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TIMKEN CO

Form 10-Q

October 25, 2017

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**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, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-1169

**THE TIMKEN COMPANY**

(Exact name of registrant as specified in its charter)

**OHIO**

(State or other jurisdiction of  
incorporation or organization)

**34-0577130**

(I.R.S. Employer  
Identification No.)

**4500 Mount Pleasant Street NW**

**North Canton, Ohio**

(Address of principal executive offices)

**234.262.3000**

**44720-5450**

(Zip Code)

(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 ☐

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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," a "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2017 |
|-------|-----------------------------------|
|-------|-----------------------------------|

|                                  |                   |
|----------------------------------|-------------------|
| Common Shares, without par value | 77,617,122 shares |
|----------------------------------|-------------------|

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Table of Contents

THE TIMKEN COMPANY  
INDEX TO FORM 10-Q REPORT

|                                                                                                      | <u>PAGE</u> |
|------------------------------------------------------------------------------------------------------|-------------|
| I. <u>PART I.</u>                                                                                    |             |
| Item 1. <u>Financial Statements</u>                                                                  | <u>1</u>    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>28</u>   |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | <u>48</u>   |
| Item 4. <u>Controls and Procedures</u>                                                               | <u>48</u>   |
| II. <u>PART II.</u>                                                                                  |             |
| Item 1. <u>Legal Proceedings</u>                                                                     | <u>49</u>   |
| Item1A. <u>Risk Factors</u>                                                                          | <u>49</u>   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>49</u>   |
| Item 6. <u>Exhibits</u>                                                                              | <u>50</u>   |

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE TIMKEN COMPANY AND SUBSIDIARIES****Consolidated Statements of Income****(Unaudited)**

|                                                                                             | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|---------------------------------------------------------------------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                                                                             | <b>2017</b>                             | <b>2016</b> | <b>2017</b>                            | <b>2016</b> |
|                                                                                             |                                         | (Revised)   |                                        | (Revised)   |
| (Dollars in millions, except per share data)                                                |                                         |             |                                        |             |
| Net sales                                                                                   | <b>\$771.4</b>                          | \$ 657.4    | <b>\$2,225.8</b>                       | \$2,015.0   |
| Cost of products sold                                                                       | <b>554.4</b>                            | 487.7       | <b>1,626.5</b>                         | 1,477.7     |
| <b>Gross Profit</b>                                                                         | <b>217.0</b>                            | 169.7       | <b>599.3</b>                           | 537.3       |
| Selling, general and administrative expenses                                                | <b>134.0</b>                            | 107.2       | <b>377.4</b>                           | 331.3       |
| Pension settlement expenses                                                                 | —                                       | 0.1         | —                                      | 1.3         |
| Impairment and restructuring charges                                                        | <b>1.3</b>                              | 5.3         | <b>3.8</b>                             | 18.7        |
| <b>Operating Income</b>                                                                     | <b>81.7</b>                             | 57.1        | <b>218.1</b>                           | 186.0       |
| Interest expense                                                                            | <b>(10.1 )</b>                          | (8.0 )      | <b>(26.5 )</b>                         | (25.1 )     |
| Interest income                                                                             | <b>0.7</b>                              | 0.4         | <b>2.0</b>                             | 1.1         |
| Continued Dumping & Subsidy Offset Act income (expense), net                                | —                                       | (0.2 )      | —                                      | 53.6        |
| Other income (expense), net                                                                 | <b>2.9</b>                              | (0.1 )      | <b>9.1</b>                             | (1.8 )      |
| <b>Income Before Income Taxes</b>                                                           | <b>75.2</b>                             | 49.2        | <b>202.7</b>                           | 213.8       |
| Provision for income taxes                                                                  | <b>21.1</b>                             | 15.2        | <b>28.5</b>                            | 65.8        |
| <b>Net Income</b>                                                                           | <b>54.1</b>                             | 34.0        | <b>174.2</b>                           | 148.0       |
| Less: Net income attributable to noncontrolling interest                                    | <b>0.6</b>                              | 0.4         | —                                      | 0.3         |
| <b>Net Income attributable to The Timken Company</b>                                        | <b>\$53.5</b>                           | \$ 33.6     | <b>\$174.2</b>                         | \$ 147.7    |
| <b>Net Income per Common Share attributable to The Timken Company's Common Shareholders</b> |                                         |             |                                        |             |
| <b>Basic earnings per share</b>                                                             | <b>\$0.69</b>                           | \$ 0.43     | <b>\$2.24</b>                          | \$ 1.87     |
| <b>Diluted earnings per share</b>                                                           | <b>\$0.68</b>                           | \$ 0.43     | <b>\$2.21</b>                          | \$ 1.86     |
| <b>Dividends per share</b>                                                                  | <b>\$0.27</b>                           | \$ 0.26     | <b>\$0.80</b>                          | \$ 0.78     |
| See accompanying Notes to the Consolidated Financial Statements.                            |                                         |             |                                        |             |

**Consolidated Statements of Comprehensive Income (Unaudited)**

|                                                          | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|----------------------------------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                                          | <b>2017</b>                             | <b>2016</b> | <b>2017</b>                            | <b>2016</b> |
|                                                          |                                         | (Revised)   |                                        | (Revised)   |
| (Dollars in millions)                                    |                                         |             |                                        |             |
| Net Income                                               | <b>\$54.1</b>                           | \$ 34.0     | <b>\$174.2</b>                         | \$ 148.0    |
| Other comprehensive income (loss), net of tax:           |                                         |             |                                        |             |
| Foreign currency translation adjustments                 | <b>10.9</b>                             | 3.7         | <b>42.8</b>                            | 5.2         |
| Pension and postretirement liability adjustment          | <b>0.1</b>                              | 0.4         | <b>0.2</b>                             | 1.2         |
| Change in fair value of derivative financial instruments | <b>(2.0 )</b>                           | —           | <b>(4.2 )</b>                          | (1.6 )      |

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|                                                                    |               |         |                |          |
|--------------------------------------------------------------------|---------------|---------|----------------|----------|
| Other comprehensive income, net of tax                             | 9.0           | 4.1     | 38.8           | 4.8      |
| <b>Comprehensive Income, net of tax</b>                            | <b>63.1</b>   | 38.1    | <b>213.0</b>   | 152.8    |
| Less: comprehensive income attributable to noncontrolling interest | 0.5           | 1.0     | 1.9            | 2.2      |
| <b>Comprehensive Income attributable to The Timken Company</b>     | <b>\$62.6</b> | \$ 37.1 | <b>\$211.1</b> | \$ 150.6 |

See accompanying Notes to the Consolidated Financial Statements.



Table of Contents**Consolidated Balance Sheets**

|                                                                                     | (Unaudited)<br>September 30,<br>2017 | (Revised)<br>December 31,<br>2016 |
|-------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------|
| (Dollars in millions)                                                               |                                      |                                   |
| <b>ASSETS</b>                                                                       |                                      |                                   |
| <b>Current Assets</b>                                                               |                                      |                                   |
| Cash and cash equivalents                                                           | \$ 137.2                             | \$ 148.8                          |
| Restricted cash                                                                     | 3.3                                  | 2.7                               |
| Accounts receivable, less allowances (2017 – \$20.5 million; 2016 – \$20.2 million) | 542.2                                | 438.0                             |
| Inventories, net                                                                    | 687.5                                | 553.7                             |
| Deferred charges and prepaid expenses                                               | 39.9                                 | 20.3                              |
| Other current assets                                                                | 64.2                                 | 48.4                              |
| <b>Total Current Assets</b>                                                         | <b>1,474.3</b>                       | <b>1,211.9</b>                    |
| <b>Property, Plant and Equipment, net</b>                                           | <b>842.2</b>                         | <b>804.4</b>                      |
| <b>Other Assets</b>                                                                 |                                      |                                   |
| Goodwill                                                                            | 510.3                                | 357.5                             |
| Non-current pension assets                                                          | 31.6                                 | 32.1                              |
| Other intangible assets                                                             | 428.9                                | 271.0                             |
| Deferred income taxes                                                               | 47.9                                 | 51.4                              |
| Other non-current assets                                                            | 28.4                                 | 34.9                              |
| <b>Total Other Assets</b>                                                           | <b>1,047.1</b>                       | <b>746.9</b>                      |
| <b>Total Assets</b>                                                                 | <b>\$ 3,363.6</b>                    | <b>\$ 2,763.2</b>                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                         |                                      |                                   |
| <b>Current Liabilities</b>                                                          |                                      |                                   |
| Short-term debt                                                                     | \$ 41.1                              | \$ 19.2                           |
| Current portion of long-term debt                                                   | 5.0                                  | 5.0                               |
| Accounts payable, trade                                                             | 248.1                                | 176.2                             |
| Salaries, wages and benefits                                                        | 112.2                                | 85.9                              |
| Income taxes payable                                                                | 7.4                                  | 16.9                              |
| Other current liabilities                                                           | 154.9                                | 149.5                             |
| <b>Total Current Liabilities</b>                                                    | <b>568.7</b>                         | <b>452.7</b>                      |
| <b>Non-Current Liabilities</b>                                                      |                                      |                                   |
| Long-term debt                                                                      | 959.8                                | 635.0                             |
| Accrued pension cost                                                                | 160.3                                | 154.7                             |
| Accrued postretirement benefits cost                                                | 126.7                                | 131.5                             |
| Deferred income taxes                                                               | 44.9                                 | 3.9                               |
| Other non-current liabilities                                                       | 47.3                                 | 74.5                              |
| <b>Total Non-Current Liabilities</b>                                                | <b>1,339.0</b>                       | <b>999.6</b>                      |
| <b>Shareholders' Equity</b>                                                         |                                      |                                   |
| Class I and II Serial Preferred Stock, without par value:                           |                                      |                                   |
| Authorized – 10,000,000 shares each class, none issued                              | —                                    | —                                 |
| Common stock, without par value:                                                    |                                      |                                   |
| Authorized – 200,000,000 shares                                                     |                                      |                                   |

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|                                                                                            |                   |            |
|--------------------------------------------------------------------------------------------|-------------------|------------|
| Issued (including shares in treasury) (2017 – 98,375,135 shares; 2016 – 98,375,135 shares) |                   |            |
| Stated capital                                                                             | <b>53.1</b>       | 53.1       |
| Other paid-in capital                                                                      | <b>898.2</b>      | 906.9      |
| Earnings invested in the business                                                          | <b>1,400.2</b>    | 1,289.3    |
| Accumulated other comprehensive loss                                                       | <b>(41.0)</b>     | ) (77.9 )  |
| Treasury shares at cost (2017 – 20,758,013 shares; 2016 – 20,925,492 shares)               | <b>(887.5)</b>    | ) (891.7 ) |
| <b>Total Shareholders' Equity</b>                                                          | <b>1,423.0</b>    | 1,279.7    |
| Noncontrolling Interest                                                                    | <b>32.9</b>       | 31.2       |
| <b>Total Equity</b>                                                                        | <b>1,455.9</b>    | 1,310.9    |
| <b>Total Liabilities and Shareholders' Equity</b>                                          | <b>\$ 3,363.6</b> | \$ 2,763.2 |
| See accompanying Notes to the Consolidated Financial Statements.                           |                   |            |

