TIMKEN CO
Form 10-K
February 13, 2013

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____to_____

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

Ohio	34-0577130
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1835 Dueber Avenue, S.W., Canton, Ohio	44706
(Address of principal executive offices)	(Zip Code)

(330) 438-3000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of June 30, 2012, the aggregate market value of the registrant's common shares held by non-affiliates of the registrant was $4,029,384,828 based on the closing sale price as reported on the New York Stock Exchange.

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 January 31, 2013
Common Shares, without par value	95,937,115 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held on or about May 7, 2013 (Proxy Statement)	Part III

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THE TIMKEN COMPANY
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PART I.

Item 1. Business

General:
As used herein, the term “Timken” or the “Company” refers to The Timken Company and its subsidiaries unless the context otherwise requires. The Timken Company, a global industrial technology leader, engineers, manufactures and markets mechanical components and high-performance steel. Timken® bearings and engineered steel bars and tubes, as well as transmissions, gearboxes, chain, related products and services, support diversified markets worldwide.

The Company was founded in 1899 by Henry Timken, who received two patents on the design of a tapered roller bearing. Timken grew to become the world's largest manufacturer of tapered roller bearings and leveraged its expertise to further expand its portfolio of bearing products to include cylindrical, spherical, needle and precision ball bearings. Based on its engineering capabilities and technical knowledge, Timken built its reputation as a global leader and applied its knowledge of metallurgy, friction management and mechanical power transmission to increase the reliability and efficiency of its customers' equipment, improving productivity, uptime and performance across a wide range of applications and markets. The Company's broadened portfolio includes power transmission components and systems, engineered surfaces and coatings, lubricants, seals, as well as aftermarket services including bearing and gearbox remanufacture and repair. The Company also manufactures helicopter transmissions, high-performance engineered alloy steels bars and seamless mechanical tubing, as well as finished and semi-finished steel components made to exact specifications to meet the increasing demands for reliability and efficiency. The Company's global footprint consists of 62 manufacturing facilities, 10 technology and engineering centers, 12 distribution centers and warehouses, supported by a team comprised of nearly 20,000 employees. Timken operates in 30 countries and territories around the globe.

Industry Segments and Geographical Financial Information:
Information required by this item is incorporated herein by reference to Note 14 – Segment Information in the Notes to the Consolidated Financial Statements.

Major Customers:
The Company sells products and services to a diverse customer base globally including customers in the following market sectors: industrial equipment, construction, agriculture, rail, aerospace and defense, automotive, heavy truck and oil and gas. The Company does not have any sales to a single customer that are 5% or more of total sales.

Products:
The Timken Company manufactures and manages global supply chains for multiple product lines including anti-friction bearings, mechanical power transmission solutions, engineered steel and related precision steel components designed to operate in demanding environments. The Company leverages its technical knowledge, research expertise and production and engineering capabilities across all of its products and end markets to deliver high-performance products to its customers. Differentiation of product lines is achieved by either: (1) product type or (2) the targeted applications utilizing the product.

Bearings and Power Transmission Solutions. Selection and development of bearings for customer applications and demand for high reliability require sophisticated engineering and analytical techniques. Deep knowledge of friction management combined with high precision tolerances, proprietary internal geometries and premium quality materials, provide Timken bearings with high load-carrying capacity, excellent friction-reducing qualities and long service lives. The uses for bearings are diverse and can be found in transportation applications that include passenger cars and trucks, heavy trucks, helicopters, airplanes and trains. Ranging in size from precision bearings the size of a pencil eraser to those roughly three meters in diameter, high-performance Timken components are also used in a wide variety

of industrial applications, ranging from paper and steel mills, mining, oil and gas extraction and production, gear drives, health and positioning control, wind mills and food processing. Timken manufactures or in some cases purchases the required components and then sells them assembled or as individual components in a wide variety of configurations and sizes. In addition to bearings, Timken provides mechanical power transmission components, including chains, augers, gear boxes, seals, lubricants and related products and services.

