TIMKEN CO
Form 10-Q
November 02, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission file number: 1-1169

THE TIMKEN COMPANY

(Exact name of registrant as specified in its charter)

OHIO (State or other jurisdiction of incorporation or organization)	**34-0577130** (I.R.S. Employer Identification No.)
1835 Dueber Ave., SW, Canton, OH (Address of principal executive offices)	**44706-2798** (Zip Code)

330.438.3000

(Registrant s telephone number, including area code)

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

Yes [x] 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 [x] 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 [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

(Do not check if a 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 [x]

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, 2011
Common Stock, without par value	97,650,484 shares

THE TIMKEN COMPANY AND SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
(Dollars in millions, except per share data)				
Net sales	**$ 1,321.8**	$ 1,059.7	**$ 3,905.5**	$ 2,984.8
Cost of products sold	**978.5**	794.6	**2,878.4**	2,228.7
Gross Profit	**343.3**	265.1	**1,027.1**	756.1
Selling, general and administrative expenses	**155.1**	140.3	**459.1**	414.0
Impairment and restructuring charges	**1.2**	2.9	**8.5**	9.4
Operating Income	**187.0**	121.9	**559.5**	332.7
Interest expense	**(9.1)**	(9.1)	**(28.2)**	(28.7)
Interest income	**1.5**	0.8	**4.4**	2.3
Other income (expense), net	**2.9**	(2.8)	**1.6**	(0.7)
Income From Continuing Operations Before Income Taxes	**182.3**	110.8	**537.3**	305.6
Provision for income taxes	**70.1**	38.6	**189.0**	122.7
Income From Continuing Operations	**112.2**	72.2	**348.3**	182.9
Loss (income) from discontinued operations, net of income taxes	**-**	(1.1)	**-**	3.4
Net Income	**112.2**	71.1	**348.3**	186.3
Less: Net income attributable to noncontrolling interest	**1.2**	0.8	**3.1**	1.8
Net Income Attributable to The Timken Company	**$ 111.0**	$ 70.3	**$ 345.2**	$ 184.5
Amounts Attributable to The Timken Company s				
Common Shareholders:				
Income from continuing operations, net of income taxes	**$ 111.0**	$ 71.4	**$ 345.2**	$ 181.1
Loss (income) from discontinued operations, net of income taxes	**-**	(1.1)	**-**	3.4
Net Income Attributable to The Timken Company	**$ 111.0**	$ 70.3	**$ 345.2**	$ 184.5
Net Income per Common Share Attributable to				
The Timken Company s Common Shareholders				
Earnings per share - Continuing Operations	**$ 1.13**	$ 0.74	**$ 3.53**	$ 1.87
Earnings (loss) per share - Discontinued Operations	**-**	(0.01)	**-**	0.04
Basic earnings per share	**$ 1.13**	$ 0.73	**$ 3.53**	$ 1.91
Diluted earnings per share - Continuing Operations	**$ 1.12**	$ 0.73	**$ 3.48**	$ 1.86
Diluted earnings (loss) per share - Discontinued Operations	**-**	(0.01)	**-**	0.03
Diluted earnings per share	**$ 1.12**	$ 0.72	**$ 3.48**	$ 1.89

Dividends per share	**$**	**0.20**	$	0.13	**$**	**0.58**	$	0.35

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in millions, except share data)	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 402.9**	$ 877.1
Restricted cash	**3.6**	-
Accounts receivable, less allowances: 2011 - $20.1 million; 2010 - $27.6 million	**715.9**	516.6
Inventories, net	**949.2**	828.5
Deferred income taxes	**99.5**	100.4
Deferred charges and prepaid expenses	**11.7**	11.3
Other current assets	**83.7**	65.3
Total Current Assets	**2,266.5**	2,399.2
Property, Plant and Equipment - Net	**1,242.5**	1,267.7
Other Assets		
Goodwill	**283.7**	224.4
Other intangible assets	**230.7**	129.2
Deferred income taxes	**55.3**	121.5
Other non-current assets	**44.3**	38.4
Total Other Assets	**614.0**	513.5
Total Assets	**$ 4,123.0**	$ 4,180.4
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt	**$ 14.6**	$ 22.4
Accounts payable	**308.4**	263.5
Salaries, wages and benefits	**229.1**	233.4
Income taxes payable	**96.4**	14.0
Deferred income taxes	**1.0**	0.7
Other current liabilities	**189.6**	177.6
Current portion of long-term debt	**6.6**	9.6
Total Current Liabilities	**845.7**	721.2
Non-Current Liabilities		
Long-term debt	**490.9**	481.7
Accrued pension cost	**89.7**	394.5
Accrued postretirement benefits cost	**395.6**	531.2
Deferred income taxes	**5.5**	6.0
Other non-current liabilities	**70.9**	104.0
Total Non-Current Liabilities	**1,052.6**	1,517.4
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) (2011 - 98,375,135 shares; 2010 - 98,153,317 shares)		
Stated capital	**53.1**	53.1
Other paid-in capital	**885.9**	881.7
Earnings invested in the business	**1,915.0**	1,626.4
Accumulated other comprehensive loss	**(619.4)**	(624.7)
Treasury shares at cost (2011 - 724,651 shares; 2010 - 350,201 shares)	**(29.9)**	(11.5)
Total Shareholders Equity	**2,204.7**	1,925.0
Noncontrolling interest	**20.0**	16.8
Total Equity	**2,224.7**	1,941.8
Total Liabilities and Equity	**$ 4,123.0**	$ 4,180.4

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
(Dollars in millions)		
CASH PROVIDED (USED)		
Operating Activities		
Net income attributable to The Timken Company	**$ 345.2**	$ 184.5
Earnings from discontinued operations	**-**	(3.4)
Net income attributable to noncontrolling interest	**3.1**	1.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**142.9**	142.2
Impairment charges	**3.3**	2.0
(Gain) loss on sale of assets	**(0.4)**	3.7
Gain on divestiture	**(0.5)**	-
Deferred income tax provision	**48.7**	15.3
Stock-based compensation expense	**13.1**	12.1
Pension and other postretirement expense	**55.8**	69.0
Pension and other postretirement benefit contributions and payments	**(445.2)**	(164.4)
Changes in operating assets and liabilities:		
Accounts receivable	**(187.9)**	(140.9)
Inventories	**(122.2)**	(95.2)
Trade accounts payable	**39.3**	100.4
Other accrued expenses	**(2.3)**	45.8
Income taxes	**52.6**	131.5
Other - net	**(12.9)**	5.6
Net Cash (Used) Provided by Operating Activities - Continuing Operations	**(67.4)**	310.0
Net Cash Provided by Operating Activities - Discontinued Operations	**-**	3.4
Net Cash (Used) Provided By Operating Activities	**(67.4)**	313.4
Investing Activities		
Capital expenditures	**(106.0)**	(61.2)
Acquisitions (net of cash acquired)	**(198.9)**	(16.1)
Proceeds from disposals of property, plant and equipment	**5.7**	1.0
Divestitures	**4.8**	-
Investments in short-term marketable securities	**(23.9)**	(30.0)
Other	**0.8**	(0.9)
Net Cash Used by Investing Activities	**(317.5)**	(107.2)
Financing Activities		
Cash dividends paid to shareholders	**(56.6)**	(33.8)
Net proceeds from common share activity	**23.4**	29.5
Purchase of treasury shares	**(43.8)**	(29.2)
Proceeds from issuance of long-term debt	**9.3**	15.4
Payments on long-term debt	**(4.0)**	(12.6)
Short-term debt activity - net	**(7.3)**	(22.2)
Increase in restricted cash	**(3.6)**	-
Other	**(3.5)**	(3.5)
Net Cash Used by Financing Activities	**(86.1)**	(56.4)

Effect of exchange rate changes on cash	**(3.2)**	(5.5)
(Decrease) Increase In Cash and Cash Equivalents	**(474.2)**	144.3
Cash and cash equivalents at beginning of year	**877.1**	755.5
Cash and Cash Equivalents at End of Period	**$ 402.9**	$ 899.8

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(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 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, 2010. Certain amounts in the 2010 Consolidated Financial Statements have been reclassified to conform to the 2011 presentation.

