan assets	(165.8)	(161.3)	(8.0)	(3.4)
Amortization of prior service cost (credit)	7.0	7.1	(0.2)	(0.2)
Amortization of net actuarial loss	62.5	42.0	1.9	2.2
Curtailment loss	10.7	—	—	—
Net periodic benefit cost	$53.6	$31.0	$16.5	$24.8

Note 13 - Income Taxes

The Company's provision for income taxes in interim periods is computed 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Provision for income taxes	$47.0	$70.1	$241.0	$189.0
Effective tax rate	36.7%	38.5%	36.4%	35.2%

The effective tax rate in the third quarter of 2012 was higher than the U.S. federal statutory rate of 35% primarily due to losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the manufacturing facility in St. Thomas, U.S. state and local taxes, and U.S. taxation of foreign income. These factors were partially offset by the U.S. manufacturing deduction and certain discrete U.S. tax benefits.

The decrease in the effective tax rate in the third quarter of 2012 compared to the third quarter of 2011 was primarily due to higher tax benefits from the U.S. manufacturing deduction and certain discrete U.S. tax benefits. These factors were partially offset by higher losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the manufacturing facility in St. Thomas, lower earnings in certain foreign jurisdictions where the effective tax rate was lower than 35%.

The effective tax rate for the first nine months of 2012 was higher than the U.S. federal statutory rate of 35% primarily due to U.S. state and local taxes, U.S. taxation of foreign income and losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the manufacturing facility in St. Thomas. These factors were partially offset by earnings in certain foreign jurisdictions where the effective tax rate was lower than 35%, the U.S. manufacturing deduction and certain discrete U.S. tax benefits.

The increase in the effective tax rate in the first nine months of 2012 compared to the first nine months of 2011 was primarily due to higher losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the manufacturing facility in St. Thomas, lower earnings in certain foreign jurisdictions where the effective tax rate was lower than 35% and higher U.S. state and local taxes. These factors were partially offset by higher tax benefits from the U.S. manufacturing deduction and certain discrete U.S. tax benefits.

As of September 30, 2012, the Company had approximately $111.2 million of total gross unrecognized tax benefits. Included in this amount was approximately $45.5 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. As of September 30, 2012, the Company anticipates a decrease in its unrecognized tax positions of approximately $43.0 million to $44.0 million during the next 12 months. The anticipated decrease is primarily due to settlements with tax authorities. As of September 30, 2012, the Company has accrued approximately $10.7 million of interest and penalties related to uncertain tax positions. The Company records interest and penalties related to uncertain tax positions as a component of income tax expense.
As of December 31, 2011, the Company had $87.2 million of total gross unrecognized tax benefits. Included in this amount was approximately $45.3 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. As of December 31, 2011, the Company has accrued approximately $9.0 million of interest and penalties related to uncertain tax positions. The Company records interest and penalties related to uncertain tax positions as a component of income tax expense.

The following table reconciles the Company's total gross unrecognized tax benefits:

	September 30, 2012	December 31, 2011
Beginning balance, January 1	$87.2	$77.8
Tax positions related to the current year:		
Additions	21.1	1.3
Tax positions related to prior years:		
Additions	4.3	13.7
Reductions	(0.9)	(5.6)
Lapses in statutes of limitation	(0.5)	—
Ending balance	$111.2	$87.2

During the first nine months of 2012, gross unrecognized tax benefits increased primarily due to net additions related to current year tax matters including the timing of income recognition for certain amounts received by the Company

and treated as capital contributions pursuant to Section 118 of the Internal Revenue Code and other miscellaneous items. These increases were partially offset by reductions related to prior year tax matters including taxes related to the Company's international operations, and lapses of the statutes of limitation associated with various tax matters. During 2011, gross unrecognized tax benefits increased primarily due to net additions related to various prior year and current year tax matters, including U.S. state and local taxes, and taxes related to the Company's international operations. These increases were partially offset by reductions related to prior year and current year tax matters, including U.S. state and local taxes and taxes related to the Company's international operations, and lapses of the statutes of limitation associated with various tax matters.

As of September 30, 2012, the Company is subject to examination by the IRS for tax years 2006 to the present. The Company is also subject to tax examination in various U.S. state and local tax jurisdictions for tax years 2007 to the present, as well as various foreign tax jurisdictions, including Brazil, Germany, India and Canada for tax years 2004 to the present.
The current portion of the Company's unrecognized tax benefits was presented on the Consolidated Balance Sheets within income taxes payable, and the non-current portion was presented as a component of other non-current liabilities.
During the third quarter of 2012, the Company recorded an adjustment to decrease non-current deferred tax assets and income taxes payable to record the impact of certain pension accruals, which should have been included in the computation of the U.S. federal and state income tax liabilities for the tax year ending December 31, 2011. Non-current deferred taxes assets and income taxes payable were reclassified as of December 31, 2011 to reflect the adjustment.

Note 14 - Acquisitions

On October 3, 2011, the Company completed the acquisition of Drives for approximately $93 million in cash. On July 1, 2011, the Company completed the acquisition of substantially all of the assets of Philadelphia Gear Corp. (Philadelphia Gear) for approximately $199 million in cash. The Company made an initial allocation of the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities at that time. In the months after closing, the Company obtained additional information and was able to refine the estimates of fair value and more accurately allocate the purchase price. During the first nine months of 2012, the Company finalized the purchase price allocation for the Philadelphia Gear acquisition and the Drives acquisition and all appropriate adjustments were made. The purchase price allocation was made retroactive to December 31, 2011 on the Consolidated Balance Sheets.

The following table presents the initial purchase price allocation for acquisitions in 2011 and adjustments to the purchase price allocation during the first nine months of 2012:

	Initial Purchase Price Allocation	Adjustments		Adjusted Purchase Price Allocation
Assets:				
Accounts receivable, net	$25.6	$—		$25.6
Inventories, net	23.6	—		23.6
Deferred charges and prepaid expenses	0.9	—		0.9
Other current assets	0.1	0.5		0.6
Property, plant and equipment – net	32.1	—		32.1
Goodwill	83.3	25.7		109.0
Other intangible assets	146.9	(25.9	)	121.0
Other non-current assets	0.6	(0.1	)	0.5
Total assets acquired	$313.1	$0.2		$313.3
Liabilities:				
Accounts payable, trade	$10.7	$—		$10.7
Salaries, wages and benefits	5.1	—		5.1
Other current liabilities	5.2	—		5.2
Total liabilities assumed	$21.0	$—		$21.0
Net assets acquired	$292.1	$0.2		$292.3

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The following table summarizes the initial purchase price allocation for acquisitions in 2011 and the adjusted purchase price allocation as of September 30, 2012:

	Initial Purchase Price Allocation		Adjusted Purchase Price Allocation	
		Weighted - Average Life		Weighted - Average Life
Trade name (not subject to amortization)	$4.1	Indefinite	$15.3	Indefinite
Developed Technology	5.4	7 years	8.0	15 years
Trade name	12.0	15 years	0.3	2 years
Know-how	15.0	20 years	20.6	20 years
All customer relationships	108.4	17 years	75.7	10 years
Non-compete agreements	2.0	5 years	1.1	3 years
Total intangible assets allocated	$146.9		$121.0	

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 financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012:

	Fair Value at September 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$485.5	$485.5	$—	$—
Short-term investments	28.6	28.6	—	—
Foreign currency hedges	1.6	—	1.6	—
Total Assets	$515.7	$514.1	$1.6	$—
Liabilities:				
Foreign currency hedges	$3.0	$—	$3.0	
Total Liabilities	$3.0	$—	$3.0	$—

Cash and cash equivalents are highly liquid investments with maturities of three months 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 Company does not believe it has significant concentrations of risk associated with the counterparts to its financial instruments.

During the third quarter of 2012, machinery and equipment associated with the manufacturing facility in St. Thomas, with a carrying value of $10.2 million was written down to its fair value of $3.8 million, resulting in an impairment loss of $6.4 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 cost of similar used equipment. The fair value of machinery and equipment was measured using Level 3 inputs.

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, accounts receivable, net, accounts payable, trade, short-term borrowings and long-term debt. Due to their short-term nature, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, net, accounts payable, trade and short-term borrowings are a reasonable estimate of their fair value. The fair value of the Company's long-term fixed-rate debt, based on quoted market prices, was $488.3 million and $480.7 million at September 30, 2012 and December 31, 2011, respectively. The carrying value of this debt was $426.7 million and $428.9 million at September 30, 2012 and December 31, 2011, respectively. The fair value of long-term fixed debt was measured using Level 2 inputs.

Note 16 - Continued Dumping and Subsidy Offset Act (CDSOA)

CDSOA provides for distribution of monies collected by U.S. Customs and Border Protection (U.S. Customs) from antidumping cases to qualifying domestic producers where the domestic producers have continued to invest in their technology, equipment and people.

In September 2002, the World Trade Organization (WTO) ruled that CDSOA payments are not consistent with international trade rules. In February 2006, U.S. legislation was enacted that ended CDSOA distributions for dumped imports covered by antidumping duty orders entering the United States after September 30, 2007. Instead, any such antidumping duties collected would remain with the U.S. Treasury. Several countries have objected that this U.S. legislation is not consistent with WTO rulings, and were granted retaliation rights by the WTO, typically in the form of increased tariffs on some imported goods from the United States. The European Union and Japan have been retaliating in this fashion against the operation of U.S. law.