Table of Contents**Consolidated Statements of Cash Flows  
(Unaudited)**

|                                                                                   | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------------|------------------------------------------------|-------------|
|                                                                                   | <b>2017</b>                                    | <b>2016</b> |
|                                                                                   |                                                | (Revised)   |
| (Dollars in millions)                                                             |                                                |             |
| <b>CASH PROVIDED (USED)</b>                                                       |                                                |             |
| <b>Operating Activities</b>                                                       |                                                |             |
| Net income attributable to The Timken Company                                     | <b>\$174.2</b>                                 | \$ 147.7    |
| Net income attributable to noncontrolling interest                                | —                                              | 0.3         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                                |             |
| Depreciation and amortization                                                     | <b>102.5</b>                                   | 98.3        |
| Impairment charges                                                                | —                                              | 3.8         |
| (Gain) loss on sale of assets                                                     | <b>(2.6 )</b>                                  | 0.8         |
| Deferred income tax provision                                                     | <b>7.5</b>                                     | 4.6         |
| Stock-based compensation expense                                                  | <b>18.2</b>                                    | 10.9        |
| Pension and other postretirement expense                                          | <b>12.6</b>                                    | 14.5        |
| Pension contributions and other postretirement benefit payments                   | <b>(16.3 )</b>                                 | (22.3 )     |
| Changes in operating assets and liabilities:                                      |                                                |             |
| Accounts receivable                                                               | <b>(61.6 )</b>                                 | 12.2        |
| Inventories                                                                       | <b>(85.4 )</b>                                 | (13.6 )     |
| Accounts payable, trade                                                           | <b>55.7</b>                                    | 15.0        |
| Other accrued expenses                                                            | <b>15.9</b>                                    | (17.5 )     |
| Income taxes                                                                      | <b>(59.6 )</b>                                 | 22.9        |
| Other, net                                                                        | <b>(18.2 )</b>                                 | 1.1         |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>142.9</b>                                   | 278.7       |
| <b>Investing Activities</b>                                                       |                                                |             |
| Capital expenditures                                                              | <b>(62.5 )</b>                                 | (84.4 )     |
| Acquisitions, net of cash received                                                | <b>(347.2 )</b>                                | (62.8 )     |
| Proceeds from disposal of property, plant and equipment                           | <b>6.8</b>                                     | 1.5         |
| Investments in short-term marketable securities, net                              | <b>(4.2 )</b>                                  | 2.1         |
| Other                                                                             | <b>(0.3 )</b>                                  | 0.3         |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(407.4 )</b>                                | (143.3 )    |
| <b>Financing Activities</b>                                                       |                                                |             |
| Cash dividends paid to shareholders                                               | <b>(62.4 )</b>                                 | (61.4 )     |
| Purchase of treasury shares                                                       | <b>(41.0 )</b>                                 | (83.3 )     |
| Proceeds from exercise of stock options                                           | <b>27.7</b>                                    | 0.7         |
| Shares surrendered for taxes                                                      | <b>(10.8 )</b>                                 | (1.6 )      |
| Accounts receivable facility borrowings                                           | <b>51.2</b>                                    | 50.0        |
| Accounts receivable facility payments                                             | <b>(25.3 )</b>                                 | (30.1 )     |
| Proceeds from long-term debt                                                      | <b>862.7</b>                                   | 275.5       |
| Payments on long-term debt                                                        | <b>(574.4 )</b>                                | (290.1 )    |
| Deferred financing costs                                                          | <b>(1.1 )</b>                                  | —           |
| Short-term debt activity, net                                                     | <b>12.8</b>                                    | (1.4 )      |
| Increase in restricted cash                                                       | <b>(0.5 )</b>                                  | (2.5 )      |
| Other                                                                             | <b>(2.6 )</b>                                  | 4.5         |

|                                                            |                |          |
|------------------------------------------------------------|----------------|----------|
| <b>Net Cash Provided by (Used in) Financing Activities</b> | <b>236.3</b>   | (139.7 ) |
| Effect of exchange rate changes on cash                    | <b>16.6</b>    | 3.7      |
| <b>Decrease in Cash and Cash Equivalents</b>               | <b>(11.6 )</b> | (0.6 )   |
| Cash and cash equivalents at beginning of year             | <b>148.8</b>   | 129.6    |
| <b>Cash and Cash Equivalents at End of Period</b>          | <b>\$137.2</b> | \$ 129.0 |

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

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 accompanying Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Certain amounts recorded in 2016 consolidated financial statements and accompanying footnotes have been reclassified to conform to the current presentation.

*Note 2 - Change in Accounting Principles*

Effective January 1, 2017, the Company voluntarily changed its accounting principles for recognizing actuarial gains and losses and expected returns on plan assets for its defined benefit pension and other postretirement benefit plans, with retrospective application to prior periods. Prior to 2017, the Company amortized, as a component of pension and other postretirement expense, unrecognized actuarial gains and losses (included within accumulated other comprehensive income (loss)) over the average remaining service period of active plan participants expected to receive benefits under the plan, or average remaining life expectancy of inactive plan participants when all or almost all of individual plan participants were inactive. The Company also historically calculated the market-related value of plan assets based on a five-year market adjustment. Under the new principles, actuarial gains and losses will be immediately recognized through net periodic benefit cost in the Statement of Income, upon the annual remeasurement in the fourth quarter, or on an interim basis if specific events trigger a remeasurement. In addition, the Company has changed its accounting policy for measuring the market-related value of plan assets from a calculated amount (based on a five-year smoothing of asset returns) to fair value. The Company believes these changes are preferable as they result in an accelerated recognition of actuarial gains and losses and changes in fair value of plan assets in its Consolidated Statement of Income, which provides greater transparency and better aligns with fair value principles by fully reflecting the impact of interest rate and economic changes on the Company's pension and other postretirement benefit liabilities and assets in the Company's operating results in the year in which the gains and losses are incurred. As of January 1, 2017, the cumulative effect of the change in accounting principles resulted in a decrease of \$239 million in earnings invested in the business and a corresponding increase of \$244 million in accumulated other comprehensive loss that was partially offset by the net impact of the direct effects of these changes on inventory and deferred taxes of \$5 million.

The following tables reflect the changes to financial statement line items as a result of the change in accounting principles for the periods presented in the accompanying unaudited consolidated financial statements:

## Consolidated Statements of Income:

|                                             | Three Months Ended         |             |                             | September 30, 2016 |                             |           |
|---------------------------------------------|----------------------------|-------------|-----------------------------|--------------------|-----------------------------|-----------|
|                                             | September 30, 2017         |             |                             | September 30, 2016 |                             |           |
|                                             | Previous Accounting Method | As Reported | Effect of Accounting Change | As Reported        | Effect of Accounting Change |           |
| Cost of products sold                       | \$556.7                    | \$ 554.4    | \$ (2.3 )                   | \$489.9            | \$487.7                     | \$ (2.2 ) |
| Gross profit                                | 214.7                      | 217.0       | 2.3                         | 167.5              | 169.7                       | 2.2       |
| Selling, general and administrative expense | 136.8                      | 134.0       | (2.8 )                      | 109.5              | 107.2                       | (2.3 )    |

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|                                               |               |                |                |   |        |        |         |   |
|-----------------------------------------------|---------------|----------------|----------------|---|--------|--------|---------|---|
| Pension settlement expenses                   | <b>3.9</b>    | <b>—</b>       | <b>(3.9)</b>   | ) | 10.3   | 0.1    | (10.2)  | ) |
| Operating income                              | <b>72.7</b>   | <b>81.7</b>    | <b>9.0</b>     |   | 42.4   | 57.1   | 14.7    |   |
| Income before income taxes                    | <b>66.2</b>   | <b>75.2</b>    | <b>9.0</b>     |   | 34.5   | 49.2   | 14.7    |   |
| Provision for income taxes                    | <b>18.0</b>   | <b>21.1</b>    | <b>3.1</b>     |   | 13.5   | 15.2   | 1.7     |   |
| Net income                                    | <b>48.2</b>   | <b>54.1</b>    | <b>5.9</b>     |   | 21.0   | 34.0   | 13.0    |   |
| Net income attributable to The Timken Company | <b>\$47.6</b> | <b>\$ 53.5</b> | <b>\$ 5.9</b>  |   | \$20.6 | \$33.6 | \$ 13.0 |   |
| Basic earnings per share                      | <b>\$0.61</b> | <b>\$ 0.69</b> | <b>\$ 0.08</b> |   | \$0.26 | \$0.43 | \$ 0.17 |   |
| Diluted earnings per share                    | <b>\$0.60</b> | <b>\$ 0.68</b> | <b>\$ 0.08</b> |   | \$0.26 | \$0.43 | \$ 0.17 |   |

Table of Contents

## Consolidated Statements of Income:

|                                               | Nine Months Ended          |             |                             | September 30, 2016     |           |                             |
|-----------------------------------------------|----------------------------|-------------|-----------------------------|------------------------|-----------|-----------------------------|
|                                               | September 30, 2017         |             |                             | September 30, 2016     |           |                             |
|                                               | Previous Accounting Method | As Reported | Effect of Accounting Change | As Previously Reported | Revised   | Effect of Accounting Change |
| Cost of products sold                         | \$1,630.9                  | \$1,626.5   | \$ (4.4 )                   | \$1,484.3              | \$1,477.7 | \$ (6.6 )                   |
| Gross profit                                  | 594.9                      | 599.3       | 4.4                         | 530.7                  | 537.3     | 6.6                         |
| Selling, general and administrative expense   | 383.8                      | 377.4       | (6.4 )                      | 338.0                  | 331.3     | (6.7 )                      |
| Pension settlement expenses                   | 15.7                       | —           | (15.7 )                     | 11.9                   | 1.3       | (10.6 )                     |
| Operating income                              | 191.6                      | 218.1       | 26.5                        | 162.1                  | 186.0     | 23.9                        |
| Income before income taxes                    | 176.2                      | 202.7       | 26.5                        | 189.9                  | 213.8     | 23.9                        |
| Provision for income taxes                    | 19.3                       | 28.5        | 9.2                         | 61.1                   | 65.8      | 4.7                         |
| Net income                                    | 156.9                      | 174.2       | 17.3                        | 128.8                  | 148.0     | 19.2                        |
| Net income attributable to The Timken Company | \$156.9                    | \$174.2     | \$ 17.3                     | \$128.5                | \$147.7   | \$ 19.2                     |
| Basic earnings per share                      | \$2.02                     | \$2.24      | \$ 0.22                     | \$1.63                 | \$1.87    | \$ 0.24                     |
| Diluted earnings per share                    | \$1.99                     | \$2.21      | \$ 0.22                     | \$1.62                 | \$1.86    | \$ 0.24                     |

## Consolidated Statements of Comprehensive Income:

|                                                                    | Three Months Ended         |             |                             | September 30, 2016     |         |                             |
|--------------------------------------------------------------------|----------------------------|-------------|-----------------------------|------------------------|---------|-----------------------------|
|                                                                    | September 30, 2017         |             |                             | September 30, 2016     |         |                             |
|                                                                    | Previous Accounting Method | As Reported | Effect of Accounting Change | As Previously Reported | Revised | Effect of Accounting Change |
| Net Income                                                         | \$48.2                     | \$54.1      | \$ 5.9                      | \$21.0                 | \$34.0  | \$ 13.0                     |
| Foreign currency translation adjustments                           | 10.9                       | 10.9        | —                           | 2.2                    | 3.7     | 1.5                         |
| Pension and postretirement liability adjustment                    | 6.0                        | 0.1         | (5.9 )                      | 15.0                   | 0.4     | (14.6 )                     |
| Other comprehensive income, net of tax                             | 14.9                       | 9.0         | (5.9 )                      | 17.2                   | 4.1     | (13.1 )                     |
| Comprehensive Income, net of tax                                   | 63.1                       | 63.1        | —                           | 38.2                   | 38.1    | (0.1 )                      |
| Less: comprehensive income attributable to noncontrolling interest | 0.5                        | 0.5         | —                           | 0.9                    | 1.0     | 0.1                         |
| Comprehensive income attributable to The Timken Company            | \$62.6                     | \$62.6      | \$ —                        | \$37.3                 | \$37.1  | \$ (0.2 )                   |

  

|                                                                    | Nine Months Ended          |             |                             | September 30, 2016     |         |                             |
|--------------------------------------------------------------------|----------------------------|-------------|-----------------------------|------------------------|---------|-----------------------------|
|                                                                    | September 30, 2017         |             |                             | September 30, 2016     |         |                             |
|                                                                    | Previous Accounting Method | As Reported | Effect of Accounting Change | As Previously Reported | Revised | Effect of Accounting Change |
| Net Income                                                         | \$156.9                    | \$174.2     | \$ 17.3                     | \$128.8                | \$148.0 | \$ 19.2                     |
| Foreign currency translation adjustments                           | 42.8                       | 42.8        | —                           | (1.4 )                 | 5.2     | 6.6                         |
| Pension and postretirement liability adjustment                    | 17.5                       | 0.2         | (17.3 )                     | 27.0                   | 1.2     | (25.8 )                     |
| Other comprehensive income, net of tax                             | 56.1                       | 38.8        | (17.3 )                     | 24.0                   | 4.8     | (19.2 )                     |
| Comprehensive Income, net of tax                                   | 213.0                      | 213.0       | —                           | 152.8                  | 152.8   | —                           |
| Less: comprehensive income attributable to noncontrolling interest | 1.9                        | 1.9         | —                           | 2.1                    | 2.2     | 0.1                         |
| Comprehensive income attributable to The Timken Company            | \$211.1                    | \$211.1     | \$ —                        | \$150.7                | \$150.6 | \$ (0.1 )                   |

Table of Contents

## Consolidated Balance Sheets:

|                                            | September 30, 2017               |                |                                   | December 31, 2016            |           |                                   |
|--------------------------------------------|----------------------------------|----------------|-----------------------------------|------------------------------|-----------|-----------------------------------|
|                                            | Previous<br>Accounting<br>Method | As<br>Reported | Effect of<br>Accounting<br>Change | As<br>Previously<br>Reported | Revised   | Effect of<br>Accounting<br>Change |
| Inventories, net                           | \$679.6                          | \$687.5        | \$ 7.9                            | \$545.8                      | \$553.7   | \$ 7.9                            |
| Total current assets                       | 1,466.4                          | 1,474.3        | 7.9                               | 1,204.0                      | 1,211.9   | 7.9                               |
| Deferred income taxes                      | 50.9                             | 47.9           | (3.0)                             | 54.4                         | 51.4      | (3.0)                             |
| Total other assets                         | 1,050.1                          | 1,047.1        | (3.0)                             | 749.9                        | 746.9     | (3.0)                             |
| Total assets                               | 3,358.7                          | 3,363.6        | 4.9                               | 2,758.3                      | 2,763.2   | 4.9                               |
| Earnings invested in the business          | 1,622.2                          | 1,400.2        | (222.0)                           | 1,528.6                      | 1,289.3   | (239.3)                           |
| Accumulated other comprehensive loss       | (267.8)                          | (41.0)         | 226.8                             | (322.0)                      | (77.9)    | 244.1                             |
| Total shareholders' equity                 | 1,418.2                          | 1,423.0        | 4.8                               | 1,274.9                      | 1,279.7   | 4.8                               |
| Noncontrolling interest                    | 32.8                             | 32.9           | 0.1                               | 31.1                         | 31.2      | 0.1                               |
| Total equity                               | 1,451.0                          | 1,455.9        | 4.9                               | 1,306.0                      | 1,310.9   | 4.9                               |
| Total liabilities and shareholders' equity | \$3,358.7                        | \$3,363.6      | \$ 4.9                            | \$2,758.3                    | \$2,763.2 | \$ 4.9                            |