Note 2 New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* which includes new accounting guidance for the periodic testing of goodwill for impairment. This guidance allows companies to assess qualitative factors to determine if goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This new guidance is effective for the Company beginning after December 31, 2011, with early adoption permitted. Management is currently evaluating the impact of the new guidance on the Company s results of operations and financial condition.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income,* which includes new accounting rules related to the presentation of comprehensive income. The new accounting rules require that entities present a statement of other comprehensive income within the consolidated financial statements in one of two manners: a single statement approach or a two-statement approach. The single statement approach consists of a single statement presenting the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income. The two-statement approach allows for the components of net income and total net income to be presented in a financial statement, immediately followed by another financial statement presenting the components of other comprehensive income and a total for comprehensive income. The new accounting rules are effective, on a retrospective basis, for fiscal years beginning after December 15, 2011. The adoption of the new accounting rules related to the presentation of other comprehensive income is not expected to have a material impact on the Company s results of operations and financial condition, but it will affect how the Company reports other comprehensive income. Management is currently evaluating which presentation method to adopt after the new rules are effective.

In May 2011, the FASB issued new accounting guidance updating ASU No. 2011-04**,** *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new accounting rules do not extend the use of fair value accounting; they only provide additional guidance on the application and disclosure of fair value accounting where its use is currently permitted. The new accounting rules also expand the required disclosures about fair value measurement. The provisions for the new accounting rules are effective, on a prospective basis, for interim and fiscal periods beginning after December 15, 2011. The adoption of the new accounting rules for fair value measurements is not expected to have a material impact on the Company s results of operations and financial condition.

Note 3 Inventories

	September 30, 2011	December 31, 2010
Inventories, net:		
Manufacturing supplies	**$ 60.6**	$ 57.9
Work in process and raw materials	**455.8**	371.9
Finished products	**432.8**	398.7
Total Inventories, net	**$ 949.2**	$ 828.5

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 because they are subject to the final year-end LIFO inventory valuation. The LIFO reserve at September 30, 2011 and December 31, 2010 was $288.4 million and $264.6 million, respectively. The Company recognized an increase in its LIFO reserve of $8.1 million and $23.8 million during the third quarter and first nine months of 2011, respectively, compared to an increase in its LIFO reserve of $3.6 million and $10.2 million during the third quarter and first nine months of 2010, respectively.

Based on current projections of inventory levels and costs, the Company expects to recognize approximately $32 million in LIFO expense for the year ended December 31, 2011. The expected increase in the LIFO reserve is a result of higher costs, especially scrap steel costs, as well as higher quantities. A 1.0% increase in costs would increase the current LIFO expense estimate for 2011 by $5.7 million. A 1.0% increase in inventory quantities would have no effect on the current LIFO expense estimate for 2011.

Note 4 Property, Plant and Equipment

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

	September 30, 2011	December 31, 2010
Property, Plant and Equipment:		
Land and buildings	**$ 634.8**	$ 623.2
Machinery and equipment	**2,890.4**	2,830.8
Subtotal	**3,525.2**	3,454.0
Less allowances for depreciation	**(2,282.7)**	(2,186.3)
Property, Plant and Equipment - net	**$ 1,242.5**	$ 1,267.7

At September 30, 2011 and December 31, 2010, machinery and equipment included approximately $90.3 million and $99.7 million, respectively, of capitalized software. Depreciation expense for the three months ended September 30, 2011 and 2010 was $44.6 million and $44.5 million, respectively. Depreciation expense for the first nine months ended September 30, 2011 and 2010 was $133.7 million and $134.6 million, respectively. Depreciation expense on capitalized software for the three months ended September 30, 2011 and 2010 was approximately $6.7 million and $4.7 million, respectively. Depreciation expense on capitalized software for the nine months ended September 30, 2011 and 2010 was approximately $17.2 million and $12.6 million, respectively.

Note 5 Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2011 is as follows:

	Process Industries	Aerospace and Defense	Steel	Total
Beginning Balance	$ 50.0	$ 162.3	$ 12.1	$ 224.4
Acquisitions	59.2	-	-	59.2
Other	(0.4)	-	0.5	0.1
Ending Balance	$ 108.8	$ 162.3	$ 12.6	$ 283.7

The change related to acquisitions primarily reflects the preliminary purchase price allocation for the acquisition of the assets of Philadelphia Gear Corp. (Philadelphia Gear) completed on July 1, 2011. Other primarily includes foreign currency translation adjustments.

The following table displays intangible assets as of September 30, 2011 and December 31, 2010:

	As of September 30, 2011			As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	$ 163.8	$ 23.3	$ 140.5	$ 82.0	$ 18.6	$ 63.4
Engineering drawings	2.0	2.0	-	2.0	2.0	-
Know-how	17.1	1.3	15.8	2.1	1.0	1.1
Industrial license agreements	0.1	0.1	-	0.4	0.1	0.3
Land-use rights	8.5	3.7	4.8	8.2	3.3	4.9
Patents	4.4	3.5	0.9	4.4	3.3	1.1
Technology use	38.8	8.0	30.8	39.0	6.3	32.7
Trademarks	18.0	5.5	12.5	6.0	5.0	1.0
PMA licenses	8.8	3.0	5.8	8.8	2.7	6.1
Non-compete agreements	4.7	2.3	2.4	2.7	1.9	0.8
Unpatented technology	7.6	6.6	1.0	7.6	6.0	1.6
	$ 273.8	$ 59.3	$ 214.5	$ 163.2	$ 50.2	$ 113.0
Intangible assets not subject to amortization:						
Tradename	$ 2.0		$ 2.0	$ 2.0		$ 2.0
FAA air agency certificates	14.2		14.2	14.2		14.2
	$ 16.2		$ 16.2	$ 16.2		$ 16.2
Total intangible assets	$ 290.0	$ 59.3	$ 230.7	$ 179.4	$ 50.2	$ 129.2

Amortization expense for intangible assets for the three months and nine months ended September 30, 2011 was $4.6 million and $9.2 million, respectively. 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 $13.5 million for 2011; $17.0 million in 2012; $15.6 million in 2013; $15.4 million in 2014 and $15.4 million in 2015.

Note 6 Financing Arrangements

Short-term debt at September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011	December 31, 2010
Variable-rate lines of credit for certain of the Company s foreign subsidiaries with various banks with interest rates ranging from 2.44% to 7.93% and 1.98% to 5.05% at September 30, 2011 and December 31, 2010, respectively	**$ 14.6**	$ 22.4
Short-term debt	**$ 14.6**	$ 22.4

The lines of credit for certain of the Company s foreign subsidiaries provide for borrowings up to $252.7 million. At September 30, 2011, the Company s foreign subsidiaries had borrowings outstanding of $14.6 million and guarantees of $6.2 million, which reduced the availability under these facilities to $231.9 million.

The Company has a $150 million Accounts Receivable Securitization Financing Agreement (Asset Securitization Agreement), which matures November 10, 2012. 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 Asset Securitization Agreement are limited to certain borrowing base calculations. Any amounts outstanding under this Asset Securitization Agreement would be reported in short-term debt on the Company s Consolidated Balance Sheet. As of September 30, 2011, there were no outstanding borrowings under the Asset Securitization Agreement. The cost of this facility, which is the commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statement of Income.