In 2006, the U.S. Court of International Trade (CIT) ruled, in two separate decisions, that the procedure for determining recipients eligible to receive CDSOA distributions was unconstitutional. In addition, several other court cases challenging various provisions of CDSOA were ongoing. As a result, from 2006 through 2010, U.S. Customs withheld a portion of the amounts that would otherwise have been distributed under CDSOA.

In February 2009, the U.S. Court of Appeals for the Federal Circuit reversed both of the 2006 decisions of the CIT. Later in December 2009, a plaintiff petitioned the U.S. Supreme Court to hear a further appeal, but the Supreme Court declined the petition, allowing the appellate court reversals to stand. At that time, several court cases challenging various provisions of the CDSOA were still unresolved, so U.S. Customs accepted the CIT's recommendation to continue to withhold CDSOA receipts related to 2006 through 2010 until January 2012.

U.S. Customs began distributing the withheld funds to affected domestic producers in early April 2012. In April 2012, the Company received CDSOA distributions of $112.8 million in the aggregate for amounts originally withheld from 2006 through 2010.

While some of the challenges to CDSOA have been resolved, others are still in litigation. Since there continue to be legal challenges to CDSOA, U.S. Customs has advised all affected domestic producers that it is possible that CDSOA distributions could be subject to clawback. Management of the Company believes that the likelihood of clawback is remote.

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, a global industrial technology leader, applies its deep knowledge of materials, friction management and power transmission to improve the reliability and efficiency of industrial machinery and equipment all around the world. The Company engineers, manufactures and markets mechanical components and high-performance steel. Its bearings, engineered steel bars and tubes as well as transmissions, gearboxes, chain, related products and services-support diversified markets worldwide. The Company operates under four segments: (1) Mobile Industries; (2) Process Industries; (3) Aerospace and Defense; and (4) Steel. The following is a description of the Company's segments:

- Mobile Industries provides bearings, power transmission components, engineered chains, augers and related products and services to original equipment manufacturers and suppliers of agricultural, construction and mining equipment, passenger cars, light trucks, medium and heavy-duty trucks, rail cars and locomotives, as well as to automotive and heavy truck aftermarket distributors.

- Process Industries provides bearings, power transmission components, engineered chains, and related products and services to original equipment manufacturers and suppliers of power transmission, energy and heavy industries machinery and equipment. This includes rolling mills, cement and aggregate processing equipment, paper mills, sawmills, printing presses, cranes, hoists, drawbridges, wind energy turbines, gear drives, drilling equipment, coal conveyors, coal crushers, marine equipment and food processing equipment. This segment also serves the aftermarket through its global network of authorized industrial distributors.

- Aerospace and Defense provides bearings, helicopter transmission systems, rotor head assemblies, turbine engine components, gears and other precision flight-critical components for commercial and military aviation applications and also provides aftermarket services, including repair and overhaul of engines, transmissions and fuel controls, as well as aerospace bearing repair and component reconditioning. Additionally, this segment manufactures precision bearings, higher-level assemblies and sensors for manufacturers of health and positioning control equipment.

- Steel produces more than 450 grades of high-performance carbon and alloy steel, which are sold as ingots, bars and tubes in a variety of chemistries, lengths and finishes. The segment's metallurgical expertise and operational capabilities result in customized solutions for the automotive, industrial and energy sectors. Timken® specialty steels feature prominently in a wide variety of end products including: oil country drill pipe, bits and collars; gears, hubs, axles, crankshafts and connecting rods; bearing races and rolling elements; and bushings, fuel injectors and wind energy shafts.

The Company's strategy balances corporate aspirations for sustained growth and a determination to optimize the Company's existing portfolio of business, thereby generating strong profits and cash flows. The Company pursues its growth strategy through differentiation and expansion:

- The Company leverages its technological capabilities to enhance existing products and services and to introduce new products that create value for its customers. At the same time, the Company seeks to grow in attractive market sectors, with particular emphasis on those industrial markets that value the reliability offered by the Company's products and

create significant aftermarket demand, thereby providing a lifetime of opportunity in both product sales and services. The Company also seeks to expand its presence in new geographic spaces with an emphasis in Asia and other emerging markets. The Company's acquisition strategy is directed at complementing its existing portfolio and expanding the Company's market position globally.

Simultaneously, the Company works to optimize its existing business with specific initiatives aimed at transformation and execution. This includes diversifying the overall portfolio of businesses and products to create further value and profitability, which can include addressing or repositioning underperforming product lines and segments, revising market sector or geographic strategies and divesting non-strategic assets. The Company drives execution by embracing a continuous improvement culture that is charged with lowering costs, eliminating waste, increasing efficiency, encouraging organizational agility and building greater brand equity.

In May 2012, the Company announced that it will close its plant in St. Thomas in approximately one year and consolidate bearing production within its existing U.S. operations to better align the Company's manufacturing footprint and customer base. The Company will also move customer service for the Canadian market to its offices in Toronto. Production is expected to be transferred to the Company's operations in Ohio, North Carolina and South Carolina by mid-2013.

Overview:

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales	$1,142.5	$1,321.8	$(179.3)	(13.6)%
Net income attributable to The Timken Company	80.9	111.0	(30.1)	(27.1)%
Diluted earnings per share	0.83	1.12	$(0.29)	(25.9)%
Average number of shares – diluted	97,123,173	98,485,840	—	—

	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales	$3,906.7	$3,905.5	$1.2	— %
Net income attributable to The Timken Company	420.2	345.2	75.0	21.7 %
Diluted earnings per share	4.28	3.48	$0.80	23.0 %
Average number of shares – diluted	97,915,800	98,743,586	—	—

The Company reported net sales of approximately $1.1 billion for the third quarter of 2012, compared to approximately $1.3 billion in the third quarter of 2011, a decrease of 13.6%. Sales were lower across all business segments except for the Aerospace and Defense segment. The decrease in sales was primarily driven by lower volume, lower material surcharges and the impact of currency-rate changes, partially offset by the impact of favorable pricing and prior-year acquisitions. For the third quarter of 2012, net income per diluted share was $0.83, compared to $1.12 per diluted share for the third quarter of 2011. The third quarter earnings reflect the impact of lower volume, lower material surcharges, unfavorable sales mix and restructuring charges related to the announced closure of the manufacturing facility in St. Thomas, partially offset by lower material costs, higher pricing and the impact of prior-year acquisitions.

The Company reported net sales of approximately $3.9 billion for the first nine months of 2012 and 2011, respectively. Sales were driven by higher pricing and favorable sales mix, and the impact of prior-year acquisitions offset by lower demand from Steel and Mobile Industries customers, lower material surcharges and the impact of currency-rate changes. For the first nine months of 2012, net income per diluted share was $4.28 compared to $3.48 per diluted share for the first nine months of 2011. The Company's earnings for the first nine months of 2012 reflect CDSOA receipts, net of expense, of $108.6 million ($68.4 million after-tax or approximately $0.70 per diluted share), as well as pricing, lower material costs and the impact of prior-year acquisitions, partially offset by the impact of lower volume, lower material surcharges, restructuring charges as a result of the St. Thomas closure and higher selling, general and administrative expenses.

Outlook:

The Company expects 2012 full-year sales to be down 3% to 5% compared to 2011, primarily driven by lower volume across the Steel segment and Mobile Industries' light-vehicle and heavy truck market sectors, lower material surcharges and the impact of currency-rate changes, partially offset by favorable pricing, the impact of acquisitions completed in 2011, and higher volume across the Aerospace and Defense segment. The Company's earnings are

expected to be comparable in 2012 to 2011 as CDSOA receipts, favorable pricing and lower raw material costs are offset by the impact of lower volume, lower material surcharges and restructuring charges.

The Company expects to generate cash from operations of approximately $535 million in 2012, an increase of approximately 150% over 2011, primarily driven by lower working capital requirements and CDSOA receipts. Pension and postretirement contributions are expected to be approximately $375 million in 2012, compared to $416 million in 2011. The Company expects capital expenditures to be approximately $300 million in 2012, compared to $205 million in 2011.

The Statement of Income

Sales by Segment:

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Mobile Industries	$396.7	$441.3	$(44.6)	(10.1)%
Process Industries	309.8	328.1	(18.3)	(5.6)%
Aerospace and Defense	84.0	81.8	2.2	2.7%
Steel	352.0	470.6	(118.6)	(25.2)%
Total Company	$1,142.5	$1,321.8	$(179.3)	(13.6)%
	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Mobile Industries	$1,314.0	$1,349.3	$(35.3)	(2.6)%
Process Industries	1,000.5	919.7	80.8	8.8%
Aerospace and Defense	262.5	244.4	18.1	7.4%
Steel	1,329.7	1,392.1	(62.4)	(4.5)%
Total Company	$3,906.7	$3,905.5	$1.2	—%

Net sales for the third quarter of 2012 decreased $179.3 million, or 13.6%, compared to the third quarter of 2011, primarily due to lower volume of approximately $165 million, lower material surcharges of approximately $70 million and the effect of foreign currency exchange rate changes of approximately $25 million, partially offset by higher pricing of approximately $45 million and the impact of prior-year acquisitions of approximately $30 million. The decrease in volume was primarily due to lower demand across most of the Company's end markets sectors except the Aerospace and Defense segment and Mobile Industries' rail market sector. The favorable impact of prior-year acquisitions in the third quarter of 2012 was due to the acquisition of Drives in October 2011.