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Tapered Roller Bearings. The tapered roller bearing is the Company's original entrant to the anti-friction bearing segment. Tapered rollers permit ready absorption of both radial and axial load combinations. For this reason, tapered roller bearings are particularly well-adapted to reducing friction where shafts, gears or wheels are used. Bearings generally consist of four components: (1) the cone or inner race; (2) the cup or outer race; (3) the rollers, which roll between the cup and cone; and (4) the cage, which serves as a retainer and maintains proper spacing between the rollers. They can be found wherever gears and shafts turn in a wide variety of markets including construction and mining, metal and paper-making mills, commercial truck and power generation.

Precision Cylindrical and Ball Bearings. The Company's aerospace facilities produce high-performance ball and cylindrical bearings for ultra high-speed and/or high-accuracy applications in space and robotic vehicles, including Curiosity, the newest Mars rover. Customers for these precision bearings also include manufacturers of medical and health equipment, machine tools, critical motion control systems and precision robotics. These bearings utilize ball and straight rolling elements and are in the super-precision end of the general ball and straight roller bearing product range in the bearing industry. A majority of these bearings products are custom-designed bearings and spindle assemblies. They often utilize specialized materials and coatings in applications that subject the bearings to extreme operating conditions of speed and temperature.

Spherical and Cylindrical Roller Bearings. Timken produces spherical and cylindrical roller bearings for large gear drives, rolling mills and other industrial and infrastructure development applications. These products are sold worldwide to original equipment manufacturers and industrial distributors serving major end-markets, including construction and mining, natural resources, defense, pulp and paper production, rolling mills and general industrial goods. The same rigorous analysis and development apply to these products.

Chains and Augers. Through the acquisition of Drives LLC (Drives) in 2011, Timken manufactures American National Standards Institute (ANSI) precision roller chain, pintle chain, agricultural conveyor chain, engineering class chain, oil field roller chain and auger products. These highly engineered products are vital to a wide range of mobile and industrial machinery applications, including agriculture, oil and gas, aggregate and mining, primary metals, forest products and other heavy industries. They also are utilized in the food and beverage and packaged goods sectors, which often require high-end, specialty products including stainless-steel and corrosion-resistant roller chains.

Gear-Drive Systems. Through the acquisition of the assets of Philadelphia Gear Corp. (Gears and Services) in 2011, Timken provides aftermarket gear box repair services and gear-drive systems for the industrial, energy and military marine sectors, including refining and pipeline systems, mining, cement, pulp and paper making and water management systems.

Services. Timken offers a broad array of industrial services including bearing reconditioning and repair; condition monitoring and reliability services designed to maximize performance, durability and maintenance intervals for industrial and railroad customers, both domestically and internationally. Other services include maintenance and rework of large industrial equipment used in metal-making mills and the energy sectors. The total services accounted for less than 5% of the Company’s net sales for the year ended December 31, 2012.

Aerospace Products and Services. The Company's portfolio of parts, systems and services for the aerospace market has grown to include products used in helicopters and fixed-wing aircraft for the military and commercial aviation industries. Timken designs, manufactures and tests a wide variety of power transmission and drive train components including bearings, transmissions, turbine engine components, gears and rotor-head assemblies and housings. Other parts include airfoils (such as blades, vanes, rotors and diffusers), nozzles and other precision flight-critical components.

In addition to original equipment, Timken provides a wide range of aftermarket products and services for global customers, including complete engine overhaul, bearing repair, component reconditioning and replacement parts for

gas turbine engines, transmissions and fuel controls, gearboxes and accessory systems in helicopters and fixed-wing aircraft.

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Engineered Steel. Timken manufactures more than 450 grades of high-performance carbon, micro-alloy and alloy steel, sold as ingots, bars and tubes in a variety of chemistries, lengths and finishes. The segment's metallurgical expertise and unique operational capabilities drive customized, high-value solutions for the mobile, industrial and energy sectors. Timken® specialty steels are featured 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, bushings, fuel injectors, wind energy shafts and other demanding applications, where mechanical power transmission is critical to the end customer.

The Timken steel segment provides premium value in the market by leveraging the team's deep metallurgical and application knowledge to develop solutions that provide lower total cost of ownership for our customers. The Company develops clean, high-performance alloy steels that consistently meet or exceed customer's product specifications. In addition, exceptional responsive and flexible supply chain capabilities offer high on-time delivery rates and the ability to produce small quantity orders to custom specifications.