Long-term debt at September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011	December 31, 2010
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%	**249.8**	249.7
Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.12% at September 30, 2011)	**12.2**	12.2
Variable-rate State of Ohio Air Quality Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.35% at September 30, 2011)	**9.5**	9.5
Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 (0.35% at September 30, 2011)	**17.0**	17.0
Variable-rate credit facility with US Bank for Advanced Green Components, LLC, maturing on May 23, 2012 (1.32% at September 30, 2011)	**5.6**	8.3
Other	**28.4**	19.6
	497.5	491.3
Less current maturities	**6.6**	9.6
Long-term debt	**$ 490.9**	$ 481.7

On May 11, 2011, the Company entered into a $500 million Amended and Restated Credit Agreement (Senior Credit Facility). This Senior Credit Facility amended and restated the former senior credit facility, which was due to expire on July 10, 2012. The Senior Credit Facility now

matures on May 11, 2016. At September 30, 2011, the Company had no outstanding borrowings under the 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. Under the Senior Credit Facility, the Company has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2011, the Company was in full compliance with the covenants under the Senior Credit Facility.

Note 6 Financing Arrangements, continued

Advanced Green Components, LLC (AGC) is a joint venture of the Company. As of September 30, 2011, the Company had restricted cash of $3.6 million in a collateral account to secure up to $3.6 million of the indebtedness between AGC and US Bank in the event AGC defaults on its credit facility with US Bank. The $3.6 million collateral account is classified as restricted cash on the Consolidated Balance Sheet as of September 30, 2011.

Certain of the Company s foreign subsidiaries have facilities that also provide for long-term borrowings up to $27.4 million. At September 30, 2011, the Company had borrowings outstanding of $27.4 million, leaving no availability under these long-term facilities.

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, 2011 and the twelve months ended December 31, 2010:

	September 30, 2011	December 31, 2010
Beginning balance, January 1	**$ 8.0**	$ 5.4
Expense	**8.3**	6.0
Payments	**(3.2)**	(3.4)
Ending balance	**$ 13.1**	$ 8.0

The product warranty accrual at September 30, 2011 and December 31, 2010 was included in other current liabilities on the Consolidated Balance Sheet. During the third quarter of 2011, the Aerospace and Defense segment accrued approximately $5 million in warranty expense related to an aftermarket product.

Note 8 Equity

		The Timken Company Shareholders					
	Total	Stated Capital	Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest
Balance at December 31, 2010	$ 1,941.8	$ 53.1	$ 881.7	$ 1,626.4	$ (624.7)	$ (11.5)	$ 16.8
Net income	348.3			345.2			3.1
Foreign currency translation adjustment	(30.7)				(30.7)		
Pension and postretirement liability adjustment (net of income tax of $17.6 million)	34.9				34.9		
Unrealized gain on marketable securities	0.5				0.4		0.1
Change in fair value of derivative financial instruments, net of reclassifications	0.7				0.7		
Total comprehensive income	353.7						
Change in ownership of noncontrolling interest	(0.5)		(0.5)				
Dividends - $0.58 per share	(56.6)			(56.6)			
Tax benefit from compensation	9.5		9.5				
Stock-based compensation expense	13.1		13.1				
Stock purchased at cost	(43.8)					(43.8)	
Stock option exercise activity	16.2		(17.3)			33.5	
Restricted shares (issued) surrendered	(0.3)		(0.6)			0.3	
Shares surrendered for taxes	(8.4)					(8.4)	
Balance at September 30, 2011	**$ 2,224.7**	**$ 53.1**	**$ 885.9**	**$ 1,915.0**	**$ (619.4)**	**$ (29.9)**	**$ 20.0**

The total comprehensive income for the three months ended September 30, 2011 was $52.2 million. The total comprehensive income for the three months and nine months ended September 30, 2010 was $138.9 million and $227.4 million, respectively.

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, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Numerator:				
Income from continuing operations attributable to The Timken Company	**$ 111.0**	$ 71.4	**$ 345.2**	$ 181.1
Less: undistributed earnings allocated to nonvested stock	**0.4**	0.3	**1.3**	0.8
Income from continuing operations available to common shareholders for basic earnings per share and diluted earnings per share	**110.6**	71.1	**343.9**	180.3
Denominator:				
Weighted average number of shares outstanding - basic	**97,489,819**	96,400,593	**97,509,361**	96,373,152
Effect of dilutive options	**996,021**	1,166,124	**1,234,225**	794,491
Weighted average number of shares outstanding, assuming dilution of stock options	**98,485,840**	97,566,717	**98,743,586**	97,167,643
Basic earnings per share from continuing operations	**$ 1.13**	$ 0.74	**$ 3.53**	$ 1.87
Diluted earnings per share from continuing operations	**$ 1.12**	$ 0.73	**$ 3.48**	$ 1.86

The exercise prices for certain stock options that the Company has awarded may exceed the average market price of the Company s common shares. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. There were 697,500 shares of antidilutive stock options outstanding for the three months ended September 30, 2011 and no antidilutive stock options outstanding for the three months ended September 30, 2010. The antidilutive stock options outstanding were 350,167 and 1,307,303 for the nine months ended September 30, 2011 and 2010, respectively.

Note 10 Segment Information

The primary measurement used by management to measure the financial performance of each segment is EBIT (earnings before interest and taxes).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Net sales to external customers:				
Mobile Industries	**$ 441.3**	$ 404.1	**$ 1,349.3**	$ 1,172.0
Process Industries	**328.1**	233.7	**919.7**	650.6
Aerospace and Defense	**81.8**	81.0	**244.4**	255.8
Steel	**470.6**	340.9	**1,392.1**	906.4
	$ 1,321.8	$ 1,059.7	**$ 3,905.5**	$ 2,984.8
Intersegment sales:				
Mobile Industries	**$ 0.3**	$ -	**$ 0.5**	$ -
Process Industries	**0.8**	0.8	**2.5**	2.1
Steel	**30.9**	30.4	**96.0**	73.3
	$ 32.0	$ 31.2	**$ 99.0**	$ 75.4
Segment EBIT:				
Mobile Industries	**$ 65.2**	$ 57.1	**$ 200.0**	$ 165.3
Process Industries	**77.5**	36.8	**214.5**	89.2
Aerospace and Defense	**(1.5)**	2.5	**4.0**	20.5
Steel	**67.1**	41.3	**199.2**	104.2
Total EBIT for reportable segments	**$ 208.3**	$ 137.7	**$ 617.7**	$ 379.2
Unallocated corporate expenses	**(17.5)**	(17.6)	**(55.9)**	(49.8)
Interest expense	**(9.1)**	(9.1)	**(28.2)**	(28.7)
Interest income	**1.5**	0.8	**4.4**	2.3
Intersegment adjustments	**(0.9)**	(1.0)	**(0.7)**	2.6
Income from continuing operations before income taxes	**$ 182.3**	$ 110.8	**$ 537.3**	$ 305.6

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

Note 11 Impairment and Restructuring Charges

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

For the three months ended September 30, 2011:

	00000000 Mobile Industries	00000000 Process Industries	00000000 Aerospace & Defense	00000000 Steel	00000000 Corporate	00000000 Total
Impairment charges	$ -	$ 0.1	$ -	$ -	$ -	$ 0.1
Severance expense and related benefit costs	0.1	-	-	-	-	0.1
Exit costs	0.9	0.1	-	-	-	1.0
Total	$ 1.0	$ 0.2	$ -	$ -	$ -	$ 1.2

For the three months ended September 30, 2010:

	00000000 Mobile Industries	00000000 Process Industries	00000000 Aerospace & Defense	00000000 Steel	00000000 Corporate	00000000 Total
Impairment charges	$ 1.4	$ 0.6	$ -	$ -	$ -	$ 2.0
Severance expense and related benefit costs	-	(0.6)	0.5	-	-	(0.1)
Exit costs	0.7	0.1	0.2	-	-	1.0
Total	$ 2.1	$ 0.1	$ 0.7	$ -	$ -	$ 2.9

For the nine months ended September 30, 2011:

	0000000 Mobile Industries	0000000 Process Industries	0000000 Aerospace & Defense	0000000 Steel	0000000 Corporate	0000000 Total
Impairment charges	$ 0.1	$ 0.3	$ 0.1	$ -	$ -	$ 0.5
Severance expense and related benefit costs	0.2	-	-	-	-	0.2
Exit costs	7.5	0.3	-	-	-	7.8
Total	$ 7.8	$ 0.6	$ 0.1	$ -	$ -	$ 8.5

For the nine months ended September 30, 2010:

	0000000 Mobile Industries	0000000 Process Industries	0000000 Aerospace & Defense	0000000 Steel	0000000 Corporate	0000000 Total
Impairment charges	$ 1.4	$ 0.6	$ -	$ -	$ -	$ 2.0
Severance expense and related benefit costs	1.6	1.0	1.9	(0.1)	0.6	5.0

Exit costs		1.6		0.3		0.5		-		-		2.4
Total	$	4.6	$	1.9	$	2.4	$	(0.1)	$	0.6	$	9.4

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.