## Consolidated Statements of Cash Flows:

|                                               | Nine Months Ended                |                |                                   | September 30, 2016           |         |                                   |
|-----------------------------------------------|----------------------------------|----------------|-----------------------------------|------------------------------|---------|-----------------------------------|
|                                               | Previous<br>Accounting<br>Method | As<br>Reported | Effect of<br>Accounting<br>Change | As<br>Previously<br>Reported | Revised | Effect of<br>Accounting<br>Change |
| Net income attributable to The Timken Company | \$156.9                          | \$174.2        | \$ 17.3                           | \$128.5                      | \$147.7 | \$ 19.2                           |
| Deferred income tax (benefit) provision       | (1.7)                            | 7.5            | 9.2                               | (0.1)                        | 4.6     | 4.7                               |
| Pension and other postretirement expense      | 39.1                             | 12.6           | (26.5)                            | 38.4                         | 14.5    | (23.9)                            |



Table of Contents

*Note 3 - Recent Accounting Pronouncements*

**New Accounting Guidance Adopted:**

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies various aspects of the accounting for stock-based payments. The simplifications include:

- recording all tax effects associated with stock-based compensation through the income statement, as
- a. opposed to recording certain amounts in other paid-in capital, which eliminates the requirements to calculate a "windfall pool";
- allowing entities to withhold shares to satisfy the employer's statutory tax withholding requirement up to
- b. the highest marginal tax rate applicable to employees rather than the employer's minimum statutory rate, without requiring liability classification for the award;
- modifying the requirement to estimate the number of awards that will ultimately vest by providing an
- c. accounting policy election to either estimate the number of forfeitures or recognize forfeitures as they occur;
- changing certain presentation requirements in the statement of cash flows, including removing the
- d. requirement to present excess tax benefits as an inflow from financing activities and an outflow from operating activities and requiring the cash paid to taxing authorities arising from withheld shares to be classified as a financing activity; and
- e. amending the assumed proceeds from applying the treasury stock method when computing earnings per share to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital.

On January 1, 2017, the Company adopted the provisions of ASU 2016-09. The presentation of the Consolidated Statement of Cash Flows for shares surrendered by employees to meet the minimum statutory withholding requirement was applied retrospectively. As a result of the adoption of ASU 2016-09, \$1.6 million was reclassified from the other accrued expenses line in the operating activities section of the Consolidated Statement of Cash Flows to the shares surrendered for taxes line in the financing activities section for the first nine months of 2016.

In addition, the adoption of ASU 2016-09 resulted in the Company making an accounting policy election to change how it will recognize the number of stock awards that will ultimately vest. In the past, the Company applied a forfeiture rate to shares granted. With the adoption of ASU 2016-09, the Company will recognize forfeitures as they occur. This change resulted in the Company making a cumulative effect change to retained earnings of \$0.9 million. For additional information, refer to *Note 10 - Equity* for the disclosure of the cumulative effect change. In addition, the Company began recording the tax effects associated with stock-based compensation through the income statement on a prospective basis, which resulted in a tax benefit of \$1.9 million for the first nine months of 2017. Finally, the Company adjusted dilutive shares to remove the excess tax benefits from the calculation of earnings per share on a prospective basis. The revised calculation is more dilutive, but it did not change earnings per share for prior years.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Under existing guidance, net realizable value is one of several acceptable measures of market value that could be used to measure inventory at the lower of cost or market and, as such, the new guidance reduces the complexity in the measurement. On January 1, 2017, the Company adopted the provisions of ASU 2015-11 on a prospective basis. The adoption of ASU 2015-11 did not have a material impact on the Company's results of operations or

financial condition. For our disclosures related to inventories, refer to *Note 5 - Inventories*.

Table of Contents

**New Accounting Guidance Issued and Not Yet Adopted:**

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", which impacts both designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 amends and clarifies the requirements to qualify for hedge accounting, removes the requirement to recognize changes in fair value from certain hedges in current earnings, and specifies the presentation of changes in fair value in the income statement for all hedging instruments. ASU 2017-02 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including in any interim period for which financial statements have not yet been issued, but the effect of adoption is required to be reflected as of the beginning of the fiscal year of adoption. The Company is currently evaluating the effect that the adoption of ASU 2017-12 will have on the Company's results of operations and financial condition.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 provides clarity on which changes to the terms or conditions of share-based payment awards require entities to apply the modification accounting provisions required in Topic 718. ASU 2017-09 is effective for public companies for annual reporting periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company does not expect that the adoption of ASU 2017-09 will have a material impact on the Company's results of operations and financial condition, as the Company does not anticipate future modifications of share-based payment awards.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 impacts where the components of net benefit cost are presented within an entity's income statement. Service cost will be included in other employee compensation costs within operating income and is the only component that may be capitalized when applicable. The other components of net periodic benefit cost will be presented separately outside of operating income. ASU 2017-07 is effective for public companies for annual reporting periods beginning after December 15, 2017 and interim periods within that reporting period. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. Our initial assessment has indicated that the adoption of ASU 2017-07 will result in the reclassification of certain amounts out of "Cost of products sold" and "Selling, general and administrative ("SG&A") expenses" into "Other expense, net" in the Consolidated Statement of Income. Also, the adoption of this standard will result in the reclassification of certain amounts from "Cost of products sold" and "SG&A expenses" for the Mobile Industries and Process Industries segments into Corporate "Other expense, net". The amounts impacted may be material. The Company is currently performing further analysis on the effect that the adoption of ASU 2017-07 will have on the Company's results of operations.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Prior to the issuance of the new accounting guidance, entities first assessed qualitative factors to determine whether a two-step goodwill impairment test was necessary. When entities bypassed or failed the qualitative analysis, they were required to apply a two-step goodwill impairment test. Step 1 compared a reporting unit's fair value to its carrying amount to determine if there is a potential impairment. If the carrying amount of a reporting unit exceeds its fair value, Step 2 was required to be completed. Step 2 involved determining the implied fair value of goodwill and comparing it to the carrying amount of that goodwill to measure the impairment loss, if any. ASU 2017-04 eliminates Step 2 of the current goodwill impairment test. ASU 2017-04 will require that a goodwill impairment loss be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying

amount of goodwill. ASU 2017-04 is effective for public companies for years beginning after December 15, 2019, with early adoption permitted, and must be applied prospectively. The Company is currently evaluating the effect that the adoption of ASU 2017-04 will have on the Company's results of operations and financial condition.

Table of Contents

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The new guidance will replace the current incurred loss approach with an expected loss model. The new expected credit loss impairment model will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt instruments, net investments in leases, loan commitments and standby letters of credit. Upon initial recognition of the exposure, the expected credit loss model requires entities to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider historical information, current information and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating expected credit losses. ASU 2016-13 does not prescribe a specific method to make the estimate, so its application will require significant judgment. ASU 2016-13 is effective for public companies in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of ASU 2016-13 will have on the Company's results of operations and financial condition.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease arrangements. ASU 2016-02 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect that the adoption of ASU 2016-02 will have on the Company's results of operations and 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 public companies for annual periods beginning after December 15, 2017. Although early adoption is permitted, the Company intends to adopt the new accounting standard effective January 1, 2018.

The two permitted transition methods under the new standard are: (1) the full retrospective method, in which case the standard would be applied to each prior reporting period presented, subject to allowable practical expedients and the cumulative effect of applying the standard would be recognized at the earliest period shown and (2) the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application accompanied by additional disclosures comparing the current period results presented under the new standard to the prior periods presented under the current revenue recognition standards. The Company plans to use the modified retrospective method.

The Company has substantially completed the assessment phase of the project, which has identified potential differences from the application of the new standard. Upon adoption, the Company expects that certain revenue streams currently accounted for using a point-in-time model will utilize an over-time model due to the continuous transfer of control to customers. The Company is currently designing and

implementing procedures and related internal controls to address the potential differences identified, including the expanded disclosure requirements resulting from the new standard, and performing a deeper analysis of those potential differences to quantify the impacts of applying the new standard. The Company expects to finalize its evaluation of these potential differences that may result from applying the new standard to the Company's contracts with customers in 2017 and will provide updates on its progress in future filings.

Table of Contents*Note 4 - Acquisitions*

During the first nine months of 2017, the Company completed three acquisitions. On July 3, 2017, the Company completed the acquisition of Groeneveld Group ("Groeneveld"), a leading provider of automatic lubrication solutions used in on- and off-highway applications. On May 5, 2017, the Company completed the acquisition of the assets of PT Tech, Inc. ("PT Tech"), a manufacturer of engineered clutches, brakes, hydraulic power take-off units and other torque management devices used in mining, aggregate, wood recycling and metals industries. On April 3, 2017, the Company completed the acquisition of Torsion Control Products, Inc. ("Torsion Control Products"), a manufacturer of engineered torsional couplings used in the construction, agriculture and mining industries. Aggregate sales for these companies for the most recent twelve months prior to their respective acquisitions totaled approximately \$146.2 million. The total purchase price for these acquisitions was \$346.6 million, net of \$35.0 million cash received. The Company incurred acquisition-related costs of \$3.6 million to complete these acquisitions. The 2017 acquisitions are subject to post-closing purchase price allocation adjustments.

results for Groeneveld, PT Tech and Torsion Control Products are reported in the Mobile Industries segment.

The following table presents the initial purchase price allocation for acquisitions in 2017:

|                                    | <b>Initial<br/>Purchase<br/>Price<br/>Allocation</b> |
|------------------------------------|------------------------------------------------------|
| Assets:                            |                                                      |
| Accounts receivable, net           | \$ 27.6                                              |
| Inventories, net                   | 29.1                                                 |
| Other current assets               | 4.7                                                  |
| Property, plant and equipment, net | 31.6                                                 |
| Goodwill                           | 147.6                                                |
| Other intangible assets            | 175.3                                                |
| Other non-current assets           | 1.9                                                  |
| Total assets acquired              | \$ 417.8                                             |
| Liabilities:                       |                                                      |
| Accounts payable, trade            | \$ 9.5                                               |
| Salaries, wages and benefits       | 5.8                                                  |
| Other current liabilities          | 8.2                                                  |
| Short-term debt                    | 1.0                                                  |
| Long-term debt                     | 2.0                                                  |
| Deferred income taxes              | 42.4                                                 |
| Other non-current liabilities      | 2.3                                                  |
| Total liabilities assumed          | \$ 71.2                                              |
| Net assets acquired                | \$ 346.6                                             |

The following table summarizes the initial purchase price allocation for identifiable intangible assets acquired in 2017:

**Initial  
Purchase  
Price  
Allocation**

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|                               |         | Weighted -<br>Average Life |
|-------------------------------|---------|----------------------------|
| Trade names (indefinite life) | \$33.4  | Indefinite                 |
| Trade names (finite life)     | 2.2     | 13 years                   |
| Technology and know-how       | 29.9    | 16 years                   |
| Customer relationships        | 108.2   | 17 years                   |
| Other                         | 0.2     | 5 years                    |
| Capitalized software          | 1.4     | 3 years                    |
| Total intangible assets       | \$175.3 |                            |



Table of Contents

On July 5, 2017, the Company announced that the Company's majority-owned subsidiary, Timken India Ltd. ("Timken India"), entered into a definitive agreement to acquire ABC Bearings Limited ("ABC Bearings"). Timken India is a public limited company listed on the National Stock Exchange of India Limited and BSE Limited. ABC Bearings is a manufacturer of tapered, cylindrical and spherical roller bearings and slewing rings in India.

The transaction is subject to receipt of various approvals in India, which are expected to . ABC Bearings, located in Mumbai, India, operates primarily out of manufacturing facilities in Bharuch, Gujarat and Dehradun, Uttarakhand and had annual sales of approximately \$29 million for the twelve months ended March 31, 2017.

During 2016, the Company completed two acquisitions. On October 31, 2016, the Company completed the acquisition of EDT Corp. ("EDT"), a manufacturer of polymer housed units and stainless steel ball bearings used primarily in the food and beverage industry. On July 8, 2016, the Company completed the acquisition of Lovejoy Inc. ("Lovejoy"), a manufacturer of premium industrial couplings and universal joints.