Precision Steel Components. Timken also produces custom-made steel products, including steel components for automotive and industrial customers. Steel components provide the Company with the opportunity to further expand its market for tubing and capture higher value-added steel sales by streamlining customer supply chains. It also enables traditional Timken tubing customers in the automotive and bearing industries to take advantage of ready-to-finish components that cost less than other alternatives. Customization of products is an important element of the Company's steel business where mechanical power transmission is critical to the end customer.

Sales and Distribution:
Timken products are sold principally by its own internal sales organizations. A portion of each segment's sales are made through authorized distributors.

Customer collaboration is central to the Company's sales strategy. Therefore, Timken goes where its customers need them, with sales engineers primarily working in close proximity to customers rather than at production sites. In some cases, Timken may co-locate with a customer at their facility to ensure optimized collaboration. The Company's sales force constantly updates the team's training and knowledge regarding all friction management products and market sector trends, and employees assist customers during development and implementation phases and provide ongoing service and support.

The Company has a joint venture in North America focused on joint logistics and e-business services. This alliance, CoLinx, LLC, includes five equity members: Timken, SKF Group, the Schaeffler Group, Rockwell Automation and Gates Corporation. The e-business service focuses on information and business services for authorized distributors in the Process Industries segment.

Most orders for Timken's steel products are customized to satisfy customer-specific applications and are shipped directly to customers from the Company's steel manufacturing plants. Less than 10% of the Timken Steel segment's net sales are intersegment sales. In addition, sales are made to other anti-friction bearing companies and to the automotive and truck, forging, construction, industrial equipment, oil and gas drilling, aircraft industries and to steel service centers.

Timken has entered into individually negotiated contracts with some of its customers. These contracts may extend for one or more years and, if a price is fixed for any period extending beyond current shipments, customarily include a commitment by the customer to purchase a designated percentage of its requirements from Timken. Timken does not believe that there is any significant loss of earnings risk associated with any given contract.

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Competition:
The anti-friction bearing business is highly competitive in every country where Timken sells products. Timken competes primarily based on total value, including price, quality, timeliness of delivery, product design and the ability to provide engineering support and service on a global basis. The Company competes with domestic manufacturers and many foreign manufacturers of anti-friction bearings, including SKF Group, Schaeffler Group, NTN Corporation, JTEKT Corporation (JTEKT) and NSK Ltd.

The steel industry, both domestically and globally, is highly competitive and is expected to remain so. Maintaining high standards of product quality and reliability, while keeping production costs competitive, is essential to the Company's ability to compete with domestic and foreign manufacturers of mechanical components and alloy steel. Principal bar competitors include foreign-owned domestic producers Gerdau Special Steel North America (a unit of Brazilian steelmaker Gerdau, S.A) and Republic Steel (a unit of Mexican steel producer ICH), along with domestic steel producers Steel Dynamics, Inc. and Nucor Corporation. Seamless tubing competitors include foreign-owned domestic producers ArcelorMittal Tubular Products (a unit of Luxembourg-based ArcelorMittal, S.A.), V&M Star Tubes (a unit of Vallourec, S.A.), and Tenaris, S.A. Additionally, Timken competes with a wide variety of offshore producers of both bars and tubes, including Sanyo Special Steel and Ovako. Timken also provides value-added steel products to its customers in the energy, industrial and automotive sectors. Competitors within the value-added market segment include Linamar, Jernberg and Curtis Screw Company.

Joint Ventures:
Investments in affiliated companies accounted for under the equity method were approximately $1.1 million and $2.0 million, respectively, at December 31, 2012 and 2011. The amount at December 31, 2012 was reported in other non-current assets on the Consolidated Balance Sheets.

Backlog:
The following table provides the backlog of orders of the Company's domestic and overseas operations at December 31, 2012 and 2011:

	December 31,	
(Dollars in millions)	2012	2011
Segment:		
Mobile Industries	$708.5	$808.7
Process Industries	387.8	479.5
Aerospace & Defense	404.7	443.2
Steel	311.6	530.7
Total Company	$1,812.6	$2,262.1

Prior to 2012, the Company only included backlog that was expected to ship in the next six months for the Mobile Industries and Process Industries segments. Backlog at December 31, 2011 was revised to include all backlog for the entire Company. Approximately 90% of the Company’s backlog at December 31, 2012 is scheduled for delivery in the succeeding twelve months. Actual shipments depend upon customers' ever-changing production. Accordingly, Timken does not believe that its backlog data and comparisons thereof, as of different dates, reliably indicate future sales or shipments.

