

TIMKEN CO  
Form 10-Q  
October 28, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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 34-0577130  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

4500 Mount Pleasant Street NW 44720-5450  
North Canton, Ohio  
(Address of principal executive offices) (Zip Code)

234.262.3000  
(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  Smaller reporting company

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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, 2015
Common Shares, without par value	82,993,555 shares

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## THE TIMKEN COMPANY AND SUBSIDIARIES

## Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Dollars in millions, except per share data)				
Net sales	\$707.4	\$788.0	\$2,157.9	\$2,314.0
Cost of products sold	512.0	562.5	1,554.9	1,636.8
Gross Profit	195.4	225.5	603.0	677.2
Selling, general and administrative expenses	120.7	132.2	375.3	410.8
Impairment and restructuring charges	4.4	99.4	12.0	108.0
Pension settlement charges	3.6	—	223.2	0.7
Operating Income (Loss)	66.7	(6.1)	(7.5)	157.7
Interest expense	(8.6)	(9.1)	(25.0)	(20.4)
Interest income	0.6	1.0	2.0	3.1
Gain on sale of real estate	—	—	—	22.6
Other income (expense), net	(0.8)	1.8	(1.1)	(1.9)
Income (Loss) From Continuing Operations Before Income Taxes	57.9	(12.4)	(31.6)	161.1
Provision (benefit) for income taxes	(6.6)	(2.2)	1.0	53.4
Income (Loss) From Continuing Operations	64.5	(10.2)	(32.6)	107.7
Income (loss) from discontinued operations, net of income taxes	—	(11.0)	—	18.7
Net Income (Loss)	64.5	(21.2)	(32.6)	126.4
Less: Net income attributable to noncontrolling interest	1.1	0.7	2.5	2.1
Net Income (Loss) attributable to The Timken Company	\$63.4	\$(21.9)	\$(35.1)	\$124.3
Amounts attributable to The Timken Company's Common Shareholders				
Income (loss) from continuing operations	\$63.4	\$(10.9)	\$(35.1)	\$105.6
Income (loss) from discontinued operations, net of income taxes	—	(11.0)	—	18.7
Net income (loss) attributable to The Timken Company	\$63.4	\$(21.9)	\$(35.1)	\$124.3
Net Income (Loss) per Common Share attributable to The Timken Company's Common Shareholders				
Earnings (loss) per share - Continuing Operations	\$0.76	\$(0.12)	\$(0.41)	\$1.16
Earnings (loss) per share - Discontinued Operations	—	(0.12)	—	0.21
Basic earnings (loss) per share	\$0.76	\$(0.24)	\$(0.41)	\$1.37
Diluted earnings (loss) per share - Continuing Operations	\$0.75	\$(0.12)	\$(0.41)	\$1.15
Diluted earnings (loss) per share - Discontinued Operations	—	(0.12)	—	0.20
Diluted earnings (loss) per share	\$0.75	\$(0.24)	\$(0.41)	\$1.35
Dividends per share	\$0.26	\$0.25	\$0.77	\$0.75
See accompanying Notes to the Consolidated Financial Statements.				



Consolidated Statements of Comprehensive Income  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
(Dollars in millions)				
Net Income (Loss)	\$64.5	\$(21.2)	\$(32.6)	\$126.4
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(30.9)	(25.9)	(52.1)	(17.6)
Pension and postretirement liability adjustment	13.0	15.4	120.5	1.9
Change in fair value of derivative financial instruments	1.2	(0.7)	0.9	(0.9)
Other comprehensive income (loss), net of tax	(16.7)	(11.2)	69.3	(16.6)
Comprehensive Income (Loss), net of tax	47.8	(32.4)	36.7	109.8
Less: comprehensive income attributable to noncontrolling interest	—	0.2	0.9	2.0
Comprehensive Income (Loss) attributable to The Timken Company	\$47.8	\$(32.6)	\$35.8	\$107.8

See accompanying Notes to the Consolidated Financial Statements.

## Consolidated Balance Sheets

	(Unaudited)	
	September 30, 2015	December 31, 2014
(Dollars in millions)		
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$155.0	\$278.8
Restricted cash	14.8	15.3
Accounts receivable, less allowances (2015 – \$17.2 million; 2014 – \$13.7 million)	469.8	475.7
Inventories, net	595.4	585.5
Deferred income taxes	48.0	49.9
Deferred charges and prepaid expenses	25.1	25.2
Other current assets	70.8	51.5
Total Current Assets	1,378.9	1,481.9
Property, Plant and Equipment, net	783.1	780.5
Other Assets		
Goodwill	327.1	259.5
Non-current pension assets	114.1	176.2
Other intangible assets	277.8	239.8
Deferred income taxes	18.3	11.2
Other non-current assets	47.3	52.3
Total Other Assets	784.6	739.0
Total Assets	\$2,946.6	\$3,001.4
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Short-term debt	\$83.6	\$7.4
Current portion of long-term debt	15.1	0.6
Accounts payable, trade	176.0	143.9
Salaries, wages and benefits	110.0	146.7
Income taxes payable	75.0	80.2
Other current liabilities	145.9	155.0
Total Current Liabilities	605.6	533.8
Non-Current Liabilities		
Long-term debt	625.9	522.1
Accrued pension cost	158.8	165.9
Accrued postretirement benefits cost	130.1	141.8
Deferred income taxes	3.8	4.1
Other non-current liabilities	70.8	44.6
Total Non-Current Liabilities	989.4	878.5
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:		

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Authorized – 200,000,000 shares

Issued (including shares in treasury) (2015 – 98,375,135 shares; 2014 – 98,375,135 shares)

Stated capital	53.1	53.1
Other paid-in capital	901.0	899.4
Earnings invested in the business	1,514.6	1,615.4
Accumulated other comprehensive loss	(411.6	) (482.5
Treasury shares at cost (2015 – 15,381,580 shares; 2014 – 9,783,375 shares)	(722.8	) (509.2
Total Shareholders' Equity	1,334.3	1,576.2
Noncontrolling Interest	17.3	12.9
Total Equity	1,351.6	1,589.1
Total Liabilities and Shareholders' Equity	\$2,946.6	\$3,001.4

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
(Dollars in millions)		
<b>CASH PROVIDED (USED)</b>		
Operating Activities		
Net (loss) income attributable to The Timken Company	\$(35.1	) \$124.3
Net income from discontinued operations	—	(18.7
Net income attributable to noncontrolling interest	2.5	2.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	97.8	103.4
Impairment charges	3.3	98.8
Loss (gain) on sale of assets	2.1	(20.9
Deferred income tax provision	(81.1	) (16.6
Stock-based compensation expense	14.1	18.5
Excess tax benefits related to stock-based compensation	(1.5	) (6.4
Pension and other postretirement expense	251.5	22.5
Pension contributions and other postretirement benefit payments	(23.5	) (47.6
Changes in operating assets and liabilities:		
Accounts receivable	(1.9	) (52.6
Inventories	7.1	(52.1
Accounts payable, trade	27.0	47.3
Other accrued expenses	(56.0	) (7.4
Income taxes	23.5	(31.0
Other, net	16.5	9.2
Net Cash Provided by Operating Activities - Continuing Operations	246.3	172.8
Net Cash Provided by Operating Activities - Discontinued Operations	—	22.6
Net Cash Provided by Operating Activities	246.3	195.4
Investing Activities		
Capital expenditures	(65.1	) (87.1
Acquisitions, net of cash received	(213.6	) (12.0
Proceeds from disposal of property, plant and equipment	11.0	15.1
Investments in short-term marketable securities, net	(0.6	) 3.9
Other	(0.5	) —
Net Cash Used by Investing Activities - Continuing Operations	(268.8	) (80.1
Net Cash Used by Investing Activities - Discontinued Operations	—	(77.0
Net Cash Used by Investing Activities	(268.8	) (157.1
Financing Activities		
Cash dividends paid to shareholders	(65.7	) (68.2
Purchase of treasury shares	(227.9	) (266.5
Proceeds from exercise of stock options	4.0	16.7
Excess tax benefits related to stock-based compensation	1.5	6.4
Proceeds from issuance of long-term debt	225.7	346.2
Deferred financing costs	(2.0	) —
Accounts receivable securitization financing borrowings	116.0	90.0



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Accounts receivable securitization financing payments	(38.0)	) (90.0	)
Payments on long-term debt	(106.1)	) (250.6	)
Short-term debt activity, net	(1.6)	) (9.5	)
Decrease in restricted cash	0.2	—	)
Cash transferred to TimkenSteel Corporation	—	(46.5	)
Other	3.7	(3.1	)
Net Cash Used by Financing Activities - Continuing Operations	(90.2)	) (275.1	)
Net Cash Provided by Financing Activities - Discontinued Operations	—	100.0	)
Net Cash Used by Financing Activities	(90.2)	) (175.1	)
Effect of exchange rate changes on cash	(11.1)	) (9.6	)
Decrease In Cash and Cash Equivalents	(123.8)	) (146.4	)
Cash and cash equivalents at beginning of year	278.8	384.6	)
Cash and Cash Equivalents at End of Period	\$155.0	\$238.2	)
See accompanying Notes to the Consolidated Financial Statements.			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollars in millions, except per share data)

Note 1 - Basis of Presentation

The accompanying Consolidated Financial Statements (unaudited) for The Timken Company (the Company) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by the accounting principles generally accepted in the United States (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to the Consolidated Financial Statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Note 2 - Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction in the carrying value of debt. Prior to the issuance of this new accounting guidance, debt issuance costs were required to be presented in the balance sheet as a deferred charge (i.e., an asset), and only a debt discount was recorded as a direct deduction to the carrying value of debt. This new accounting guidance is effective for annual periods beginning after December 15, 2015. The impact of adopting ASU 2015-03 is not expected to have a material impact on the Company's results of operations or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract. On July 9, 2015, the FASB decided to delay the effective date of this new accounting guidance by one year, which will result in it being effective for annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting ASU 2014-09 on the Company's results of operations or financial condition.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. ASU 2014-08 also requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The adoption of this accounting guidance did not have any impact on the Company's results of operations or financial condition.

## Note 3 - Discontinued Operations

On June 30, 2014, the Company completed the tax-free spinoff of its steel business (the Spinoff) into a separate independent publicly traded company, TimkenSteel Corporation (TimkenSteel). The Company's board of directors declared a distribution of all outstanding common shares of TimkenSteel through a dividend. At the close of business on June 30, 2014, the Company's shareholders received one common share of TimkenSteel for every two common shares of the Company they held as of the close of business on June 23, 2014.

In connection with the Spinoff, the Company and TimkenSteel entered into certain transitional relationships, including a commercial supply agreement for TimkenSteel to supply the Company with certain steel products and other relationships described in the section of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 titled "Risks Relating to the Spinoff of TimkenSteel."

The operating results, net of tax, included one-time transaction costs of \$10.1 million and \$54.7 million in connection with the separation of the two companies for the third quarter and first nine months of 2014, respectively. These costs primarily consisted of consulting and professional fees associated with preparing for and executing the Spinoff, as well as lease cancellation fees.

The following table presents the results of operations for TimkenSteel that have been reclassified to discontinued operations.

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Net sales	\$—	\$786.2
Cost of goods sold	—	642.1
Gross profit	—	144.1
Selling, administrative and general expenses	—	46.3
Separation Costs	10.1	54.7
Interest expense, net	—	0.8
Other expense (income), net	—	(0.1 )
Income (loss) before income taxes	(10.1 )	42.4 )
Income tax expense	(0.9 )	(23.7 )
Income (loss) from discontinued operations	\$(11.0 )	\$18.7 )

## Note 4 - Acquisitions

On September 1, 2015, the Company completed the acquisition of the membership interests of Carlstar Belt LLC (Carlstar Belts) for \$213.7 million, including cash acquired of approximately \$0.1 million. The Company incurred approximately \$1 million of legal and professional fees to acquire Carlstar Belts. Carlstar Belts is a leading North American manufacturer of belts used in industrial, commercial and consumer applications, and sold under multiple brand names, including Carlisle®, Ultimax® and Panther®, among others. The acquisition of Carlstar Belts further diversifies the Company's portfolio beyond engineered bearings, bringing customers an expanded offering of mechanical power transmission products and services. The product portfolio includes more than 20,000 parts that utilize wrap molded, raw edge, v-ribbed and synchronous belt designs. Based in Springfield, Missouri, Carlstar Belts had annual sales of approximately \$140 million for the twelve months ending June 30, 2015, and employs approximately 750 employees. The results of the operations of Carlstar Belts are reported in both the Mobile Industries and Process Industries segments based on customers served.