In January 2017, the Company paid a net purchase price adjustment of \$0.6 million in connection with the EDT acquisition, resulting in an adjustment to goodwill. During the second quarter of 2017, the Company re-evaluated the fair value of certain contingent liabilities assumed in the Lovejoy acquisition, resulting in adjustments to other current assets, goodwill, other current liabilities and other non-current liabilities. The following table presents the final purchase price allocation for both the Lovejoy and the EDT acquisitions:

|                                    | <b>Initial<br/>Purchase<br/>Price<br/>Allocation</b> | <b>Adjustment</b> | <b>Final<br/>Purchase<br/>Price<br/>Allocation</b> |
|------------------------------------|------------------------------------------------------|-------------------|----------------------------------------------------|
| <b>Assets:</b>                     |                                                      |                   |                                                    |
| Accounts receivable, net           | \$ 8.4                                               |                   | \$ 8.4                                             |
| Inventories, net                   | 17.8                                                 |                   | 17.8                                               |
| Other current assets               | 5.3                                                  | (0.2)             | ) 5.1                                              |
| Property, plant and equipment, net | 16.5                                                 |                   | 16.5                                               |
| Goodwill                           | 29.9                                                 | (1.1)             | ) 28.8                                             |
| Other intangible assets            | 27.9                                                 |                   | 27.9                                               |
| Other non-current assets           | 0.1                                                  |                   | 0.1                                                |
| Total assets acquired              | \$ 105.9                                             | \$ (1.3)          | ) \$ 104.6                                         |
| <b>Liabilities:</b>                |                                                      |                   |                                                    |
| Accounts payable, trade            | \$ 8.1                                               |                   | \$ 8.1                                             |
| Salaries, wages and benefits       | 1.3                                                  |                   | 1.3                                                |
| Other current liabilities          | 4.4                                                  | (0.6)             | ) 3.8                                              |
| Long-term debt                     | 2.2                                                  |                   | 2.2                                                |
| Deferred taxes                     | 10.4                                                 |                   | 10.4                                               |
| Other non-current liabilities      | 7.6                                                  | (1.3)             | ) 6.3                                              |
| Total liabilities assumed          | \$ 34.0                                              | \$ (1.9)          | ) \$ 32.1                                          |
| Net assets acquired                | \$ 71.9                                              | \$ 0.6            | \$ 72.5                                            |

Table of Contents*Note 5 - Inventories*

The components of inventories at September 30, 2017 and December 31, 2016 were as follows:

|                                              | <b>September 30,</b><br><b>2017</b> | <b>December 31,</b><br><b>2016</b> |
|----------------------------------------------|-------------------------------------|------------------------------------|
| Manufacturing supplies                       | <b>\$ 29.5</b>                      | \$ 28.2                            |
| Raw materials                                | <b>85.7</b>                         | 54.9                               |
| Work in process                              | <b>238.4</b>                        | 182.9                              |
| Finished products                            | <b>367.4</b>                        | 308.8                              |
| Subtotal                                     | <b>\$ 721.0</b>                     | \$ 574.8                           |
| Allowance for obsolete and surplus inventory | <b>(33.5)</b>                       | (21.1)                             |
| Total Inventories, net                       | <b>\$ 687.5</b>                     | \$ 553.7                           |

Inventories are valued at the lower of cost or market, with approximately 55% valued by the first-in, first-out ("FIFO") method and the remaining 45% 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, 2017 and December 31, 2016 were \$167.4 million and \$179.5 million, respectively. The Company recognized a decrease in its LIFO reserve of \$12.1 million during the first nine months of 2017, compared with a decrease in its LIFO reserve of \$0.2 million during the first nine months of 2016.

*Note 6 - Property, Plant and Equipment*

The components of property, plant and equipment at September 30, 2017 and December 31, 2016 were as follows:

|                                    | <b>September 30,</b><br><b>2017</b> | <b>December 31,</b><br><b>2016</b> |
|------------------------------------|-------------------------------------|------------------------------------|
| Land and buildings                 | <b>\$ 478.2</b>                     | \$ 425.4                           |
| Machinery and equipment            | <b>1,882.4</b>                      | 1,807.6                            |
| Subtotal                           | <b>\$ 2,360.6</b>                   | \$ 2,233.0                         |
| Accumulated depreciation           | <b>(1,518.4)</b>                    | (1,428.6)                          |
| Property, plant and equipment, net | <b>\$ 842.2</b>                     | \$ 804.4                           |

Total depreciation expense for the nine months ended September 30, 2017 and 2016 was \$73.3 million and \$71.1 million, respectively.



Table of Contents*Note 7 - Goodwill and Other Intangible Assets*

The changes in the carrying amount of goodwill for the nine months ended September 30, 2017 were as follows:

|                                          | <b>Mobile Industries</b> | <b>Process Industries</b> | <b>Total</b>    |
|------------------------------------------|--------------------------|---------------------------|-----------------|
| Beginning balance                        | <b>\$ 97.2</b>           | <b>\$ 260.3</b>           | <b>\$ 357.5</b> |
| Acquisitions                             | <b>147.6</b>             | <b>(1.1)</b>              | <b>) 146.5</b>  |
| Foreign currency translation adjustments | <b>4.0</b>               | <b>2.3</b>                | <b>6.3</b>      |
| Ending balance                           | <b>\$ 248.8</b>          | <b>\$ 261.5</b>           | <b>\$ 510.3</b> |

The Groeneveld, PT Tech and Torsion Control Products acquisitions added a total of \$147.6 million of goodwill to the Mobile Industries segment. The goodwill acquired from PT Tech and Torsion Control Products is expected to be tax-deductible over 15 years. The goodwill acquired from Groeneveld is not expected to be tax-deductible. The Company paid a net purchase price adjustment of \$0.6 million in January 2017 in connection with the acquisition of EDT, which resulted in an increase to goodwill. The Company also adjusted its purchase price allocation for the Lovejoy acquisition in 2017, which resulted in a \$1.7 million reduction to goodwill. The goodwill resulting from the EDT and Lovejoy acquisitions was allocated to the Process Industries segment.

The following table displays intangible assets as of September 30, 2017 and December 31, 2016:

|                                                | <b>As of September 30, 2017</b> |                                 |                            | <b>As of December 31, 2016</b> |                                 |                            |
|------------------------------------------------|---------------------------------|---------------------------------|----------------------------|--------------------------------|---------------------------------|----------------------------|
|                                                | <b>Gross Carrying Amount</b>    | <b>Accumulated Amortization</b> | <b>Net Carrying Amount</b> | <b>Gross Carrying Amount</b>   | <b>Accumulated Amortization</b> | <b>Net Carrying Amount</b> |
| Intangible assets subject to amortization:     |                                 |                                 |                            |                                |                                 |                            |
| Customer relationships                         | <b>\$322.4</b>                  | <b>\$ 97.6</b>                  | <b>\$ 224.8</b>            | <b>\$211.4</b>                 | <b>\$ 84.4</b>                  | <b>\$ 127.0</b>            |
| Technology and know-how                        | <b>126.4</b>                    | <b>29.9</b>                     | <b>96.5</b>                | <b>95.2</b>                    | <b>25.4</b>                     | <b>69.8</b>                |
| Trade names                                    | <b>8.6</b>                      | <b>4.2</b>                      | <b>4.4</b>                 | <b>6.5</b>                     | <b>3.8</b>                      | <b>2.7</b>                 |
| Capitalized software                           | <b>260.0</b>                    | <b>223.4</b>                    | <b>36.6</b>                | <b>251.7</b>                   | <b>211.8</b>                    | <b>39.9</b>                |
| Other                                          | <b>12.2</b>                     | <b>8.1</b>                      | <b>4.1</b>                 | <b>11.0</b>                    | <b>7.5</b>                      | <b>3.5</b>                 |
|                                                | <b>\$729.6</b>                  | <b>\$ 363.2</b>                 | <b>\$ 366.4</b>            | <b>\$575.8</b>                 | <b>\$ 332.9</b>                 | <b>\$ 242.9</b>            |
| Intangible assets not subject to amortization: |                                 |                                 |                            |                                |                                 |                            |
| Trade names                                    | <b>\$53.8</b>                   |                                 | <b>\$53.8</b>              | <b>\$19.4</b>                  |                                 | <b>\$19.4</b>              |
| FAA air agency certificates                    | <b>8.7</b>                      |                                 | <b>8.7</b>                 | <b>8.7</b>                     |                                 | <b>8.7</b>                 |
|                                                | <b>\$62.5</b>                   |                                 | <b>\$62.5</b>              | <b>\$28.1</b>                  |                                 | <b>\$28.1</b>              |
| Total intangible assets                        | <b>\$792.1</b>                  | <b>\$ 363.2</b>                 | <b>\$ 428.9</b>            | <b>\$603.9</b>                 | <b>\$ 332.9</b>                 | <b>\$ 271.0</b>            |

Amortization expense for intangible assets was \$29.2 million and \$27.2 million for the nine months ended September 30, 2017 and 2016, respectively. Amortization expense for intangible assets is estimated to be \$40.5 million in 2017; \$39.8 million in 2018; \$36.0 million in 2019; \$29.9 million in 2020; and \$27.3 million in 2021.

Table of Contents*Note 8 - Financing Arrangements*

Short-term debt at September 30, 2017 and December 31, 2016 was as follows:

|                                                                                                                                                                                                                                        | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| Variable-rate Accounts Receivable Facility with an interest rate of 2.07% at September 30, 2017                                                                                                                                        | <b>\$ 5.6</b>                 | <b>\$ —</b>                  |
| Borrowings under variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 0.32% to 1.75% at September 30, 2017 and 0.50% at December 31, 2016, respectively | <b>35.5</b>                   | <b>19.2</b>                  |
| Short-term debt                                                                                                                                                                                                                        | <b>\$ 41.1</b>                | <b>\$ 19.2</b>               |

The Company has a \$100 million Amended and Restated Asset Securitization Agreement ("Accounts Receivable Facility") that matures on November 30, 2018. Under the terms of the Accounts Receivable Facility, the Company sells, on an ongoing basis, certain domestic trade receivables to Timken Receivables Corporation, a wholly owned consolidated subsidiary, which, in turn, uses the trade receivables to secure borrowings that 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 limitations. These limitations reduced the availability of the Accounts Receivable Facility to \$80.3 million at September 30, 2017. As of September 30, 2017, there were outstanding borrowings of \$74.8 million under the Accounts Receivable Facility, which reduced the availability under this facility to \$5.5 million. The cost of this facility, which is the prevailing commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statement of Income. The outstanding balance under the Accounts Receivable Facility was classified as short term or long term in accordance with the terms of the agreement and reflects the Company's expectations relative to the minimum borrowing base.

The lines of credit for certain of the Company's foreign subsidiaries provide for short-term borrowings up to \$250.0 million in the aggregate. Most of these lines of credit are uncommitted. At September 30, 2017, the Company's foreign subsidiaries had borrowings outstanding of \$35.5 million and bank guarantees of \$2.0 million, which reduced the aggregate availability under these facilities to \$212.5 million.

Long-term debt at September 30, 2017 and December 31, 2016 was as follows:

|                                                                                                                                          | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| Fixed-rate Medium-Term Notes, Series A, maturing at various dates through May 2028, with interest rates ranging from 6.74% to 7.76%      | <b>\$ 159.5</b>               | <b>\$ 159.5</b>              |
| Fixed-rate Senior Unsecured Notes, maturing on September 1, 2024, with an interest rate of 3.875%                                        | <b>346.6</b>                  | <b>345.9</b>                 |
| Variable-rate Senior Credit Facility with a weighted-average interest rate of 1.59% at September 30, 2017 and 1.50% at December 31, 2016 | <b>91.2</b>                   | <b>83.8</b>                  |
| Variable-rate Accounts Receivable Facility with an interest rate of 2.07% at September 30, 2017 and 1.65% at December 31, 2016           | <b>69.2</b>                   | <b>48.9</b>                  |
| Fixed-rate Euro Senior Unsecured Notes, maturing on September 7, 2027, with an interest rate of 2.02%                                    | <b>176.5</b>                  | <b>—</b>                     |
| Variable-rate Euro Term Loan with an interest rate of 1.13% at September 30, 2017                                                        | <b>117.8</b>                  | <b>—</b>                     |
| Other                                                                                                                                    | <b>4.0</b>                    | <b>1.9</b>                   |
|                                                                                                                                          | <b>\$ 964.8</b>               | <b>\$ 640.0</b>              |
| Less: Current maturities                                                                                                                 | <b>5.0</b>                    | <b>5.0</b>                   |
| Long-term debt                                                                                                                           | <b>\$ 959.8</b>               | <b>\$ 635.0</b>              |

The Company has a \$500 million Amended and Restated Credit Agreement ("Senior Credit Facility"), which matures on June 19, 2020. At September 30, 2017, the Company had \$91.2 million of outstanding borrowings under the Senior Credit Facility, which reduced the availability under this facility to \$408.8 million. The Senior Credit Facility has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2017, the Company was in full compliance with both of these covenants.