Note 11 Impairment and Restructuring, continued

Mobile Industries

In March 2007, the Company announced the closure of its manufacturing facility in Sao Paulo, Brazil. The Company has substantially completed the closure of this facility. Pretax costs associated with the closure could be as high as approximately $60 million, which includes restructuring costs and rationalization costs recorded in cost of products sold and selling, general and administrative expenses. Mobile Industries has incurred pretax costs of approximately $41.8 million as of September 30, 2011. During the third quarter and first nine months of 2011, the Company recorded $0.9 million and $6.9 million, respectively, of exit costs associated with the closure of this facility. The exit costs for the third quarter of 2011 were due to environmental remediation costs, and exits cost for the first nine months of 2011 were due to environmental remediation costs and workers compensation claims for former associates. The Company accrues environmental remediation costs and workers compensation claims when they become probable and estimable. 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 fair value.

Workforce Reductions

In 2009, the Company began the realignment of its organization to improve efficiency and reduce costs as a result of the economic downturn that began during the latter part of 2008. This initiative was completed in 2010. During the first nine months of 2010, the Company recorded $5.3 million of severance and related benefit costs related to this initiative, which included both selling and administrative cost reductions, as well as manufacturing workforce reductions. Of the $5.3 million charge recorded during the first nine months of 2010, $1.9 million related to the Aerospace and Defense segment, $1.6 million related to the Process Industries segment, $1.2 million related to the Mobile Industries segment, and $0.6 million related to Corporate positions.

The following is a rollforward of the consolidated restructuring accrual for the nine months ended September 30, 2011 and the twelve months ended December 31, 2010:

	September 30, 2011	December 31, 2010
Beginning balance, January 1	**$ 22.1**	$ 34.0
Expense	**8.0**	17.0
Payments	**(10.1)**	(28.9)
Ending balance	**$ 20.0**	$ 22.1

The restructuring accrual at September 30, 2011 and December 31, 2010 was included in other current liabilities on the Consolidated Balance Sheets. The accrual at September 30, 2011 included $3.8 million of severance and related benefits, which are expected to be paid by June 2012. The accrual for severance and related benefits at September 30, 2011 primarily related to the closure of the distribution center in Bucyrus, Ohio, which was completed during the third quarter of 2011, and the closure of the manufacturing facility in Sao Paulo, Brazil. The remainder of the restructuring accrual at September 30, 2011 primarily represented environmental exit costs, which are principally related to Sao Paulo, Brazil. As of September 30, 2011, the Company has $13.8 million reserved for environmental matters, of which $9.2 million relates to Sao Paulo, Brazil. The Company adjusts environmental remediation accruals based on the best available estimate of costs to be incurred, the timing and extent of remedial actions required by governmental authorities and the amount of the Company s liability in proportion to other responsible parties. The Company s estimated total liability for this site ranges from a minimum of $9.2 million to a maximum of $19.4 million. It is possible that the estimate may change in the near term.

Note 12 Retirement and Postretirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company s retirement and postretirement benefit plans. The amounts for the three months and nine months ended September 30, 2011 are based on actuarial calculations prepared at December 2010, which were updated during the second quarter of 2011. The net periodic benefit cost recorded for the three months ended and nine months ended September 30, 2011 is the Company s best estimate of each period s proportionate share of the amounts to be recorded for the year ended December 31, 2011.

	Pension Three Months Ended September 30,		**Postretirement Three Months Ended September 30,**	
	2011	2010	**2011**	2010
Components of net periodic benefit cost				
Service cost	**$ 8.0**	$ 8.4	**$ 0.7**	$ 0.5
Interest cost	**39.6**	39.6	**8.1**	8.8
Expected return on plan assets	**(53.7)**	(50.2)	**(1.2)**	-
Amortization of prior service cost (credit)	**2.4**	2.4	**-**	(0.4)
Amortization of net actuarial loss	**14.0**	13.0	**0.7**	1.0
Net periodic benefit cost	**$ 10.3**	$ 13.2	**$ 8.3**	$ 9.9

	Pension Nine Months Ended September 30,		**Postretirement Nine Months Ended September 30,**	
	2011	2010	**2011**	2010
Components of net periodic benefit cost				
Service cost	**$ 24.2**	$ 24.9	**$ 1.9**	$ 1.6
Interest cost	**119.0**	118.6	**24.3**	26.3
Expected return on plan assets	**(161.3)**	(150.3)	**(3.4)**	-
Amortization of prior service cost (credit)	**7.1**	7.1	**(0.2)**	(1.1)
Amortization of net actuarial loss	**42.0**	38.9	**2.2**	3.0
Net periodic benefit cost	**$ 31.0**	$ 39.2	**$ 24.8**	$ 29.8

Note 13 Income Taxes

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Provision for income taxes	**$ 70.1**	$ 38.6	**$ 189.0**	$ 122.7
Effective tax rate	**38.5%**	34.8%	**35.2%**	40.2%

The effective tax rate for the third quarter of 2011 was higher than the U.S. Federal statutory tax rate of 35% as a result of certain discrete tax expense items recognized in the third quarter of 2011 relating to prior tax years, U.S. state and local taxes and the net impact of other items, including the enactment of a new tax law in France (the Amended Finance Act for 2011), partially offset by lower taxes related to non-U.S. earnings and the net impact of U.S. tax benefits, such as the U.S. research tax credit and U.S. manufacturing deduction.

The effective tax rate on 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 for the first nine months of 2011 was higher than the U.S. Federal statutory tax rate of 35% as a result of U.S. state and local taxes and the net impact of other items, including the enactment of the Amended Finance Act for 2011, partially offset by lower taxes related to non-U.S. earnings, and the net impact of U.S. tax benefits, such as the U.S. research tax credit and U.S. manufacturing deduction

The effective tax rate on 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%.

Note 14 Acquisitions

In July 2011, the Company completed the acquisition of the assets of Philadelphia Gear, a leading provider of high-performance gear drives and components with a strong focus on value-added aftermarket capabilities in the industrial and military marine sectors, for $200 million in cash. Based in King of Prussia, Pennsylvania and employing approximately 220 people, Philadelphia Gear had trailing 12-month sales through March 2011 of approximately $85 million. The results of Philadelphia Gear are reported within the Process Industries segment.

The Company has preliminarily allocated the purchase price to the individual assets acquired and liabilities assumed. These valuations are subject to adjustment as additional information is obtained; however, these adjustments are not expected to be material. The results of the operations of Philadelphia Gear are included in the Company s Consolidated Statements of Income for the periods subsequent to the effective date of the acquisition. Pro forma results of the operations are not presented because the effect of the acquisition was not significant to the Company s income from continuing operations and total assets.