Pro forma results of operations have not been presented because the effects of the acquisition were not significant to the Company's income from continuing operations before income taxes or total assets in 2015. The following table presents the preliminary purchase price allocations for the acquisition in 2015:

	Initial Purchase Price Allocation
Assets:	
Cash and cash equivalents	\$0.1
Accounts receivable, net	13.3
Inventories, net	48.5
Other current assets	1.1
Property, plant and equipment, net	37.9
Goodwill	69.7
Other intangible assets	63.9
Total assets acquired	\$234.5
Liabilities:	
Accounts payable, trade	\$10.2
Salaries, wages and benefits	1.1
Other current liabilities	1.3
Non-Current Pension Liability	2.3
Non-Current Deferred Tax Liability	5.9
Total liabilities assumed	\$20.8
Net assets acquired	\$213.7

The following table summarizes the preliminary purchase price allocation for identifiable intangible assets acquired in 2015:

	Initial Purchase Price Allocation	Weighted - Average Life
Trade name	\$1.7	11 years
Technology	17.1	20 years
All customer relationships	43.9	20 years
Capitalized Software	1.2	3 years
Total intangible assets	\$63.9	19 years



## Note 5 - Inventories

The components of inventories were as follows:

	September 30, 2015	December 31, 2014
Manufacturing supplies	\$25.7	\$25.0
Raw materials	63.5	51.3
Work in process	212.0	219.3
Finished products	318.2	302.7
Subtotal	619.4	598.3
Allowance for obsolete and surplus inventory	(24.0	)(12.8
Total Inventories, net	\$595.4	\$585.5

Inventories are valued at the lower of cost or market, with approximately 53% valued by the first-in, first-out (FIFO) method and the remaining 47% valued by the last-in, first-out (LIFO) method. The majority of the Company's domestic inventories are valued by the LIFO method and all of the Company's international (outside the United States) inventories are valued by the FIFO method.

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

The LIFO reserves at September 30, 2015 and December 31, 2014 were \$197.1 million and \$199.7 million, respectively. The Company recognized a decrease in its LIFO reserve of \$2.6 million during the first nine months of 2015, compared to a decrease in its LIFO reserve of \$1.7 million during the first nine months of 2014.

## Note 6 - Property, Plant and Equipment

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

	September 30, 2015	December 31, 2014
Land and buildings	\$429.7	\$428.8
Machinery and equipment	1,762.9	1,735.3
Subtotal	2,192.6	2,164.1
Accumulated depreciation	(1,409.5	)(1,383.6
Property, Plant and Equipment, net	\$783.1	\$780.5

Depreciation expense for the nine months ended September 30, 2015 and 2014 was \$70.8 million and \$90.0 million, respectively.

During the fourth quarter of 2014, the Company transferred \$45.7 million of capitalized software from property, plant and equipment to intangible assets. Depreciation expense on the transferred capitalized software for the nine months ended September 30, 2014 was \$8.3 million.

Capitalized interest during the nine months ended September 30, 2015 and 2014 was zero and \$7.3 million, respectively. Capitalized interest of \$5.7 million for the nine months ended September 30, 2014 related to TimkenSteel.



In November 2013, the Company finalized the sale of its former manufacturing site in Sao Paulo, Brazil (Sao Paulo). The Company expects to receive approximately \$31 million over a twenty-four month period, of which \$28.9 million was received as of September 30, 2015. The total cost of this transaction, including the net book value of the real estate and broker's commissions, was approximately \$3 million. The Company began recognizing the gain on the sale of this site using the installment method. In the first quarter of 2014, the Company changed to the full accrual method of recognizing the gain after it had received 25% of the total sales value. As a result, the Company recognized the remaining gain of \$22.6 million (\$19.5 million after tax) related to this transaction during the first quarter of 2014.

#### Assets Held for Sale

During the third quarter of 2015, the Company explored strategic alternatives for its U.S. subsidiary, Timken Alcor Aerospace Technologies, Inc. (Alcor). Alcor is engaged in the design, engineering, sourcing, manufacture and sale of parts and components used in gas turbine engines and helicopter drivetrain applications and filing applications for and obtaining certificates reflecting a Parts Manufacturer Approval (PMA) issued by the United States Federal Aviation Administration (FAA) for such parts and components. The results of the operations of Alcor are reported in the Mobile Industries segment. At September 30, 2015, the assets and liabilities of Alcor were presented as assets held for sale and included in other current assets and other current liabilities, respectively on the Consolidated Balance Sheet.

The following table presents the assets and liabilities classified as assets held for sale at September 30, 2015.

	Assets Held for Sale
Assets:	
Accounts receivable, net	\$2.5
Inventories, net	6.7
Other current assets	0.1
Property, plant and equipment, net	2.0
Other intangible assets	3.6
Total assets	\$14.9
Liabilities:	
Accounts payable, trade	\$0.7
Other current liabilities	0.8
Total liabilities	\$1.5
Net assets held for sale	\$13.4



## Note 7 - Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 were as follows:

	Mobile Industries	Process Industries	Total
Beginning balance	\$89.6	\$169.9	\$259.5
Acquisitions	7.1	62.6	69.7
Other	(0.5)	)(1.6)	)(2.1)
Ending balance	\$96.2	\$230.9	\$327.1

Acquisitions in 2015 relate to the preliminary purchase price allocation for Carlstar Belts completed on September 1, 2015. \$58.8 million of the goodwill acquired for Carlstar Belts is tax-deductible and will be recognized over 15 years for tax purposes. The remaining \$10.9 million is non-deductible for tax purposes. "Other" primarily includes foreign currency translation adjustments.

The following table displays intangible assets as of September 30, 2015 and December 31, 2014:

	As of September 30, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	\$198.8	\$66.4	\$132.4	\$160.1	\$59.0	\$101.1
Know-how	32.7	6.3	26.4	33.4	5.1	28.3
Industrial license agreements	0.1	0.1	—	0.1	0.1	—
Land-use rights	8.5	4.8	3.7	8.7	4.7	4.0
Patents	2.1	2.0	0.1	2.3	2.0	0.3
Technology	53.7	13.3	40.4	37.0	11.9	25.1
Tradenames	6.5	3.1	3.4	5.4	3.0	2.4
PMA licenses	—	—	—	5.3	4.5	0.8
Non-compete agreements	2.7	2.5	0.2	3.5	3.2	0.3
Software	240.7	193.9	46.8	235.0	182.0	53.0
	\$545.8	\$292.4	\$253.4	\$490.8	\$275.5	\$215.3
Intangible assets not subject to amortization:						
Tradenames	\$15.7	\$—	\$15.7	\$15.8	\$—	\$15.8
FAA air agency certificates	8.7	—	8.7	8.7	—	8.7
	\$24.4	\$—	\$24.4	\$24.5	\$—	\$24.5
Total intangible assets	\$570.2	\$292.4	\$277.8	\$515.3	\$275.5	\$239.8

Intangible assets at September 30, 2015 exclude \$3.6 million of intangible assets classified as assets held for sale. See Note 6 - Property, Plant and Equipment for additional information on assets held for sale.

Amortization expense for intangible assets was \$27.0 million and \$13.4 million for the nine months ended September 30, 2015 and 2014, respectively. Amortization expense for intangible assets is estimated to be \$34.4 million in 2015; \$30.3 million in 2016; \$26.1 million in 2017; \$20.8 million in 2018; and \$15.8 million in 2019.



## Note 8 - Financing Arrangements

Short-term debt at September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015	December 31, 2014
Variable-rate Asset Securitization Agreement with interest rate of 0.98% at September 30, 2015	\$78.0	\$—
Borrowings under variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 0.40% to 9.50% at September 30, 2015 and interest rates ranging from 0.51% to 5.13% at December 31, 2014	5.6	7.4
Short-term debt	\$83.6	\$7.4

The lines of credit for certain of the Company's foreign subsidiaries provide for short-term borrowings up to \$222.9 million. Most of these lines of credit are uncommitted. At September 30, 2015, the Company's foreign subsidiaries had borrowings outstanding of \$5.6 million and guarantees of \$5.1 million, which reduced the availability under these facilities to \$212.2 million.

The Company has a \$100 million Amended and Restated Asset Securitization Agreement (Accounts Receivable Facility), which matures on November 30, 2015. Under the terms of the Accounts Receivable Facility, the Company sells, on an ongoing basis, certain accounts receivable to Timken Receivables Corporation, a wholly-owned consolidated subsidiary, that in turn uses the accounts receivable to secure borrowings, which are funded through a vehicle that issues commercial paper in the short-term market. Borrowings under the Accounts Receivable Facility are limited by certain borrowing base calculations. Amounts outstanding under the Accounts Receivable Facility are reported in short-term debt in the Company's Consolidated Balance Sheet. As of September 30, 2015, the Company had \$78.0 million in outstanding borrowings under the Accounts Receivable Facility, which are secured by certain accounts receivable in accordance with the terms of the Accounts Receivable Facility. These borrowings reduced the availability of the Accounts Receivable Facility to zero at September 30, 2015. The cost of this facility, which is the commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statements of Income.

Long-term debt at September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015	December 31, 2014
Fixed-rate Medium-Term Notes, Series A, mature at various dates through May 2028, with interest rates ranging from 6.74% to 7.76%	\$175.0	\$175.0
Fixed-rate Senior Unsecured Notes, maturing on September 1, 2024, with an interest rate of 3.875%	345.1	346.4
Variable-rate Senior Credit Facility with an interest rate of 1.48% at September 30, 2015	120.8	—
Other	0.1	1.3
	\$641.0	\$522.7
Less current maturities	15.1	0.6
Long-term debt	\$625.9	\$522.1

On June 19, 2015, the Company entered into a \$500 million Third Amended and Restated Credit Agreement (Senior Credit Facility). The Senior Credit Facility amended and restated the previous senior credit facility, which was due to expire on May 11, 2016. The Senior Credit Facility now matures on June 19, 2020. At September 30, 2015, the Company had outstanding borrowings of \$120.8 million under the Senior Credit Facility, which reduced the availability to \$379.2 million at September 30, 2015. The Company incurred \$2.0 million of deferred financing costs

in connection with the Senior Credit Facility that will be amortized over life of the facility. Under the Senior Credit Facility, the Company has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2015, the Company was in full compliance with both of these covenants.

On August 20, 2014, the Company issued \$350 million of fixed-rate 3.875% senior unsecured notes that mature on September 1, 2024 (2024 Notes). The Company used the net proceeds from the issuance of the 2024 Notes to repay the Company's fixed-rate 6.00% senior unsecured notes that matured on September 15, 2014 and for general corporate purposes.