Net sales for the first nine months of 2012 were comparable to the first nine months of 2011, primarily due to higher pricing and favorable sales mix of approximately $180 million and the impact of prior-year acquisitions of approximately $160 million, offset by lower volume of approximately $185 million, lower material surcharges of approximately $85 million and the impact of foreign currency exchange rates of approximately $70 million. The favorable impact of acquisitions in the first nine months of 2012 was due to the acquisition of Philadelphia Gear in July 2011, as well as the acquisition of Drives in October 2011. The decrease in volume was primarily driven by the Steel segment and the Mobile Industries' light-vehicle and heavy truck market sectors.

Gross Profit:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Gross profit	$298.9	$343.3	$(44.4)	(12.9)%
Gross profit % to net sales	26.2%	26.0%	—	20 bps
	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Gross profit	$1,087.8	$1,027.1	$60.7	5.9%
Gross profit % to net sales	27.8%	26.3%	—	150 bps

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Gross profit decreased in the third quarter of 2012 compared to the third quarter of 2011 primarily due to the impact of lower volume of approximately $80 million, lower material surcharges of approximately $70 million and unfavorable sales mix of approximately $25 million. These factors were partially offset by lower material costs of approximately $60 million, higher pricing of approximately $45 million and lower manufacturing and logistic costs of approximately $20 million.

Gross profit increased in the first nine months of 2012 compared to the first nine months of 2011 primarily due to the net impact of pricing and sales mix of approximately $155 million, lower material cost of approximately $60 million and the impact of prior-year acquisitions of approximately $40 million. These factors were partially offset by the impact of lower volume of approximately $100 million, the impact of lower surcharges of approximately $85 million and unfavorable sales mix of approximately $15 million.

Selling, General and Administrative Expenses:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Selling, general and administrative expenses	$152.7	$155.1	$(2.4)	(1.5)%
Selling, general and administrative expenses % to net sales	13.4%	11.7%	—	170 bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Selling, general and administrative expenses	$480.4	$459.1	$21.3	4.6%
Selling, general and administrative expenses % to net sales	12.3%	11.8%	—	50 bps

The decrease in selling, general and administrative expenses in the third quarter of 2012, compared to the third quarter of 2011, was primarily due to lower expense related to incentive compensation plans of approximately $9 million, partially offset by higher salaries and related benefits of approximately $4 million. The Drives acquisition also increased selling, general and administrative expenses in the third quarter of 2012. The increase in selling, general and administrative expenses in the first nine months of 2012, compared to the first nine months of 2011, was primarily due to the acquisitions of Philadelphia Gear and Drives, which added approximately $18 million of selling, general and administrative expenses. In addition, selling, general and administrative expenses increased as a result of higher salaries and related benefits of approximately $10 million and higher professional fees of approximately $6 million in the first nine months of 2012, partially offset by lower expense related to incentive compensation plans of approximately $11 million.

Impairment and Restructuring Charges:

	Three Months Ended September 30,		
	2012	2011	$ Change
Impairment charges	$6.4	$0.1	$6.3
Severance and related benefit costs	1.3	0.1	1.2
Exit costs	4.2	1.0	3.2
Total	$11.9	$1.2	$10.7

Nine Months Ended
September 30,

	2012	2011	$ Change
Impairment charges	$6.4	$0.5	$5.9
Severance and related benefit costs	17.9	0.2	17.7
Exit costs	4.5	7.8	(3.3)
Total	$28.8	$8.5	$20.3

Impairment and restructuring charges of $11.9 million in the third quarter of 2012 were primarily due to the recognition of impairment charges related to the announced closure of the Company's manufacturing facility in St. Thomas and the recognition of environmental remediation costs at the former manufacturing facility in Sao Paulo. Impairment and restructuring charges of $28.8 million in the first nine months of 2012 were primarily due to the recognition of severance and related benefits, including $10.7 million of pension curtailment, as well as impairment charges, related to the announced closure of the manufacturing facility in St. Thomas and the recognition of environmental remediation costs at the former manufacturing facility in Sao Paulo. Impairment and restructuring charges of $1.2 million and $8.5 million in the third quarter and first nine months of 2011, respectively, were primarily related to environmental remediation costs and workers compensation claims by former associates at the former manufacturing facility in Sao Paulo. Refer to Note 11 - Impairment and Restructuring Charges in the Notes to the Consolidated Financial Statements for further detail on the announced closure of the manufacturing plant in St. Thomas and the Sao Paulo environmental remediation costs.

Interest Expense and Income:

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Interest expense	$(7.3)	$(9.1)	$1.8	(19.8)%
Interest income	$0.6	$1.5	$(0.9)	(60.0)%
	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Interest expense	$(24.0)	$(28.2)	$4.2	(14.9)%
Interest income	$2.0	$4.4	$(2.4)	(54.5)%

Interest expense for the third quarter of 2012 and the first nine months of 2012 decreased compared to the respective periods in 2011 primarily due to lower average debt and lower interest rates. The lower interest expense for the first nine months of 2012 was also due to lower financing costs as a result of refinancing the Company's $500 million Amended and Restated Credit Agreement (Senior Credit Facility), which occurred in May 2011. Interest income for the third quarter and the first nine months of 2012 decreased compared to the same periods in the prior year primarily due to lower invested cash balances.

Other (Expense) Income:

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
CDSOA receipts, net of expense	$(0.9)	$—	$(0.9)	NM
Other income, net	$1.4	$2.9	$(1.5)	(51.7)%
	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
CDSOA receipts, net of expense	$108.6	$—	$108.6	NM
Other (expense) income, net	$(3.7)	$1.6	$(5.3)	(331.3)%

CDSOA receipts are reported net of applicable expenses. The CDSOA provides for distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers where the domestic producers have continued to invest in their technology, equipment and people. Refer to Other Matters - Continued Dumping and Subsidy Offset Act (CDSOA) for additional discussion.

Other income, net decreased in the third quarter of 2012 compared to the third quarter of 2011 primarily as a result of higher losses due to fixed assets disposals and lower royalty income. Other (expense) income, net decreased in the first nine months of 2012 compared to the first nine months of 2011 primarily due to higher foreign currency exchange losses, higher losses from the disposal of fixed assets and lower royalty income.

Income Tax Expense:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Income tax expense	$47.0	$70.1	$(23.1)	(33.0)%
Effective tax rate	36.7%	38.5%	—	(180) bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Income tax expense	$241.0	$189.0	$52.0	27.5%
Effective tax rate	36.4%	35.2%	—	120 bps

The effective tax rate in the third quarter of 2012 was higher than the U.S. federal statutory rate of 35% primarily due to losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the Company's manufacturing facility in St. Thomas, U.S. state and local taxes, and U.S. taxation of foreign income. These factors were partially offset by the U.S. manufacturing deduction and certain discrete U.S. tax benefits.

The decrease in the effective tax rate in the third quarter of 2012 compared to the third quarter of 2011 was primarily due to higher tax benefits from the U.S. manufacturing deduction and certain discrete U.S. tax benefits. These factors were partially offset by higher losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the Company's manufacturing facility in St. Thomas and a lower percentage of earnings in certain foreign jurisdictions where the effective tax rate was lower than 35%.

The effective tax rate for the first nine months of 2012 was higher than the U.S. federal statutory rate of 35% primarily due to U.S. state and local taxes, U.S. taxation of foreign income and losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the Company's manufacturing facility in St. Thomas. These factors were partially offset by earnings in certain foreign jurisdictions where the effective tax rate was less than 35%, the U.S. manufacturing deduction and certain discrete U.S. tax benefits.

The increase in the effective tax rate in the first nine months of 2012 compared to the first nine months of 2011 was primarily due to higher losses at certain foreign subsidiaries where no tax benefit could be recorded, including restructuring charges related to the closure of the manufacturing facility in St. Thomas, a lower percentage of earnings in certain foreign jurisdictions where the effective tax rate was lower than 35% and higher U.S. state and local taxes. These factors were partially offset by higher tax benefits from the U.S. manufacturing deduction and certain discrete U.S. tax benefits.

Business Segments

The primary measurement used by management to measure the financial performance of each segment is EBIT. As of January 1, 2012, the Company modified the way in which certain selling, general and administrative expenses are allocated among segments to better reflect the use of shared resources by the businesses. Prior-year amounts have been revised to be consistent with the new allocations. Refer to Note 10 - Segment Information in the Notes to the Consolidated Financial Statements for the reconciliation of EBIT by segment to consolidated income before income taxes.

The presentation of segment results below includes a reconciliation of the changes in net sales for each segment reported in accordance with U.S. GAAP to net sales adjusted to remove the effects of acquisitions made in 2011 and currency exchange rates. The effects of acquisitions and currency exchange rates on net sales 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. During the third quarter of 2011, the Company completed the acquisition of substantially all of the assets of Philadelphia Gear. Philadelphia Gear is part of the Process Industries segment. During the fourth quarter of 2011, the Company completed the acquisition of Drives. Results for Drives are reported in the Mobile and Process Industries segments based on customer application.