Note 14 Acquisitions, continued

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of Philadelphia Gear as of the date of acquisition:

Assets:		
Accounts receivable, net	**$**	**16.9**
Inventories, net		**8.2**
Other current assets		**0.6**
Property, plant and equipment - net		**13.6**
Goodwill		**59.2**
Other intangible assets		**111.4**
Total assets acquired	**$**	**209.9**
Liabilities:		
Accounts payable and other liabilities	**$**	**6.6**
Salaries, wages and benefits		**1.0**
Other current liabilities		**3.4**
Total liabilities assumed	**$**	**11.0**
Net assets acquired	**$**	**198.9**

The following table summarizes the preliminary purchase price allocation for identifiable intangible assets acquired:

		Weighted Average Life
Trade name	12.0	15 years
Know how	15.0	20 years
All customer relationships	82.4	16 years
Non-compete agreements	2.0	5 years
Total intangible assets allocated	$ 111.4	

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, 2011:

	Fair Value at September 30, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$ 402.9	$ 402.9	$ -	$ -
Short-term investments	48.4	48.4	-	-
Foreign currency hedges	1.6	-	1.6	-
Total Assets	$ 452.9	$ 451.3	$ 1.6	$ -
Liabilities:				
Foreign currency hedges	$ 7.7	$ -	$ 7.7	$ -
Total Liabilities	$ 7.7	$ -	$ 7.7	$ -

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

The Company does not believe it has significant concentrations of risk associated with the counterparts to its financial instruments.

Note 15 Fair Value (continued)

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, 2011 using Level 3 inputs:

	Carrying Value	Fair Value Adjustment	Fair Value
Assets held for sale:			
Inventories	$ 4.7	$ (3.2)	$ 1.5
Equity investments	6.9	(2.8)	4.1
Total assets held for sale	$ 11.6	$ (6.0)	$ 5.6
Long-lived assets held and used:			
Fixed Assets	$ 0.5	$ (0.5)	$ -
Total assets	$ 12.1	$ (6.5)	$ 5.6

During the second quarter of 2011, the Company made a strategic decision to exit certain non-strategic aftermarket product lines. The Company plans to exit these product lines within twelve months. The Company wrote-down inventory with a carrying value of $4.7 million to $1.5 million, which reflects management s best estimate of the value it would receive in a sale to a third party given the quantity and timing of the plan to exit these product lines.

The Company s equity investment in International Component Supply LTDA (ICS) was reviewed for impairment during the first quarter of 2011. This equity investment was written down to its fair value of $4.1 million, resulting in an impairment charge of $1.8 million recognized in other expense, net for the first quarter of 2011. The fair value of this investment was based on the estimated sales proceeds to be received from a third party if the Company were to sell its interest in the joint venture. During the second quarter of 2011, the Company sold its investment in ICS for $4.8 million, resulting in a gain of $0.5 million when adjusting for currency. The Company s equity investment in Endorsia International.com (Endorsia) was also reviewed for impairment during the second quarter of 2011. This equity investment was completely written down, resulting in an impairment charge of $1.0 million recognized in other expense, net for the second quarter of 2011. The fair value of this investment was based on the estimated proceeds to be received by the parties that own Endorsia from the liquidation of this joint venture.

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 $495.7 million and $468.7 million at September 30, 2011 and December 31, 2010, respectively. The carrying value of this debt was $427.5 million and $430.4 million at September 30, 2011 and December 31, 2010, respectively.

Note 16 Subsequent Event

In October 2011, the Company completed the acquisition of Drives LLC (Drives), a leading manufacturer of highly engineered drive-chains, roller-chains and conveyor augers for agricultural and industrial markets, for $92 million in cash. Based in Fulton, Illinois and employing approximately 430 people in North America, Drives had trailing 12-month sales of approximately $100 million through June 2011. Sales and EBIT for the Drives business will be reported proportionally between the Mobile Industries and Process Industries segments.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Introduction

The Timken Company (Timken or the Company) designs, manufactures, sells and services highly-engineered anti-friction bearings and assemblies, high-quality alloy steels and power transmission systems, as well as provides a broad spectrum of related products and services. The Company has four operating segments: (1) Mobile Industries; (2) Process Industries; (3) Aerospace and Defense; and (4) Steel. The following is a description of the Company s operating segments:

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

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

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

Steel produces more than 450 grades of carbon and alloy steel, which are sold in both solid and tubular sections in a variety of chemistries, lengths and finishes. This segment s metallurgical expertise and operational capabilities result in solutions for the automotive, industrial and energy sectors. Timken® specialty steels feature prominently in a wide variety of end products including oil country drill pipe, bits and collars, gears, hubs, axles, crankshafts and connecting rods, bearing races and rolling elements, and bushings, fuel injectors and wind energy shafts.

The Company s strategy balances corporate aspirations for sustained growth and optimization of its business portfolio with the objective of generating strong profits and cash flows.

The growth element of this strategy is pursued through differentiation and expansion.

For differentiation, the Company undertakes investments in new technologies to enhance existing products and services and to create new products that capture value for its customers. The Company recently broadened its product offering by introducing new housed bearings, adding to its spherical and cylindrical bearing lines, developing new products and services for the wind energy market sector including a new Timken® UltraWind P1 seal -- and introducing several new grades of steel.

Regarding expansion, the Company s strategy is to grow in attractive sectors, with particular emphasis on those industrial markets that test the limits of the Company s products and create significant aftermarket demand, thereby providing a lifetime of opportunity in both product sales and services. The Company s strategy also encompasses expanding its portfolio in new geographic spaces with an emphasis in Asia. The Company s acquisition strategy is directed at complementing its existing portfolio and expanding the Company s market position.

Simultaneously, the Company works to optimize its existing business with specific initiatives aimed at transformation and execution. This includes transforming the overall portfolio of businesses and products to create further value and profitability, which can include addressing or repositioning underperforming product lines and segments, revising market sector or geographic strategies and divesting non-strategic assets.

The Company drives execution by embracing a continuous improvement culture that is charged with lowering costs, increasing efficiency, encouraging organizational agility and building greater brand equity.

The following items highlight certain of the Company s recent significant strategic accomplishments:

As of October 1, 2011, the Company completed the acquisition of privately-held Drives LLC (Drives) for $92 million. Drives is a leading manufacturer of highly engineered drive-chains, roller-chains and conveyor augers for the agricultural and industrial marketplace. Based in Fulton, Illinois, Drives employs 430 associates and had trailing 12-month sales through June 2011 of approximately $100 million. Sales and EBIT for the Drives business will be reported proportionally between the Mobile Industries and Process Industries segments.

In August 2011, the Company and The University of Akron announced an open-innovation agreement to accelerate technology. The two organizations plan to combine their expertise in materials and surface engineering at newly established laboratories in The University of Akron s College of Engineering.

In August 2011, the Company announced that it is evaluating an investment of approximately $225 million at its Faircrest steel plant in Canton, Ohio. The proposed improvements are expected to increase capacity, expand product range and strengthen the competitiveness of Timken s alloy specialty steel bars business. A ladle refiner and a new large-bloom continuous caster would be key components of this investment and would likely target production in 2014. The investment is expected to increase Faircrest s shipping capacity by approximately 25 percent. The Company has entered into preliminary discussions with United Steelworkers of America Local 1123, as well as suppliers and government agencies, to determine whether it can achieve support to move forward on the project.

In July 2011, the Company broke ground on an 18,000 square foot Wind Energy Research and Development Center in Canton, Ohio on the Stark State College campus. This new center will be focused on advanced development of bearing systems in wind turbines.

On July 1, 2011, the Company acquired the assets of Philadelphia Gear Corp. (Philadelphia Gear), a leading provider of high-performance gear drives and components with a strong focus on value-added aftermarket capabilities in the industrial and military marine sectors, for $200 million. Based in King of Prussia, Pennsylvania and employing approximately 220 associates, Philadelphia Gear had trailing 12-month sales through March 2011 of approximately $85 million. Philadelphia Gear is included in the Process Industries segment.