## Note 9 - Equity

The changes in the equity components for the nine months ended September 30, 2015 were as follows:

	The Timken Company Shareholders						
	Total	Stated Capital	Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive (Loss)	Treasury Stock	Non-controlling Interest
Balance at December 31, 2014	\$1,589.1	\$53.1	\$899.4	\$1,615.4	\$(482.5)	\$(509.2)	\$12.9
Net (loss) income	(32.6)			(35.1)			2.5
Foreign currency translation adjustment	(52.1)				(50.5)		(1.6)
Pension and postretirement liability adjustment (net of the income tax benefit of \$68.5 million)	120.5				120.5		
Change in fair value of derivative financial instruments, net of reclassifications	0.9				0.9		
Dissolution of joint venture	(0.2)						(0.2)
Investment in joint venture by noncontrolling interest party	3.7						3.7
Dividends – \$0.77 per share	(65.7)			(65.7)			
Excess tax benefit from stock compensation	1.5		1.5				
Stock-based compensation expense	14.1		14.1				
Stock purchased at fair market value	(227.9)					(227.9)	
Stock option exercise activity	4.0		(7.4)			11.4	
Restricted shares (issued) surrendered	0.2		(6.6)			6.8	
Shares surrendered for taxes	(3.9)					(3.9)	
Balance at September 30, 2015	\$1,351.6	\$53.1	\$901.0	\$1,514.6	\$(411.6)	\$(722.8)	\$17.3

On March 6, 2014, Timken Lux Holdings II S.A.R.L, a subsidiary of the Company, entered into a joint venture agreement with Holme Service Limited (joint venture partner). During the first quarter of 2015, the Company and its joint venture partner established TUBC Limited, a Cyprus entity, for the purpose of producing bearings to serve the rail market sector in Russia. During the second quarter of 2015, the Company and its joint venture partner amended and restated the joint venture agreement and contributed \$3.8 million and \$3.7 million, respectively, to TUBC Limited. The Company and its joint venture partner will have a 51% controlling interest and 49% controlling interest, respectively, in TUBC Limited. The Company expects to contribute a total of \$16 million in 2015 and 2016 during phase one of the joint venture agreement.

## Note 10 - Accumulated Other Comprehensive Income (Loss)

The following tables present details about components of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2015, respectively:

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total	
Balance at June 30, 2015	\$(21.4	)\$(373.5	)\$(1.1	)\$(396.0	)
Other comprehensive (loss) income before reclassifications, before income tax	(30.9	)4.2	2.1	(24.6	)
Amounts reclassified from accumulated other comprehensive income, before income tax	—	13.4	(0.2	)13.2	
Income tax (benefit) expense	—	(4.6	)0.7	)5.3	)
Net current period other comprehensive (loss) income, net of income taxes	(30.9	)13.0	1.2	(16.7	)
Non-controlling interest	1.1	—	—	1.1	
Net current period comprehensive (loss) income, net of income taxes and non-controlling interest	(29.8	)13.0	1.2	(15.6	)
Balance at September 30, 2015	\$(51.2	)\$(360.5	)\$0.1	\$(411.6	)

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total	
Balance at December 31, 2014	\$(0.7	)\$(481.0	)\$(0.8	)\$(482.5	)
Other comprehensive (loss) income before reclassifications, before income tax	(52.1	)62.3	)2.1	(112.3	)
Amounts reclassified from accumulated other comprehensive income, before income tax	—	251.3	(0.7	)250.6	
Income tax (benefit) expense	—	(68.5	)0.5	)69.0	)
Net current period other comprehensive (loss) income, net of income taxes	(52.1	)120.5	0.9	69.3	
Non-controlling interest	1.6	—	—	1.6	
Net current period comprehensive (loss) income, net of income taxes and non-controlling interest	(50.5	)120.5	0.9	70.9	
Balance at September 30, 2015	\$(51.2	)\$(360.5	)\$0.1	\$(411.6	)



The following tables present details about components of accumulated other comprehensive loss for the three and the nine months ended September 30, 2014, respectively:

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at June 30, 2014	\$48.5	\$(445.7)	\$(0.6)	\$(397.8)
Other comprehensive (loss) income before reclassifications, before income tax	(25.9)	6.1	(0.1)	(19.9)
Amounts reclassified from accumulated other comprehensive income, before income tax	—	13.5	0.1	13.6
Income tax (benefit) expense	—	(4.2)	(0.7)	(4.9)
Net current period other comprehensive (loss) income, net of income taxes	(25.9)	15.4	(0.7)	(11.2)
Non-controlling interest	0.5	—	—	0.5
Net current period comprehensive (loss) income, net of income taxes and non-controlling interest	(25.4)	15.4	(0.7)	(10.7)
Balance at September 30, 2014	\$23.1	\$(430.3)	\$(1.3)	\$(408.5)

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
As of December 31, 2013	\$37.5	\$(663.2)	\$(0.4)	\$(626.1)
Other comprehensive (loss) income before reclassifications, before income tax	(17.6)	(33.4)	(1.0)	(52.0)
Amounts reclassified from accumulated other comprehensive income, before income tax	—	52.9	0.7	53.6
Income tax (benefit) expense	—	(17.6)	(0.6)	(18.2)
Net current period other comprehensive (loss) income, net of income taxes	(17.6)	1.9	(0.9)	(16.6)
Non-controlling interest	0.1	—	—	0.1
Distribution of TimkenSteel	3.1	231.0	—	234.1
Net current period comprehensive (loss) income, net of income taxes and non-controlling interest	(14.4)	232.9	(0.9)	217.6
Balance at September 30, 2014	\$23.1	\$(430.3)	\$(1.3)	\$(408.5)

Other comprehensive (loss) income before reclassifications and income taxes includes the effect of foreign currency.

\$221.0 million of the before-tax reclassification of pension and postretirement liability adjustments was included in pension settlement charges in the Consolidated Statement of Income for the first nine months of 2015. The remaining before-tax reclassification of pension and postretirement liability adjustments was due to the amortization of actuarial losses and prior service costs and was included in costs of products sold and selling, general and administrative expenses in the Consolidated Statements of Income. The reclassification of the remaining components of accumulated other comprehensive income (loss) was included in other income (expense), net in the Consolidated Statements of Income.





## Note 11 - 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 and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss) from continuing operations attributable to The Timken Company	\$63.4	\$(10.9)	\$(35.1)	)\$105.6
Less: undistributed earnings allocated to nonvested stock		—	—	—
Net income (loss) from continuing operations available to common shareholders for basic earnings per share and diluted earnings per share	\$63.4	\$(10.9)	\$(35.1)	)\$105.6
Denominator:				
Weighted average number of shares outstanding, basic	83,671,931	89,683,436	85,578,800	90,889,871
Effect of dilutive securities:				
Stock options and awards based on the treasury stock method	473,820	—	—	820,157
Weighted average number of shares outstanding, assuming dilution of stock options and awards	84,145,751	89,683,436	85,578,800	91,710,028
Basic earnings (loss) per share from continuing operations	\$0.76	\$(0.12)	\$(0.41)	)\$1.16
Diluted earnings (loss) per share from continuing operations	\$0.75	\$(0.12)	\$(0.41)	)\$1.15

The exercise prices for certain stock options that the Company has awarded exceed the average market price of the Company's common shares during the relevant periods. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding during the three months ended September 30, 2015 were 2,761,824. During the three months ended September 31, 2014, all stock options were antidilutive as the Company experienced a loss from continuing operations. During the nine months ended September 31, 2015, all stock options were antidilutive as the Company experienced a loss from continuing operations. The antidilutive stock options outstanding during the nine months ended September 30, 2014 were 697,670.

## Note 12 - 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,	
	2015	2014	2015	2014
Net sales to external customers:				
Mobile Industries	\$396.4	\$427.0	\$1,178.0	\$1,295.9
Process Industries	311.0	361.0	979.9	1,018.1
	\$707.4	\$788.0	\$2,157.9	\$2,314.0
Segment EBIT:				
Mobile Industries	\$43.0	\$(63.4)	\$114.4	\$43.2
Process Industries	43.1	74.4	145.0	187.4
Total EBIT, for reportable segments	\$86.1	\$11.0	\$259.4	\$230.6
Unallocated corporate expenses	(16.6)	\$(15.3)	\$(44.8)	\$(52.2)
Unallocated pension settlement charges	(3.6)	—	(223.2)	—
Interest expense	(8.6)	\$(9.1)	\$(25.0)	\$(20.4)
Interest income	0.6	1.0	2.0	3.1
Income (loss) from continuing operations before income taxes	\$57.9	\$(12.4)	\$(31.6)	\$161.1

## Note 13 - Impairment and Restructuring Charges

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

For the three months ended September 30, 2015:

	Mobile Industries	Process Industries	Corporate	Total
Severance and related benefit costs	\$2.0	\$1.7	\$0.6	\$4.3
Exit costs	0.1	—	—	0.1
Total	\$2.1	\$1.7	\$0.6	\$4.4

For the three months ended September 30, 2014:

	Mobile Industries	Process Industries	Corporate	Total
Impairment charges	\$97.4	\$0.2	\$0.4	\$98.0
Severance and related benefit costs	1.0	0.3	—	1.3
Exit costs	—	0.1	—	0.1
Total	\$98.4	\$0.6	\$0.4	\$99.4

For the nine months ended September 30, 2015:

	Mobile Industries	Process Industries	Corporate	Total
Impairment charges	\$0.1	\$3.2	\$—	\$3.3
Severance and related benefit costs	2.7	1.7	0.6	5.0
Exit costs	0.7	3.0	—	3.7
Total	\$3.5	\$7.9	\$0.6	\$12.0

For the nine months ended September 30, 2014:

	Mobile Industries	Process Industries	Corporate	Total
Impairment charges	\$98.2	\$0.2	\$0.4	\$98.8
Severance and related benefit costs	4.7	1.7	—	6.4
Exit costs	1.4	1.4	—	2.8
Total	\$104.3	\$3.3	\$0.4	\$108.0

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

### Mobile Industries

On September 8, 2014, the Company announced plans to: eliminate leadership positions under its former Aerospace segment and integrate aerospace activities under the direction of Christopher A. Coughlin, executive vice president and group president; close its aerospace engine overhaul business, located in Mesa, Arizona, by the end of 2014; evaluate strategic alternatives for its aerospace MRO parts business, also located in Mesa; and close its aerospace bearing facility located in Wolverhampton, United Kingdom, rationalizing the capacity into existing facilities, with timing to be finalized at a later date. In conjunction with this announcement, the Company reviewed goodwill for impairment for its three reporting units within the former Aerospace segment as a result of declining sales forecasts and financial performance within the segment. As a result of that review, the Company recorded a pretax goodwill impairment charge of \$86.3 million during the third quarter of 2014 related to its Drive Systems and Aerospace Aftermarket reporting units. In addition, the Company recorded an intangible asset impairment charge of \$9.9 million, an impairment charge of \$1.2 million for its overhaul business, which it classified as assets held for sale, and severance and related benefits of \$0.3 million. These charges are included in the Mobile Industries segment.

In addition, the Company incurred \$1.2 million and \$2.3 million of severance and related benefit costs related to the rationalization of one of its facilities in Europe during the first nine months of 2015 and 2014, respectively.

### Process Industries

During the first nine months of 2015, the Company recorded \$3.0 million of exit costs related to the Company's termination of its relationship with one of its third-party sales representatives in Colombia.

In addition, the Company recorded impairment charges of \$3.0 million related to one of the Company's repair businesses in the United States. See Note 17 - Fair Value for additional information on the impairment charges for the repair business.

### Workforce Reductions:

During the third quarter of 2015, the Company recognized \$4.0 million of severance and related benefit costs to eliminate approximately 65 positions. Of the \$4.0 million charge for the third quarter of 2015, \$1.8 million related to the Mobile Industries segment, \$1.6 million related to the Process Industries segment and \$0.6 million related to Corporate positions. During the first nine months of 2014, the Company recognized \$2.8 million of severance and related benefit costs to eliminate approximately 30 positions. Of the \$2.8 million charge for the first nine months of 2014, \$1.6 million related to the Mobile Industries segment and \$1.2 million related to the Process Industries segment.

The following is a rollforward of the consolidated restructuring accrual for the nine months ended September 30, 2015 and the twelve months ended December 31, 2014:

	September 30, 2015	December 31, 2014
Beginning balance, January 1	\$9.5	\$10.8
Expense	8.7	14.5
Payments	(4.4)	(15.8)
Ending balance	\$13.8	\$9.5

The restructuring accrual at September 30, 2015 and December 31, 2014 was included in other current liabilities on the Consolidated Balance Sheets.



## Note 14 - Retirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company's defined benefit pension plans. The amounts for the three months and nine months ended September 30, 2015 are based on calculations prepared by the Company's actuaries during the second quarter of 2015. The net periodic benefit cost recorded for the three months and nine months ended September 30, 2015 is the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ending December 31, 2015.