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Raw Materials:
The principal raw materials used by Timken in steel manufacturing are scrap metal, nickel, molybdenum and other alloys. The availability and costs of raw materials and energy resources are subject to curtailment or change due to, among other things, new laws or regulations, changes in global demand levels, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. For example, the consumption cost of scrap metal increased 59.0% from 2009 to 2010, increased 23.4% from 2010 to 2011 and decreased 6.1% from 2011 to 2012.

The Company continues to expect that it will be able to pass a significant portion of cost increases through to customers in the form of price increases or surcharges.

Disruptions in the supply of raw materials or energy resources could temporarily impair the Company's ability to manufacture its products for its customers or require the Company to pay higher prices in order to obtain these raw materials or energy resources from other sources, which could affect the Company's revenues and profitability. Any increase in the costs for such raw materials or energy resources could materially affect the Company's earnings. Timken believes that the availability of raw materials and alloys is adequate for its needs, and, in general, it is not dependent on any single source of supply.

Research:
Timken operates a network of technology and engineering centers to support its global customers with sites in North America, Europe and Asia. This network develops and delivers innovative friction management and mechanical power transmission solutions and technical services. The largest technical center is located in North Canton, Ohio, near Timken's world headquarters. Other sites in the United States include Mesa, Arizona; Manchester, Connecticut; Keene and Lebanon, New Hampshire; and King of Prussia, Pennsylvania. Within Europe, the Company has technology facilities in Ploiesti, Romania; and Colmar, France; and in Asia, it operates technology and engineering facilities in Bangalore, India; and Shanghai, China.

Expenditures for research, development and application amounted to approximately $52.6 million, $49.6 million and $49.9 million in 2012, 2011 and 2010, respectively. Of these amounts, approximately $0.8 million, $0.3 million and $1.6 million were funded by others in 2012, 2011 and 2010, respectively.

Environmental Matters:
The Company continues its efforts to protect the environment and comply with environmental protection laws. Additionally, it has invested in pollution control equipment and updated plant operational practices. The Company is committed to implementing a documented environmental management system worldwide and to becoming certified under the ISO 14001 standard where appropriate to meet or exceed customer requirements. As of the end of 2012, 21 of the Company's plants had obtained ISO 14001 certification.

The Company believes it has established appropriate reserves to cover its environmental expenses and has a well-established environmental compliance audit program for its domestic and international units. This program measures performance against applicable laws, as well as against internal standards that have been established for all units worldwide. It is difficult to assess the possible effect of compliance with future requirements that differ from existing ones. As previously reported, the Company is unsure of the future financial impact to the Company that could result from the United States Environmental Protection Agency's (EPA's) final rules to tighten the National Ambient Air Quality Standards for fine particulate and ozone. In addition, the Company is unsure of the future financial impact to the Company that could result from the EPA instituting hourly ambient air quality standards for sulfur dioxide and nitrogen oxide. The Company is also unsure of the potential future financial impact to the Company that could result from possible future legislation regulating emissions of greenhouse gases.

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The Company and certain of its U.S. subsidiaries have been identified as potentially responsible parties for investigation and remediation at off-site disposal or recycling facilities under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), known as the Superfund, or state laws similar to CERCLA. In general, such claims for investigation and remediation have also been asserted against numerous other entities, which are believed to be financially solvent and are expected to substantially fulfill their proportionate share of the obligation.

Management believes any ultimate liability with respect to pending actions will not materially affect the Company’s operations, cash flows or consolidated financial position. The Company is also conducting environmental investigation and/or remediation activities at a number of current or former operating sites. The costs of such investigation and remediation activities, in the aggregate, are not expected to be material to the operations or financial position of the Company.