Table of Contents

On September 7, 2017, the Company issued €150 million of fixed-rate 2.02% senior unsecured notes that mature on September 7, 2027 ("2027 Notes"). On September 18, 2017, the Company entered into a €100 million variable-rate term loan that matures on September 18, 2020 ("2020 Term Loan"). The increased borrowings were primarily to refinance the acquisition of Groeneveld that closed on July 3, 2017. Refer to *Note 4 - Acquisitions* for additional information. These debt instruments have two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. These covenants are the same as those in the Senior Credit Facility. At September 30, 2017, the Company was in full compliance with both of these covenants.

*Note 9 - Contingencies***Product Warranties:**

The Company provides limited warranties on certain of its products. The following is a rollforward of the warranty liability for the nine months ended September 30, 2017 and the twelve months ended December 31, 2016:

|                              | September 30, December 31, |        |
|------------------------------|----------------------------|--------|
|                              | 2017                       | 2016   |
| Beginning balance, January 1 | \$ 6.9                     | \$ 5.4 |
| Additions                    | 2.6                        | 2.4    |
| Payments                     | (2.1)                      | (0.9)  |
| Ending balance               | \$ 7.4                     | \$ 6.9 |

The product warranty liability at September 30, 2017 and December 31, 2016 was included in other current liabilities on the Consolidated Balance Sheets.

Currently, the Company is evaluating claims raised by certain customers with respect to the performance of bearings sold into the wind energy sector. Accruals related to this matter are included in the table above. Management believes that the outcome of these claims will not have a material effect on the Company's consolidated financial position; however, the effect of any such outcome may be material to the results of operations of any particular period in which costs in excess of amounts provided, if any, are recognized.

*Note 10 - Equity*

The changes in the equity components for the nine months ended September 30, 2017 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, 2016                                                       | \$1,310.9                       | \$53.1         | \$906.9               | \$1,289.3                         | \$ (77.9)                              | \$(891.7)      | \$ 31.2                  |
| Cumulative effect of ASU 2016-09                                                   | 0.5                             |                | 1.4                   | (0.9)                             |                                        |                |                          |
| Net income                                                                         | 174.2                           |                |                       | 174.2                             |                                        |                | —                        |
| Foreign currency translation adjustment                                            | 42.8                            |                |                       |                                   | 40.9                                   |                | 1.9                      |
| Pension and postretirement liability adjustments (net of \$0.1 income tax benefit) | 0.2                             |                |                       |                                   | 0.2                                    |                |                          |
| Change in fair value of derivative financial instruments, net of reclassifications | (4.2)                           | )              |                       |                                   | (4.2)                                  | )              |                          |
| Dividends paid to noncontrolling interest                                          | (0.2)                           | )              |                       |                                   |                                        |                | (0.2)                    |
| Dividends – \$0.80 per share                                                       | (62.4)                          | )              |                       | (62.4)                            | )                                      |                |                          |
| Stock-based compensation expense                                                   | 18.2                            |                | 18.2                  |                                   |                                        |                |                          |

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|                                      |                  |               |                |                  |                   |                         |
|--------------------------------------|------------------|---------------|----------------|------------------|-------------------|-------------------------|
| Stock purchased at fair market value | (41.0 )          |               |                |                  |                   | (41.0 )                 |
| Stock option exercise activity       | 27.7             | (9.7 )        |                |                  |                   | 37.4                    |
| Restricted share activity            | —                | (18.6 )       |                |                  |                   | 18.6                    |
| Shares surrendered for taxes         | (10.8 )          |               |                |                  |                   | (10.8 )                 |
| <b>Balance at September 30, 2017</b> | <b>\$1,455.9</b> | <b>\$53.1</b> | <b>\$898.2</b> | <b>\$1,400.2</b> | <b>\$ (41.0 )</b> | <b>\$(887.5)\$ 32.9</b> |

15

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Table of Contents*Note 11 - Accumulated Other Comprehensive Income (Loss)*

The following tables present details about components of accumulated other comprehensive loss for the three and nine months ended September 30, 2017 and 2016, respectively:

|                                                                                                    | Foreign<br>currency<br>translation<br>adjustments | Pension and<br>postretirement<br>liability<br>adjustments | Change in<br>fair value of<br>derivative<br>financial<br>instruments | Total            |
|----------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------|------------------|
| Balance at June 30, 2017                                                                           | \$ (49.9 )                                        | \$ 1.6                                                    | \$ (1.8 )                                                            | \$(50.1 )        |
| Other comprehensive income (loss) before<br>reclassifications and income tax                       | 10.9                                              | —                                                         | (4.0 )                                                               | 6.9              |
| Amounts reclassified from accumulated other<br>comprehensive income, before income tax             | —                                                 | 0.1                                                       | 0.9                                                                  | 1.0              |
| Income tax expense                                                                                 | —                                                 | —                                                         | 1.1                                                                  | 1.1              |
| Net current period other comprehensive<br>income (loss), net of income taxes                       | 10.9                                              | 0.1                                                       | (2.0 )                                                               | 9.0              |
| Noncontrolling interest                                                                            | 0.1                                               | —                                                         | —                                                                    | 0.1              |
| Net current period comprehensive income (loss),<br>net of income taxes and noncontrolling interest | 11.0                                              | 0.1                                                       | (2.0 )                                                               | 9.1              |
| <b>Balance at September 30, 2017</b>                                                               | <b>\$ (38.9 )</b>                                 | <b>\$ 1.7</b>                                             | <b>\$ (3.8 )</b>                                                     | <b>\$(41.0 )</b> |
|                                                                                                    | Foreign<br>currency<br>translation<br>adjustments | Pension and<br>postretirement<br>liability<br>adjustments | Change in<br>fair value of<br>derivative<br>financial<br>instruments | Total            |
| Balance at December 31, 2016                                                                       | \$ (79.8 )                                        | \$ 1.5                                                    | \$ 0.4                                                               | \$(77.9 )        |
| Other comprehensive income (loss) before<br>reclassifications and income tax                       | 42.8                                              | —                                                         | (7.1 )                                                               | 35.7             |
| Amounts reclassified from accumulated other<br>comprehensive income, before income tax             | —                                                 | 0.3                                                       | 0.4                                                                  | 0.7              |
| Income tax expense (benefit)                                                                       | —                                                 | (0.1 )                                                    | 2.5                                                                  | 2.4              |
| Net current period other comprehensive<br>income (loss), net of income taxes                       | 42.8                                              | 0.2                                                       | (4.2 )                                                               | 38.8             |
| Noncontrolling interest                                                                            | (1.9 )                                            | —                                                         | —                                                                    | (1.9 )           |
| Net current period comprehensive income (loss),<br>net of income taxes and noncontrolling interest | 40.9                                              | 0.2                                                       | (4.2 )                                                               | 36.9             |
| <b>Balance at September 30, 2017</b>                                                               | <b>\$ (38.9 )</b>                                 | <b>\$ 1.7</b>                                             | <b>\$ (3.8 )</b>                                                     | <b>\$(41.0 )</b> |

Table of Contents

|                                                                                                    | Foreign<br>currency<br>translation<br>adjustments | Pension and<br>postretirement<br>liability<br>adjustments | Change in<br>fair value of<br>derivative<br>financial<br>instruments | Total     |
|----------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------|-----------|
| Balance at June 30, 2016                                                                           | \$ (55.1 )                                        | \$ 1.2                                                    | \$ (1.3 )                                                            | \$(55.2 ) |
| Other comprehensive income (loss) before<br>reclassifications and income tax                       | 3.7                                               | —                                                         | (0.5 )                                                               | 3.2       |
| Amounts reclassified from accumulated other<br>comprehensive income, before income tax             | —                                                 | 0.7                                                       | 0.5                                                                  | 1.2       |
| Income tax benefit                                                                                 | —                                                 | (0.3 )                                                    | —                                                                    | (0.3 )    |
| Net current period other comprehensive<br>income, net of income taxes                              | 3.7                                               | 0.4                                                       | —                                                                    | 4.1       |
| Noncontrolling interest                                                                            | (0.6 )                                            | —                                                         | —                                                                    | (0.6 )    |
| Net current period comprehensive income,<br>net of income taxes and noncontrolling interest        | 3.1                                               | 0.4                                                       | —                                                                    | 3.5       |
| Balance at September 30, 2016                                                                      | \$ (52.0 )                                        | \$ 1.6                                                    | \$ (1.3 )                                                            | \$(51.7 ) |
|                                                                                                    | Foreign<br>currency<br>translation<br>adjustments | Pension and<br>postretirement<br>liability<br>adjustments | Change in<br>fair value of<br>derivative<br>financial<br>instruments | Total     |
| Balance at December 31, 2015                                                                       | \$ (55.3 )                                        | \$ 0.4                                                    | \$ 0.3                                                               | \$(54.6 ) |
| Other comprehensive income (loss) before<br>reclassifications and income tax                       | 5.2                                               | —                                                         | (2.5 )                                                               | 2.7       |
| Amounts reclassified from accumulated other<br>comprehensive income (loss), before income tax      | —                                                 | 2.0                                                       | (0.1 )                                                               | 1.9       |
| Income tax (benefit) expense                                                                       | —                                                 | (0.8 )                                                    | 1.0                                                                  | 0.2       |
| Net current period other comprehensive<br>income (loss), net of income taxes                       | 5.2                                               | 1.2                                                       | (1.6 )                                                               | 4.8       |
| Noncontrolling interest                                                                            | (1.9 )                                            | —                                                         | —                                                                    | (1.9 )    |
| Net current period comprehensive income (loss),<br>net of income taxes and noncontrolling interest | 3.3                                               | 1.2                                                       | (1.6 )                                                               | 2.9       |
| Balance at September 30, 2016                                                                      | \$ (52.0 )                                        | \$ 1.6                                                    | \$ (1.3 )                                                            | \$(51.7 ) |

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

The before-tax reclassification of pension and postretirement liability adjustments was due to the amortization of prior service costs and was included in costs of products sold and SG&A expenses in the Consolidated Statement of Income. The reclassification of the remaining components of accumulated other comprehensive loss was included in "Other income (expense), net" in the Consolidated Statement of Income.

Table of Contents*Note 12 - 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, 2017 and 2016, respectively:

|                                                                                                         | <b>Three Months Ended September 30, 2017</b> |            | <b>September 30, 2016</b> |            |
|---------------------------------------------------------------------------------------------------------|----------------------------------------------|------------|---------------------------|------------|
|                                                                                                         | <b>2017</b>                                  |            | <b>2016</b>               |            |
| Numerator:                                                                                              |                                              |            |                           |            |
| Net income attributable to The Timken Company                                                           | <b>\$53.5</b>                                | \$ 33.6    | <b>\$174.2</b>            | \$ 147.7   |
| Less: undistributed earnings allocated to nonvested stock                                               | —                                            | —          | —                         | —          |
| Net income available to common shareholders for basic earnings per share and diluted earnings per share | <b>\$53.5</b>                                | \$ 33.6    | <b>\$174.2</b>            | \$ 147.7   |
| Denominator:                                                                                            |                                              |            |                           |            |
| Weighted average number of shares outstanding, basic                                                    | <b>77,694,973</b>                            | 75,783,385 | <b>77,766,828</b>         | 80,179,179 |
| Effect of dilutive securities:                                                                          |                                              |            |                           |            |
| Stock options and awards based on the treasury stock method                                             | <b>1,109,622</b>                             | 693        | <b>1,123,102</b>          | 3,577      |
| Weighted average number of shares outstanding, assuming dilution of stock options and awards            | <b>78,804,595</b>                            | 75,786,978 | <b>78,889,930</b>         | 83,756,756 |
| Basic earnings per share                                                                                | <b>\$0.69</b>                                | \$ 0.43    | <b>\$2.24</b>             | \$ 1.87    |
| Diluted earnings per share                                                                              | <b>\$0.68</b>                                | \$ 0.43    | <b>\$2.21</b>             | \$ 1.86    |

The exercise prices for certain stock options that the Company has awarded exceed the average market price of the Company's common shares. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding during the three months ended September 30, 2017 and 2016 were 473,694 and 2,706,711, respectively. During the nine months ended September 30, 2017 and 2016, the antidilutive stock options outstanding were 529,020 and 3,080,133, respectively.