	U.S. Plans		International Plans		Total	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014	2015	2014
Components of net periodic benefit cost:						
Service cost	\$3.9	\$3.6	\$0.4	\$0.6	\$4.3	\$4.2
Interest cost	11.4	18.1	3.2	4.2	14.6	22.3
Expected return on plan assets	(15.8)	)(28.7	)(4.2	)(5.4	)(20.0	)(34.1
Amortization of prior service cost	0.7	0.8	0.1	—	0.8	0.8
Amortization of net actuarial loss	7.8	11.3	1.2	1.3	9.0	12.6
Pension settlements and curtailments	3.5	—	—	—	3.5	—
Net periodic benefit cost	\$11.5	\$5.1	\$0.7	\$0.7	\$12.2	\$5.8

	U.S. Plans		International Plans		Total	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014	2015	2014
Components of net periodic benefit cost:						
Service cost	\$11.5	\$17.9	\$1.8	\$1.8	\$13.3	\$19.7
Interest cost	35.6	80.1	9.4	14.2	45.0	94.3
Expected return on plan assets	(49.2)	)(123.1	)(12.6	)(18.5	)(61.8	)(141.6
Amortization of prior service cost	2.1	2.7	0.1	—	2.2	2.7
Amortization of net actuarial loss	24.1	44.3	3.9	4.4	28.0	48.7
Pension settlements and curtailments	219.9	—	1.1	0.7	221.0	0.7
Less: discontinued operations	—	(8.0)	)—	0.4	—	(7.6)
Net periodic benefit cost	\$244.0	\$13.9	\$3.7	\$3.0	\$247.7	\$16.9

On January 23, 2015, the Company entered into an agreement pursuant to which the Timken-Latrobe-MPB-Torrington Retirement Plan (the Plan) purchased a group annuity contract from Prudential Insurance Company of America (Prudential) that requires Prudential to pay and administer future pension benefits for approximately 5,000 U.S. Timken retirees. The Company transferred approximately \$575 million of the Company's pension obligations and approximately \$635 million of pension assets to Prudential in this transaction. In addition to the purchase of the group annuity contract, the Company made lump sum distributions of \$29.5 million to new retirees. The Company also incurred pension settlement and curtailment charges related to one of its Canadian defined benefit pension plans. As a result of the purchase of the group annuity contract and the lump sum distributions, as well as pension settlement and curtailment charges related to one of its Canadian defined benefit pension plans, the Company incurred pension settlement and curtailment charges of \$223.2 million, including professional fees of \$2.2 million, for the nine months ended September 30, 2015.





The Company generally amortizes actuarial gains and losses over the remaining service period of active participants. However, in accordance with its policy, the Company updates and reviews the census data for its U.S. defined benefit pension plans on an annual basis. This review, which was completed during the second quarter of 2015, indicated that over 95% of the participants in one of these plans are inactive. Therefore, the Company changed the amortization period over which actuarial gains and losses related to that plan will be amortized to be based on the remaining expected life of inactive participants in the plan. This change resulted in an amortization period of 15.5 years, compared to 10.1 years had the change not been made. The impact of the change resulted in lower pension expense of \$3.1 million (\$1.9 million after-tax, or \$0.02 per share) for the first six months of 2015.

#### Note 15 - Postretirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company's postretirement benefit plans. The amounts for the three months and nine months ended September 30, 2015 are based on calculations prepared by the Company's actuaries during the second quarter of 2015. The net periodic benefit cost recorded for the three months and nine months ended September 30, 2015 is the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ending December 31, 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Service cost	\$0.1	\$0.2	\$0.3	\$1.2
Interest cost	2.7	2.9	8.1	13.8
Expected return on plan assets	(1.8)	(1.4)	(5.3)	(7.1)
Amortization of prior service cost (credit)	0.2	0.1	0.6	0.8
Amortization of net actuarial loss	0.1	—	0.1	—
Less: discontinued operations	—	—	—	(3.1)
Net periodic benefit cost	\$1.3	\$1.8	\$3.8	\$5.6

## Note 16 - Income Taxes

The Company's provision for income taxes in interim periods is computed by applying the estimated 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		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Provision (benefit) for income taxes	\$(6.6	) \$(2.2	) \$1.0	\$53.4	
Effective tax rate	(11.4	)% 17.7	% (3.2	)% 33.1	%

In accordance with ASC Topic 740, "Income Taxes," the effective tax rate in the third quarter of 2015 was calculated as the difference between the income taxes computed for the nine months, as described below, and the year-to-date income taxes recorded as of June 30, 2015. This computation resulted in an effective tax rate of negative 11.4% for the third quarter of 2015, including discrete items. The effective tax rate of negative 11.4% was primarily due to the change in the Company's 2015 forecast and the variability caused by the large pension settlement charge recorded in the first quarter of 2015.

The effective tax rate in the third quarter of 2014 was calculated as the difference between the tax computed for the nine months, as described below, and the year-to-date tax recorded as of June 30, 2014. This computation resulted in an effective tax rate of 17.7% for the third quarter of 2014, including discrete items.

In accordance with ASC Topic 740, "Income Taxes", the effective tax rate in the first nine months of 2015 was computed based on an estimated overall annual effective tax rate, which produced a rate of negative 3.2%, including discrete items, for the first nine months of 2015 (expected tax benefits on expected pretax income). This rate reflects an estimated full year loss in the U.S. primarily driven by pension settlement charges and earnings in foreign jurisdictions, which is expected to produce a net tax benefit on pre-tax income. The effective tax rate of negative 3.2% was lower than the U.S. federal statutory rate of 35% primarily due to earnings in certain foreign jurisdictions where the effective tax rate is less than 35%, tax benefits related to foreign tax credits, U.S. state and local tax benefits, non-taxable U.S. income and the U.S. manufacturing deduction. These factors were partially offset by U.S. taxation of foreign earnings, losses at certain foreign subsidiaries where no tax benefit could be recorded, non-deductible U.S. expenses and certain discrete tax expenses.

The effective tax rate in the first nine months of 2014 was computed based on an expected annual effective tax rate of 33.1%, including discrete items. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to earnings in certain foreign jurisdictions where the effective tax rate is less than 35%, tax benefits related to foreign tax credits, the U.S. manufacturing deduction, non-taxable U.S. income and certain discrete tax benefits. These factors were partially offset by U.S. taxation of foreign earnings, goodwill impairment, losses at certain foreign subsidiaries where no tax benefit could be recorded, U.S. state and local taxes and non-deductible U.S. expenses.

## Note 17 - 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 tables present the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$155.0	\$120.3	\$34.7	\$—
Restricted cash	14.8	—	14.8	—
Short-term investments	8.7	—	8.7	—
Foreign currency hedges	5.5	—	5.5	—
Total Assets	\$184.0	\$120.3	\$63.7	\$—
Liabilities:				
Foreign currency hedges	\$2.0	\$—	\$2.0	\$—
Total Liabilities	\$2.0	\$—	\$2.0	\$—
	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$278.8	\$155.6	\$123.2	\$—
Restricted cash	15.3	—	15.3	—
Short-term investments	8.4	—	8.4	—
Foreign currency hedges	12.4	—	12.4	—
Total Assets	\$314.9	\$155.6	\$159.3	\$—
Liabilities:				
Foreign currency hedges	\$0.3	\$—	\$0.3	\$—
Total Liabilities	\$0.3	\$—	\$0.3	\$—

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

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



The following table presents those assets measured at fair value on a nonrecurring basis for the nine months ended September 30, 2015 using Level 3 inputs:

	Carrying Value	Fair Value Adjustment	Fair Value
Long-lived assets held for sale:			
Repair business	\$5.8	\$(3.0)	)\$2.8
Total long-lived assets held for sale	\$5.8	\$(3.0)	)\$2.8
Long-lived assets held and used:			
Fixed assets	\$0.8	\$(0.3)	)\$0.5
Total long-lived assets held and used	\$0.8	\$(0.3)	)\$0.5

Assets held for sale of \$5.8 million associated with the Company's service center in Niles, Ohio were written down to their fair value of \$2.8 million during the first quarter of 2015, resulting in an impairment charge of \$3.0 million. The fair value of these assets was based on the price that the Company expected to receive from the sale of these assets.

Various items of property, plant and equipment, with a carrying value of \$0.8 million, were written down to their fair value of \$0.5 million, resulting in an impairment charge of \$0.3 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 these items, as these assets had been idled.

#### Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, net, accounts payable, trade, short-term borrowings and long-term debt. Due to their short-term nature, the carrying value of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, net, accounts payable, trade and short-term borrowings are a reasonable estimate of their fair value. The fair value of the Company's long-term fixed-rate debt, based on quoted market prices, was \$538.8 million and \$558.6 million at September 30, 2015 and December 31, 2014, respectively. The carrying value of this debt was \$520.1 million and \$521.4 million at September 30, 2015 and December 31, 2014, respectively. The fair value of long-term fixed-debt was measured using Level 2 inputs.

#### Note 18 - 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 foreign currency exchange rate risk, commodity price risk and interest rate risk. Forward exchange contracts on various foreign currencies are entered into in order to manage the foreign currency exchange rate risk associated with certain of the Company's commitments denominated in foreign currencies. Forward contracts on various commodities are entered into in order to manage the price risk associated with forecasted purchases of natural gas used in the Company's manufacturing process. Interest rate swaps are used 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, 2015 and December 31, 2014, the Company had \$263.4 million and \$194.1 million, respectively, of outstanding foreign currency forward contracts at notional value. Refer to Note 17 – Fair Value for the fair value disclosure of derivative financial instruments.

#### 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 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 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).

#### Purpose for Derivative Instruments not Designated as Hedging Instruments:

For derivative instruments that are not designated as hedging instruments, the instruments are typically forward contracts. In general, the practice is to reduce volatility by selectively hedging transaction exposures including intercompany loans, accounts payable and accounts receivable. Intercompany loans between entities with different functional currencies are typically hedged with a forward contract at the inception of loan with a maturity date at the

maturity of the loan. The revaluation of these contracts, as well as the revaluation of the underlying balance sheet items, is recorded directly to the income statement so the adjustment generally offsets the revaluation of the underlying balance sheet items to protect cash payments and reduce income statement volatility.

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 Sheets.

Derivatives designated as hedging instruments	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at 9/30/15	Fair Value at 12/31/14	Fair Value at 9/30/15	Fair Value at 12/31/14
Foreign currency forward contracts	Other non-current assets/liabilities	\$2.3	\$0.6	\$0.5	\$—
Total derivatives designated as hedging instruments		2.3	0.6	0.5	—
Derivatives not designated as hedging instruments					
Foreign currency forward contracts	Other non-current assets/liabilities	3.2	11.8	1.5	0.3
Total Derivatives		\$5.5	\$12.4	\$2.0	\$0.3

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

Derivatives in cash flow hedging relationships	Location of gain or (loss) recognized in income on derivative instruments	Amount of gain or (loss) recognized in Other Comprehensive Income (OCI) on derivative instruments			
		Three Months Ended		Nine Months Ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Foreign currency forward contracts		\$2.1	\$1.4	\$2.1	\$1.0
Interest rate swaps		—	(1.6)	—	(2.1)
Total		\$2.1	\$(0.2)	\$2.1	\$(1.1)
Amount of gain or (loss) reclassified from Accumulated Other Comprehensive Income (AOCI) into income (effective portion)					
Derivatives in cash flow hedging relationships	Location of gain or (loss) recognized in income on derivative instruments	Three Months Ended		Nine Months Ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
		Foreign currency forward contracts	\$0.3	\$(0.1)	\$1.0
Interest rate swaps	(0.1)	—	(0.3)	—	
Total		\$0.2	\$(0.1)	\$0.7	\$(0.6)
Amount of gain or (loss) recognized in income on derivative instruments					
Derivatives not designated as hedging instruments	Location of gain or (loss) recognized in income on derivative instruments	Three Months Ended		Nine Months Ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
		Foreign currency forward contracts	Other (expense) income, net	\$(16.3)	\$9.5
Total		\$(16.3)	\$9.5	\$9.8	\$13.9

Note 19 - Subsequent Events



On October 21, 2015, the Company completed the sale of all of the outstanding stock of Alcor. Alcor, located in Mesa, Arizona, had annual sales of \$20.6 million for the twelve months ending September 30, 2015. The results of the operations of Alcor were reported in the Mobile Industries segment. The Company expects to recognize a gain on the sale of Alcor during the fourth quarter of 2015.

