

TIMKEN CO
Form 10-Q
November 04, 2010

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

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

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 1-1169
THE TIMKEN COMPANY
(Exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of
incorporation or organization)

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

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

44706-2798
(Zip Code)

330.438.3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

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

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

Yes No

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

| Class | Outstanding at September 30, 2010 |
|---------------------------------|-----------------------------------|
| Common Stock, without par value | 97,096,315 shares |

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(Unaudited)**

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

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

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

See accompanying Notes to the Consolidated Financial Statements.

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

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

See accompanying Notes to the Consolidated Financial Statements.

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(Unaudited)

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

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

See accompanying the Notes to the Consolidated Financial Statements.

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

Note 1 Basis of Presentation

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

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

Note 2 New Accounting Pronouncements

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

Note 3 Inventories

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

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

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

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Note 4 Property, Plant and Equipment

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

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

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

Note 5 Goodwill and Other Intangible Assets

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

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

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

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

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

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

Note 6 Financing Arrangements

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

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

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

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

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

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

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

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

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

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

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Note 7 Product Warranty

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

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

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

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

Note 8 Equity

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

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

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

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

Note 9 Earnings Per Share

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

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

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

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Note 10 Segment Information

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

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

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

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Note 11 Impairment and Restructuring Charges

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

For the three months ended September 30, 2010:

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

For the three months ended September 30, 2009:

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

For the nine months ended September 30, 2010:

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

For the nine months ended September 30, 2009:

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

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

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

Table of Contents**Selling and Administrative Reductions**

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

Manufacturing Workforce Reductions

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

Torrington Campus

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

Mobile Industries

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

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

Process Industries

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

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

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In October 2009, the Company announced the consolidation of its distribution centers in Bucyrus, Ohio and Spartanburg, South Carolina into a larger, leased facility in the region surrounding the existing Spartanburg location. The closure of the Bucyrus Distribution Center will displace approximately 260 employees. During the third quarter of 2009, the Company recorded \$4.5 million of severance and related benefit costs related to this closure. During the third quarter of 2010, the Company reduced its accruals for severance and related benefits by \$0.7 million. The Company expects to complete the closure of the Bucyrus Distribution Center during the first quarter of 2011. The following is a rollforward of the consolidated restructuring accrual for the nine months ended September 30, 2010 and the twelve months ended December 31, 2009:

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

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

Note 12 Retirement and Postretirement Benefit Plans

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

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

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

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

Note 13 Income Taxes

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

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

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

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

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

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

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

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

Note 14 Acquisitions and Divestitures

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

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

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

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

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

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Note 15 Fair Value

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

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

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

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

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

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

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

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

Carrying Fair Value

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

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

Financial Instruments

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

Note 16 Derivative Instruments and Hedging Activities

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

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

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

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

Cash Flow Hedging Strategy

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

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

Fair Value Hedging Strategy

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

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

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

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

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

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

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

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

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

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

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

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

(Dollars in millions, except per share data)

Overview

Introduction

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

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

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

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

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

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

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

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

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

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

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

**Nine Months Ended
September 30,**

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

Net income (loss) attributable to The Timken
Company

Diluted earnings (loss) per share:

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

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

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

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

Outlook

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

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

Table of Contents**Sales by Segment:**

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

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

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

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

Table of ContentsGross Profit:

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

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

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

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

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

Table of ContentsSelling, General and Administrative Expenses:

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

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

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

Impairment and Restructuring Charges:

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

**Nine Months Ended
September 30,**

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

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

Selling and Administrative Cost Reductions

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

Manufacturing Workforce Reductions

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

Torrington Campus

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

Mobile Industries

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

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

Table of Contents**Process Industries**

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

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

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

Rollforward of Restructuring Accruals:

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

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

Interest Expense and Income:

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

**Nine Months Ended
September 30,**

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

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

Other Income and Expense:

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

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

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

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

Table of ContentsIncome Tax Expense:

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

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

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

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

Discontinued Operations:

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

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

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

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

Net Income (Loss) Attributable to Noncontrolling Interest:

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

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

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

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

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

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

Mobile Industries Segment:

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

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

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

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

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

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

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

Table of Contents**Process Industries Segment:**

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

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

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

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

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

compensation of approximately \$5 million.