*Note 13 - Segment Information*

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

|                                                              | <b>Three Months Ended September 30, 2017</b> |         | <b>September 30, 2016</b> |           |
|--------------------------------------------------------------|----------------------------------------------|---------|---------------------------|-----------|
|                                                              | <b>2017</b>                                  |         | <b>2016</b>               |           |
| Net sales:                                                   |                                              |         |                           |           |
| Mobile Industries                                            | <b>\$422.8</b>                               | \$353.1 | <b>\$1,214.2</b>          | \$1,104.1 |
| Process Industries                                           | <b>348.6</b>                                 | 304.3   | <b>1,011.6</b>            | 910.9     |
|                                                              | <b>\$771.4</b>                               | \$657.4 | <b>\$2,225.8</b>          | \$2,015.0 |
| Segment EBIT:                                                |                                              |         |                           |           |
| Mobile Industries                                            | <b>\$34.9</b>                                | \$25.9  | <b>\$100.1</b>            | \$95.3    |
| Process Industries                                           | <b>61.7</b>                                  | 42.0    | <b>164.9</b>              | 123.7     |
| Total EBIT, for reportable segments                          | <b>\$96.6</b>                                | \$67.9  | <b>\$265.0</b>            | \$219.0   |
| Corporate expenses                                           | <b>(12.0)</b>                                | )(10.9  | <b>(37.8)</b>             | )(34.8    |
| Continued Dumping & Subsidy Offset Act income (expense), net | —                                            | (0.2)   | —                         | 53.6      |

|                            |        |        |         |         |   |
|----------------------------|--------|--------|---------|---------|---|
| Interest expense           | (10.1  | )(8.0  | )(26.5  | )(25.1  | ) |
| Interest income            | 0.7    | 0.4    | 2.0     | 1.1     |   |
| Income before income taxes | \$75.2 | \$49.2 | \$202.7 | \$213.8 |   |

Table of Contents*Note 14 - Impairment and Restructuring Charges*

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

For the three months ended September 30, 2017:

|                                     | <b>Mobile<br/>Industries</b> | <b>Process<br/>Industries</b> | <b>Corporate Total</b> |                |
|-------------------------------------|------------------------------|-------------------------------|------------------------|----------------|
| Severance and related benefit costs | \$ 1.3                       | \$ —                          | \$ —                   | —\$ 1.3        |
| <b>Total</b>                        | <b>\$ 1.3</b>                | <b>\$ —</b>                   | <b>\$ —</b>            | <b>—\$ 1.3</b> |

For the three months ended September 30, 2016:

|                                     | <b>Mobile<br/>Industries</b> | <b>Process<br/>Industries</b> | <b>Corporate Total</b> |                |
|-------------------------------------|------------------------------|-------------------------------|------------------------|----------------|
| Impairment charges                  | \$ 1.2                       | \$ —                          | \$ —                   | —\$ 1.2        |
| Severance and related benefit costs | 2.9                          | 0.4                           | —                      | 3.3            |
| Exit costs                          | 0.3                          | 0.5                           | —                      | 0.8            |
| <b>Total</b>                        | <b>\$ 4.4</b>                | <b>\$ 0.9</b>                 | <b>\$ —</b>            | <b>—\$ 5.3</b> |

For the nine months ended September 30, 2017:

|                                     | <b>Mobile<br/>Industries</b> | <b>Process<br/>Industries</b> | <b>Corporate Total</b> |               |
|-------------------------------------|------------------------------|-------------------------------|------------------------|---------------|
| Severance and related benefit costs | \$ 3.1                       | \$ 0.1                        | \$ —                   | \$ 3.2        |
| Exit costs                          | 0.1                          | —                             | 0.5                    | 0.6           |
| <b>Total</b>                        | <b>\$ 3.2</b>                | <b>\$ 0.1</b>                 | <b>\$ 0.5</b>          | <b>\$ 3.8</b> |

For the nine months ended September 30, 2016:

|                                     | <b>Mobile<br/>Industries</b> | <b>Process<br/>Industries</b> | <b>Corporate Total</b> |                 |
|-------------------------------------|------------------------------|-------------------------------|------------------------|-----------------|
| Impairment charges                  | \$ 3.8                       | \$ —                          | \$ —                   | —\$ 3.8         |
| Severance and related benefit costs | 7.7                          | 4.9                           | —                      | 12.6            |
| Exit costs                          | 1.6                          | 0.7                           | —                      | 2.3             |
| <b>Total</b>                        | <b>\$ 13.1</b>               | <b>\$ 5.6</b>                 | <b>\$ —</b>            | <b>—\$ 18.7</b> |

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.

On September 29, 2016, the Company announced the closure of its bearing plant in Pulaski, Tennessee ("Pulaski"), which is expected to close during the fourth quarter of 2017 and to affect approximately 120 employees. During the three and nine months ended September 30, 2017, the Company recognized severance and related benefit costs of \$0.2 million and \$1.3 million, respectively, related to this closure. During the three months ended September 30, 2016, the Company recorded severance and related benefit costs of \$1.7 million related to this closure. The Company has incurred pretax costs related to this closure of \$8.1 million as of September 30, 2017, including rationalization costs recorded in cost of products sold.

In August 2016, the Company completed the consultation process to close the manufacturing operations in Benoni, South Africa ("Benoni") affecting 85 employees. Benoni will continue to recondition bearings and assemble rail bearings. During the three months ended September 30, 2016, the Company recorded impairment charges of \$0.5 million and severance and related benefit costs of \$0.8 million related to this

closure.

19

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Table of Contents

On March 17, 2016, the Company announced the closure of its bearing plant in Altavista, Virginia ("Altavista"). The Company completed the closure of this manufacturing facility on March 31, 2017. During the three months ended September 30, 2016, the Company recorded impairment charges of \$0.7 million and severance and related benefit costs of \$0.2 million related to this closure. During the nine months ended September 30, 2016, the Company recorded impairment charges of \$3.1 million and severance and related benefit costs of \$1.7 million in connection with this closure. The Company has incurred pretax costs related to this closure of \$11.5 million as of September 30, 2017, including rationalization costs recorded in cost of products sold.

During the three months and nine months ended September 30, 2017, the Company recognized \$0.7 million and \$1.5 million, respectively, of severance and related benefit costs to eliminate approximately 50 positions in the aggregate. The amounts recognized for the three months and nine months ended September 30, 2017 primarily related to the Mobile Industries segment. During the nine months ended September 30, 2016, the Company recognized \$7.7 million of severance and related benefit costs to eliminate approximately 175 positions. Of the \$7.7 million charge for the first nine months of 2016, \$2.9 million related to the Mobile Industries segment and \$4.8 million related to the Process Industries segment.

**Consolidated Restructuring Accrual:**

The following is a rollforward of the consolidated restructuring accrual for the nine months ended September 30, 2017 and the twelve months ended December 31, 2016:

|                              | <b>September 30, December 31,</b> |             |
|------------------------------|-----------------------------------|-------------|
|                              | <b>2017</b>                       | <b>2016</b> |
| Beginning balance, January 1 | \$ 10.1                           | \$ 11.3     |
| Expense                      | 3.8                               | 17.8        |
| Payments                     | (9.2                              | ) (19.0 )   |
| Ending balance               | \$ 4.7                            | \$ 10.1     |

The restructuring accruals at September 30, 2017 and December 31, 2016 were included in other current liabilities on the Consolidated Balance Sheets.

Table of Contents*Note 15 - 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 and nine months ended September 30, 2017 are based on calculations prepared by the Company's actuaries and represent the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ending December 31, 2017.

|                                          | <b>U.S. Plans</b>                            |             | <b>International Plans</b>                   |             | <b>Total</b>                                 |             |
|------------------------------------------|----------------------------------------------|-------------|----------------------------------------------|-------------|----------------------------------------------|-------------|
|                                          | <b>Three Months Ended September 30, 2017</b> | <b>2016</b> | <b>Three Months Ended September 30, 2017</b> | <b>2016</b> | <b>Three Months Ended September 30, 2017</b> | <b>2016</b> |
| Components of net periodic benefit cost: |                                              |             |                                              |             |                                              |             |
| Service cost                             | <b>\$3.1</b>                                 | \$3.3       | <b>\$0.4</b>                                 | \$0.4       | <b>\$3.5</b>                                 | \$3.7       |
| Interest cost                            | <b>6.2</b>                                   | 6.6         | <b>1.9</b>                                   | 2.6         | <b>8.1</b>                                   | 9.2         |
| Expected return on plan assets           | <b>(7.0)</b>                                 | (7.4)       | <b>(2.9)</b>                                 | (2.6)       | <b>(9.9)</b>                                 | (10.0)      |
| Amortization of prior service cost       | <b>0.3</b>                                   | 0.4         | <b>0.1</b>                                   | 0.1         | <b>0.4</b>                                   | 0.5         |
| Net periodic benefit cost                | <b>\$2.6</b>                                 | \$2.9       | <b>\$(0.5)</b>                               | \$0.5       | <b>\$2.1</b>                                 | \$3.4       |

  

|                                          | <b>U.S. Plans</b>                           |             | <b>International Plans</b>                  |             | <b>Total</b>                                |             |
|------------------------------------------|---------------------------------------------|-------------|---------------------------------------------|-------------|---------------------------------------------|-------------|
|                                          | <b>Nine Months Ended September 30, 2017</b> | <b>2016</b> | <b>Nine Months Ended September 30, 2017</b> | <b>2016</b> | <b>Nine Months Ended September 30, 2017</b> | <b>2016</b> |
| Components of net periodic benefit cost: |                                             |             |                                             |             |                                             |             |
| Service cost                             | <b>\$9.2</b>                                | \$9.9       | <b>\$1.2</b>                                | \$1.1       | <b>\$10.4</b>                               | \$11.0      |
| Interest cost                            | <b>18.5</b>                                 | 20.0        | <b>5.6</b>                                  | 8.2         | <b>24.1</b>                                 | 28.2        |
| Expected return on plan assets           | <b>(21.0)</b>                               | (22.3)      | <b>(8.3)</b>                                | (8.0)       | <b>(29.3)</b>                               | (30.3)      |
| Amortization of prior service cost       | <b>1.0</b>                                  | 1.2         | <b>0.1</b>                                  | 0.1         | <b>1.1</b>                                  | 1.3         |
| Recognition of actuarial loss            | <b>4.4</b>                                  | —           | <b>—</b>                                    | —           | <b>4.4</b>                                  | —           |
| Net periodic benefit cost                | <b>\$12.1</b>                               | \$8.8       | <b>\$(1.4)</b>                              | \$1.4       | <b>\$10.7</b>                               | \$10.2      |

During the first three months of 2017, the Company recognized actuarial losses of \$4.4 million as a result of the remeasurement of plan assets and obligations for one of the Company's United States ("U.S.") defined benefit pension plans. The remeasurement was due to lump sum payments exceeding service and interest costs for this plan.

*Note 16 - Other Postretirement Benefit Plans*

The following table sets forth the net periodic benefit cost for the Company's other postretirement benefit plans. The amounts for the three and nine months ended September 30, 2017 are based on calculations prepared by the Company's actuaries and represent the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ending December 31, 2017.

| <b>Three Months Ended September</b> | <b>Nine Months Ended September</b> |
|-------------------------------------|------------------------------------|
|-------------------------------------|------------------------------------|



|                                          | <b>30,</b>    |               | <b>30,</b>    |
|------------------------------------------|---------------|---------------|---------------|
|                                          | <b>2017</b>   | <b>2016</b>   | <b>2017</b>   |
|                                          |               |               | <b>2016</b>   |
| Components of net periodic benefit cost: |               |               |               |
| Service cost                             | <b>\$—</b>    | <b>\$0.1</b>  | <b>\$0.1</b>  |
| Interest cost                            | <b>2.3</b>    | <b>2.7</b>    | <b>6.8</b>    |
| Expected return on plan assets           | <b>(1.4 )</b> | <b>(1.6 )</b> | <b>(4.2 )</b> |
| Amortization of prior service cost       | <b>(0.3 )</b> | <b>0.2</b>    | <b>(0.8 )</b> |
| Net periodic benefit cost                | <b>\$0.6</b>  | <b>\$1.4</b>  | <b>\$1.9</b>  |
|                                          |               |               | <b>\$4.3</b>  |

Table of Contents*Note 17 - 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 are recorded during the period(s) in which they occur.

|                            | <b>Three Months<br/>Ended<br/>September 30,<br/>2017</b> |        | <b>Nine Months<br/>Ended<br/>September 30,<br/>2017</b> |        |   |
|----------------------------|----------------------------------------------------------|--------|---------------------------------------------------------|--------|---|
|                            | 2017                                                     | 2016   | 2017                                                    | 2016   |   |
| Provision for income taxes | <b>\$21.1</b>                                            | \$15.2 | <b>\$28.5</b>                                           | \$65.8 |   |
| Effective tax rate         | <b>28.1</b>                                              | %30.9  | <b>%14.1</b>                                            | %30.8  | % |

The income tax expense for the third quarter and first nine months of 2017 was calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. The effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to the projected mix of earnings in international jurisdictions with relatively lower tax rates and tax benefits related to foreign tax credits, which are partially offset by losses in jurisdictions with no tax benefit due to valuation allowances.

Income tax expense increased for the third quarter of 2017 compared to the third quarter of 2016 primarily due to the significant increase in pre-tax earnings, primarily in non-U.S. jurisdictions. The expense was partially offset by favorable U.S. tax deductions, tax credits and favorable discrete tax amounts.

Income tax expense for the nine months ended September 30, 2017 is lower than the nine months ended September 30, 2016 primarily due to the net reversal of accruals for prior year uncertain tax positions recorded discretely and favorable U.S. tax deductions and tax credits.