## 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 engineers, manufactures and markets bearings, transmissions, gearboxes, chain, belts and related products and offers a spectrum of power system rebuild and repair services around the world. The Company's growing product and services portfolio features many strong industrial brands, such as Timken, Fafnir, Philadelphia Gear, Drives, Carlisle and Interlube. Timken today applies its deep knowledge of metallurgy, tribology and power transmission across the broad spectrum of bearings and related systems to improve the reliability and efficiency of machinery and equipment all around the world. Known for its quality products and collaborative technical sales model, Timken focuses on providing value to diverse markets worldwide through both original equipment manufacturers (OEMs) and aftermarket channels. With approximately 14,000 people operating in 28 countries, Timken makes the world more productive and keeps industry in motion. The Company operates under two segments: (1) Mobile Industries and (2) Process Industries. The following further describes these business segments:

Mobile Industries offers an extensive portfolio of bearings, seals, lubrication devices and systems, as well as power transmission components, engineered chain, augers, belts and related products and maintenance services, to OEMs and end users of: off-highway equipment for the agricultural, construction, mining and outdoor power equipment markets; on-highway vehicles including passenger cars, light trucks, and medium- and heavy-duty trucks; rail cars and locomotives. Beyond service parts sold to OEMs, aftermarket sales to individual end users, equipment owners, operators and maintenance shops are handled through the Company's extensive network of authorized automotive and heavy-truck distributors, and include hub units, specialty kits and more. Mobile Industries also provides power transmission systems and flight-critical components for civil and military aircraft, which include bearings, helicopter transmission systems, rotor-head assemblies, turbine engine components, gears and housings.

Process Industries supplies industrial bearings and assemblies, power transmission components such as gears and gearboxes, couplings, seals, lubricants, chains, belts and related products and services to OEMs and end users in industries that place heavy demands on operating equipment they make or use. This includes: metals, cement and aggregate production; coal and wind power generation; oil and gas; pulp and paper in applications including printing presses; and cranes, hoists, drawbridges, wind energy turbines, gear drives, drilling equipment, coal conveyors, health and critical motion control equipment, marine equipment and food processing equipment. This segment also supports aftermarket sales and service needs through its global network of authorized industrial distributors. In addition, the Company's industrial services group offers end users a broad portfolio of maintenance support and capabilities that includes repair and service for bearings and gearboxes as well as electric motor rewind, repair and services.

Currently, the Company focuses its strategy on creating value that leads to growth and sustained levels of profitability. The Company works to create value by:

Expanding in new and existing markets by applying the Timken team's knowledge of metallurgy, friction management and mechanical power transmission to create value for our customers. Using a highly collaborative technical selling model, the Company places particular emphasis on creating unique solutions for challenging and/or demanding applications. The Company intends to grow in attractive market sectors, emphasizing those spaces that are highly fragmented, demand high service and value the reliability and efficiency offered by the Company's products. The Company also targets those applications that offer significant aftermarket demand, thereby providing product and services revenue throughout the equipment's lifetime.

Performing with excellence, driving for exceptional results with a passion for superior execution, the Company embraces a continuous improvement culture that is charged with lowering costs, eliminating waste, increasing efficiency, encouraging organizational agility and building greater brand equity. As part of this effort, the Company may also reposition underperforming product lines and segments and divest non-strategic assets.

The following items highlight the Company's most recent accomplishments:

On September 1, 2015, the Company acquired the membership interests of Carlstar Belts. Carlstar Belts is a leading North American manufacturer of belts used in industrial, commercial and consumer applications. Based in Springfield, Missouri, Carlstar Belts had annual sales of approximately \$140 million for the twelve months ending June 30, 2015. The results of the operations of Carlstar Belts are reported in the Mobile Industries and Process Industries segments based on the customers served.

On October 21, 2015, the Company completed the sale of all of the outstanding stock of Alcor. Alcor is engaged in the design, engineering, sourcing, manufacture and sale of parts and components used in gas turbine engines and helicopter drivetrain applications and filing applications for and obtaining certificates reflecting a PMA issued by the FAA for such parts and components. For the twelve months ending September 30, 2015, Alcor had annual sales of \$20.6 million. The results of the operations of Alcor are reported in the Mobile Industries segment. The Company expects to recognize a pre-tax gain on the sale of Alcor of approximately \$29 million, subject to working capital adjustments.

## Overview:

	Three Months Ended				
	September 30,				
	2015	2014	\$ Change	% Change	
Net sales	\$707.4	\$788.0	\$(80.6)	(10.2)	)%
Income (loss) from continuing operations	64.5	(10.2)	)74.7	NM	
Income (loss) from discontinued operations	—	(11.0)	)11.0	(100.0)	)%
Net income attributable to noncontrolling interest	1.1	0.7	0.4	57.1	%
Net income (loss) attributable to The Timken Company	\$63.4	\$(21.9)	)\$85.3	(389.5)	)%
Diluted earnings (loss) per share:					
Continuing operations	\$0.75	\$(0.12)	)\$0.87	NM	
Discontinued operations	—	(0.12)	)0.12	(100.0)	)%
Diluted earnings (loss) per share	\$0.75	\$(0.24)	)\$0.99	(412.5)	)%
Average number of shares – diluted	84,145,751	89,683,436	—	(6.2)	)%
	Nine Months Ended				
	September 30,				
	2015	2014	\$ Change	% Change	
Net sales	\$2,157.9	\$2,314.0	\$(156.1)	(6.7)	)%
(Loss) income from continuing operations	(32.6)	)107.7	(140.3)	(130.3)	)%
Income from discontinued operations	—	18.7	(18.7)	(100.0)	)%
Net income attributable to noncontrolling interest	2.5	2.1	0.4	19.0	%
Net (loss) income attributable to The Timken Company	\$(35.1)	)\$124.3	\$(159.4)	(128.2)	)%
Diluted (loss) earnings per share:					
Continuing operations	\$(0.41)	)\$1.15	\$(1.56)	(135.7)	)%
Discontinued operations	—	0.20	(0.20)	(100.0)	)%
Diluted (loss) earnings per share	\$(0.41)	)\$1.35	\$(1.76)	(130.4)	)%
Average number of shares – diluted	85,578,800	91,710,028	—	(6.7)	)%

The decrease in sales for the third quarter of 2015 compared to the third quarter of 2014 was primarily due to lower volume across most industrial end market sectors and the impact of foreign currency exchange rates, partially offset by the impact of acquisitions. The Company's income from continuing operations for the third quarter of 2015 was higher than the third quarter of 2014 primarily due to goodwill impairment and inventory valuation adjustments that occurred during the third quarter of 2014, partially offset by the impact of lower volume and mix, the impact of foreign currency exchange rates and higher manufacturing costs. The decrease in income from discontinued operations for the third quarter of 2015 compared to the third quarter of 2014 was due to the spinoff of TimkenSteel on June 30, 2014.

The decrease in sales for the first nine months of 2015 compared to the first nine months of 2014 was primarily due to the impact of foreign currency exchange rates and lower volume in the Mobile Industries segment, partially offset by the benefit of acquisitions. The Company's income from continuing operations for the first nine months of 2015 was lower than the first nine months of 2014 primarily due to non-cash pension settlement charges recorded during the first nine months of 2015, the impact of lower volume in the Mobile Industries segment, unfavorable mix across most end market sectors and the impact of foreign currency exchange rates. These factors were partially offset by goodwill impairment and inventory valuation adjustments that occurred during the third quarter of 2014, lower selling, general and administrative expenses, lower material and manufacturing costs and a lower provisions for income taxes. The decrease in income from discontinued operations for the first nine months of 2015 compared to the first nine months

of 2014 was due to the spinoff of TimkenSteel.

Outlook:

The Company expects 2015 full-year sales to decrease approximately 8% compared to 2014, partially driven by foreign currency exchange rate changes, which are expected to account for approximately two-thirds of the decrease and lower volume across most market sectors. Excluding the impact of currency, sales are expected to decline approximately 2% to 3%, net of acquisition growth. The Company's earnings from continuing operations are expected to be lower in 2015 compared to 2014, primarily due to the settlement of certain U.S. pension obligations, unfavorable volume and mix and the effects of foreign currency exchange rate changes, partially offset by lower impairment and restructuring charges, incomes taxes, raw material costs and selling, general and administrative expenses.

The Company expects to generate operating cash from continuing operations of approximately \$300 million in 2015, an increase of approximately \$20 million, or 7%, compared to 2014, as the Company anticipates lower working capital requirements to more than offset the impact of lower earnings. Pension contributions are expected to be approximately \$15 million in 2015, compared to \$21.1 million in 2014. The Company expects capital expenditures to be approximately 3.5% of sales in 2015, compared to 4.2% of sales in 2014.

## The Statement of Income

## Sales:

	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
Net Sales	\$707.4	\$788.0	\$(80.6)	(10.2)%

  

	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
Net Sales	\$2,157.9	\$2,314.0	\$(156.1)	(6.7)%

Net sales decreased for the third quarter of 2015 compared to the third quarter of 2014, primarily due to lower volume of \$53 million and the effect of foreign currency exchange rates of \$44 million, partially offset by the impact of acquisitions of \$12 million. The lower volume was driven by most industrial end market sectors, partially offset by organic growth in the automotive and rail market sectors.

Net sales decreased for the first nine months of 2015 compared to the first nine months of 2014, primarily due to the effect of foreign currency exchange rates of \$117 million and lower volume of \$62 million, partially offset by the benefit of acquisitions of \$21 million. The decrease in volume was primarily due to lower demand in the Mobile Industries segment.

## Gross Profit:

	Three Months Ended September 30,			
	2015	2014	\$ Change	Change
Gross profit	\$195.4	\$225.5	\$(30.1)	(13.3)%
Gross profit % to net sales	27.6	%28.6	%	(100) bps

  

	Nine Months Ended September 30,			
	2015	2014	\$ Change	Change
Gross profit	\$603.0	\$677.2	\$(74.2)	(11.0)%
Gross profit % to net sales	27.9	%29.3	%	(140) bps

Gross profit decreased in the third quarter of 2015 compared to the third quarter of 2014 primarily due to the net impact of lower volume, mix and pricing of \$33 million and the effect of foreign currency exchange rates of \$18 million. These factors were partially offset by inventory valuation adjustments of \$22 million that occurred during the third quarter of 2014. Favorable material costs and manufacturing cost reductions were more than offset by the impact of lower manufacturing capacity utilization.

Gross profit decreased in the first nine months of 2015 compared to the first nine months of 2014 primarily due to the impact of foreign currency exchange rates of \$54 million and the net impact of lower mix, volume and pricing of \$53 million. These factors were partially offset by inventory valuation adjustments of \$22 million that occurred during the third quarter of 2014 and the impact of acquisitions of \$4 million. Favorable material costs and manufacturing cost reductions were more than offset by the impact of lower manufacturing capacity utilization.





## Selling, General and Administrative Expenses:

	Three Months Ended			
	September 30,			
	2015	2014	\$ Change	Change
Selling, general and administrative expenses	\$120.7	\$132.2	\$(11.5)	)(8.7)%
Selling, general and administrative expenses % to net sales	17.1	% 16.8	%—	30 bps
	Nine Months Ended			
	September 30,			
	2015	2014	\$ Change	Change
Selling, general and administrative expenses	\$375.3	\$410.8	\$(35.5)	)(8.6)%
Selling, general and administrative expenses % to net sales	17.4	% 17.8	%—	(40) bps

The decrease in selling, general and administrative expenses in the third quarter of 2015 compared to the third quarter of 2014 was primarily due to lower incentive compensation expense of \$9 million and the impact of foreign currency exchange rates of \$5 million, partially offset by higher bad debt expense of \$3 million. The benefits of cost reduction initiatives were largely offset by expense related to acquisitions and costs associated with ongoing growth initiatives.