Mobile Industries Segment:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$396.9	$441.6	$(44.7)	(10.1)%
EBIT	$37.9	$69.5	$(31.6)	(45.5)%
EBIT margin	9.5%	15.7%		(620) bps

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$396.9	$441.6	$(44.7)	(10.1)%
Acquisitions	20.6	—	20.6	NM
Currency	(16.0)	—	(16.0)	NM
Net sales, excluding the impact of acquisitions and currency	$392.3	$441.6	$(49.3)	(11.2)%

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$1,314.4	$1,349.8	$(35.4)	(2.6)%
EBIT	$173.4	$213.0	$(39.6)	(18.6)%
EBIT margin	13.2%	15.8%		(260) bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$1,314.4	$1,349.8	$(35.4)	(2.6)%
Acquisitions	64.0	—	64.0	NM
Currency	(47.9)	—	(47.9)	NM
Net sales, excluding the impact of acquisitions and currency	$1,298.3	$1,349.8	$(51.5)	(3.8)%

The Mobile Industries segment's net sales, excluding the effects of acquisitions and currency-rate changes, decreased 11.2% in the third quarter of 2012 compared to the third quarter of 2011. The decrease is primarily due to lower volume of approximately $55 million, partially offset by higher pricing of approximately $5 million. The lower volume was led by a decrease in light vehicle volume of approximately 25%, driven by exited business, and a decrease in heavy truck volume of approximately 30%, partially offset by an increase in rail volume of approximately 10%. EBIT was lower in the third quarter of 2012 compared to the third quarter of 2011 primarily due to the impact of lower volume of approximately $20 million, higher manufacturing costs of approximately $10 million and higher restructuring charges of approximately $5 million, partially offset by lower logistic costs of approximately $5 million. The higher manufacturing costs were the result of lower plant utilization, and the higher restructuring charges were driven by expenses related to the announced closure of the St. Thomas manufacturing plant.

The Mobile Industries segment's net sales, excluding the effects of acquisitions and currency-rate changes, decreased 3.8% in the first nine months of 2012 compared to the first nine months of 2011. The decrease is primarily due to lower volume of approximately $65 million, partially offset by higher surcharges and pricing of approximately $20 million. The lower volume was led by a decrease in light vehicle volume of approximately 20%, driven by exited business, and a decrease in heavy truck volume of approximately 20%, partially offset by an increase in rail volume of

approximately 25% and an increase in off-highway volume of approximately 5%. EBIT was lower in the first nine months of 2012 compared to the first nine months of 2011 primarily due to the impact of lower volume of approximately $25 million, higher restructuring charges related to the closure of the St. Thomas plant of approximately $25 million, higher manufacturing costs of approximately $10 million, as a result of lower plant utilization, and higher raw material costs of approximately $10 million, partially offset by higher surcharges and pricing of approximately $20 million and lower logistics costs of approximately $10 million. Prior-year acquisitions also had a favorable impact on EBIT for the first nine months of 2012.

Full year sales for the Mobile Industries segment are expected to be down 4% to 6% in 2012 compared to 2011 as a result of lower volume and currency-rate changes, partially offset by the full-year impact of 2011 acquisitions, as well as higher pricing and surcharges. Volume for 2012 is expected to be down as a result of a 20% decrease in light-vehicle volume driven by exited business, and a 20% decrease in heavy truck volume, partially offset by a 15% increase in rail demand. Sales for the Mobile Industries segment, excluding the effects of acquisitions and currency-rate changes, are expected to be down 5% to 7% in 2012 compared to 2011 as decreases due to currency-rate changes are mostly offset by the impact of prior-year acquisitions. Full year EBIT for the Mobile Industries segment is expected to be lower in 2012 compared to 2011 as a result of lower volume, higher restructuring charges, higher manufacturing and raw material costs, partially offset by higher pricing and surcharges and lower logistics costs.

Process Industries Segment:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$311.1	$328.9	$(17.8)	(5.4)%
EBIT	$60.1	$75.6	$(15.5)	(20.5)%
EBIT margin	19.3%	23.0%		(370) bps

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$311.1	$328.9	$(17.8)	(5.4)%
Acquisitions	8.3	—	8.3	NM
Currency	(7.6)	—	(7.6)	NM
Net sales, excluding the impact of acquisitions and currency	$310.4	$328.9	$(18.5)	(5.6)%

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$1,004.4	$922.2	$82.2	8.9%
EBIT	$213.7	$209.6	$4.1	2.0%
EBIT margin	21.3%	22.7%		(140) bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$1,004.4	$922.2	$82.2	8.9%
Acquisitions	94.2	—	94.2	NM
Currency	(20.1)	—	(20.1)	NM
Net sales, excluding the impact of acquisitions and currency	$930.3	$922.2	$8.1	0.9%

The Process Industries segment's net sales, excluding the effects of acquisitions and currency-rate changes, decreased 5.6% in the third quarter of 2012 compared to the same period in 2011. The decrease was primarily due to lower volume of approximately $25 million, partially offset by pricing of approximately $5 million. The lower volume was led by a decrease to industrial distributors of approximately 10% and a decrease to the wind market sector of

approximately 25%. EBIT was lower in the third quarter of 2012 compared to the third quarter of 2011 due to the impact of lower volume of approximately $15 million.

The Process Industries segment's net sales, excluding the effects of acquisitions and currency-rate changes, increased 0.9% in the first nine months of 2012 compared to the same period in 2011. The increase was primarily due to the impact of pricing of approximately $20 million, partially offset by lower volume of $10 million. The lower volume was led by a decrease in industrial distributors of approximately 10%. EBIT was higher in the first nine months of 2012 compared to the first nine months of 2011 primarily due to the impact of pricing of approximately $20 million and acquisitions of approximately $15 million, partially offset by the effects of lower manufacturing utilization of $25 million, lower volume of $5 million and higher selling, general and administrative expenses of approximately $5 million.

Full year sales for the Process Industries segment are expected to increase approximately 6% to 8% in 2012 compared to 2011 as a result of the full-year impact of 2011 acquisitions, as well as higher pricing, partially offset by currency-rate changes and slightly lower volume. The decrease in volume in 2012, compared to 2011, is primarily due to a 20% decrease in gears and services demand, partially offset by a 105% increase from the oil and gas market sector and a 5% increase from the metals market sector. Sales for the Process Industries segment, excluding the effects of acquisitions and currency-rate changes, are expected to be flat to up approximately 2% in 2012 compared to 2011. Full year EBIT for the Process Industries segment is expected to be up for 2012 compared to 2011 as a result of higher pricing and the impact of acquisitions, partially offset by higher manufacturing costs, as a result of lower plant utilization.

Aerospace and Defense Segment:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$84.0	$81.8	$2.2	2.7 %
EBIT	$7.7	$(1.7)	$9.4	(552.9)%
EBIT margin	9.2 %	(2.1)%		1,130 bps

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$84.0	$81.8	$2.2	2.7 %
Currency	(0.4)	—	(0.4)	NM
Net sales, excluding the impact of currency	$84.4	$81.8	$2.6	3.2 %

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$262.5	$244.4	$18.1	7.4 %
EBIT	$26.3	$2.4	$23.9	995.8 %
EBIT margin	10.0 %	1.0 %	—	900 bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$262.5	$244.4	$18.1	7.4 %
Currency	(1.1)	—	(1.1)	NM
Net sales, excluding the impact of currency	$263.6	$244.4	$19.2	7.9 %

The Aerospace and Defense segment's net sales, excluding the impact of currency-rate changes, increased 3.2% in the third quarter of 2012 compared to the third quarter of 2011. The increase was due to higher pricing and sales mix of

approximately $5 million. EBIT for the third quarter of 2012 increased compared to the third quarter of 2011 primarily due to lower product warranty charges of $5 million and higher pricing and sales mix of $5 million. In 2011, the Aerospace and Defense segment recognized a product warranty charge of approximately $5 million.

The Aerospace and Defense segment's net sales, excluding the impact of currency-rate changes, increased 7.9% in the first nine months of 2012 compared to the first nine months of 2011. The increase was primarily due to higher volume of approximately $10 million in most market sectors and higher pricing and sales mix of $10 million. EBIT was higher in the first nine months of 2012 compared to the first nine months of 2011 primarily due to better manufacturing efficiency of approximately $10 million, higher pricing and sales mix of approximately $10 million and the impact of higher volume of approximately $5 million. In 2011, the Aerospace and Defense segment recognized a product warranty charge of approximately $5 million and an inventory write-down of approximately $3 million related to management's decision to exit certain non-strategic aftermarket products.

Full year sales for the Aerospace and Defense segment are expected to increase by approximately 8% to 10% in 2012 compared to 2011 as a result of anticipated strengthening in the defense and commercial aerospace sectors. Full year EBIT for 2012 is expected to increase significantly compared to 2011 as a result of higher volume and better manufacturing efficiency.