The following table is a rollforward of the Company's gross unrecognized tax benefits for the nine months ended September 30, 2017:

|                                           | <b>September 30,<br/>2017</b> |
|-------------------------------------------|-------------------------------|
| Beginning balance, January 1              | <b>\$ 39.1</b>                |
| Tax positions related to the prior years: |                               |
| Additions                                 | <b>5.6</b>                    |
| Reductions                                | <b>(1.3)</b> )                |
| Lapses in statutes of limitation          | <b>(28.6)</b> )               |
| Ending Balance                            | <b>\$ 14.8</b>                |

Table of Contents*Note 18 - Fair Value*

Fair value is defined as the price that would be expected to 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, 2017 and December 31, 2016:

**September 30, 2017**

Total    Level 1    Level 2    Level 3

**Assets:**

|                                                       |                |                |                |             |
|-------------------------------------------------------|----------------|----------------|----------------|-------------|
| Cash and cash equivalents                             | <b>\$125.4</b> | <b>\$120.5</b> | <b>\$ 4.9</b>  | <b>\$ —</b> |
| Cash and cash equivalents measured at net asset value | <b>11.8</b>    | <b>—</b>       | <b>—</b>       | <b>—</b>    |
| Restricted cash                                       | <b>3.3</b>     | <b>3.3</b>     | <b>—</b>       | <b>—</b>    |
| Short-term investments                                | <b>16.5</b>    | <b>—</b>       | <b>16.5</b>    | <b>—</b>    |
| Short-term investments measured at net asset value    | <b>0.2</b>     | <b>—</b>       | <b>—</b>       | <b>—</b>    |
| Foreign currency hedges                               | <b>1.6</b>     | <b>—</b>       | <b>1.6</b>     | <b>—</b>    |
| <b>Total Assets</b>                                   | <b>\$158.8</b> | <b>\$123.8</b> | <b>\$ 23.0</b> | <b>\$ —</b> |

**Liabilities:**

|                          |              |            |               |             |
|--------------------------|--------------|------------|---------------|-------------|
| Foreign currency hedges  | <b>\$3.9</b> | <b>\$—</b> | <b>\$ 3.9</b> | <b>\$ —</b> |
| <b>Total Liabilities</b> | <b>\$3.9</b> | <b>\$—</b> | <b>\$ 3.9</b> | <b>\$ —</b> |

**December 31, 2016**

Total    Level 1    Level 2    Level 3

**Assets:**

|                                                    |                |                |                |             |
|----------------------------------------------------|----------------|----------------|----------------|-------------|
| Cash and cash equivalents                          | <b>\$129.6</b> | <b>\$125.0</b> | <b>\$ 4.6</b>  | <b>\$ —</b> |
| Cash and cash equivalents measured net asset value | <b>19.2</b>    | <b>—</b>       | <b>—</b>       | <b>—</b>    |
| Restricted cash                                    | <b>2.7</b>     | <b>2.7</b>     | <b>—</b>       | <b>—</b>    |
| Short-term investments                             | <b>9.4</b>     | <b>—</b>       | <b>9.4</b>     | <b>—</b>    |
| Short-term investments measured at net asset value | <b>2.3</b>     | <b>—</b>       | <b>—</b>       | <b>—</b>    |
| Foreign currency hedges                            | <b>9.9</b>     | <b>—</b>       | <b>9.9</b>     | <b>—</b>    |
| <b>Total Assets</b>                                | <b>\$173.1</b> | <b>\$127.7</b> | <b>\$ 23.9</b> | <b>\$ —</b> |

**Liabilities:**

|                          |              |            |               |             |
|--------------------------|--------------|------------|---------------|-------------|
| Foreign currency hedges  | <b>\$2.1</b> | <b>\$—</b> | <b>\$ 2.1</b> | <b>\$ —</b> |
| <b>Total Liabilities</b> | <b>\$2.1</b> | <b>\$—</b> | <b>\$ 2.1</b> | <b>\$ —</b> |

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 generally are valued at amortized cost, which approximates fair value. A portion of the cash and cash equivalents and short-term investments are valued based on net

asset value. The Company uses publicly available foreign currency forward and spot rates to measure the fair value of its foreign currency forward contracts.

Table of Contents

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

**2017**

No assets were measured at fair value on a nonrecurring basis for the nine months ended September 30, 2017.

**2016**

The following table presents those assets measured at fair value on a nonrecurring basis for the nine months ended September 30, 2016 using Level 3 inputs:

|                                       | Carrying<br>Value | Fair Value<br>Adjustment | Fair<br>Value |
|---------------------------------------|-------------------|--------------------------|---------------|
| Long-lived assets held for sale:      |                   |                          |               |
| Land                                  | \$ 0.2            | \$ (0.2 )                | \$ —          |
| Total long-lived assets held for sale | \$ 0.2            | \$ (0.2 )                | \$ —          |
| Long-lived assets held and used:      |                   |                          |               |
| Altavista bearing plant               | \$ 5.6            | \$ (3.1 )                | \$ 2.5        |
| Equipment at Benoni bearing plant     | 0.5               | (0.5 )                   | —             |
| Total long-lived assets held and used | \$ 6.1            | \$ (3.6 )                | \$ 2.5        |

Assets held for sale of \$0.2 million were written down to their fair value of zero during the first quarter of 2016, resulting in an impairment charge of \$0.2 million. The fair value of these assets was based on the price that the Company expected to receive when it disposed of these assets.

On March 17, 2016, the Company announced the closure of its Altavista bearing plant. The Company completed the closure of this manufacturing facility on March 31, 2017. The Altavista bearing plant, with a carrying value of \$5.6 million, was written down to its fair value of \$3.2 million during the first quarter of 2016, resulting in an impairment charge of \$2.4 million. The fair value for the plant was based on the price that the Company expected to receive from the sale of this facility. During the third quarter of 2016, the Company reevaluated the fair value of this facility. The Altavista bearing plant was written down to its fair value of \$2.5 million during the third quarter of 2016, resulting in an additional impairment of \$0.7 million. During the second quarter of 2017, this facility was reclassified to assets held for sale and included in other current assets on the Consolidated Balance Sheet. On July 14, 2017, this facility was sold for a pretax gain of approximately \$1.6 million.

In August 2016, the Company completed the consultation process to close the manufacturing operations in Benoni. The Benoni facility will continue to recondition bearings and assemble rail bearings. Equipment at this facility, with a carrying value of \$0.5 million, was written down to its fair value of zero during the third quarter of 2016, resulting in an impairment charge of \$0.5 million. The fair value for the equipment was based on the price that the Company expected to receive from the sale of the equipment.

**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. Due to the nature of fair value calculations for variable-rate debt, the carrying value of the Company's long-term variable rate debt is a reasonable estimate of its fair

value. The fair value of the Company's long-term fixed-rate debt, based on quoted market prices, was \$723.9 million and \$532.2 million at September 30, 2017 and December 31, 2016, respectively. The carrying value of this debt was \$684.3 million and \$507.3 million at September 30, 2017 and December 31, 2016, respectively. The fair value of long-term fixed-rate debt was measured using Level 2 inputs.

Table of Contents

*Note 19 - 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.

The Company designates certain foreign currency forward contracts as cash flow hedges of forecasted revenues and expenses and certain interest rate hedges as fair value hedges of fixed-rate borrowings.

The Company does not purchase or hold any derivative financial instruments for trading purposes. As of September 30, 2017 and December 31, 2016, the Company had \$223.2 million and \$282.8 million, respectively, of outstanding foreign currency forward contracts at notional value. Refer to *Note 18 - Fair Value* for the fair value disclosure of derivative financial instruments.

**Cash Flow Hedging Strategy:**

For certain derivative instruments that are designated 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 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.

The length of time over which the Company hedges its exposure to the variability in future cash flows for forecasted transactions is generally 18 months or less.

**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 typically are 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 typically are hedged with a forward contract at the inception of the loan with a maturity date at the maturity of the loan. The revaluation of these contracts, as well as 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.



Table of Contents

The following table presents the fair value of the Company's derivative instruments. Those balances are presented in the other non-current assets/liabilities accounts within the Consolidated Balance Sheets.

|                                                          | <b>Derivative Assets</b> |                               | <b>Derivatives Liabilities</b> |                               |
|----------------------------------------------------------|--------------------------|-------------------------------|--------------------------------|-------------------------------|
|                                                          | <b>Fair Value</b>        | <b>Fair Value at 12/31/16</b> | <b>Fair Value</b>              | <b>Fair Value at 12/31/16</b> |
| <b>Derivatives designated as hedging instruments</b>     |                          |                               |                                |                               |
| Foreign currency forward contracts                       | \$ 0.3                   | \$ 2.3                        | \$ 2.9                         | \$ 0.5                        |
| <b>Derivatives not designated as hedging instruments</b> |                          |                               |                                |                               |
| Foreign currency forward contracts                       | 1.3                      | 7.6                           | 1.0                            | 1.6                           |
| <b>Total Derivatives</b>                                 | <b>\$ 1.6</b>            | <b>\$ 9.9</b>                 | <b>\$ 3.9</b>                  | <b>\$ 2.1</b>                 |

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

|                                                       | <b>Amount of gain or (loss) recognized in Other Comprehensive Income on derivative instruments</b> |                |                                        |                |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------|----------------------------------------|----------------|
|                                                       | <b>Three Months Ended September 30,</b>                                                            |                | <b>Nine Months Ended September 30,</b> |                |
| <b>Derivatives in cash flow hedging relationships</b> | <b>2017</b>                                                                                        | <b>2016</b>    | <b>2017</b>                            | <b>2016</b>    |
| Foreign currency forward contracts                    | \$(1.6)                                                                                            | \$(0.5)        | \$(4.7)                                | \$(2.5)        |
| Interest rate swaps                                   | (2.4 )                                                                                             | —              | (2.4 )                                 | —              |
| <b>Total</b>                                          | <b>\$(4.0)</b>                                                                                     | <b>\$(0.5)</b> | <b>\$(7.1)</b>                         | <b>\$(2.5)</b> |

|                                                       | <b>Amount of gain or (loss) reclassified from Accumulated Other Comprehensive Loss into income (effective portion)</b> |                |                                        |              |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------|----------------------------------------|--------------|
|                                                       | <b>Three Months Ended September 30,</b>                                                                                |                | <b>Nine Months Ended September 30,</b> |              |
| <b>Derivatives in cash flow hedging relationships</b> | <b>2017</b>                                                                                                            | <b>2016</b>    | <b>2017</b>                            | <b>2016</b>  |
| Foreign currency forward contracts                    | \$(0.9)                                                                                                                | \$(0.4)        | \$(0.2)                                | \$0.4        |
| Interest rate swaps                                   | —                                                                                                                      | (0.1 )         | (0.2 )                                 | (0.3 )       |
| <b>Total</b>                                          | <b>\$(0.9)</b>                                                                                                         | <b>\$(0.5)</b> | <b>\$(0.4)</b>                         | <b>\$0.1</b> |

|                                                   |                                                               | Amount of gain or (loss) recognized in income on derivative instruments |                                 |         |         |
|---------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------|---------|---------|
|                                                   |                                                               | Three Months Ended September 30,                                        | Nine Months Ended September 30, |         |         |
| Derivatives not designated as hedging instruments | Location of gain or (loss) recognized in income on derivative | 2017                                                                    | 2016                            | 2017    | 2016    |
| Foreign currency forward contracts                | Other income (expense), net                                   | \$2.7                                                                   | \$(0.2)                         | \$(5.6) | \$(4.5) |

Table of Contents

*Note 20 - Continued Dumping and Subsidy Offset Act*

The U.S. Continued Dumping and Subsidy Offset Act ("CDSOA") provides for distribution of monies collected by U.S. Customs and Border Protection ("U.S. Customs") on entries of merchandise subject to antidumping orders that entered the U.S. prior to October 1, 2007 to qualifying domestic producers where the domestic producers have continued to invest in their technology, equipment and people. During the third quarter of 2016, the Company recognized CDSOA expense of \$0.2 million. During the first nine months of 2016, the Company recognized pretax CDSOA income, net of related expenses, of \$53.6 million.

In September 2002, the World Trade Organization ruled that CDSOA payments are not consistent with international trade rules. In February 2006, U.S. legislation was enacted that ended CDSOA distributions for imports covered by antidumping duty orders entering the U.S. after September 30, 2007. Instead, any such antidumping duties collected would remain with the U.S. Treasury.

CDSOA has been the subject of significant litigation since 2002 and U.S. Customs has withheld CDSOA distributions for certain years while litigation was ongoing. However, much of the CDSOA litigation that involves antidumping orders where Timken is a qualifying domestic producer has concluded.

Subsequently, the Company was notified by letters dated March 25, 2016 and June 24, 2016 that funds were being distributed to the Company. On April 1, 2016 and July 1, 2016, the Company received CDSOA distributions of \$48.1 million and \$6.3 million, respectively, representing funds that would have been distributed to the Company at the end of calendar years 2011 through 2015.