The decrease in selling, general and administrative expenses in the first nine months of 2015 compared to the first nine months of 2014 was primarily due to lower incentive compensation expense of \$28 million and the impact of foreign currency exchange rates of \$15 million, partially offset by higher bad debt expense of \$3 million. The benefits of cost reduction initiatives were largely offset by expenses related to acquisitions, higher pension expense and cost associated with ongoing growth initiatives.

## Impairment and Restructuring:

	Three Months Ended			
	September 30,			
	2015	2014	\$ Change	% Change
Impairment charges	\$—	\$98.0	\$(98.0)	)(100.0)%
Severance and related benefit costs	4.3	1.3	3.0	230.8%
Exit costs	0.1	0.1	—	—%
Total	\$4.4	\$99.4	\$(95.0)	)(95.6)%
	Nine Months Ended			
	September 30,			
	2015	2014	\$ Change	% Change
Impairment charges	\$3.3	\$98.8	\$(95.5)	)(96.7)%
Severance and related benefit costs	5.0	6.4	(1.4)	)(21.9)%
Exit costs	3.7	2.8	0.9	32.1%
Total	\$12.0	\$108.0	\$(96.0)	)(88.9)%

Impairment and restructuring charges of \$4.4 million in the third quarter of 2015 were primarily due to severance and related benefit costs related to initiatives to reduce headcount. Impairment and restructuring charges of \$12.0 million in the first nine months of 2015 were primarily due to severance and related benefit costs related to initiatives to reduce headcount, impairment charges of \$3.0 million related to the Company's service center in Niles, Ohio and exit costs of \$3.0 million related to the Company's termination of its relationship with one of its third-party sales representatives in Colombia. Impairment and restructuring charges of \$99.4 million and \$108.0 million in the third quarter and first nine months of 2014, respectively, were primarily due to goodwill and other intangible impairment

charges of \$97.7 million that were recorded in the third quarter of 2014.

## Pension Settlement Charges:

	Three Months Ended			
	September 30,		\$ Change	% Change
	2015	2014		
Pension settlement charges	\$3.6	\$—	\$3.6	NM

  

	Nine Months Ended			
	September 30,		\$ Change	% Change
	2015	2014		
Pension settlement charges	\$223.2	\$0.7	\$222.5	NM

Pension settlement charges recorded in the third quarter of 2015 were primarily due to lump sum distributions in 2015 for one of the Company's U.S. defined benefit plans. Pension settlement charges recorded in the first nine months of 2015 were primarily due to an agreement pursuant to which one of the Company's U.S. defined benefit pension plans purchased a group annuity contract from Prudential that requires Prudential to pay and administer future pension benefits for approximately 5,000 U.S. Timken retirees. The Company transferred approximately \$575 million of the Company's pension obligations and approximately \$635 million of pension assets to Prudential in this transaction. In addition to the purchase of the group annuity contract, the Company made lump sum distributions of \$29.5 million to new retirees. As a result of the purchase of the group annuity contract and the lump sum distributions, the Company incurred pension settlement charges of \$223.2 million during the first nine months of 2015. Pension settlement charges recorded in the first nine months of 2014 related to the settlement of pension obligations for one of the Company's Canadian defined benefit pension plans as a result of the closure of the Company's manufacturing facility in St. Thomas, Ontario, Canada.

## Interest Income and (Expense):

	Three Months Ended			
	September 30,		\$ Change	% Change
	2015	2014		
Interest (expense)	\$(8.6)	\$(9.1)	)\$0.5	(5.5)%
Interest income	\$0.6	\$1.0	\$(0.4)	(40.0)%

  

	Nine Months Ended			
	September 30,		\$ Change	% Change
	2015	2014		
Interest (expense)	\$(25.0)	\$(20.4)	)\$4.6	22.5%
Interest income	\$2.0	\$3.1	\$(1.1)	(35.5)%

Interest expense for the third quarter of 2015 decreased compared to the third quarter of 2014 primarily due to lower average interest rates. Interest expense for first nine months of 2015 increased compared to the first nine months of 2014 primarily due to lower capitalized interest, partially offset by lower average interest rates. Interest income for the third quarter and first nine months of 2015 decreased compared to the third quarter and first nine months of 2014 primarily due to lower interest income recognized on the deferred payments related to the sale of real estate in Sao Paulo.

## Other Income (Expense):

	Three Months Ended				
	September 30,		\$ Change	% Change	
	2015	2014			
Other (expense) income, net	\$(0.8	) \$1.8	\$(2.6	)(144.4	)%
Total other (expense) income	\$(0.8	) \$1.8	\$(2.6	)(144.4	)%

  

	Nine Months Ended				
	September 30,		\$ Change	% Change	
	2015	2014			
Gain on sale of real estate in Brazil	\$—	\$22.6	\$(22.6	)(100.0	)%
Other (expense), net	(1.1	)(1.9	)0.8	(42.1	)%
Total other (expense) income	\$(1.1	) \$20.7	\$(21.8	)(105.3	)%

During the first nine months of 2014, the Company recognized a gain of \$22.6 million related to the sale of real estate in Sao Paulo.

## Income Tax Expense:

	Three Months Ended				
	September 30,		\$ Change	Change	
	2015	2014			
Income tax expense	\$(6.6	) \$2.2	) \$(4.4	) 200.0	%
Effective tax rate	(11.4	)% 17.7	%—	(2,910) bps	

  

	Nine Months Ended				
	September 30,		\$ Change	Change	
	2015	2014			
Income tax expense	\$1.0	\$53.4	\$(52.4	)(98.1	)%
Effective tax rate	(3.2	)% 33.1	%—	(4,060) bps	

In accordance with ASC Topic 740, "Income Taxes", the effective tax rate in the third quarter of 2015 was calculated as the difference between the income taxes computed for the nine months, as described below, and the year-to-date income taxes recorded as of June 30, 2015. This computation resulted in an effective tax rate of negative 11.4% for the third quarter of 2015, including discrete items. The effective tax rate of negative 11.4% was primarily due to the change in the Company's 2015 forecast and the quarterly variability caused by the large pension settlement charge recorded in the first quarter of 2015. The Company expects continued volatility in the quarterly effective tax rate for the remainder of the year, including the impact of potential discrete tax benefits that may be recorded in the fourth quarter of 2015 related to reversals of valuation allowances and adjustments to certain tax reserves.

The effective tax rate in the third quarter of 2014 was calculated as the difference between the income taxes computed for the nine months, as described below, and the year-to-date tax recorded as of June 30, 2014. This computation resulted in an effective tax rate of 17.7% for the third quarter of 2014, including discrete items.

In accordance with ASC Topic 740, "Income Taxes", the effective tax rate in the first nine months of 2015 was computed based on an estimated overall annual effective tax rate, which produced a rate of negative 3.2%, including discrete items, for the first nine months of 2015. This rate reflects our geographic mix of earnings, specifically an estimated full year pre-tax loss in the U.S. primarily driven by pension settlement charges and earnings in lower tax rate foreign jurisdictions, which is expected to produce a net tax benefit on pre-tax income.



The effective tax rate in the first nine months of 2014 was computed based on an expected annual effective tax rate of 33.1%, including discrete items. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to earnings in certain foreign jurisdictions where the effective tax rate is less than 35%, tax benefits related to foreign tax credits, the U.S. manufacturing deduction, non-taxable U.S. income and certain discrete tax benefits. These factors were partially offset by U.S. taxation of foreign earnings, goodwill impairment, losses at certain foreign subsidiaries where no tax benefit could be recorded, U.S. state and local taxes and non-deductible U.S. expenses.

## Discontinued Operations:

	Three Months Ended			
	September 30,			
	2015	2014	\$ Change	% Change
Income before income taxes	\$—	\$(10.1)	)\$10.1	(100.0)%
Income taxes	—	(0.9)	)0.9	(100.0)%
Operating results, net of tax	\$—	\$(11.0)	)\$11.0	(100.0)%

  

	Nine Months Ended			
	September 30,			
	2015	2014	\$ Change	% Change
Net Sales	\$—	\$786.2	\$(786.2)	(100.0)%
Income before income taxes	—	42.4	(42.4)	(100.0)%
Income taxes	—	(23.7)	)23.7	(100.0)%
Operating results, net of tax	\$—	\$18.7	\$(18.7)	(100.0)%

On June 30, 2014, the Company completed the Spinoff. The operating results, net of tax, included one-time transaction costs in connection with the separation of the two companies of \$10.0 million and \$54.6 million in the third quarter and first nine months of 2014, respectively. These costs included consulting and professional fees associated with preparing for and executing the Spinoff.

## Business Segments

The primary measurement used by management to measure the financial performance of each segment is EBIT. Refer to Note 12 - Segment Information in the Notes to the Consolidated Financial Statements for the reconciliation of EBIT by segment to consolidated income before income taxes.

The presentation of segment results below includes a reconciliation of the changes in net sales for each segment reported in accordance with U.S. GAAP to net sales adjusted to remove the effects of acquisitions made in 2015 and 2014 and foreign currency exchange rate changes. The effects of acquisitions and foreign currency exchange rate changes on net sales are removed to allow investors and the Company to meaningfully evaluate the percentage change in net sales on a comparable basis from period to period. During the second quarter of 2014, the Company acquired substantially all of the assets of Schulz Group (Schulz). During the fourth quarter of 2014, the Company acquired the assets of Revolvo Ltd. (Revolvo). During the third quarter of 2015, the Company acquired the membership interests of Carlstar Belts. Results for Schulz and Revolvo are reported in the Process Industries segment. Results for Carlstar Belts are reported in the Mobile Industries and Process Industries segments based on the customers served.

## Mobile Industries Segment:

	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
Net sales	\$396.4	\$427.0	\$(30.6)	(7.2)%
EBIT	\$43.0	\$(63.4)	) \$106.4	(167.8)%
EBIT margin	10.8	%(14.8)	)%—	2,560 bps

	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
Net sales	\$396.4	\$427.0	\$(30.6)	(7.2)%
Less: Acquisitions	5.3	—	5.3	NM
Currency	(25.7)	)—	(25.7)	)NM
Net sales, excluding the impact of acquisitions and currency	\$416.8	\$427.0	\$(10.2)	(2.4)%

	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
Net sales	\$1,178.0	\$1,295.9	\$(117.9)	(9.1)%
EBIT	\$114.4	\$43.2	\$71.2	164.8%
EBIT margin	9.7	%3.3	%0.1	640 bps

	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
Net sales	\$1,178.0	\$1,295.9	\$(117.9)	(9.1)%
Less: Acquisitions	5.3	—	5.3	NM
Currency	(69.5)	)—	(69.5)	)NM
Net sales, excluding the impact of acquisitions and currency	\$1,242.2	\$1,295.9	\$(53.7)	(4.1)%





The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, decreased \$10.2 million or 2.4% in the third quarter of 2015 compared to the third quarter of 2014. The decline in net sales was primarily driven by a decrease in the off-highway (mainly agriculture and mining) and aerospace market sectors, partially offset by organic growth in the automotive and rail market sectors and favorable pricing. EBIT increased in the third quarter of 2015 compared to the third quarter of 2014 primarily due to the impact of goodwill impairment and inventory valuation adjustments of \$118 million that occurred during the third quarter of 2014, lower material costs of \$5 million and lower selling, general and administrative expenses of \$3 million. These benefits were partially offset by the impact of lower volume of \$4 million, net unfavorable price/mix of \$3 million, manufacturing under-utilization of \$6 million and the effects of foreign currency exchange rate changes of \$6 million.

The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, decreased \$53.7 million or 4.1% in the first nine months of 2015 compared to the first nine months of 2014. The decline was primarily driven by a decrease in the agriculture, aerospace and automotive market sectors, partially offset by organic growth in the rail sector. EBIT increased in the first nine months of 2015 compared to the first nine months of 2014 primarily due to the impact of goodwill impairment and inventory valuation adjustments of \$118 million offset partially by a gain on the sale of land in Brazil of \$23 million, both of which occurred in 2014. In addition, the benefits of lower raw material costs of \$11 million and lower selling, general and administrative expenses of \$11 million were more than offset by the impact of lower volume of \$19 million and unfavorable price/mix of \$11 million, manufacturing under-utilization of \$3 million and the effects of foreign currency exchange rates of \$19 million.