Overview:

	Three Months Ended			
	September 30,			
	2011	2010	$ Change	% Change
Net sales	**$ 1,321.8**	$ 1,059.7	$ 262.1	24.7%
Income from continuing operations	**112.2**	72.2	40.0	55.4%
Loss from discontinued operations	**-**	(1.1)	1.1	100.0%
Income attributable to noncontrolling interest	**1.2**	0.8	0.4	50.0%
Net income attributable to The Timken Company	**111.0**	70.3	40.7	57.9%
Diluted earnings per share:				
Continuing operations	**$ 1.12**	$ 0.73	$ 0.39	53.4%
Discontinued operations	**-**	(0.01)	$ 0.01	100.0%
Diluted earnings per share	**$ 1.12**	$ 0.72	$ 0.40	55.6%
Average number of shares - diluted	**98,485,840**	97,566,717	-	0.9%

	Nine Months Ended			
	September 30,			
	2011	2010	$ Change	% Change
Net sales	**$ 3,905.5**	$ 2,984.8	$ 920.7	30.8%
Income from continuing operations	**348.3**	182.9	165.4	90.4%
Income from discontinued operations	**-**	3.4	(3.4)	(100.0)%
Income attributable to noncontrolling interest	**3.1**	1.8	1.3	72.2%
Net income attributable to The Timken Company	**345.2**	184.5	160.7	87.1%
Diluted earnings per share:				
Continuing operations	**$ 3.48**	$ 1.86	$ 1.62	87.1%
Discontinued operations	**-**	0.03	(0.03)	(100.0)%
Diluted earnings per share	**$ 3.48**	$ 1.89	$ 1.59	84.1%
Average number of shares - diluted	**98,743,586**	97,167,643	-	1.6%

The Company reported net sales for the third quarter of 2011 of $1.3 billion, compared to $1.1 billion in the third quarter of 2010, an increase of 24.7%. Higher sales for the third quarter of 2011 were primarily driven by strong demand from all business segments except the Aerospace and Defense segment, as well as higher surcharges, pricing and the impact of acquisitions. For the third quarter of 2011, net income per diluted share was $1.12, compared to $0.72 per diluted share for the third quarter of 2010. The Company s net income for the third quarter of 2011 reflects continued improvement in the end market sectors served by the Mobile Industries, Process Industries and Steel segments. In addition, results for the third quarter of 2011 reflect higher surcharges and pricing and the impact of acquisitions, partially offset by higher raw material costs and selling, general and administrative expenses.

Net sales for the first nine months of 2011 were $3.9 billion, compared to $3.0 billion in the first nine months of 2010, an increase of 30.8%. Higher sales for the first nine months of 2011 were primarily driven by strong demand from all business segments except the Aerospace and Defense segment, as well as higher surcharges, pricing, the impact of acquisitions and the effect of currency rate changes. For the first nine

months of 2011, net income per diluted share was $3.48, compared to $1.89 per diluted share for the first nine months of 2010. The Company s net income for the first nine months of 2011 reflects continued improvement in the end market sectors served by the Mobile Industries, Process Industries and Steel segments. In addition, results of the first nine months of 2011 reflect higher surcharges and pricing and the impact of acquisitions, partially offset by higher raw material and logistics costs and selling, general and administrative expenses. Results for the first nine months of 2010 reflect a one-time charge of $21.6 million to record the deferred tax impact of the U.S. Patient Protection and Affordable Care Act (as amended) enacted in the first quarter of 2010.

The income from discontinued operations recognized in the first nine months of 2010 was the result of working capital adjustments related to the divestiture of the Company s Needle Roller Bearings (NRB) operations, which was completed on December 31, 2009.

Outlook

The Company s outlook for 2011 reflects improved market conditions compared to 2010. The Company expects sales for the full-year to be approximately 25% to 30% higher than in 2010, primarily driven by stronger sales volume in all segments except the Aerospace and Defense segment, as well as the impact of the Philadelphia Gear and Drives acquisitions. The Company expects to leverage sales growth to drive improved operating performance for 2011, compared to 2010. However, the improved margins will be partially offset by slightly higher selling, general and administrative expenses to support increased sales.

The Company expects to generate cash from operations of approximately $210 million in 2011, which is a decrease of 33% from 2010. The decrease is due to higher working capital requirements to support increased sales volume, as well as higher pension and other postretirement benefit contributions, partially offset by improved profitability across all segments except the Aerospace and Defense segment. Pension and other postretirement contributions are expected to be approximately $420 million in 2011, compared to $230 million in 2010. The Company expects to increase capital expenditures to approximately $200 million in 2011, compared to $115 million in 2010. Dividends are also expected to increase to approximately $75 million in 2011, compared to $51 million in 2010, reflecting the full-year impact of the current quarterly dividend that was increased in the second quarter of 2011 to a rate of $0.20 per share.

Sales by Segment:

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Mobile Industries	**$ 441.3**	$ 404.1	$ 37.2	9.2%
Process Industries	**328.1**	233.7	94.4	40.4%
Aerospace and Defense	**81.8**	81.0	0.8	1.0%
Steel	**470.6**	340.9	129.7	38.0%
Total Company	**$ 1,321.8**	$ 1,059.7	$ 262.1	24.7%

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Mobile Industries	**$ 1,349.3**	$ 1,172.0	$ 177.3	15.1%
Process Industries	**919.7**	650.6	269.1	41.4%

Aerospace and Defense	**244.4**	255.8	(11.4)	(4.5)%
Steel	**1,392.1**	906.4	485.7	53.6%
Total Company	**$ 3,905.5**	$ 2,984.8	$ 920.7	30.8%

Net sales for the third quarter of 2011 increased $262.1 million, or 24.7%, compared to the third quarter of 2010, due to higher volume of approximately $105 million, primarily driven by Mobile Industries off-highway and rail market sectors, increases in Process Industries distribution channel s demand and the Steel segment. In addition, the increase reflects higher surcharges of approximately $50 million, pricing and favorable sales mix of approximately $50 million, the impact of acquisitions of approximately $45 million, and the effect of currency rate changes of approximately $15 million. The favorable impact of acquisitions in the third quarter of 2011 was primarily due to the acquisition of Philadelphia Gear.

Net sales for the first nine months of 2011 increased $920.7 million, or 30.8%, compared to the first nine months of 2010, primarily due to higher volume of approximately $480 million across all business segments except the Aerospace and Defense segment. In addition, the increase in sales reflects higher surcharges of approximately $180 million, pricing and favorable sales mix of approximately $145 million, the impact of acquisitions of approximately $60 million and the effect of currency rate changes of approximately $55 million. The favorable impact from acquisitions for the first nine months of 2011 was due to the July 2011 acquisition of Philadelphia Gear and the acquisition of QM Bearings and Power Transmission, Inc. (QM Bearings), completed in September 2010.

Gross Profit:

	$0,000.0	$0,000.0	$0,000.0	$0,000.0	$0,000.0
	Three Months Ended September 30,				
	2011	2010	$ Change	% Change	
Gross profit	**$ 343.3**	$ 265.1	$ 78.2	29.5%	
Gross profit % to net sales	**26.0%**	25.0%	-	100	bps

	Nine Months Ended September 30,				
	2011	2010	$ Change	% Change	
Gross profit	**$ 1,027.1**	$ 756.1	$ 271.0	35.8%	
Gross profit % to net sales	**26.3%**	25.3%	-	100	bps

Gross profit increased in the third quarter of 2011 compared to the third quarter of 2010 primarily due to an increase in surcharges of approximately $50 million, the impact of higher sales volume of approximately $45 million and the impact of pricing of approximately $35 million, partially offset by higher raw material costs of approximately $60 million. Gross profit for the third quarter of 2011 also benefited from the impact of acquisitions.

Gross profit increased in the first nine months of 2011 compared to the first nine months of 2010 primarily due to the impact of higher sales volume of approximately $220 million, an increase in surcharges of approximately $180 million and the impact of pricing and sales mix of approximately $150 million, partially offset by higher raw material and logistics costs of approximately $300 million. Gross profit for the first nine months of 2011 also benefited from the impact of acquisitions.