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

Aerospace and Defense Segment:

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

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

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

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

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

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

Steel Segment:

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

| | Three Months Ended September 30, | | \$ Change | % Change |
|---|---|-------------|-----------|----------|
| | 2010 | 2009 | | |
| Net sales, including intersegment sales | \$371.3 | \$157.9 | \$213.4 | 135.1% |
| Currency | 0.1 | - | 0.1 | NM |
| Net sales, excluding the impact of currency | \$371.2 | \$157.9 | \$213.3 | 135.1% |

| | Nine Months Ended September 30, | | \$ Change | % Change |
|---|--|-------------|--------------|-----------|
| | 2010 | 2009 | | |
| Net sales, including intersegment sales | \$ 979.7 | \$ 541.4 | \$ 438.3 | 81.0% |
| Adjusted EBIT | \$ 104.2 | \$ (60.4) | \$ 164.6 | 272.5% |
| Adjusted EBIT margin | 10.6% | (11.2)% | - | 2,180 bps |

| | Nine Months Ended September 30, | | \$ Change | % Change |
|---|--|-------------|-----------|----------|
| | 2010 | 2009 | | |
| Net sales, including intersegment sales | \$ 979.7 | \$ 541.4 | \$ 438.3 | 81.0% |
| Currency | 0.6 | - | 0.6 | NM |
| Net sales, excluding the impact of currency | \$ 979.1 | \$ 541.4 | \$ 437.7 | 80.8% |

The Steel segment's net sales for the third quarter of 2010, excluding the effect of currency-rate changes, increased 135.1% compared to the third quarter of 2009 primarily due to higher volume of approximately \$150 million across all market sectors and higher surcharges of approximately \$80 million, partially offset by unfavorable sales mix of approximately \$20 million. Surcharges increased to \$99.4 million in the third quarter of 2010 from \$21.0 million in the third quarter of 2009. Surcharges are a pricing mechanism that the Company uses to recover scrap steel, energy

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and certain alloy costs, which are derived from published monthly indices. The average scrap index for the third quarter of 2010 was \$421 per ton compared to \$311 per ton for the third quarter of 2009. Steel shipments for the third quarter of 2010 were 275,803 tons compared to 131,087 tons for the third quarter 2009, an increase of 110.4%. The Steel segment's average selling price, including surcharges, was \$1,346 per ton for the third quarter of 2010 compared to an average selling price of \$1,205 per ton in the third quarter of 2009. The increase in the average selling prices was primarily the result of higher surcharges, partially offset by unfavorable sales mix. The higher surcharges were the result of higher market prices for certain input raw materials, especially scrap steel, nickel and molybdenum.

The Steel segment's adjusted EBIT increased \$61.5 million in the third quarter of 2010 compared to the third quarter of 2009 primarily due to higher surcharges of approximately \$80 million, the impact of higher sales volume of approximately \$50 million, a favorable sales mix of approximately \$20 million and lower manufacturing costs of approximately \$10 million, partially offset by higher material costs of approximately \$95 million and higher LIFO expense. In the third quarter of 2010, the Steel segment recognized LIFO expense of \$2.1 million compared to LIFO income of \$4.1 million in the third quarter of 2009. Raw material costs consumed in the manufacturing process, including scrap steel, alloys and energy, increased 52% in the third quarter of 2010 over the comparable period in the prior year to an average cost of \$413 per ton.

