

TIMKEN CO
Form DEFA14A
April 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

The Timken Company

(Name of Registrant as Specified In Its Charter)

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No fee required.

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The Timken Company issued a press release today, the full text of which follows.

NEWS RELEASE

The Timken Company Sends Letter to Shareholders

Recommends Shareholders Reject Proposal

To Spin-Off the Steel Business

Company Discusses Proposal's Flaws with CalSTRS and Relational Investors

CANTON, Ohio: April 2, 2013 The Timken Company (NYSE: TKR; www.timken.com) today announced that it sent a letter urging shareholders to support the company's proven strategy of creating shareholder value and to vote **AGAINST** Item No. 6 of its proxy statement, the shareholder proposal to spin-off the Steel business. Timken also announced that members of its board and management team met with The California State Teachers' Retirement System (CalSTRS) and Relational Investors today to discuss the flaws in the analysis behind the proposal and articulate the reasons why Timken believes its comprehensive strategic plan is the best path to create long-term value for shareholders.

As we have in the past, we outlined for CalSTRS and Relational Investors the benefits of our integrated platform and comprehensive strategic plan to drive value for shareholders as well as the flaws in the analysis of a spin-off of our Steel business," said James W. Griffith, Timken president and chief executive officer. "It is clear to us that our proven business model and strategy to create shareholder value represent the best path forward for all Timken shareholders.

The Timken Company

Included below is the full text of the letter to Timken shareholders, which can also be found at www.TimkenDrivesValue.com:

April 2, 2013

Dear Fellow Timken Shareholder:

**SUPPORT THE TIMKEN COMPANY'S PROVEN STRATEGY
TO CREATE SHAREHOLDER VALUE**

DO NOT BE MISLED BY THE MISGUIDED SHAREHOLDER PROPOSAL

ADVOCATING A CHANGE IN COURSE

VOTE AGAINST THE SHAREHOLDER PROPOSAL TO SPIN-OFF THE STEEL BUSINESS

Your Board and management team are successfully executing a carefully considered plan to deliver long-term value to Timken shareholders. Over the last several years, we have transformed Timken into a global industrial technology leader with products designed to improve the efficiency and reliability of the machinery that keeps industry in motion. Our product portfolio features mechanical components and engineered steel products used in some of the world's most demanding applications.

The success of this effort leverages strengths across The Timken Company's businesses, including shared research and technical expertise and supply chain and operating efficiencies between our Steel business and our Bearing and Power Transmission (B&PT) business, to deliver solutions across common end markets and customers. A separation of Timken Steel from the rest of the enterprise would compromise the Company's competitive advantage and our ability to leverage these benefits to deliver higher financial returns.

The shareholder proposal by The California State Teachers' Retirement System (CalSTRS) and Relational Investors that you are being asked to vote on would derail our strategy and deprive shareholders of the opportunity for long-term value—all in a misguided attempt to create illusory short-term gains through financial engineering. Your Board and management team have carefully reviewed a separation of the businesses, with input from outside advisors, in the past and have met with Relational Investors multiple times, most recently on April 2, 2013, in a meeting that also included CalSTRS. Based on its careful review, the Board has determined that maintaining The Timken Company's current integrated strategy is in the best interests of shareholders at this time.

OUR PROVEN STRATEGY IS WORKING TO DELIVER SUPERIOR VALUE FOR YOU

The strength of our operating performance as an integrated company has produced superior value for you—with total shareholder returns of 111% over the last three yearsⁱ. This puts Timken at the top of our peer group and well above the returns for the overall market.

The Timken Company

DO NOT ALLOW SHAREHOLDERS WITH A MISGUIDED, SHORT-TERM FOCUS TO DERAIL OUR TIMKEN PLAN

Timken is committed to continuing to deliver value by executing our strategic plan, which includes:

Strengthen Margins. The Timken transformation has resulted in a leaner, more variable cost structure and the increased ability to tightly control the supply chain in response to market variability. These actions, together with the expansion of the Timken portfolio to include complementary products and services across the Steel and B&PT businesses, have resulted in stronger margins.

Improve Cash Flow and Pension Funding. The Company projects that its defined benefit pension plans will be substantially fully funded in 2013. In addition, we expect improved working capital management and lower projected capital spending beyond 2013 to result in increased cash flow.

Leverage Growth Opportunities. Timken expects to generate annual sales growth of 6% to 11% through 2015, driven by new products and geographic expansion as well as targeted acquisitions.

Return Capital. Timken has paid a dividend to shareholders in every quarter since the Company became public in 1922. In addition, your Board has authorized the repurchase of up to 10 million shares. Returning capital to shareholders through ongoing dividends and the continued execution of the share repurchase program is an integral part of the Company's plan for delivering value.

SYNERGIES BETWEEN STEEL AND B&PT BUSINESSES CREATE VALUE

The Timken Steel and B&PT businesses are tightly integrated and synergies related to the supply chain, shared research and technical expertise yield important benefits for customers and shareholders. Over the past five years, on average 58% of B&PT's steel requirements were sourced from Timken-produced steel. These supply chain efficiencies make possible lower costs, faster lead times and higher customer satisfaction levels as our B&PT business goes to market. Additionally, by combining shared R&D with 100 years of metallurgy and application knowledge across our businesses, we are able to provide customers the highest quality bearings and steel products for some of the toughest mechanical power transmission applications, an advantage that none of our competitors have. These capabilities translate into benefits for Timken shareholders in the form of higher margins driven by value-based pricing and enhanced market competitiveness and responsiveness due to our greater insights into customers and our targeted end markets.