Steel Segment:

	Three Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$377.0	$501.5	$(124.5)	(24.8)%
EBIT	$49.7	$66.2	$(16.5)	(24.9)%
EBIT margin	13.2%	13.2%	—	— bps

	Three Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$377.0	$501.5	$(124.5)	(24.8)%
Currency	(0.2)	—	(0.2)	NM
Net sales, excluding the impact of currency	$377.2	$501.5	$(124.3)	(24.8)%

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change
Net sales, including intersegment sales	$1,412.3	$1,488.1	$(75.8)	(5.1)%
EBIT	$226.6	$196.8	$29.8	15.1%
EBIT margin	16.0%	13.2%	—	280 bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	% Change
Net sales, including intersegment sales	$1,412.3	$1,488.1	$(75.8)	(5.1)%
Currency	(1.2)	—	(1.2)	NM
Net sales, excluding the impact of currency	$1,413.5	$1,488.1	$(74.6)	(5.0)%

The Steel segment's net sales for the third quarter of 2012, excluding the effects of currency-rate changes, decreased 24.8% compared to the third quarter of 2011. The decrease was primarily due to lower volume of approximately $85 million and lower surcharges of approximately $70 million, partially offset by favorable pricing of approximately $30 million. The lower volume was led by a decrease in oil and gas demand of approximately 40% and a decrease in industrial demand of approximately 35%. Surcharges decreased to $79 million in the third quarter of 2012 from $149 million in the third quarter of 2011. The lower surcharges were a result of lower market prices for certain input raw materials, especially scrap steel, nickel and molybdenum, and lower volume. Surcharges are a pricing mechanism that the Company uses to recover scrap steel, energy and certain alloy costs, which are derived from published monthly

indices. The average scrap index for the third quarter of 2012 was $380 per ton, compared to $514 per ton for the third quarter of 2011. Steel shipments for the third quarter of 2012 were approximately 243,000 tons, compared to approximately 320,000 tons for the third quarter of 2011, a decrease of 24%. The Steel segment's average selling price, including surcharges, was $1,552 per ton for the third quarter of 2012, compared to an average selling price of $1,565 per ton in the third quarter of 2011.

The Steel segment's EBIT decreased in the third quarter of 2012 compared to the third quarter of 2011 primarily due to the impact of lower surcharges of approximately $70 million, the impact of lower volume of approximately $45 million and unfavorable sales mix of approximately $15 million, partially offset by lower raw material costs of approximately $60 million, favorable pricing of approximately $30 million and lower manufacturing and logistic costs of approximately $25 million. Raw material costs consumed in the manufacturing process, including scrap steel, alloys and energy, for the third quarter of 2012 were lower than the third quarter of 2011, with an average cost of $506 per ton compared to $570 per ton.

The Steel segment's net sales for the first nine months of 2012, excluding the effects of currency-rate changes, decreased 5.0% compared to the first nine months of 2011. The decrease was primarily due to lower volume of approximately $125 million and lower surcharges of approximately $95 million, partially offset by higher pricing and favorable sales mix of approximately $145 million. The lower volume was led by a decrease in industrial demand of approximately 20% and a decrease in mobile demand of approximately 10%. Surcharges decreased to $346 million in the first nine months of 2012 from $440 million in the first nine months of 2011. The lower surcharges were a result of lower market prices for certain input raw materials, especially scrap steel, nickel and molybdenum and lower volume. The average scrap index for the first nine months of 2012 was $435 per ton, compared to $500 per ton for the first nine months of 2011. Steel shipments for the first nine months of 2012 were approximately 862,000 tons, compared to approximately 984,000 tons in the first nine months of 2011, a decrease of 12%. The Steel segment's average selling price, including surcharges, was $1,638 per ton for the first nine months of 2012, compared to an average selling price of $1,513 per ton in the first nine months of 2011. The increase in the average selling prices was primarily the result of higher pricing and favorable sales mix.

The Steel segment's EBIT increased in the first nine months of 2012 compared to the first nine months of 2011 primarily due to the impact of pricing of approximately $115 million, lower raw material costs of approximately $70 million and lower manufacturing costs of approximately $10 million, partially offset by the impact of lower volume of approximately $70 million and lower surcharges of approximately $95 million. The lower raw material costs were driven by lower volume. Raw material costs consumed in the manufacturing process, including scrap steel, alloys and energy, decreased 1% in the first nine months of 2012 compared to the corresponding period in 2011 to an average cost of $547 per ton.

Full year sales for the Steel segment are expected to be down 11% to 13% in 2012 compared to 2011 driven by lower overall demand, partially offset by higher pricing and favorable sales mix. The Company expects lower demand driven by a decrease of approximately 25% in industrial demand and a decrease of approximately 15% in oil and gas demand. The Company expects the Steel segment's full year EBIT to be lower in 2012 compared to 2011 as lower volume and lower surcharges are partially offset by higher pricing and lower raw material costs. Scrap, alloy and energy costs are expected to increase in the near term from current levels as global industrial production improves and then level off.

Corporate:

	Three Months Ended September 30,						
	2012		2011		$ Change	Change	
Corporate expenses	$20.1		$18.8		$1.3	6.9	%
Corporate expenses % to net sales	1.8	%	1.4	%	—	40	bps

	Nine Months Ended September 30,			
	2012	2011	$ Change	Change	
Corporate expenses	$63.8	$59.9	$3.9	6.5	%

Corporate expenses % to net sales	1.6 %	1.5 %	—	10 bps

Corporate expenses increased for the third quarter and first nine months of 2012 compared to the third quarter and first nine months of 2011, respectively, primarily due to higher professional fees.

The Balance Sheet

The following discussion is a comparison of the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011. During the first nine months of 2012, the Company finalized its purchase price allocations for the Philadelphia Gear and Drives acquisitions. Certain prior-year amounts have been reclassified to be consistent with the updated purchase price allocations.

Current Assets:

	September 30, 2012	December 31, 2011	$ Change	% Change
Cash and cash equivalents	$485.5	$464.8	$20.7	4.5 %
Restricted cash	—	3.6	(3.6)	(100.0)%
Accounts receivable, net	629.8	645.5	(15.7)	(2.4)%
Inventories, net	928.1	964.4	(36.3)	(3.8)%
Deferred income taxes	115.9	113.7	2.2	1.9 %
Deferred charges and prepaid expenses	12.9	12.8	0.1	0.8 %
Other current assets	61.5	88.1	(26.6)	(30.2)%
Total current assets	$2,233.7	$2,292.9	$(59.2)	(2.6)%

Refer to the Consolidated Statement of Cash Flows for a discussion of the increase in cash and cash equivalents. Accounts receivable decreased as a result of lower sales in the third quarter of 2012 compared to the fourth quarter of 2011. Inventories decreased primarily due to a concerted effort to reduce steel inventories, as well as an increase in the Company's LIFO inventory reserve. Other current assets decreased as a result of a $20 million decrease in short-term marketable securities. These short-term marketable securities matured during the first quarter of 2012 and were converted to cash and cash equivalents.

Property, Plant and Equipment – Net:

	September 30, 2012	December 31, 2011	$ Change	% Change
Property, plant and equipment	$3,728.1	$3,589.4	$138.7	3.9 %
Less allowances for depreciation	(2,383.8)	(2,280.5)	(103.3)	(4.5)%
Property, plant and equipment – net	$1,344.3	$1,308.9	$35.4	2.7 %

The increase in property, plant and equipment in the first nine months of 2012 was primarily due to current-year capital expenditures exceeding depreciation expense, partially offset by the impact of foreign currency translation.

In November 2010, the Company entered into an agreement to sell the real estate of its former manufacturing facility in Sao Paulo. The transfer of this land is expected to be completed in 2013 after the Company has completed the soil remediation of the site and the groundwater remediation has been approved. Based on the terms of the agreement, once the title transfers, the Company expects to receive approximately $30 million, including interest, subject to fluctuations in foreign currency exchange rates, over an 18-month period.

Other Assets:

	September 30, 2012	December 31, 2011	$ Change	% Change
Goodwill	$332.1	$332.7	$(0.6)	(0.2)%
Other intangible assets	221.7	235.7	(14.0)	(5.9)%
Deferred income taxes	45.6	117.2	(71.6)	(61.1)%
Other non-current assets	41.1	40.0	1.1	2.8 %

Total other assets	$640.5	$725.6	$(85.1)	(11.7)%

The decrease in other intangible assets was primarily due to current-year amortization. The decrease in deferred income taxes was primarily due to the contributions to the Company's defined benefit pension plans and to a Voluntary Employee Beneficiary Association (VEBA) trust and CDSOA receipts during the second quarter of 2012.

Current Liabilities:

	September 30, 2012	December 31, 2011	$ Change	% Change
Short-term debt	$12.9	$22.0	$(9.1)	(41.4)%
Accounts payable	270.0	287.3	(17.3)	(6.0)%
Salaries, wages and benefits	213.0	259.3	(46.3)	(17.9)%
Income taxes payable	112.7	45.5	67.2	147.7%
Deferred income taxes	3.6	3.1	0.5	16.1%
Other current liabilities	171.1	188.4	(17.3)	(9.2)%
Current portion of long-term debt	14.6	14.3	0.3	2.1%
Total current liabilities	$797.9	$819.9	$(22.0)	(2.7)%

The decrease in accounts payable was primarily due to a reduction in volume. The decrease in accrued salaries, wages and benefits was the result of the payout of the 2011 performance-based compensation, partially offset by current-year accruals for 2012 performance-based compensation. The increase in income taxes payable in the first nine months of 2012 was primarily due to the current-year provision for income taxes, which was partially offset by income tax payments. The decrease in other current liabilities was primarily due to lower accrued product warranty reserves, rebates and restructuring charges.

Non-Current Liabilities:

	September 30, 2012	December 31, 2011	$ Change	% Change
Long-term debt	$461.4	$478.8	$(17.4)	(3.6)%
Accrued pension cost	158.3	491.0	(332.7)	(67.8)%
Accrued postretirement benefits cost	333.9	395.9	(62.0)	(15.7)%
Deferred income taxes	6.7	7.5	(0.8)	(10.7)%
Other non-current liabilities	114.5	91.8	22.7	24.7%
Total non-current liabilities	$1,074.8	$1,465.0	$(390.2)	(26.6)%

The decrease in long-term debt was primarily due to a reclassification of certain foreign debt to current liabilities as the debt is expected to mature within the next twelve months. The decrease in accrued pension cost during the first nine months of 2012 was primarily due to the Company's contributions of $322.5 million to its global defined benefit pension plans. The decrease in accrued postretirement benefits cost during the first nine months of 2012 was primarily due to a $50 million contribution to the VEBA trust. The increase in other non-current liabilities was primarily due to a $21 million increase in the Company's accrual for uncertain tax positions related to CDSOA receipts during the second quarter of 2012.