The Steel segment's net sales for the first nine months of 2010, excluding the effect of currency-rate changes, increased 80.8% compared to the first nine months of 2009 primarily due to higher volume of approximately \$300 million, driven by the automotive market sector, and higher surcharges of approximately \$185 million, partially offset by unfavorable sales mix of approximately \$50 million. Surcharges increased to \$253.8 million in the first nine months of 2010 from \$69.1 million in the first nine months of 2009. The average scrap index for the first nine months of 2010 was \$435 per ton compared to \$243 per ton for the first nine months of 2009. Steel shipments for the first nine months of 2010 were 739,800 tons compared to 445,398 tons for the first nine months 2009, an increase of 66.1%. The Steel segment's average selling price, including surcharges, was \$1,324 per ton for the first nine months of 2010 compared to an average selling price of \$1,215 per ton in the first nine months of 2009. The increase in the average selling prices was primarily the result of higher surcharges, partially offset by unfavorable sales mix. The higher surcharges were the result of higher market prices for certain input raw materials, especially scrap steel, nickel and molybdenum.

The Steel segment's adjusted EBIT increased \$164.6 million in the first nine months of 2010 compared to the first nine months of 2009 primarily due to higher surcharges of \$185 million, the impact of higher sales volume of approximately \$125 million and lower manufacturing costs of approximately \$80 million, partially offset by the impact of higher raw materials costs of \$170 million, unfavorable sales mix of approximately \$25 million and higher LIFO expense. In the first nine months of 2010, the Steel segment recognized LIFO expense of \$2.7 million compared to LIFO income of \$20.3 million in the first nine months of 2009. Raw material costs consumed in the manufacturing process, including scrap steel, alloys and energy, increased 42% in the first nine months of 2010 over the comparable period in the prior year to an average cost of \$413 per ton.

The Company expects the Steel segment to see an 80% to 90% increase in sales for 2010, compared to 2009, due to higher volume and higher surcharges, as scrap steel and alloy prices have risen substantially from the low levels experienced in 2009. The Company also expects higher demand across most market sectors, primarily driven by an 80% increase in industrial market sectors and a 65% increase in automotive market sectors. The Company expects the Steel segment's adjusted EBIT to be significantly higher in 2010, compared to 2009, primarily due to the higher sales volume and raw material surcharges. Scrap costs are expected to increase in the short-term from current levels and then stabilize, as are alloy and energy costs.

Table of Contents**Corporate:**

| | Three Months Ended September 30, | | | |
|-----------------------------------|---|-----------|--------------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Corporate expenses | \$ (17.6) | \$ (10.3) | \$ (7.3) | (70.9)% |
| Corporate expenses % to net sales | (1.7)% | (1.3)% | - | (40) bps |

| | Nine Months Ended September 30, | | | |
|-----------------------------------|--|-----------|-----------|----------|
| | 2010 | 2009 | \$ Change | % Change |
| Corporate expenses | \$ (49.2) | \$ (35.8) | \$ (13.4) | (37.4)% |
| Corporate expenses % to net sales | (1.6)% | (1.5)% | - | (10) bps |

Corporate expenses increased for the third quarter and first nine months of 2010, compared to the third quarter and first nine months of 2009, as a result of higher performance-based compensation of approximately \$4 million and \$14 million, respectively.

The Balance Sheet:

Total assets as shown on the Consolidated Balance Sheet at September 30, 2010 increased \$242.1 million compared to December 31, 2009. The increase in 2010 was primarily due to higher cash and cash equivalents and higher working capital as a result of higher volumes.

Current Assets:

| | September 30, | December 31, | \$ Change | % Change |
|---------------------------------------|--------------------------|-----------------|--------------|----------|
| | 2010 | 2009 | | |
| Cash and cash equivalents | \$ 899.8 | \$ 755.5 | \$ 144.3 | 19.1% |
| Accounts receivable, net | 552.2 | 411.2 | 141.0 | 34.3% |
| Inventories, net | 771.4 | 671.2 | 100.2 | 14.9% |
| Deferred income taxes | 62.1 | 61.5 | 0.6 | 1.0% |
| Deferred charges and prepaid expenses | 14.0 | 11.8 | 2.2 | 18.6% |
| Other current assets | 69.3 | 111.3 | (42.0) | (37.7)% |
| Total current assets | \$ 2,368.8 | \$ 2,022.5 | \$ 346.3 | 17.1% |