DON'T BE MISLED BY RELATIONAL'S FLAWED SPIN-OFF ANALYSIS

The shareholder proposal to spin-off the Steel business is based on a flawed analysis that suggests the combined value of separate Steel and B&PT companies would be substantially higher than the value of Timken today simply as a result of separating the two businesses. Relational Investors asks you to believe that the market would give a separate B&PT business a price/earnings ratio 33% higher than the median price/earnings ratio of Timken B&PT's peers. Does that make sense to you?

In addition, Relational assumes Timken would lose only \$25 million in annual pre-tax earnings from a separation of the businesses while our analysis shows we would expect to lose \$60-80 million in annual pre-tax earnings from duplicative costs and loss of synergies. Moreover, Relational ignores the fact that a standalone Steel business would be one of the smallest publicly traded steel companies. Given its small size and scale, the rating agencies would likely assign non-investment grade credit ratings to the company. This would increase its cost of capital and reduce its financial flexibility to take on important, high-return projects like the Faircrest expansion, which we are currently implementing to improve profitability across industry cycles through reduced costs while expanding the market capabilities of the Steel business.

In summary, once the flaws in Relational's analysis are corrected, it is clear that the Company's proven business model and strategy to create shareholder value represent the best path forward for all of the Company's shareholders.

VOTE AGAINST THE MISGUIDED PROPOSAL TO SPIN-OFF THE STEEL BUSINESS

Your Board and management team have carefully reviewed the shareholder proposal and have concluded it is not in the best interests of shareholders at this time. It amounts to a self-interested attempt to generate illusory short-term profits at the expense of long-term value creation. **Support the Timken strategy to achieve long-term value through the continued successful execution of our strategic plan. Please cast your vote today AGAINST this shareholder proposal.** For more information, please visit www.TimkenDrivesValue.com. Thank you for your continued support of The Timken Company.

On behalf of the Board of Directors of The Timken Company,

Joseph W. Ralston

Lead Independent Director

Your Vote Is Important, No Matter How Many Shares You Own.

If you have questions about how to vote your shares,

or need additional assistance, please contact the firm assisting us in the solicitation of proxy votes:

GEORGESON

Stockholders Call Toll-Free: 888-666-2594

Banks and Brokers Call: 800-223-2064

IMPORTANT

We urge you to vote AGAINST Item No. 6.

The Timken Company

About The Timken Company

The Timken Company (NYSE: TKR; www.timken.com), a global industrial technology leader, applies its deep knowledge of materials, friction management and power transmission to improve the reliability and efficiency of machinery and equipment all around the world. The company engineers, manufactures and markets mechanical components and high-performance steel. Timken® bearings, engineered steel bars and tubes as well as transmissions, gearboxes, chain, related products and services support diversified markets worldwide. With sales of \$5.0 billion in 2012 and approximately 20,000 people operating from 30 countries, Timken makes the world more productive and keeps industry in motion.

FORWARD-LOOKING STATEMENTS SAFE HARBOR

Certain statements in this news release (including statements regarding the company's forecasts, beliefs, estimates and expectations) that are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, the statements related to The Timken Company's plans, outlook, future financial performance, targets, projected sales, cash flows and liquidity are forward-looking. The company cautions that actual results may differ materially from those projected or implied in forward-looking statements due to a variety of important factors, including: the company's ability to respond to the changes in its end markets that could affect demand for the company's products; unanticipated changes in business relationships with customers or their purchases from the company; changes in the financial health of the company's customers, which may have an impact on the company's revenues, earnings and impairment charges; fluctuations in raw-material and energy costs and their impact on the operation of the company's surcharge mechanisms; the impact of the company's last-in, first-out accounting; weakness in global or regional economic conditions and financial markets; changes in the expected costs associated with product warranty claims; the ability to integrate acquired companies to achieve satisfactory operating results; the impact on operations of general economic conditions; higher or lower raw-material and energy costs; fluctuations in customer demand; the company's ability to achieve the benefits of its ongoing programs, initiatives & capital investments; the timing and amount of common share repurchases; and retention of CDSOA distributions. Additional factors are discussed in the company's filings with the Securities and Exchange Commission, including the company's annual report on Form 10-K for the year ended Dec. 31, 2012, quarterly reports on Form 10-Q and current reports on Form 8-K. The company undertakes no obligation to update or revise any forward-looking statement.

Important Additional Information

The Timken Company, its directors, and certain of its officers are participants in the solicitation of proxies from Timken shareholders in connection with the Company's 2013 Annual Meeting of Shareholders. Important information concerning the identity and interests of these persons is available in the definitive proxy statement that Timken filed with the SEC on March 21, 2013.

The Timken Company

The definitive proxy statement, any other relevant documents and other materials filed with the SEC concerning Timken are available free of charge at www.sec.gov and www.timken.com/investors. Shareholders should carefully read the definitive proxy statement before making any voting decision.

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Media Contact:

Pat Carlson

Global Media Manager
1835 Dueber Avenue, S.W.
Canton, OH 44706-0927 U.S.A.
Telephone: (330) 471-3514
pat.carlson@timken.com

Investor Contact:

Steve Tschiegg

Director Capital Markets & Investor Relations
1835 Dueber Avenue, S.W.
Canton, OH 44706-0927 U.S.A.
Telephone: (330) 471-7446
steve.tschiegg@timken.com

ⁱ Source: Factset as of December 31, 2012.

ⁱⁱ Comparison based on the median price / earnings ratio of B&PT peers which include Kennametal, Altra Holdings, SKF, NSK and JTEKT as of February 26, 2013.