Full-year sales for the Mobile Industries segment are expected to be down approximately 8% in 2015 compared to 2014, which includes the expected impact of foreign currency exchange rate changes of approximately 5%. This reflects lower shipments in aerospace and off-highway, partially offset by organic growth in the automotive and rail market sectors and the benefit of acquisitions. EBIT for the Mobile Industries segment is expected to increase in 2015 compared to 2014 as a result of lower impairment charges, lower raw material costs and selling, general and administrative expenses, partially offset by the impact of lower volume and unfavorable price/mix and the impact of foreign currency exchange rate changes.

#### Process Industries Segment:

	Three Months Ended			
	September 30,		\$ Change	Change
	2015	2014		
Net sales	\$311.0	\$361.0	\$(50.0)	(13.9)%
EBIT	\$43.1	\$74.4	\$(31.3)	(42.1)%
EBIT margin	13.9	% 20.6	%—	(670) bps
	Three Months Ended			
	September 30,		\$ Change	% Change
	2015	2014		
Net sales	\$311.0	\$361.0	\$(50.0)	(13.9)%
Less: Acquisitions	6.5	—	6.5	NM
Currency	(18.1)	)—	(18.1)	)NM
Net sales, excluding the impact of acquisitions and currency	\$322.6	\$361.0	\$(38.4)	(10.6)%
	Nine Months Ended			
	September 30,		\$ Change	% Change
	2015	2014		

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Net sales	\$979.9	\$1,018.1	\$(38.2)	) (3.8)%
EBIT	\$145.0	\$187.4	\$(42.4)	) (22.6)%
EBIT margin	14.8	% 18.4	%	(360) bps

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	Nine Months Ended		\$ Change	% Change
	September 30,			
	2015	2014		
Net sales	\$979.9	\$1,018.1	\$(38.2)	)(3.8)%
Less: Acquisitions	15.7	—	15.7	NM
Currency	(47.3)	)—	(47.3)	)NM
Net sales, excluding the impact of acquisitions and currency	\$1,011.5	\$1,018.1	\$(6.6)	)(0.6)%

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, decreased \$38.4 million or 10.6% in the third quarter of 2015 compared to the same period in 2014. The decline was primarily due to lower demand in industrial distribution and heavy industries (driven largely by the metals, mining and oil & gas market sectors). EBIT was lower in the third quarter of 2015 compared to the third quarter of 2014 primarily due to the impact of lower volume of \$15 million, unfavorable price/mix of \$12 million and the impact of foreign currency exchange rate changes of \$7 million, partially offset by lower selling, general and administrative expenses of \$4 million.

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, decreased \$6.6 million or 0.6% in the first nine months of 2015 compared to the same period in 2014. The slight decline was primarily due to lower industrial distribution demand, partially offset by organic growth in the wind energy and military marine market sectors. EBIT was lower in the first nine months of 2015 compared to the first nine months of 2014 primarily due to the impact of unfavorable foreign currency of \$19 million, unfavorable price/mix of \$22 million and higher impairment and restructuring charges of \$7 million, partially offset by lower selling, general and administrative expenses of \$5 million.

Full-year sales for the Process Industries segment are expected to be down 8% in 2015 compared to 2014, which includes the expected impact of foreign currency exchange rate changes of approximately 5%. This reflects weaker demand in the industrial distribution and heavy industries market sectors, partially offset by organic growth in wind energy and military marine market sectors and the benefit of acquisitions. EBIT for the Process Industries segment is expected to decrease in 2015 compared to 2014 primarily due to the impact of lower volume, unfavorable price/mix and foreign currency exchange rate changes, partially offset by lower raw material costs and selling, general and administrative expenses.

Unallocated Corporate:

	Three Months Ended September 30,		\$ Change	% Change
	2015	2014		
Corporate expenses	\$16.6	\$15.3	\$1.3	8.5%
Corporate expenses % to net sales	2.3	%1.9	%—	40 bps

	Nine Months Ended September 30,		\$ Change	% Change
	2015	2014		
Corporate expenses	\$44.8	\$52.2	\$(7.4)	(14.2)%
Corporate expenses % to net sales	2.1	%2.3	%—	(20) bps

The increase in corporate expenses during the third quarter of 2015 compared to the third quarter of 2014 was primarily due to higher foreign currency exchange losses and higher restructuring costs. The decrease in corporate expenses during the first nine months of 2015 compared to first nine months of 2014 was primarily due to lower incentive compensation expenses.

## The Balance Sheet

The following discussion is a comparison of the Consolidated Balance Sheets at September 30, 2015 and December 31, 2014.

## Current Assets:

	September 30, 2015	December 31, 2014	\$ Change	% Change	
Cash and cash equivalents	\$ 155.0	\$ 278.8	\$(123.8)	(44.4)	)%
Restricted cash	14.8	15.3	(0.5)	(3.3)	)%
Accounts receivable, net	469.8	475.7	(5.9)	(1.2)	)%
Inventories, net	595.4	585.5	9.9	1.7	%
Deferred income taxes	48.0	49.9	(1.9)	(3.8)	)%
Deferred charges and prepaid expenses	25.1	25.2	(0.1)	(0.4)	)%
Other current assets	70.8	51.5	19.3	37.5	%
Total current assets	\$ 1,378.9	\$ 1,481.9	\$(103.0)	(7.0)	)%

Refer to the Consolidated Statements of Cash Flows for a discussion of the change in cash and cash equivalents. Inventories, net increased as a result of the impact of current-year acquisitions, partially offset by foreign currency exchange rate changes and lower production volume. Other current assets increased due to the reclassification of Alcor to assets held for sale of \$13.4 million and income tax receivables of \$11.1 million, partially offset by a reduction in receivables due to cash received related to the sale of real estate in Sao Paulo of \$5.6 million.

## Property, Plant and Equipment, Net:

	September 30, 2015	December 31, 2014	\$ Change	% Change	
Property, plant and equipment	\$ 2,192.6	\$ 2,164.1	\$ 28.5	1.3	%
Accumulated depreciation	(1,409.5)	(1,383.6)	(25.9)	1.9	%
Property, plant and equipment, net	\$ 783.1	\$ 780.5	\$ 2.6	0.3	%

The increase in property, plant and equipment in the first nine months of 2015 was primarily due to current-year acquisitions, partially offset by the impact of foreign currency exchange rate changes, as well as current-year depreciation exceeding capital expenditures.

## Other Assets:

	September 30, 2015	December 31, 2014	\$ Change	% Change	
Goodwill	\$327.1	\$259.5	\$67.6	26.1	%
Non-current pension assets	114.1	176.2	(62.1)	(35.2)	)%
Other intangible assets	277.8	239.8	38.0	15.8	%
Deferred income taxes	18.3	11.2	7.1	63.4	%
Other non-current assets	47.3	52.3	(5.0)	(9.6)	)%
Total other assets	\$784.6	\$739.0	\$45.6	6.2	%

The increase in goodwill was primarily due to the acquisition of Carlstar Belts in the third quarter of 2015. The decrease in non-current pension assets was primarily due to the remeasurement of one of the Company's U.S. defined benefit pension plans as a result of the purchase of a group annuity contract from Prudential that requires Prudential to pay and administer future pension benefits for approximately 5,000 U.S. Timken retirees. The remeasurement decreased the funded status for this plan by \$69.1 million during the first nine months of 2015, partially offset by current-year pension expense. The increase in other intangible assets was primarily due to the acquisition of Carlstar Belts in the third quarter of 2015, partially offset by current-year amortization expense.

## Current Liabilities:

	September 30, 2015	December 31, 2014	\$ Change	% Change	
Short-term debt	\$83.6	\$7.4	\$76.2	NM	
Current portion of long-term debt	15.1	0.6	14.5	NM	
Accounts payable	176.0	143.9	32.1	22.3	%
Salaries, wages and benefits	110.0	146.7	(36.7)	(25.0)	)%
Income taxes payable	75.0	80.2	(5.2)	(6.5)	)%
Other current liabilities	145.9	155.0	(9.1)	(5.9)	)%
Total current liabilities	\$605.6	\$533.8	\$71.8	13.5	%

The increase in short-term debt was primarily due to net borrowings of \$78.0 million under the Accounts Receivable Facility, partially offset by a reduction in borrowings under the foreign lines of credit of \$5.1 million. The increase in current portion of long-term debt was primarily due to the reclassification of \$15 million of the fixed rate medium term notes maturing in the third quarter of 2016. The increase in accounts payable was due primarily to higher days outstanding driven by the Company's initiative to extend payment terms. The decrease in accrued salaries, wages and benefits was the result of the payout of the 2014 performance-based compensation, partially offset by the accruals for 2015 performance-based compensation. The decrease in other current liabilities was primarily due to a decrease in accrued interest and lower rebate accruals, partially offset by higher restructuring accruals. The decrease in accrued interest was due to the payment of interest for the Company's 2024 Notes and its fixed-rate Medium-Term Notes.

## Non-Current Liabilities:

	September 30, 2015	December 31, 2014	\$ Change	% Change	
Long-term debt	\$625.9	\$522.1	\$103.8	19.9	%
Accrued pension cost	158.8	165.9	(7.1)	(4.3)	)%
Accrued postretirement benefits cost	130.1	141.8	(11.7)	(8.3)	)%
Deferred income taxes	3.8	4.1	(0.3)	(7.3)	)%
Other non-current liabilities	70.8	44.6	26.2	58.7	%
Total non-current liabilities	\$989.4	\$878.5	\$110.9	12.6	%

The increase in long-term debt was due to borrowings of \$120.8 million under the Senior Credit Facility, partially offset by the effect of the reclassification of \$15 million of the fixed rate medium term notes maturing in the third quarter of 2016. The decrease in accrued postretirement benefits cost during the first nine months of 2015 was primarily due to postretirement benefit payments of \$15 million. The increase in other non-current liabilities during the first nine months of 2015 was primarily due to a reclassification of \$31.2 million from current income taxes payable to non-current income taxes payable.

## Shareholders' Equity:

	September 30, 2015	December 31, 2014	\$ Change	% Change	
Common stock	\$954.1	\$952.5	\$1.6	0.2	%
Earnings invested in the business	1,514.6	1,615.4	(100.8)	(6.2)	)%
Accumulated other comprehensive loss	(411.6)	(482.5)	)70.9	(14.7)	)%
Treasury shares	(722.8)	(509.2)	(213.6)	41.9	%
Noncontrolling interest	17.3	12.9	4.4	34.1	%
Total shareholders' equity	\$1,351.6	\$1,589.1	\$(237.5)	(14.9)	)%

Earnings invested in the business in the first nine months of 2015 decreased by net loss attributable to the Company of \$35.1 million and dividends declared of \$65.7 million. The decrease in accumulated other comprehensive loss was due to a pension and postretirement liability adjustment of \$189.0 million (\$120.5 million after tax), partially offset by a \$50.5 million decrease in foreign currency translation. The pension and postretirement liability adjustment was primarily due to pension settlement charges, net of the impact of the remeasurement including the premiums paid. The foreign currency translation adjustments were due to the strengthening of the U.S. dollar relative to most foreign currencies, including the Euro, the British Pound, the Canadian Dollar and the Brazilian Real. See "Other Matters - Foreign Currency" for further discussion regarding the impact of foreign currency translation. The increase in treasury shares was primarily due to the Company's purchase of 5.9 million of its common shares for \$227.9 million, partially offset by net shares issued for stock compensation plans during the first nine months of 2015.