Refer to the Consolidated Statement of Cash Flows for a discussion of the increase in cash and cash equivalents. Accounts receivable, net increased as a result of the higher sales in the third quarter of 2010 compared to the fourth quarter of 2009, as well as a \$10.8 million decrease in the allowance for doubtful accounts. Inventories increased primarily due to higher volume. The decrease in other current assets is primarily due to a decrease of approximately \$70 million in net income taxes receivable as a result of a \$54.3 million tax refund received in July 2010 and the current-year provision for income taxes, partially offset by an increase of approximately \$30 million in short-term investments.

Table of ContentsProperty, Plant and Equipment - Net:

| | September 30, 2010 | December 31, 2009 | \$ Change | % Change |
|-------------------------------------|--------------------------|-------------------------|-----------|-------------|
| Property, plant and equipment | \$ 3,421.0 | \$ 3,398.1 | \$ 22.9 | 0.7% |
| Less: allowances for depreciation | (2,164.4) | (2,062.9) | (101.5) | (4.9)% |
| Property, plant and equipment - net | \$ 1,256.6 | \$ 1,335.2 | \$ (78.6) | (5.9)% |

The decrease in property, plant and equipment - net in the first nine months of 2010 was primarily due to current-year depreciation expense exceeding capital expenditures and the impact of foreign currency translation.

Other Assets:

| | September 30, 2010 | December 31, 2009 | \$ Change | % Change |
|--------------------------|--------------------------|-------------------------|--------------|----------|
| Goodwill | \$ 228.2 | \$ 221.7 | \$ 6.5 | 2.9% |
| Other intangible assets | 125.2 | 132.1 | (6.9) | (5.2)% |
| Deferred income taxes | 231.4 | 248.6 | (17.2) | (6.9)% |
| Other non-current assets | 38.8 | 46.8 | (8.0) | (17.1)% |
| Total other assets | \$ 623.6 | \$ 649.2 | \$ (25.6) | (3.9)% |

The increase in goodwill is primarily due to the initial purchase price allocation from the acquisition of QM Bearings and Power Transmission, Inc. The decrease in other intangible assets was primarily due to current-year amortization. The decrease in deferred income taxes is primarily due to a reduction in deferred tax assets caused by the enactment of the U.S. Patient Protection and Affordable Care Act (as amended).

Current Liabilities:

| | September 30, 2010 | December 31, 2009 | \$ Change | % Change |
|-----------------------------------|--------------------------|-------------------------|--------------|----------|
| Short-term debt | \$ 3.6 | \$ 26.3 | \$ (22.7) | (86.3)% |
| Accounts payable | 257.8 | 156.0 | 101.8 | 65.3% |
| Salaries, wages and benefits | 218.5 | 142.5 | 76.0 | 53.3% |
| Income taxes payable | 54.2 | - | 54.2 | NM |
| Deferred income taxes | 9.1 | 9.2 | (0.1) | (1.1)% |
| Other current liabilities | 162.3 | 189.3 | (27.0) | (14.3)% |
| Current portion of long-term debt | 10.0 | 17.1 | (7.1) | (41.5)% |
| Total current liabilities | \$ 715.5 | \$ 540.4 | \$ 175.1 | 32.4% |

The decrease in short-term debt was primarily due to the Company's use of cash to reduce net borrowings by its foreign subsidiaries under lines of credit. The increase in accounts payable was primarily due to higher volumes. The increase in accrued salaries, wages and benefits was the result of accruals for current-year incentive plans in the first nine months of 2010. The decrease in other current liabilities was primarily due to the payout of severance payments related to 2009 restructuring activities, as well as a reduction in the accrual for a working capital adjustment related to the sale of the NRB operations.