Selling, General and Administrative Expenses:

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Selling, general and administrative expenses	**$ 155.1**	$ 140.3	$ 14.8	10.5%

Selling, general and administrative expenses % to net sales	**11.7%**	13.2%	-	(150)	bps

	Nine Months Ended				
	September 30,				
	2011	2010	$ Change	% Change	
Selling, general and administrative expenses	**$ 459.1**	$ 414.0	$ 45.1	10.9%	
Selling, general and administrative expenses % to net sales	**11.8%**	13.9%	-	(210)	bps

The increase in selling, general and administrative expenses in the third quarter of 2011 compared to the third quarter of 2010 was primarily due to higher salaries and related costs to support higher sales volume, as well as higher expense related to incentive compensation plans of approximately $5 million. In addition, the acquisition of Philadelphia Gear added approximately $5 million of selling, general and administrative expense for the third quarter of 2011.

The increase in selling, general and administrative expenses in the first nine months of 2011 compared to the first nine months of 2010 was primarily due to higher salaries and related costs to support higher sales volume, as well as higher expense related to incentive compensation plans of approximately $15 million. Selling, general and administrative expenses, as a percentage of sales, decreased in the third quarter and first nine months of 2011 compared to the respective periods in 2010 as a result of the Company s ability to effectively leverage these costs against higher sales.

Impairment and Restructuring Charges:

	Three Months Ended		
	September 30,		
	2011	2010	$ Change
Impairment charges	**$ 0.1**	$ 2.0	$ (1.9)
Severance and related benefit costs	**0.1**	(0.1)	0.2
Exit costs	**1.0**	1.0	-
Total	**$ 1.2**	$ 2.9	$ (1.7)

	Nine Months Ended		
	September 30,		
	2011	2010	$ Change
Impairment charges	**$ 0.5**	$ 2.0	$ (1.5)
Severance and related benefit costs	**0.2**	5.0	(4.8)
Exit costs	**7.8**	2.4	5.4
Total	**$ 8.5**	$ 9.4	$ (0.9)

Impairment and restructuring charges decreased $1.7 million in the third quarter of 2011 compared to the third quarter of 2010. The Company recognized $0.9 million of exit costs in the third quarter of 2011 for the former manufacturing facility in Sao Paulo, Brazil relating to environmental remediation costs. Refer to Note 11 Impairment and Restructuring Charges in the Notes to the Consolidated Financial Statements for further detail on the Sao Paulo, Brazil environmental remediation costs. During the third quarter of 2010, the Company recognized $1.1 million in impairment charges related to the former manufacturing facility in Brazil, as well as $0.5 million of environmental exit costs at the site of its former plant in Columbus, Ohio. The Company also recognized $0.5 million of severance and related benefit costs related to

restructuring programs that began in 2009 to realign the Company s organization, improve efficiency and reduce costs. These programs included both selling and administrative cost reductions, as well as manufacturing workforce reductions.

Impairment and restructuring charges decreased slightly in the first nine months of 2011 compared to the first nine months of 2010. The Company recognized $6.9 million of exit costs in the first nine months of 2011 for the former manufacturing facility in Sao Paulo, Brazil relating to environmental remediation costs and workers compensation claims made by former associates. The Company recognized $5.3 million of severance and related benefit costs in the first nine months of 2010 related to restructuring programs that began in 2009 to realign the Company s organization, improve efficiency and reduce costs and an impairment charge of $1.1 million for the former manufacturing facility in Brazil.

Interest Expense and Income:

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Interest expense	**$ 9.1**	$ 9.1	$ -	0.0%
Interest income	**$ (1.5)**	$ (0.8)	$ (0.7)	(87.5)%

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Interest expense	**$ 28.2**	$ 28.7	$ (0.5)	(1.7)%
Interest income	**$ (4.4)**	$ (2.3)	$ (2.1)	(91.3)%

Interest income for the third quarter and the first nine months of 2011, respectively, increased compared to the same periods in the prior year primarily due to higher interest rates on invested cash balances.

Income Tax Expense:

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Income tax expense	**$ 70.1**	$ 38.6	$ 31.5	81.6%
Effective tax rate	**38.5%**	34.8%	-	370 bps

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Income tax expense	**$ 189.0**	$ 122.7	$ 66.3	54.0%
Effective tax rate	**35.2%**	40.2%	-	(500) bps

The effective tax rate for the third quarter of 2011 was higher than the U.S. Federal statutory tax rate of 35% as a result of certain discrete tax expense items recognized in the third quarter of 2011 relating to prior tax years, U.S. state and local taxes and the net impact of other items, including the enactment of a new tax law in France (the Amended Finance Act for 2011), partially offset by lower taxes related to non-U.S. earnings and the net impact of U.S. tax benefits, such as the U.S. research tax credit and U.S. manufacturing deduction.

The change in the effective tax rate compared to the third quarter of 2010 was primarily due to certain discrete tax expense items recognized in the third quarter of 2011 compared to certain discrete tax benefit items recognized in the third quarter of 2010, and the net impact of other items,

including the enactment of the Amended Finance Act for 2011.

The effective tax rate for the first nine months of 2011 was higher than the U.S. Federal statutory tax rate of 35% as a result of U.S. state and local taxes and the net impact of other items, including the enactment of the Amended Finance Act for 2011, partially offset by lower taxes related to non-U.S. earnings, and the net impact of U.S. tax benefits, such as the U.S. research tax credit and U.S. manufacturing deduction.

The change in the effective tax rate compared to the first nine months of 2010 was primarily due to the $21.6 million charge to income tax expense to record the deferred tax impact of the U.S. Patient Protection and Affordable Care Act (as amended) in the first quarter of 2010, partially offset by higher U.S. state and local taxes and the enactment of the Amended Finance Act for 2011.

Business Segments:

Effective January 1, 2011, the primary measurement used by management to measure the financial performance of each segment is EBIT (earnings before interest and taxes). Prior to January 1, 2011, the primary measurement used by management to measure the financial performance of each segment was adjusted EBIT (earnings before interest and taxes, excluding the effect of impairment and restructuring, manufacturing rationalization and integration charges, one-time gains or losses on the disposal of non-strategic assets, allocated receipts received or payments made under the U.S. Continued Dumping Subsidy Offset Act (CDSOA) and gains and losses on the dissolution of subsidiaries). The change in 2011 was primarily due to the completion of most of the Company s previously-announced restructuring initiatives. Segment results for 2010 have been reclassified to conform to the 2011 presentation of segments. Refer to Note 10 Segment Information in the Notes to the Consolidated Financial Statements for the reconciliation of EBIT by segment to consolidated income before income taxes.

The presentations of segment results include a reconciliation of the changes in net sales for each segment reported in accordance with U.S. GAAP to net sales adjusted to remove the effects of acquisitions made in 2011 and 2010 and currency exchange rates. The effects of acquisitions and 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. During the third quarter of 2011, the Company completed the acquisition of substantially all of the assets of Philadelphia Gear, which is part of the Process Industries Segment. During the fourth quarter of 2010, the Company completed the acquisition of substantially all of the assets of City Scrap and Salvage Co. (City Scrap), which is part of the Steel segment. During the third quarter of 2010, the Company completed the acquisition of QM Bearings, which is part of the Process Industries segment. The year 2010 represents the base year for which the effects of currency are measured; as such, currency is assumed to be zero for 2010.