## Cash Flows

	Nine Months Ended September 30,		\$ Change
	2015	2014	
Net cash provided by operating activities - continuing operations	\$246.3	\$172.8	\$73.5
Net cash provided by operating activities - discontinued operations	—	22.6	(22.6)
Net cash provided by operating activities	246.3	195.4	50.9
Net cash used by investing activities - continuing operations	(268.8)	(80.1)	(188.7)
Net cash used by investing activities - discontinued operations	—	(77.0)	77.0
Net cash used by investing activities	(268.8)	(157.1)	(111.7)
Net cash used by financing activities - continuing operations	(90.2)	(275.1)	184.9
Net cash provided by financing activities - discontinued operations	—	100.0	(100.0)
Net cash used by financing activities	(90.2)	(175.1)	84.9
Effect of exchange rate changes on cash	(11.1)	(9.6)	(1.5)
Decrease in cash and cash equivalents	\$(123.8)	\$(146.4)	\$22.6

Operating activities from continuing operations provided net cash of \$246.3 million in the first nine months of 2015, after providing net cash of \$172.8 million in the first nine months of 2014. The increase was due to the impact of \$40.9 million of lower working capital requirements and lower pension contributions and other postretirement benefit payments of \$24.1 million. These factors were offset by lower earnings adjusted for the impact of pension settlement and impairment charges.

The following chart displays the impact of working capital items on cash during the first nine months of 2015 and 2014, respectively:

	Nine Months Ended September 30,		\$ Change
	2015	2014	
Cash Provided (Used):			
Accounts receivable	\$(1.9)	\$(52.6)	\$50.7
Inventories	7.1	(52.1)	\$59.2
Trade accounts payable	27.0	47.3	\$(20.3)
Other accrued expenses	(56.0)	(7.4)	\$(48.6)
Decrease in cash used for working capital items	\$(23.8)	\$(64.8)	\$41.0

Net cash from continuing operations used by investing activities of \$268.8 million in the first nine months of 2015 increased from the same period in 2014 primarily due to a \$201.6 million increase in cash used for acquisitions, partially offset by a \$22.0 million decrease in cash used for capital expenditures.

Net cash from continuing operations used by financing activities was \$90.2 million in the first nine months of 2015, compared to \$275.1 million in the first nine months of 2014. The decrease in cash used by financing activities was primarily due to an increase in net borrowings, a decrease in cash transferred to TimkenSteel in 2014 and lower total cost of purchases of the Company's common shares during the first nine months of 2015 compared to the first nine months of 2014, partially offset by net proceeds from the exercise of options.

The following chart displays the factors impacting cash from financing activities during the first nine months of 2015 and 2014, respectively:

	Nine Months Ended September 30,		\$ Change
	2015	2014	

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Net Borrowings	\$196.0	\$86.1	\$109.9
Cash transferred to TimkenSteel Corporation	—	(46.5)	)46.5
Purchase of treasury shares	(227.9)	) (266.5)	)38.6
Proceeds from exercise of stock options	4.0	16.7	(12.7 )
Cash dividends paid to shareholders	(65.7)	) (68.2)	)2.5
Other	3.4	3.3	0.1
Decrease in cash used for financing activities	\$(90.2)	) \$(275.1)	) \$184.9

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## Liquidity and Capital Resources:

At September 30, 2015, total debt of \$724.6 million exceeded cash, cash equivalents and restricted cash of \$169.8 million by \$554.8 million. At December 31, 2014, total debt of \$530.1 million exceeded cash, cash equivalents and restricted cash of \$294.1 million by \$236.0 million. The ratio of net debt to capital was 29.1% at September 30, 2015 and 12.9% at December 31, 2014.

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

## Net Debt:

	September 30, 2015	December 31, 2014
Short-term debt	\$83.6	\$7.4
Current portion of long-term debt	15.1	0.6
Long-term debt	625.9	522.1
Total debt	\$724.6	\$530.1
Less: Cash and cash equivalents	155.0	278.8
Restricted cash	14.8	15.3
Net debt	\$554.8	\$236.0

## Ratio of Net Debt to Capital:

	September 30, 2015	December 31, 2014
Net debt	\$554.8	\$236.0
Shareholders' equity	1,351.6	1,589.1
Net debt plus shareholders' equity (capital)	\$1,906.4	\$1,825.1
Ratio of net debt to capital	29.1	% 12.9%

The Company presents net debt because it believes net debt is more representative of the Company's financial position than total debt due to the amount of cash and cash equivalents held by the Company.

At September 30, 2015, approximately \$138 million, or 89%, of the Company's cash and cash equivalents resided in jurisdictions outside the United States. Repatriation of these funds to the United States could be subject to domestic and foreign taxes and some portion may be subject to governmental restrictions. Part of the Company's strategy is to grow in attractive market sectors, many of which are outside the United States. This strategy may include making investments in facilities and equipment and potential new acquisitions. The Company plans to fund these investments, as well as meet working capital requirements, with cash and cash equivalents and unused lines of credit within the geographic location of these investments when possible.

The Company has a \$100 million Accounts Receivable Facility, which matures on November 30, 2015. The Company currently expects to extend the term of the Accounts Receivable Facility. The Accounts Receivable Facility is subject to certain borrowing base limitations and is secured by certain domestic accounts receivable of the Company. As of September 30, 2015, the Company had \$78.0 million in outstanding borrowings, at an interest rate of 0.98%. There was no additional borrowing capacity available under the Accounts Receivable Facility, at September 30, 2015.

The Company has a \$500 million Senior Credit Facility, which matures on June 19, 2020. At September 30, 2015, the Senior Credit Facility had outstanding borrowings of \$120.8 million, which reduced the availability to \$379.2 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, 2015, 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 3.5 to 1.0 (3.75 to 1.0 for a limited period up to four quarters following an acquisition with a purchase price of \$200 million or greater). As of September 30, 2015, the Company's consolidated leverage ratio was 1.62 to 1.0. The minimum consolidated interest coverage ratio permitted under the Senior Credit Facility is 3.5 to 1.0. As of September 30, 2015, the Company's consolidated interest coverage ratio was 14.86 to 1.0.

The interest rate under the Senior Credit Facility is based on the Company's debt rating. The rate was 1.48% as of September 30, 2015. In addition, the Company pays a facility fee based on the consolidated leverage ratio multiplied by the aggregate commitments of all of the lenders under this agreement.

Other sources of liquidity include short-term lines of credit for certain of the Company's foreign subsidiaries, which provide for borrowings up to \$222.9 million. The majority of these lines are uncommitted. At September 30, 2015, the Company had borrowings outstanding of \$5.6 million and guarantees of \$5.1 million, which reduced the availability under these facilities to \$212.2 million.

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

The Company expects to remain in compliance with its debt covenants. However, the Company may need to limit its borrowings under the Senior Credit Facility or other facilities in order to remain in compliance. As of September 30, 2015, the Company could have borrowed the full amounts available under the Senior Credit Facility and Accounts Receivable Facility, and would have still been in compliance with its debt covenants.

The Company expects cash from operations in 2015 to increase to approximately \$300 million as the Company anticipates lower working capital requirements offset by cash used for income taxes. The Company expects to make approximately \$15 million in pension and postretirement contributions in 2015, compared to \$21.1 million in 2014. The Company expects capital expenditures of approximately 3.5% of sales in 2015, compared to 4.2% of sales in 2014.

#### Financing Obligations and Other Commitments:

During the first nine months of 2015, the Company made contributions of \$6.9 million to its global defined benefit pension plans. The Company currently expects to make contributions to its global defined benefit pension plans in 2015 totaling approximately \$15 million. Returns for the Company's global defined benefit pension plan assets in 2014 were 11.2%, above the expected rate-of-return assumption of 7.25% due to broad increases in global equity markets. These higher returns positively impacted the funded status of the plans at the end of 2014 and are expected to result in lower pension expense and required pension contributions in future years. Returns for the Company's U.S. defined benefit plan pension assets for the first nine months of 2015 were approximately negative 0.8%. The Company expects to record pension expense of approximately \$273 million for 2015, compared to pension expense of \$54.6 million in 2014. The majority of the increase in pension expense for 2015 is due to pension settlement charges in 2015, substantially all of which expense was recorded during the first quarter of 2015.

During the first nine months of 2015, the Company purchased approximately 5.9 million of its common shares for \$227.9 million under the Company's 2012 common share purchase plan. The Company's 2012 common share

purchase plan authorizes the Company to buy its common shares, in the open market or in privately negotiated transactions, which are to be held as treasury shares and used for specified purposes. As of September 30, 2015, approximately 3.0 million common shares remain authorized for purchase under this plan. The authorization expires on December 31, 2015.

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

Critical Accounting Policies and Estimates:

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The Company reviews its critical accounting policies throughout the year. The Company has concluded that there have been no changes to its critical accounting policies or estimates, as described in its Annual Report on Form 10-K for the year ended December 31, 2014, during the nine months ended September 30, 2015.

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 each month during the quarter. Related translation adjustments are reflected as a separate component of accumulated other comprehensive income (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 2015 were \$0.5 million compared to a loss of \$1.8 million during the third quarter of 2014. Foreign currency exchange losses of \$1.0 million included in the Company's operating results for the first nine months of 2015 compared to a loss of \$5.0 million during the first nine months of 2014. For the nine months ended September 30, 2015, the Company recorded a negative foreign currency translation adjustment of \$52.1 million that decreased shareholders' equity, compared to a positive foreign currency translation adjustment of \$17.6 million that increased shareholders' equity for the nine months ended September 30, 2014. The foreign currency translation adjustments for the nine months ended September 30, 2015 were negatively impacted by the strengthening of the U.S. dollar relative to most foreign currencies, including the Euro, the British Pound, the Canadian Dollar and the Brazilian Real.



## Forward-Looking Statements

Certain statements set forth in this Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (including the Company's forecasts, beliefs and expectations) that are not historical in nature are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management's Discussion and Analysis contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "outlook," "may," "possible," "potential," "predict," "project" or other similar words, phrases or expressions. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. The Company cautions readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of the Company due to a variety of factors, such as:

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

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

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

changes in operating costs. This includes: the effect of changes in the Company's manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability and cost of raw materials and energy; 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 plant shutdowns; and changes in the cost of labor and benefits;

the success of the Company's operating plans, announced programs, initiatives and capital investments; the ability to complete previously announced transactions; the ability to integrate acquired companies; and the ability of acquired companies to achieve satisfactory operating results, including results being accretive to earnings;

The Company's ability to maintain appropriate relations with unions that represent Company associates in certain locations in order to avoid disruptions of business;

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

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

the impact on the Company's pension obligations due to changes in interest rates, investment performance and other tactics designed to reduce risk; and

those items identified under Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q. Furthermore, a discussion of market risk exposures is included in Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk, of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in reported market risk since the inclusion of this discussion in the Company's Annual Report on Form 10-K referenced above.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Disclosure Controls and Procedures

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

#### (b) Changes in Internal Control Over Financial Reporting

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

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 included 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, 2014.

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

## Issuer Purchases of Common Shares

The following table provides information about purchases by the Company of its common shares during the quarter ended September 30, 2015.

Period	Total number of shares purchased <sup>(1)</sup>	Average price paid per share <sup>(2)</sup>	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 <sup>(3)</sup>
7/1/15 - 7/31/15	630,238	\$34.70	630,000	3,947,209
8/1/15 - 8/31/15	514,288	32.58	514,288	3,432,921
9/1/15 - 9/30/15	405,091	29.91	405,006	3,027,915
Total	1,549,617	\$32.74	1,549,294	3,027,915

Of the shares purchased in July and September, 238 and 85, respectively, represent common shares of the (1) Company that were 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.

For shares tendered in connection with the vesting of restricted shares, the average price paid per share is an average calculated using the daily high and low of the Company's common shares as quoted on the New York (2) 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.

On February 10, 2012, the Board of Directors of the Company approved a share purchase plan pursuant to which the Company may purchase up to ten million of its common shares in the aggregate. On June 13, 2014, the Board (3) of Directors of the Company authorized an additional ten million common shares for repurchase under this plan. This share purchase plan expires on December 31, 2015. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

Item 6. Exhibits

- 31.1 Certification of Richard G. Kyle, 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 Philip D. Fracassa, Executive Vice President and Chief Financial Officer (principal financial officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of Richard G. Kyle, President and Chief Executive Officer (principal executive officer) and Philip D. Fracassa, Executive Vice President and Chief Financial Officer (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, 2015, filed on October 28, 2015, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

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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: October 28, 2015

By: /s/ Richard G. Kyle  
Richard G. Kyle  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: October 28, 2015

By: /s/ Philip D. Fracassa  
Philip D. Fracassa  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)