Table of ContentsNon-Current Liabilities:

| | September 30, 2010 | December 31, 2009 | \$ Change | % Change |
|--------------------------------------|--------------------------|-------------------------|------------|----------|
| Long-term debt | \$ 479.4 | \$ 469.3 | \$ 10.1 | 2.2% |
| Accrued pension cost | 554.9 | 690.9 | (136.0) | (19.7)% |
| Accrued postretirement benefits cost | 594.3 | 604.2 | (9.9) | (1.6)% |
| Deferred income taxes | 6.6 | 6.1 | 0.5 | 8.2% |
| Other non-current liabilities | 104.3 | 100.4 | 3.9 | 3.9% |
| Total non-current liabilities | \$ 1,739.5 | \$ 1,870.9 | \$ (131.4) | (7.0)% |

The increase in long-term debt is due to the construction of a new wind energy bearing manufacturing facility in China. The decrease in accrued pension cost was primarily due to the Company's contribution of approximately \$126 million to its defined benefit pension plans during the first nine months of 2010.

Shareholders' Equity:

| | September 30, 2010 | December 31, 2009 | \$ Change | % Change |
|--------------------------------------|--------------------------|----------------------|--------------|-------------|
| Common stock | \$ 929.5 | \$ 896.5 | \$ 33.0 | 3.7% |
| Earnings invested in the business | 1,553.6 | 1,402.9 | 150.7 | 10.7% |
| Accumulated other comprehensive loss | (676.0) | (717.1) | 41.1 | 5.7% |
| Treasury shares | (30.0) | (4.7) | (25.3) | NM |
| Noncontrolling interest | 16.9 | 18.0 | (1.1) | (6.1)% |
| Total shareholders' equity | \$ 1,794.0 | \$ 1,595.6 | \$ 198.4 | 12.4% |

The increase in common stock was primarily due to proceeds received from the exercise of stock options. Earnings invested in the business increased in the first nine months of 2010 by net income of \$184.5 million, partially offset by dividends declared of \$33.8 million. The decrease in accumulated other comprehensive loss was primarily due to the recognition of prior-year service costs and actuarial losses for defined benefit pension and postretirement benefit plans and a \$14.1 million prior period adjustment related to deferred taxes on post-retirement prescription drug benefits, specifically the employer subsidy provided by the U.S. government under Medicare Part D. Refer to Note 13 - Income Taxes in the Notes to the Consolidated Financial Statements for further discussion on the prior period adjustment. Treasury shares increased during the first nine months of 2010 as a result of the Company repurchasing stock under its 2006 common stock purchase plan.

Table of ContentsCash Flows:

| | For the Nine Months Ended September 30, | | |
|---|--|----------|------------|
| | 2010 | 2009 | \$ Change |
| Net cash provided by operating activities | \$ 313.4 | \$ 424.2 | \$ (110.8) |
| Net cash used by investing activities | (107.2) | (75.7) | (31.5) |
| Net cash used by financing activities | (56.4) | (118.4) | 62.0 |
| Effect of exchange rate changes on cash | (5.5) | 19.3 | (24.8) |
| Increase in cash and cash equivalents | \$ 144.3 | \$ 249.4 | \$ (105.1) |

Operating activities provided net cash of \$313.4 million and \$424.2 million in the first nine months of 2010 and 2009, respectively. The decrease in net cash provided by operating activities was primarily due to higher pension contributions and other postretirement benefit payments as well as lower cash provided by working capital items, particularly inventories and accounts receivable, partially offset by higher net income. Pension contributions and other postretirement benefit payments were \$164.4 million for the first nine months of 2010, compared to \$89.2 million for the first nine months of 2009. Accounts receivable used cash of \$140.9 million in the first nine months of 2010 after providing cash of \$128.4 million in the first nine months of 2009. Inventories used cash of \$95.2 million in the first nine months of 2010 after providing cash of \$311.5 million in the first nine months of 2009. Accounts receivable and inventories increased in the first nine months of 2010 primarily due to higher volumes compared to the first nine months of 2009. In addition, the increase in accounts receivable was partially offset by the collection of retained net receivables from the sale of the NRB operations of approximately \$30 million to \$35 million. Accounts payable and accrued expenses provided cash of \$146.2 million in the first nine months of 2010 after using cash of \$144.2 million for the first nine months of 2009. Net income increased \$298.3 million in the first nine months of 2010 compared to the first nine months of 2009.