New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements may require Timken to incur costs or become the basis for new or increased liabilities that could have a materially adverse effect on the Company's business, financial condition or results of operations.

Patents, Trademarks and Licenses:
Timken owns numerous U.S. and foreign patents, trademarks and licenses relating to certain products. While Timken regards these as important, it does not deem its business as a whole, or any industry segment, to be materially dependent upon any one item or group of items.

Employment:
At December 31, 2012, Timken had nearly 20,000 employees. Approximately 9% of Timken’s U.S. employees are covered under collective bargaining agreements.

Available Information:
The Company uses its Investor Relations website, www.timken.com, as a channel for routine distribution of important information, including news releases, analyst presentations and financial information. The Company posts filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC, including its annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K; its proxy statements; and any amendments to those reports or statements. All such postings and filings are available on the Company’s website free of charge. In addition, this website allows investors and other interested persons to sign up to automatically receive e-mail alerts when the Company posts news releases and financial information on the Company’s website. The SEC also maintains a web site, www.sec.gov, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Annual Report unless expressly noted.

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Item 1A. Risk Factors

The following are certain risk factors that could affect our business, financial condition and results of operations. The risks that are highlighted below are not the only ones that we face. These risk factors should be considered in connection with evaluating forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause our actual results and financial condition to differ materially from those projected in forward-looking statements. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected.

The bearing industry is highly competitive, and this competition results in significant pricing pressure for our products that could affect our revenues and profitability.

The global bearing industry is highly competitive. We compete with domestic manufacturers and many foreign manufacturers of anti-friction bearings, including SKF Group, Schaeffler Group, NTN Corporation, JTEKT and NSK Ltd. The bearing industry is also capital intensive and profitability is dependent on factors such as labor compensation and productivity and inventory management, which are subject to risks that we may not be able to control. Due to the competitiveness within the bearing industry, we may not be able to increase prices for our products to cover increases in our costs. In many cases we face pressure from our customers to reduce prices, which could adversely affect our revenues and profitability. In addition, our customers may choose to purchase products from one of our competitors rather than pay the prices we seek for our products, which could adversely affect our revenues and profitability.

Competition and consolidation in the steel industry, together with potential global overcapacity, could result in significant pricing pressure for our products.

Competition within the steel industry, both domestically and worldwide, is intense and is expected to remain so. Global production overcapacity has occurred in the recent past and may recur in the future, which would exert downward pressure on domestic steel prices and result in, at times, a dramatic narrowing, or with many companies the elimination, of gross margins. High levels of steel imports into the United States could exacerbate this pressure on domestic steel prices. In addition, many of our competitors are continuously exploring and implementing strategies, including acquisitions and the addition or repositioning of capacity, which focus on manufacturing higher margin products that compete more directly with our steel products. Depending upon prevailing market conditions in the United States and abroad, the value of the U.S. dollar relative to other currencies, and other similar variables beyond our control, import activity into the United States and/or domestic production could continue to increase. These factors could lead to significant downward pressure on prices for our steel products or a reduction in sales, which could have a material adverse effect on our revenues and profitability.

Our business is capital intensive, and if there are downturns in the industries that we serve, we may be forced to significantly curtail or suspend operations with respect to those industries, which could result in our recording asset impairment charges or taking other measures that may adversely affect our results of operations and profitability.

Our business operations are capital intensive, and we devote a significant amount of capital to certain industries. If there are downturns in the industries that we serve, we may be forced to significantly curtail or suspend our operations with respect to those industries, including laying-off employees, recording asset impairment charges and other measures, which may adversely affect our results of operations and profitability.

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Weakness in global economic conditions or in any of the industries or geographic regions in which we or our customers operate, as well as the cyclical nature of our customers' businesses generally or sustained uncertainty in financial markets, could adversely impact our revenues and profitability by reducing demand and margins.

Our results of operations may be materially affected by the conditions in the global economy generally and in global capital markets. There has been extreme volatility in the capital markets and in the end markets and geographic regions in which we and our customers operate, which has negatively affected our revenues. Our revenues may also be negatively affected by changes in customer demand, additional changes in the product mix and negative pricing pressure in the industries in which we operate. Margins in those industries are highly sensitive to demand cycles, and our customers in those industries