Shareholders' Equity:

	September 30, 2012	December 31, 2011	$ Change	% Change
Common stock	$940.8	$942.3	$(1.5)	(0.2)%
Earnings invested in the business	2,358.1	2,004.7	353.4	17.6%
Accumulated other comprehensive loss	(854.9)	(889.5)	34.6	(3.9)%
Treasury shares	(112.6)	(29.2)	(83.4)	285.6%
Noncontrolling interest	14.4	14.2	0.2	1.4%
Total shareholders' equity	$2,345.8	$2,042.5	$303.3	14.8%

Earnings invested in the business increased in the first nine months of 2012 by net income of $420.2 million, partially offset by dividends declared of $66.8 million. The decrease in accumulated other comprehensive loss was due to a

$34.2 million after-tax pension and postretirement adjustment as a result of amortization of actuarial losses and prior-year service costs for defined benefit pension and postretirement plans. The increase in treasury shares was primarily due to the Company's purchase of 2.5 million of its common shares for an aggregate of $112.3 million, partially offset by shares issued pursuant to stock compensation plans.

Cash Flows

	Nine Months Ended September 30,		
	2012	2011	$ Change
Net cash provided (used) by operating activities	$366.5	$(67.4)	$433.9
Net cash used by investing activities	(165.0)	(317.5)	152.5
Net cash used by financing activities	(181.8)	(86.1)	(95.7)
Effect of exchange rate changes on cash	1.0	(3.2)	4.2
Increase (decrease) in cash and cash equivalents	$20.7	$(474.2)	$494.9

Operating activities provided net cash of $366.5 million in the first nine months of 2012, after using cash of $67.4 million in the first nine months of 2011. The change in cash from operating activities was primarily due to less cash used for working capital items, particularly accounts receivable and inventory, lower pension and other postretirement benefit contributions and payments, and pretax CDSOA receipts of approximately $108.6 million. Pension contributions and other postretirement benefit payments were $399.8 million in the first nine months of 2012, compared to $445.2 million in the first nine months of 2011. Net income attributable to The Timken Company increased $75.0 million in the first nine months of 2012 compared to the first nine months of 2011.

The following chart displays the impact of working capital items on cash during the first nine months of 2012 and 2011, respectively:

	Nine Months Ended September 30,	
	2012	2011
Cash Provided (Used):		
Accounts receivable	$13.8	$(187.9)
Inventories	35.2	(122.2)
Trade accounts payable	(17.0)	39.3
Other accrued expenses	(74.5)	(2.3)

Net cash used by investing activities of $165.0 million in the first nine months of 2012 decreased from the same period in 2011 primarily due to a $198.7 million decrease in acquisitions and a $41.1 million decrease in investments in short-term marketable securities, partially offset by an $81.3 million increase in capital expenditures. Short-term marketable securities provided cash of $17.2 million in the first nine months of 2012 after using cash of $23.9 million in the first nine months of 2011. The Company expects to increase capital expenditures by approximately $95 million in 2012 compared to the 2011 level.

Net cash used by financing activities was $181.8 million and $86.1 million in the first nine months of 2012 and 2011, respectively. The increase in cash used by financing activities was primarily due to a $68.5 million increase in the Company's repurchases of its common shares. Other factors increasing cash used by financing activities were a reduction in net borrowings, net of restricted cash, of $17.3 million and a $10.2 million increase in cash dividends paid to shareholders in 2012 compared to 2011. The Company purchased 2.5 million of its common shares for an aggregate of $112.3 million in the first nine months of 2012 after purchasing 1.0 million of its common shares for an aggregate of $43.8 million in the first nine months of 2011. The Company reduced its net borrowings by $22.9 million during the first nine months of 2012 after decreasing its net borrowings by $5.6 million during the first nine months of 2011.

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Liquidity and Capital Resources:

Total debt was $488.9 million and $515.1 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, total debt of $488.9 million exceeded cash and cash equivalents of $485.5 million by $3.4 million. At December 31, 2011, total debt of $515.1 million exceeded cash and cash equivalents and restricted cash of 468.4 million by $46.7 million. Net debt to capital was 0.1% and 2.2% at September 30, 2012 and December 31, 2011, respectively.

Reconciliation of total debt to net debt and the ratio of net debt to capital:

Net Debt:

	September 30, 2012	December 31, 2011
Short-term debt	$12.9	$22.0
Current portion of long-term debt	14.6	14.3
Long-term debt	461.4	478.8
Total debt	$488.9	$515.1
Less: Cash and cash equivalents	485.5	464.8
Restricted cash	—	3.6
Net debt	$3.4	$46.7

Ratio of Net Debt to Capital:

	September 30, 2012		December 31, 2011	
Net debt	$3.4		$46.7	
Shareholders’ equity	2,345.8		2,042.5	
Net debt + shareholders’ equity (capital)	$2,349.2		$2,089.2	
Ratio of net debt to capital	0.1	%	2.2	%

The Company presents net debt because it believes net debt is more representative of the Company's financial position than total debt.

At September 30, 2012, the Company had no outstanding borrowings under its two-year Asset Securitization Agreement, which provides for borrowings up to $150 million, subject to certain borrowing base limitations, and is secured by certain domestic trade receivables of the Company. The Company had full availability under the Asset Securitization Agreement at September 30, 2012. The Asset Securitization Agreement matures on November 10, 2012, and the Company is currently reviewing its options to establish a new agreement prior to the current maturity date.

At September 30, 2012, the Company had no outstanding borrowings under its Senior Credit Facility, but had letters of credit outstanding totaling $8.6 million, which reduced the availability under the Senior Credit Facility to $491.4 million. The Senior Credit Facility matures on May 11, 2016. Under the Senior Credit Facility, the Company has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2012, the Company was in full compliance with the covenants under the Senior Credit Facility and its other debt agreements. The maximum consolidated leverage ratio permitted under the Senior Credit Facility is 3.25 to 1.0. As of September 30, 2012, the Company's consolidated leverage ratio was 0.5 to 1.0. The minimum consolidated interest coverage ratio permitted under the Senior Credit Facility is 4.0 to 1.0. As of September 30, 2012, the Company's consolidated interest coverage ratio was 29.51 to 1.0.

The interest rate under the Senior Credit Facility is based on the Company's consolidated leverage ratio. In addition, the Company pays a facility fee based on the consolidated leverage ratio multiplied by the aggregate commitments of all of the lenders under this agreement.

Other sources of liquidity include lines of credit for certain of the Company's foreign subsidiaries, which provide for borrowings up to $240.4 million. The majority of these lines are uncommitted. At September 30, 2012, the Company had borrowings outstanding of $32.0 million and guarantees of $3.8 million, which reduced the availability under these facilities to $204.6 million.

The Company expects that any cash requirements in excess of cash on hand and cash generated from operating activities will be met by the committed funds available under its Asset Securitization Agreement and the Senior Credit Facility. Management believes it has sufficient liquidity to meet its obligations through at least the term of the Senior Credit Facility.

At September 30, 2012, approximately $269.3 million, or 55.5%, of the Company's cash and cash equivalents resided in jurisdictions outside the United States. Repatriation of these funds to the United States could be subject to government restrictions and domestic and foreign taxes. Part of the Company's strategy is to grow in attractive market sectors, many of which are outside the United States. This may include making investments in facilities and equipment and potential new acquisitions. The Company plans to fund these investments, as well as meet working capital requirements, with cash and cash equivalents and unused lines of credit within the geographic location of these investments when possible.

The Company expects to remain in compliance with its debt covenants. However, the Company may need to limit its borrowings under the Senior Credit Facility or other facilities in order to remain in compliance. As of September 30, 2012, the Company could have borrowed the full amounts available under the Senior Credit Facility and Asset Securitization Agreement, and would have still been in compliance with its debt covenants.

The Company expects cash flow from operations in 2012 to improve approximately 150% over 2011 as a result of lower working capital requirements and CDSOA receipts. The Company expects to make approximately $375 million in pension and postretirement contributions in 2012, compared to $416 million in 2011. The Company also expects to increase capital expenditures to $300 million in 2012 compared to $205 million in 2011, primarily due to the Company's investment at its Faircrest steel plant in Canton, Ohio.

Financing Obligations and Other Commitments:

During the first nine months of 2012, the Company made contributions of $322.5 million to its global defined benefit pension plans, of which $314.1 million was discretionary. The Company currently expects to make an additional $5 million of contributions to its global defined benefit pension plans during the fourth quarter of 2012. The Company also contributed $50 million to a VEBA trust to fund retiree healthcare costs. The Company may consider making additional discretionary contributions to either its defined benefit pension plans or its postretirement benefit plans during 2012. Returns for the Company's global defined benefit pension plan assets in 2011 were below the expected rate-of-return assumption of 8.5 percent due to broad decreases in global equity markets. These lower returns negatively impacted the funded status of the plans at the end of 2011 and are expected to result in higher pension expense and required pension contributions in future years. The impact of these unfavorable returns in 2011, as well as the impact of the lower discount rate for expense in 2012 compared to 2011 will increase pension expense to approximately $60 million in 2012, excluding pension curtailment charges related to the St. Thomas plant closure, compared to $41 million in 2011. Returns for the Company's U.S. defined benefit plan pension assets for the first nine months of 2012 were approximately 11.8 percent. Refer to Other Matters - Benefit Plans for additional discussion.