The net cash used by investing activities of \$107.2 million for the first nine months of 2010 increased from the same period in 2009 as a result of an increase in short-term investments of \$30.0 million and an increase in acquisitions of \$16.1 million, partially offset by a decrease in capital expenditures of \$19.8 million in the current year. The increase in short-term investments included a cash deposit to collateralize an insurance obligation and a purchase of short-term certificates of deposit. The increase in acquisitions primarily related to the purchase of QM Bearings and Power Transmission, Inc., which was completed in September 2010. The Company expects capital expenditures to be approximately \$110 million in 2010.

The net cash used by financing activities of \$56.4 million in the first nine months of 2010 decreased from \$118.4 million in the first nine months of 2009. The Company reduced its net borrowings by \$19.4 million during the first nine months of 2010 after reducing its net borrowings, net of restricted cash, by \$84.5 million during the first nine months of 2009. In addition, the Company repurchased \$29.2 million shares of its common stock, during the first nine months of 2010, compared to the first nine months of 2009, which was substantially offset by a net increase in proceeds of \$28.8 million related to stock option exercises.

Liquidity and Capital Resources

At September 30, 2010, cash and cash equivalents of \$899.8 million exceeded total debt of \$493.0 million. At December 31, 2009, cash and cash equivalents of \$755.5 million exceeded total debt of \$512.7 million. The net debt to capital ratio was a negative 29.3% and 17.9%, respectively, at September 30, 2010 and December 31, 2009.

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

Net Debt:

| | September 30, 2010 | December 31, 2009 |
|-----------------------------------|-----------------------------------|-------------------------|
| Short-term debt | \$ 3.6 | \$ 26.3 |
| Current portion of long-term debt | 10.0 | 17.1 |
| Long-term debt | 479.4 | 469.3 |
| Total debt | 493.0 | 512.7 |
| Less: cash and cash equivalents | (899.8) | (755.5) |
| Net (cash) debt | \$ (406.8) | \$ (242.8) |

Ratio of Net Debt to Capital:

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------------------|-------------------------|
| Net (cash) debt | \$ (406.8) | \$ (242.8) |
| Shareholders' equity | 1,794.0 | 1,595.6 |
| Net (cash) debt + shareholders' equity (capital) | \$ 1,387.2 | \$ 1,352.8 |
| Ratio of net (cash) debt to capital | (29.3)% | (17.9)% |

The Company presents net (cash) debt because it believes net (cash) debt is more representative of the Company's financial position.

At September 30, 2010, the Company had no outstanding borrowings under its 364-day Asset Securitization Agreement (Asset Securitization), which provides for borrowings up to \$100 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 at September 30, 2010. The Asset Securitization matures on November 15, 2010. The Company expects to replace the Asset Securitization with a similar facility on or before maturity.

At September 30, 2010, the Company had no outstanding borrowings under its \$500 million Senior Credit Facility, but had letters of credit outstanding totaling \$17.2 million, which reduced the availability under the Senior Credit Facility to \$482.8 million. The Senior Credit Facility matures on July 10, 2012. Under the Senior Credit Facility, the Company has three financial covenants: a consolidated leverage ratio, a consolidated interest coverage ratio and a consolidated minimum tangible net worth test. At September 30, 2010, the Company was in full compliance with the covenants under the Senior Credit Facility 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, 2010, the Company's consolidated leverage ratio was 0.8 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, 2010, the Company's consolidated interest coverage ratio was 16.5 to 1.0. As of September 30, 2010, the Company's consolidated tangible net worth exceeded the minimum required amount by over \$400 million. Refer to Note 6 Financing Arrangements in the Notes to the Consolidated Financial Statements for further discussion.