Mobile Industries Segment:

	Three Months Ended September 30,				
	2011	2010	$ Change	% Change	
Net sales, including intersegment sales	**$ 441.6**	$ 404.1	$ 37.5	9.3%	
EBIT	**$ 65.2**	$ 57.1	$ 8.1	14.2%	
EBIT margin	**14.8%**	14.1%	-	70	bps

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 441.6**	$ 404.1	$ 37.5	9.3%
Currency	**7.4**	-	7.4	NM
Net sales, excluding the impact of currency	**$ 434.2**	$ 404.1	$ 30.1	7.4%

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 1,349.8**	$ 1,172.0	$ 177.8	15.2%

EBIT	**$ 200.0**	$ 165.3	$ 34.7	21.0%	
EBIT margin	**14.8%**	14.1%	-	70	bps

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 1,349.8**	$ 1,172.0	$ 177.8	15.2%
Currency	**32.5**	-	32.5	NM
Net sales, excluding the impact of currency	**$ 1,317.3**	$ 1,172.0	$ 145.3	12.4%

The Mobile Industries segment s net sales, excluding the effects of currency rate changes, increased 7.4% for the third quarter of 2011 compared to the third quarter of 2010, due to higher volume of approximately $25 million and higher pricing of approximately $5 million. The increases were seen across most of the Mobile Industries segment s market sectors, led by rail (approximately 35%), off-highway (approximately 30%) and heavy truck (approximately 15%). These increases were partially offset by a decrease in light vehicle (approximately 10%). EBIT increased in the third quarter of 2011 compared to the third quarter of 2010 primarily due to the impact of higher volume of approximately $10 million and higher pricing of approximately $5 million, partially offset by higher raw material costs of approximately $10 million.

The Mobile Industries segment s net sales, excluding the effects of currency rate changes, increased 12.4% for the first nine months of 2011 compared to the first nine months of 2010, primarily due to higher volume of approximately $120 million and pricing and surcharges of approximately $25 million. The increases were seen across most of the Mobile Industries segment s market sectors, led by off-highway (approximately 40%), rail (approximately 30%) and heavy truck (approximately 25%). EBIT was higher in the first nine months of 2011 compared to the first nine months of 2010 primarily due to higher volume of approximately $45 million and the impact of pricing and surcharges of approximately $25 million, partially offset by increased raw material and logistics costs of approximately $40 million.

Sales for the Mobile Industries segment are expected to increase approximately 10% to 15% for the full-year of 2011 compared to 2010, primarily due to higher demand across most of the Mobile Industries market sectors, led by an increase in off-highway (approximately 40%), rail (approximately 35%) and heavy truck (approximately 20%), partially offset by lower light vehicle demand. EBIT for the Mobile Industries segment for the full-year 2011 is expected to increase compared to 2010, primarily due to higher volume and pricing, partially offset by higher raw material costs.

Process Industries Segment:

	Three Months Ended September 30,				
	2011	2010	$ Change	% Change	
Net sales, including intersegment sales	**$ 328.9**	$ 234.5	$ 94.4	40.3%	
EBIT	**$ 77.5**	$ 36.8	$ 40.7	110.6%	
EBIT margin	**23.6%**	15.7%	-	790	bps

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 328.9**	$ 234.5	$ 94.4	40.3%
Acquisitions	**43.3**	-	43.3	NM
Currency	**5.8**	-	5.8	NM
Net sales, excluding the impact of acquisitions and currency	**$ 279.8**	$ 234.5	$ 45.3	19.3%

	Nine Months Ended September 30,				
	2011	2010	$ Change	% Change	
Net sales, including intersegment sales	**$ 922.2**	$ 652.7	$ 269.5	41.3%	
EBIT	**$ 214.5**	$ 89.2	$ 125.3	140.5%	
EBIT margin	**23.3%**	13.7%	-	960	bps

Nine Months Ended

	September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 922.2**	$ 652.7	$ 269.5	41.3%
Acquisitions	**56.3**	-	56.3	NM
Currency	**20.8**	-	20.8	NM
Net sales, excluding the impact of acquisitions and currency	**$ 845.1**	$ 652.7	$ 192.4	29.5%

The Process Industries segment s net sales, excluding the effects of acquisitions and currency rate changes, increased 19.3% in the third quarter of 2011 compared to the same period in the prior year, primarily due to higher volume of approximately $45 million. The higher sales were seen evenly between industrial distributors and original equipment customers. The increase in original equipment sales was led by the gear drive, metals and power generation sectors. EBIT was higher in the third quarter of 2011 compared to the third quarter of 2010, primarily due to the impact of higher volume of approximately $25 million and the impact of acquisitions of approximately $10 million.

The Process Industries segment s net sales, excluding the effects of acquisitions and currency rate changes, increased 29.5% in the first nine months of 2011 compared to the same period in the prior year, primarily due to higher volume of approximately $175 million and pricing and sales mix of approximately $20 million. The higher sales primarily resulted from an approximately 40% increase to industrial distributors. In addition, the Process Industries sales to original equipment customers increased approximately 20%, led by the wind energy and gear drive sectors. EBIT increased in the first nine months of 2011 compared to the first nine months of 2010, primarily due to higher sales volume of approximately $100 million and higher pricing and sales mix of $30 million, partially offset by higher raw material costs of approximately $15 million.

The Company expects sales in the Process Industries segment to increase approximately 35% to 40% for the full-year of 2011 compared to 2010. The increase in sales reflects strengthening global industrial distribution, growth in Asia, the expected impact of the Philadelphia Gear and Drives acquisitions and sales of new product lines. EBIT for the Process Industries segment is expected to increase for the full-year 2011 compared to 2010, primarily due to the impact of higher volume and pricing, as well as the impact of acquisitions, partially offset by higher raw material costs.

Aerospace and Defense Segment:

	Three Months Ended September 30,				
	2011	2010	$ Change	% Change	
Net sales, including intersegment sales	**$ 81.8**	$ 81.0	$ 0.8	1.0%	
EBIT	**$ (1.5)**	$ 2.5	$ (4.0)	(160.0)%	
EBIT margin	**(1.8)%**	3.1%	-	(490)	bps

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 81.8**	$ 81.0	$ 0.8	1.0%
Currency	**0.5**	-	0.5	NM
Net sales, excluding the impact of currency	**$ 81.3**	$ 81.0	$ 0.3	0.4%

	Nine Months Ended September 30,				
	2011	2010	$ Change	% Change	
Net sales, including intersegment sales	**$ 244.4**	$ 255.8	$ (11.4)	(4.5)%	
EBIT	**$ 4.0**	$ 20.5	$ (16.5)	(80.5)%	
EBIT margin	**1.6%**	8.0%	-	(640)	bps

	Nine Months Ended			
	September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 244.4**	$ 255.8	$ (11.4)	(4.5)%
Currency	**2.0**	-	2.0	NM
Net sales, excluding the impact of currency	**$ 242.4**	$ 255.8	$ (13.4)	(5.2)%

The Aerospace and Defense segment s net sales, excluding the impact of currency rate changes, were flat in the third quarter of 2011 compared to the third quarter of 2010, as increased commercial and general aviation demand was offset by lower demand for defense-related products. EBIT for the third quarter of 2011 declined compared to the third quarter of 2010, as the benefit from improved commercial and general aviation demand was more than offset by a product warranty charge of approximately $5 million.

The Aerospace and Defense segment s net sales, excluding the impact of currency rate changes, decreased 5.2% in the first nine months of 2011 compared to the first nine months of 2010, primarily due to a decrease in volume. The decrease in volume was driven by reduced demand from defense, partially offset by increased demand in commercial aerospace. EBIT declined for the first nine months of 2011 compared to the first nine months of 2010 primarily due to the impact of lower volume and mix of approximately $10 million, a product warranty charge of approximately $5 million and an inventory write-down of approximately $3 million.

The Company expects the Aerospace and Defense segment to experience a slight decrease in sales for the full-year of 2011 compared to 2010, as a result of lower demand for the Company s defense-related products, partially offset by increases in commercial aerospace, general aviation and health and positioning control market sectors. EBIT for the full-year 2011 is expected to decrease from 2010 levels, as a result of stronger commercial aerospace and general aviation demand being offset by weakness in defense demand.

Steel Segment:

	Three Months Ended September 30,				
	2011	2010	$ Change	% Change	
Net sales, including intersegment sales	**$ 501.5**	$ 371.3	$ 130.2	35.1%	
EBIT	**$ 67.1**	$ 41.3	$ 25.8	62.5%	
EBIT margin	**13.4%**	11.1%	-	230	bps

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Net sales, including intersegment sales	**$ 501.5**	$ 371.3	$ 130.2	35.1%
Acquisitions	**1.8**	-	1.8	