During the first nine months of 2012, the Company purchased 2.5 million of its common shares for approximately $112.3 million in the aggregate under the Company's 2012 common share purchase plan. This plan authorizes the Company to buy, in the open market or in privately negotiated transactions, up to 10 million common shares, which are to be held as treasury shares and used for specified purposes. The authorization expires on December 31, 2015.

The Company does not have any off-balance sheet arrangements with unconsolidated entities or other persons.

Critical Accounting Policies and Estimates:

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The Company reviews its critical accounting policies throughout the year. The Company has concluded that there have been no changes to its critical accounting policies or estimates, as described in its Annual Report on Form 10-K for the year ended December 31, 2011, during the nine months ended September 30, 2012.

Other Matters

Foreign Currency:

Assets and liabilities of subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the quarter. Related translation adjustments are reflected as a separate component of accumulated other comprehensive loss. Foreign currency gains and losses resulting from transactions are included in the Consolidated Statement of Income.

Foreign currency exchange gains included in the Company's operating results for the third quarter of 2012 were $2.1 million, compared to a gain of $1.2 million during the third quarter of 2011. Foreign currency exchange losses included in the Company's operating results for the nine months ended September 30, 2012 were $4.0 million, compared to a loss of $1.5 million during the nine months ended September 30, 2011. For the nine months ended September 30, 2012, the Company recorded a positive non-cash foreign currency translation adjustment of $0.5 million that increased shareholders' equity, compared to a negative non-cash foreign currency translation adjustment of $30.7 million that decreased shareholders' equity for the nine months ended September 30, 2011. The foreign currency translation adjustments for the nine months ended September 30, 2012 were positively impacted by the weakening of the U.S. dollar relative to other currencies, such as the British Pound and the Canadian Dollar.

Continued Dumping and Subsidy Offset Act:

CDSOA provides for distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers where the domestic producers have continued to invest in their technology, equipment and people.

In September 2002, the World Trade Organization (WTO) ruled that CDSOA payments are not consistent with international trade rules. In February 2006, U.S. legislation was enacted that ended CDSOA distributions for dumped imports covered by antidumping duty orders entering the United States after September 30, 2007. Instead, any such antidumping duties collected would remain with the U.S. Treasury. Several countries objected that this U.S. legislation is not consistent with WTO rulings, and were granted retaliation rights by the WTO, typically in the form of increased tariffs on some imported goods from the United States. The European Union and Japan have been retaliating in this fashion against the operation of U.S. law.

In 2006, the U.S. Court of International Trade (CIT) ruled, in two separate decisions, that the procedure for determining recipients eligible to receive CDSOA distributions was unconstitutional. In addition, several other court cases challenging various provisions of CDSOA were ongoing. As a result, from 2006 through 2010, U.S. Customs withheld a portion of the amounts that would otherwise have been distributed under CDSOA.

In February 2009, the U.S. Court of Appeals for the Federal Circuit reversed both of the 2006 decisions of the CIT. Later in December 2009, a plaintiff petitioned the U.S. Supreme Court to hear a further appeal, but the Supreme Court declined the petition, allowing the appellate court reversals to stand. At that time, several court cases challenging various provisions of the CDSOA were still unresolved, so U.S. Customs accepted the CIT's recommendation to continue to withhold CDSOA receipts related to 2006 through 2010 until January 2012.

U.S. Customs began distributing the withheld funds related to 2006 through 2010 to affected domestic producers in early April 2012. The Company received CDSOA distributions of $108.6 million, net of expenses, during the first nine months of 2012.

While some of the challenges to CDSOA have been resolved, others are still in litigation. Since there continue to be legal challenges to CDSOA, U.S. Customs has advised all affected domestic producers that it is possible that the

CDSOA distributions could be subject to clawback. Management of the Company believes that the likelihood of clawback is remote.

Benefit Plans

The Company sponsors a number of defined benefit pension plans that cover eligible associates. The Company also sponsors several funded and unfunded postretirement plans that provide health care and life insurance benefits for eligible retirees and their dependents. These plans are accounted for in accordance with accounting rules for defined benefit pension plans and postretirement plans.

The measurement of liabilities related to these plans is based on management's assumptions related to future events, including discount rates, rates of return on pension plan assets, rates of compensation increases and health care cost trend rates. Management regularly evaluates these assumptions and adjusts them as required and appropriate. Other plan assumptions are also reviewed on a regular basis to reflect recent experience and the Company's future expectations. Actual experience that differs from these assumptions may affect future liquidity, expense and the overall financial position of the Company. While the Company believes that current assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company's pension and other postretirement employee benefit obligations and its future expense and cash flow.

The discount rate is used to calculate the present value of expected future pension and postretirement cash flows as of the measurement date. The Company establishes the discount rate by constructing a portfolio of high-quality corporate bonds and matching the coupon payments and bond maturities to projected benefit payments under the Company's pension and postretirement welfare plans. The bonds included in the portfolio are generally non-callable. A lower discount rate will result in a higher benefit obligation; conversely, a higher discount rate will result in a lower benefit obligation. The discount rate is also used to calculate the annual interest cost, which is a component of net periodic benefit cost.

The expected rate of return on plan assets is determined by analyzing the historical long-term performance of the Company's pension plan assets, as well as the mix of plan assets between equities, fixed income securities and other investments, the expected long-term rate of return expected for those asset classes and long-term inflation rates. Short-term asset performance can differ significantly from the expected rate of return, especially in volatile markets. A lower-than-expected rate of return on pension plan assets will increase pension expense and future contributions.

Defined Benefit Pension Plans:

In 2012, the Company expects net periodic benefit cost to increase to approximately $60 million, excluding curtailment charges as a result of the announced closure of St. Thomas, for defined benefit pension plans. The expected increase is primarily due to higher amortization of net actuarial losses, partially offset by lower interest cost and higher expected return from plan assets. Amortization of net actuarial losses is expected to increase approximately $26.8 million in 2012 compared to 2011. The majority of the increase in the expected 2012 amortization of actuarial losses is attributable to a 75 basis point reduction in the Company's discount rate used to measure its defined benefit pension obligation from 5.75% at December 31, 2010 to 5.0% at December 31, 2011. In addition, the increase in the expected 2012 amortization of actuarial losses is due to the continued migration of deferred asset losses from 2008 and, to a lesser extent, deferred losses from 2011 into unrecognized losses subject to amortization. The weighted average amortization period for the Company's global defined pension plans is approximately 11 years.

The lower interest cost is primarily due to a 75 basis point reduction in the Company's discount rate from 5.75% for 2011 to 5.00% for 2012. The higher expected return from plan assets for 2012 is due to a higher fair value on pension assets at December 31, 2011, as well as the impact of 2012 contributions, partially offset by the impact of a 25 basis point reduction in the expected return on pension plan assets. The Company expects to contribute approximately $325 million to its defined benefit pension plans in 2012, of which $314 million is discretionary.

During the period between December 31, 2007 and December 31, 2011, the Company recognized net actuarial losses totaling $1,006.3 million for defined benefit pension plans. These actuarial losses primarily occurred in 2008 and 2011, offset slightly by gains in 2009 and 2010. In 2008, the net actuarial loss of $743.5 million for defined benefit pension plans was primarily due to the global financial crisis, which led to broad declines in pension investment returns (a net asset loss of $564.2 million on actual assets in 2008, or negative 22% on pension plan assets of $2.5 billion, compared to an expected return of $200.9 million, or 8.75%, in 2008). The remaining portion of the net actuarial loss for 2008 was due to other changes in actuarial assumptions. In 2011, the net actuarial loss of $404.6 million was primarily due to a 75 basis point reduction in the Company's discount rate used to measure its defined benefit pension obligation. The change in the discount rate accounted for $234.1 million of the net actuarial loss. The remaining portion of the net actuarial loss for 2011 was due to lower than expected asset returns of $100.4 million and other changes in actuarial assumptions of $70.1 million. The impact of these net actuarial losses for defined benefit pension plans, as well as net actuarial losses related to postretirement benefit plans and net prior service costs for defined benefit pension and postretirement plans, has decreased total equity by $455.1 million after-tax for the period between December 31, 2007 and December 31, 2011.

The following table below presents a reconciliation of the cumulative net actuarial losses at December 31, 2007 and the cumulative net actuarial losses at December 31, 2011:

Net actuarial losses at December 31, 2007		$500.1
Plus/minus actuarial gains and losses recognized:		
Net actuarial losses recognized in 2008	743.5	
Net actuarial gains recognized in 2009	(90.7)	
Net actuarial gains recognized in 2010	(51.1)	
Net actuarial losses recognized in 2011	404.6	
		1,006.3
Minus amortization of net actuarial losses:		
Amortization of net actuarial losses in 2008	(29.6)	
Amortization of net actuarial losses in 2009	(35.8)	
Amortization of net actuarial losses in 2010	(51.9)	
Amortization of net actuarial losses in 2011	(56.0)	
		(173.3)
Foreign Currency Impact		(20.3)
Net actuarial losses at December 31, 2011		$1,312.8

During this same time period, the Company contributed a total of $605.8 million to its global defined benefit pension plans, of which approximately $536.6 million was discretionary. As discussed above, the Company expects to contribute approximately $325 million to its global defined benefit pension plans in 2012, of which approximately $314 million is discretionary. Despite the net actuarial losses recorded for the period between December 31, 2007 and December 31, 2011, only approximately $20 million of contributions are required in 2012. The effect of actuarial losses on future earnings and operating cash flow is expected to be largely neutral as the favorable impact of discretionary pension contributions offsets the increase in pension expense attributable to the amortization of actuarial losses based on the existing discount rate of 5.75%.