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. Financing costs on the Senior Credit Facility are being amortized over the life of the new agreement and are expected to result in approximately \$2.9 million in annual interest expense.

Other sources of liquidity include lines of credit for certain of the Company's foreign subsidiaries, which provide for borrowings up to \$319.1 million. The majority of these lines are uncommitted. At September 30, 2010, the Company had borrowings outstanding of \$19.4 million, which reduced the availability under these facilities to \$299.7 million.

The Company expects that any cash requirements in excess of cash on hand and cash generated from operating

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activities will be met by the committed funds available under its Asset Securitization and the Senior Credit Facility. The Company believes it has sufficient liquidity to meet its obligations through at least the term of the Senior Credit Facility.

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 from time to time in order to remain in compliance. As of September 30, 2010, the Company could have borrowed the full amounts available under the Senior Credit Facility and Asset Securitization Agreement and would have remained in full compliance with its debt covenants. However, the Company does not expect borrowings to be limited by its debt covenants through at least the term of the Senior Credit Facility.

In September 2009, the Company issued \$250 million of fixed-rated unsecured Senior Notes. These Senior Notes, which mature in September 2014, bear interest at 6.0% per annum. The net proceeds from the sale of the Senior Notes were used in December 2009 to redeem fixed-rate unsecured Senior Notes maturing in February 2010.

The Company expects to continue to generate cash from operations as the Company experiences improved margins in 2010. The Company expects to make approximately \$135 million in pension contributions in 2010, compared to \$65 million in 2009. As a result, the Company expects to generate cash from operating activities in excess of \$400 million in 2010. In addition, the Company expects capital expenditures to be approximately \$110 million in 2010.

Financing Obligations and Other Commitments

During the first nine months of 2010, the Company made cash contributions of approximately \$126 million to its global defined benefit pension plans, \$100 million of which was discretionary. The Company currently expects to make contributions to its global defined benefit pension plans totaling approximately \$135 million in 2010. The Company will consider making additional discretionary contributions during the fourth quarter of 2010. Returns for the Company's global defined benefit pension plan assets in 2009 were significantly above the expected rate of return assumption of 8.75 percent due to broad increases in global equity markets. These favorable returns positively impacted the funded status of the plans at the end of 2009 and are expected to result in lower pension expense and required pension contributions over the next several years. However, the impact of these favorable returns will be offset by the impact of the lower discount rate for expense in 2010, compared to 2009. Returns for the Company's U.S. defined benefit plan pension assets for the first nine months of 2010 were approximately 9.7%. Returns below the Company's expected long-term rate of return of 8.75% may impact the Company's future pension expense and contributions. A 0.25 percentage point reduction in the expected long-term rate of return would increase pension expense by approximately \$5 million per year.

During the first nine months of 2010, the Company purchased one million shares of common stock for approximately \$29.2 million under the Company's 2006 common stock purchase plan. This plan authorizes the Company to buy, in the open market or in privately negotiated transactions, up to four million shares of common stock, which are to be held as treasury shares and used for specified purposes, up to an aggregate amount of \$180 million. The authorization expires on December 31, 2012.

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

Recently Adopted Accounting Pronouncements:

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

Table of Contents*Critical Accounting Policy 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 and believes the following critical policy affects management's significant judgments and estimates used in preparation of the Consolidated Financial Statements and should be read in conjunction with the critical accounting policies and estimates included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and the Forms 10-Q for the periods ended March 31, 2010 and June 30, 2010.

Inventory:

Inventories are valued at the lower of cost or market, with approximately 48% valued by the last-in, first-out (LIFO) method and the remaining 52% 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 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 Company recognized \$10.2 million in LIFO expense for the nine months ended September 30, 2010, compared to LIFO income of \$26.2 million for the nine months ended September 30, 2009. Based on current expectations of inventory levels and costs, the Company expects to recognize approximately \$13 million in LIFO expense for the year ended December 31, 2010. The expected increase in the LIFO reserve for 2010 is a result of higher costs, especially scrap steel costs, as well as higher inventory quantities. A 1.0% increase in costs would increase the current LIFO expense estimate for 2010 by \$4.4 million. A 1.0% increase in inventory quantities would increase the current LIFO expense estimate for 2010 by \$0.2 million.

*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 losses included in the Company's operating results for the third quarter of 2010 were \$3.0 million, compared to a loss of \$2.5 million during the third quarter of 2009. Foreign currency exchange gains included in the Company's operating results for the nine months ended September 30, 2010 were \$2.3 million, compared to a gain of \$2.9 million during the nine months ended September 30, 2009. For the nine months ended September 30, 2010, the Company recorded a negative non-cash foreign currency translation adjustment of \$5.8 million that decreased shareholders' equity, compared to a positive non-cash foreign currency translation adjustment of \$54.3 million that increased shareholders' equity for the nine months ended September 30, 2009. The foreign currency translation adjustments for the nine months ended September 30, 2010 were negatively impacted by the strengthening of the U.S. dollar relative to other currencies such as the Euro and the Chinese yuan.

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Forward-Looking Statements

Certain statements set forth in this document (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, the Management's Discussion and Analysis contains numerous forward-looking statements. 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 important factors, such as:

- a) continued weakness in world economic conditions, including additional adverse effects from the global economic slowdown, terrorism or hostilities. This includes, but is not limited to, 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;
- b) 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 the 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;
- c) 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;
- d) 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; higher cost and 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;
- e) the success of the Company's operating plans, including its ability to achieve the benefits from its ongoing continuous improvement and rationalization programs; the ability of acquired companies to achieve satisfactory operating results; 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;
- f) unanticipated litigation, claims or assessments. This includes, but is not limited to, claims or problems related to intellectual property, product liability or warranty, environmental issues, and taxes;
- g) changes in worldwide financial markets, including availability of financing and interest rates to the extent they affect the Company's ability to raise capital or increase the Company's cost of funds, have an impact on the overall performance of the Company's pension fund investments and/or cause changes in the global economy and financial markets which affect customer demand and the ability of customers to obtain financing to purchase the Company's products or equipment which contains the Company's products; and
- h) those items identified under Item 1A. Risk Factors in this document, in the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and in the Annual Report on Form 10-K for the year ended December 31, 2009. Additional risks relating to the Company's business, the industries in which the Company operates or the Company's common stock may be described from time to time in the Company's filings with the SEC. 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.

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.

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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, 2009. 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.

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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 is not expected to have a materially 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, 2009 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 include 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, 2009 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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

Issuer of Purchases of Common Stock

The following table provides information about purchases by the Company during the quarter ended September 30, 2010 of its common stock.

| 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⁾ |
|------------------|---|--|---|---|
| 7/1/10 - 7/31/10 | 1,284 | \$33.88 | - | 3,000,000 |
| 8/1/10 - 8/31/10 | 19,821 | 34.74 | - | 3,000,000 |
| 9/1/10 - 9/30/10 | 4,734 | 37.27 | - | 3,000,000 |
| Total | 25,839 | \$35.16 | - | 3,000,000 |

(1) Represents shares of the Company's common stock 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 stock 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) Pursuant to the Company's 2006 common stock purchase plan, the Company may purchase up to four million shares of common stock at an amount not to exceed \$180 million in the aggregate.

The Company may purchase shares under its 2006 common stock purchase plan until December 31, 2012. 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.

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Item 6. Exhibits

- 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, 2010, filed on November 4, 2010, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements tagged as blocks of text.

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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 : November 4, 2010

By /s/ James W. Griffith

James W. Griffith
President, Chief Executive Officer and
Director
(Principal Executive Officer)

Date : November 4, 2010

By /s/ Glenn A. Eisenberg

Glenn A. Eisenberg
Executive Vice President Finance and
Administration (Principal Financial
Officer)