For expense purposes in 2011, the Company applied a discount rate of 5.75% for the defined benefit pension plans. For expense purposes for 2012, the Company has applied a discount rate of 5.00% for the defined benefit pension plans. For expense purposes in 2011, the Company applied an expected rate of return of 8.50% for the Company's pension plan assets. For expense purposes for 2012, the Company has applied an expected rate of return on pension plan assets of 8.25%.

The following table presents the sensitivity of the Company's U.S. projected pension benefit obligation (PBO), total equity and 2012 expense to the indicated increase/decrease in key assumptions:

		+ / - Change at December 31, 2012		
	Change	PBO	Equity	2012 Expense
Assumption:				
Discount rate	+/- 0.25%	$78.1	$78.1	$5.0
Actual return on plan assets	+/- 0.25%	N/A	5.8	0.2
Expected return on assets	+/- 0.25%	N/A	N/A	6.0

In the table above, a 25 basis point decrease in the discount rate will increase the pension obligation by $78.1 million and decrease total equity by $78.1 million. The change in equity in the table above is reflected on a pre-tax basis. Defined benefit pension plans in the United States represent 87% of the Company's benefit obligation and 88% of the fair value of the Company's plan assets at December 31, 2011. The Company uses a combined U.S. federal and state statutory rate of approximately 37% to calculate the after-tax impact on equity for U.S. plans. The Company uses the local statutory tax rate in effect to calculate the after-tax impact on equity for all remaining non-U.S. plans. For some non-U.S. plans, a valuation allowance has been recorded against the tax benefits recorded in equity and, therefore, no tax benefits are recognized on an after-tax basis.

Postretirement Benefit Plans:

In 2012, the Company expects net periodic benefit cost to decrease to approximately $24 million for postretirement benefit plans. The expected decrease is primarily due to a higher expected return on plan assets of approximately $7 million for postretirement benefit plans and lower interest cost of approximately $4 million. The higher expected return on plan assets is primarily due to higher VEBA trust assets at December 31, 2011, compared to December 31, 2010, as well as the impact of 2012 contributions. The Company expects to contribute approximately $50 million to its VEBA trust in 2012.

The lower expected interest cost for 2012 is primarily due to a 65 basis point reduction in the Company's discount rate from 5.50% for 2011 to 4.85% for 2012.

For expense purposes in 2011, the Company applied a discount rate of 5.50% for the postretirement welfare plans. For expense purposes for 2012, the Company has applied a discount rate of 4.85% for the postretirement welfare plans. For expense purposes in 2011 and 2012, the Company applied an expected rate of return of 5.0% to the VEBA trust assets.

The following table presents the sensitivity of the Company's accumulated other postretirement benefit obligation (ABO), total equity and 2012 expense to the indicated increase/decrease in key assumptions:

		+ / - Change at December 31, 2012		
	Change	ABO	Equity	2012 Expense
Assumption:				
Discount rate	+/- 0.25%	$12.5	$12.5	$0.5
Actual return on plan assets	+/- 0.25%	N/A	0.5	—
Expected return on assets	+/- 0.25%	N/A	N/A	0.5

In the table above, a 25 basis point decrease in the discount rate will increase the postretirement benefit obligation by $12.5 million and decrease equity by $12.5 million. The change in total equity in the table above is reflected on a pre-tax basis.

For measurement purposes for postretirement benefits, the Company assumed a weighted-average annual rate of increase in per capita cost (health care cost trend rate) for medical benefits of 7.9% for 2012, declining steadily for the next 66 years to 5.0%; and 9.0% for prescription drug benefits for 2012, declining steadily for the next 66 years to 5.0%. The assumed health care cost trend rate may have a significant effect on the amounts reported. A one percentage point increase in the assumed health care cost trend rate would have increased the 2011 total service and interest cost components by $0.8 million and would have increased the postretirement obligation by $15.3 million. A one percentage point decrease would provide corresponding reductions of $0.8 million and $14.2 million, respectively.

Forward-Looking Statements

Certain statements set forth in this Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (including the Company's forecasts, beliefs and expectations) that are not historical in nature are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management's Discussion and Analysis contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “outlook,” “ “may,” “possible,” “potential,” “predict,” “project” or other similar words, phrases or expressions. You are cautioned not to pla undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. The Company cautions readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of the Company due to a variety of factors, such as:

- deterioration in world economic conditions, or in economic conditions in any of the geographic regions in which the Company conducts business, including additional adverse effects from the global economic slowdown, terrorism or hostilities. This includes: political risks associated with the potential instability of governments and legal systems in countries in which the Company or its customers conduct business, and changes in currency valuations;

- the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which the Company operates. This includes: the ability of the Company to respond to rapid changes in customer demand, the effects of customer bankruptcies or liquidations, the impact of changes in industrial business cycles, and whether conditions of fair trade continue in the U.S. markets;

- competitive factors, including changes in market penetration, increasing price competition by existing or new foreign and domestic competitors, the introduction of new products by existing and new competitors, and new technology that may impact the way the Company's products are sold or distributed;

- changes in operating costs. This includes: the effect of changes in the Company's manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability of raw materials and energy; the Company's ability to mitigate the impact of fluctuations in raw materials and energy costs and the operation of the Company's surcharge mechanism; changes in the expected costs associated with product warranty claims; changes resulting from inventory management and cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; and changes in the cost of labor and benefits;

- the success of the Company's operating plans, announced programs, initiatives and capital investments; the ability to integrate acquired companies; the ability of acquired companies to achieve satisfactory operating results, including results being accretive to earnings; and the Company's ability to maintain appropriate relations with unions that represent Company associates in certain locations in order to avoid disruptions of business;

- unanticipated litigation, claims or assessments. This includes: claims or problems related to intellectual property, product liability or warranty, environmental issues, and taxes;

- changes in worldwide financial markets, including availability of financing and interest rates, which affect: the Company's cost of funds and/or ability to raise capital; the Company's pension obligations and investment performance; and/or customer demand and the ability of customers to obtain financing to purchase the Company's products or equipment that contain the Company's products;

- retention of CDSOA distributions; and

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those items identified under Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Additional risks relating to the Company's business, the industries in which the Company operates or the Company's common shares may be described from time to time in the Company's filings with the Securities and Exchange Commission. All of these risk factors are difficult to predict, are subject to material uncertainties that may affect actual results and may be beyond the Company's control.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Except as required by the federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to information appearing under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q. Furthermore, a discussion of market risk exposures is included in Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material changes in reported market risk since the inclusion of this discussion in the Company’s Annual Report on Form 10-K referenced above.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting

During the Company’s most recent fiscal quarter, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 includes a detailed discussion of our risk factors. There have been no material changes to the risk factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

Issuer Purchases of Common Shares

The following table provides information about purchases by the Company of its common shares during the quarter ended September 30, 2012.

Period	Total number of shares purchased [1]	Average price paid per share [2]	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs [3]
7/1/12 – 7/31/12	208	$45.17	—	9,000,000
8/1/12 – 8/31/12	1,502,484	40.35	1,500,000	7,500,000
9/1/12 – 9/30/12	—	—	—	7,500,000
Total	1,502,692	$40.35	1,500,000	7,500,000

(1) 208 shares purchased in July and 2,484 of the shares purchased in August represent common shares of the Company that are owned and tendered by employees to exercise stock options, and to satisfy withholding obligations in connection with the exercise of stock options and vesting of restricted shares.

(2) For shares tendered in connection with the vesting of restricted shares, the average price paid per share is an average calculated using the daily high and low of the Company's common shares as quoted on the New York Stock Exchange at the time of vesting. For shares tendered in connection with the exercise of stock options, the price paid is the real-time trading stock price at the time the options are exercised.

(3) On February 10, 2012, the Board of Directors of the Company approved a new share purchase plan pursuant to which the Company may purchase up to ten million of its common shares in the aggregate. This new share purchase plan replaced the Company's 2006 common share purchase plan and expires on December 31, 2015. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

Item 6. Exhibits

10.1	Form of Non-Compete Agreement entered into with the Group Presidents, as adopted August 6, 2012.
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of James W. Griffith, President and Chief Executive Officer (principal executive officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Glenn A. Eisenberg, Executive Vice President – Finance and Administration (principal financial officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of James W. Griffith, President and Chief Executive Officer (principal executive officer) and Glenn A. Eisenberg, Executive Vice President – Finance and Administration (principal financial officer) of The Timken Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of The Timken Company for the quarter ended September 30, 2012, filed on October 29, 2012, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

SIGNATURES

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

	THE TIMKEN COMPANY
Date: October 29, 2012	By: /s/ James W. Griffith James W. Griffith President and Chief Executive Officer (Principal Executive Officer)
Date: October 29, 2012	By: /s/ Glenn A. Eisenberg Glenn A. Eisenberg Executive Vice President – Finance and Administration (Principal Financial Officer)