While some of the challenges to CDSOA have been resolved, others are still in litigation. Since there continue to be legal challenges to CDSOA, U.S. Customs has advised all affected domestic producers that it is possible that CDSOA distributions could be subject to clawback. Management of the Company believes that the likelihood of any clawback is remote.

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Dollars in millions, except per share data)

**Overview**

**Introduction:**

The Timken Company engineers, manufactures and markets bearings, transmissions, gearboxes, belts, chain, lubrication systems, couplings, industrial clutches and brakes and related products and offers a variety of power system rebuild and repair services. The Company's growing product and services portfolio features many strong industrial brands, such as Timken®, Fafnir®, Philadelphia Gear®, Drives®, Lovejoy® and Groeneveld®. Timken applies its deep knowledge of metallurgy, friction management and mechanical 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 more than 14,000 people operating in 31 countries, Timken makes the world more productive and keeps industry in motion. The Company operates under two reportable segments: (1) Mobile Industries and (2) Process Industries. The following further describes these business segments:

**Mobile Industries** serves OEM customers that manufacture off-highway equipment for the agricultural, mining and construction markets; on-highway vehicles including passenger cars, light trucks and medium- and heavy-duty trucks; rail cars and locomotives; outdoor power equipment; and rotorcraft and fixed-wing aircraft. 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.

**Process Industries** serves OEM and end-user customers in industries that place heavy demands on the fixed operating equipment they make or use in heavy and other general industrial sectors. This includes metals, cement and aggregate production; coal and wind power generation; oil and gas extraction and refining; pulp and paper and food processing; and health and critical motion control equipment. Other applications include marine equipment, gear drives, cranes, hoists and conveyors. This segment also supports aftermarket sales and service needs through its global network of authorized industrial distributors.

Timken creates value by understanding customer needs and applying its know-how in attractive market sectors. The Company's business strengths include its channel mix and end-market diversity, serving a broad range of customers and industries across the globe. Timken collaborates with OEMs to improve equipment efficiency with its engineered products and captures subsequent equipment replacement cycles by selling through independent channels in the aftermarket. Timken focuses its international efforts and footprint in regions of the world where strong macroeconomic factors such as urbanization, infrastructure development and sustainability create demand for its products and services.

Table of Contents

The **Timken Business Model** is the specific framework for how the Company evaluates opportunities and differentiates itself in the market.

**The Company's Strategy** is to apply the **Timken Business Model** and leverage the Company's competitive differentiators and strengths to create customer value and drive increased growth and profitability by:

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

**Operating With Excellence.** Timken operates with a relentless drive for exceptional results and a passion for superior execution. The Company embraces a continuous improvement culture that is charged with increasing efficiency, lowering costs, eliminating waste, encouraging organizational agility and building greater brand equity to fuel future growth. This requires the Company's ongoing commitment to attract, retain and develop the best talent across the world.

**Deploying Capital to Drive Shareholder Value.** The Company is intently focused on providing the highest returns for shareholders through its capital allocation framework, which includes: (1) investing in the core business through capital expenditures, research and development and organic growth initiatives; (2) pursuing strategic acquisitions to broaden our portfolio and capabilities, with a focus on bearings, adjacent power transmission products and related services; and (3) returning capital to shareholders through share repurchases and dividends. As part of this framework, the Company also may restructure, reposition or divest underperforming product lines or assets.

Table of Contents

The following highlights the Company's recent significant strategic accomplishments:

Table of Contents**Overview:**

|                                                    | <b>Three Months Ended September 30,</b> |                  |                  |                 |          |
|----------------------------------------------------|-----------------------------------------|------------------|------------------|-----------------|----------|
|                                                    | <b>2017</b>                             | <b>2016</b>      | <b>\$ Change</b> | <b>% Change</b> |          |
| Net sales                                          | <b>\$771.4</b>                          | <b>\$ 657.4</b>  | <b>\$ 114.0</b>  | <b>17.3</b>     | <b>%</b> |
| Net income                                         | <b>54.1</b>                             | <b>34.0</b>      | <b>20.1</b>      | <b>59.1</b>     | <b>%</b> |
| Net income attributable to noncontrolling interest | <b>0.6</b>                              | <b>0.4</b>       | <b>0.2</b>       | <b>50.0</b>     | <b>%</b> |
| Net income attributable to The Timken Company      | <b>53.5</b>                             | <b>33.6</b>      | <b>19.9</b>      | <b>59.2</b>     | <b>%</b> |
| Diluted earnings per share                         | <b>\$0.68</b>                           | <b>\$ 0.43</b>   | <b>\$ 0.25</b>   | <b>58.1</b>     | <b>%</b> |
| Average number of shares – diluted                 | <b>78,804,296</b>                       | <b>78,17,476</b> | <b>—</b>         | <b>0.2</b>      | <b>%</b> |

|                                                    | <b>Nine Months Ended September 30,</b> |                   |                  |                 |          |
|----------------------------------------------------|----------------------------------------|-------------------|------------------|-----------------|----------|
|                                                    | <b>2017</b>                            | <b>2016</b>       | <b>\$ Change</b> | <b>% Change</b> |          |
| Net sales                                          | <b>\$2,225.8</b>                       | <b>\$ 2,015.0</b> | <b>\$ 210.8</b>  | <b>10.5</b>     | <b>%</b> |
| Net income                                         | <b>174.2</b>                           | <b>148.0</b>      | <b>26.2</b>      | <b>17.7</b>     | <b>%</b> |
| Net income attributable to noncontrolling interest | <b>—</b>                               | <b>0.3</b>        | <b>(0.3)</b>     | <b>(100.0)</b>  | <b>%</b> |
| Net income attributable to The Timken Company      | <b>174.2</b>                           | <b>147.7</b>      | <b>26.5</b>      | <b>17.9</b>     | <b>%</b> |
| Diluted earnings per share                         | <b>\$2.21</b>                          | <b>\$ 1.86</b>    | <b>\$ 0.35</b>   | <b>18.8</b>     | <b>%</b> |
| Average number of shares – diluted                 | <b>78,889,930</b>                      | <b>78,471,756</b> | <b>—</b>         | <b>(0.7)</b>    | <b>%</b> |

The increase in net sales for the third quarter of 2017 compared with the third quarter of 2016 was primarily due to higher demand across most end markets and the benefit of acquisitions. The increase in net income for the third quarter of 2017 compared with the third quarter of 2016 was primarily due to the impact of higher volume, the benefit of acquisitions, favorable manufacturing performance, the favorable impact of foreign currency exchange rate changes and lower impairment and restructuring charges. These factors were partially offset by higher SG&A expense and unfavorable price/mix.

The increase in net sales for the first nine months of 2017 compared with the first nine months of 2016 was primarily due to higher end-market demand and the net benefit of acquisitions. The change in net income for the first nine months of 2017 compared with the first nine months of 2016 was primarily due to the impact of higher volume, lower income tax expense as a result of the net reversal of accruals for uncertain tax positions related to prior years, the benefit of acquisitions, lower restructuring charges, the favorable impact of foreign currency exchange rate changes and favorable manufacturing performance. These factors were partially offset by pre-tax CDSOA income of \$53.6 million recognized in 2016 that did not reoccur in 2017, unfavorable price/mix, higher SG&A expense and a pension mark-to-market remeasurement charge recorded during the first quarter of 2017.

**Outlook:**

The Company expects 2017 full-year net sales to increase approximately 12% compared with 2016 primarily driven by higher demand in the industrial distribution, off-highway, heavy industries and heavy truck sectors and the benefit of acquisitions, partially offset by lower demand in the rail sector. The Company's earnings are expected to be higher in 2017 compared with 2016, primarily due to the impact of higher volume, favorable manufacturing performance, lower restructuring charges, lower income tax expense and the benefit of acquisitions. These factors are expected to be partially offset by unfavorable price/mix, higher material and logistics costs, increased SG&A expense and the expected absence of CDSOA income in 2017. The results for 2016 include the impacts of pension and other postretirement benefit mark-to-market remeasurement charges, which are not accounted for in the 2017 outlook because

the amount will not be known until the fourth quarter.

The Company expects to generate operating cash of approximately \$280 million in 2017, a decrease from 2016 of approximately \$124 million or 31%, driven by the absence of CDSOA receipts, higher tax payments and unfavorable working capital, partially offset by higher operating income. The Company expects capital expenditures to be between 3% and 3.5% of net sales in 2017, compared with 5% of net sales in 2016.



Table of Contents**The Statement of Income****Sales:**

**Three  
Months  
Ended  
September  
30,**

|           | <b>2017</b>    | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
|-----------|----------------|-------------|------------------|-----------------|
| Net Sales | <b>\$771.4</b> | \$657.4     | \$ 114.0         | 17.3 %          |

**Nine Months  
Ended  
September 30,**

|           | <b>2017</b>      | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
|-----------|------------------|-------------|------------------|-----------------|
| Net Sales | <b>\$2,225.8</b> | \$2,015.0   | \$ 210.8         | 10.5 %          |

Net sales increased for the third quarter of 2017 compared with the third quarter of 2016, primarily due to higher organic revenue of \$61 million, the benefit of acquisitions of \$44 million and the favorable impact of foreign currency exchange rate changes. The increase in organic sales volume was driven by higher demand across most of the Company's market sectors led by industrial distribution and off-highway, partially offset by lower demand in the automotive market sector.

Net sales increased for the first nine months of 2017 compared with the first nine months of 2016, primarily due to higher organic revenue of \$121 million and the benefit of acquisitions of \$86 million. The increase in organic sales volume was driven by higher demand across most of the Company's market sectors led by industrial distribution and off-highway, partially offset by lower demand in the rail and automotive market sectors.

**Gross Profit:**

**Three Months  
Ended  
September 30,**

|                             | <b>2017</b>    | <b>2016</b> | <b>\$ Change</b> | <b>Change</b> |
|-----------------------------|----------------|-------------|------------------|---------------|
| Gross profit                | <b>\$217.0</b> | \$169.7     | \$ 47.3          | 27.9%         |
| Gross profit % to net sales | <b>28.1</b>    | %25.8       | %—               | 230 bps       |

**Nine Months  
Ended  
September 30,**

|                             | <b>2017</b>    | <b>2016</b> | <b>\$ Change</b> | <b>Change</b> |
|-----------------------------|----------------|-------------|------------------|---------------|
| Gross profit                | <b>\$599.3</b> | \$537.3     | \$ 62.0          | 11.5%         |
| Gross profit % to net sales | <b>26.9</b>    | %26.7       | %                | 20 bps        |

Gross profit increased in the third quarter of 2017 compared with the third quarter of 2016, primarily due to the impact of higher sales volume of \$23 million, the benefit of acquisitions of \$18 million, favorable manufacturing performance of \$14 million and the favorable impact of foreign currency exchange rate changes. These factors were partially offset by higher material and logistics costs of \$9 million and unfavorable price/mix.

Gross profit increased in the first nine months of 2017 compared with the first nine months of 2016, primarily due to the impact of higher volume of \$43 million, the benefit of acquisitions of \$33 million and favorable manufacturing performance of \$29 million. These factors were partially offset by unfavorable price/mix of \$22 million and higher material and logistics costs of \$20 million.



Table of Contents**Selling, General and Administrative Expenses:**

|                                                             | <b>Three Months<br/>Ended<br/>September 30,</b> |             |                  |               |
|-------------------------------------------------------------|-------------------------------------------------|-------------|------------------|---------------|
|                                                             | <b>2017</b>                                     | <b>2016</b> | <b>\$ Change</b> | <b>Change</b> |
| Selling, general and administrative expenses                | <b>\$134.0</b>                                  | \$107.2     | \$ 26.8          | 25.0%         |
| Selling, general and administrative expenses % to net sales | <b>17.4</b>                                     | %16.3       | %—               | 110 bps       |

|                                                             | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |                  |               |
|-------------------------------------------------------------|------------------------------------------------|-------------|------------------|---------------|
|                                                             | <b>2017</b>                                    | <b>2016</b> | <b>\$ Change</b> | <b>Change</b> |
| Selling, general and administrative expenses                | <b>\$377.4</b>                                 | \$331.3     | \$ 46.1          | 13.9%         |
| Selling, general and administrative expenses % to net sales | <b>17.0</b>                                    | %16.4       | %—               | 60 bps        |

The increase in SG&A expenses in the third quarter and first nine months of 2017 compared with the third quarter and first nine months of 2016 was primarily due to higher incentive compensation expense and the impact of acquisitions.

**Impairment and Restructuring:**

|                                     | <b>Three<br/>Months<br/>Ended<br/>September<br/>30,</b> |             |                  |                     |
|-------------------------------------|---------------------------------------------------------|-------------|------------------|---------------------|
|                                     | <b>2017</b>                                             | <b>2016</b> | <b>\$ Change</b> | <b>%<br/>Change</b> |
| Impairment charges                  | <b>\$—</b>                                              | \$ 1.2      | \$ (1.2)         | (100.0)%            |
| Severance and related benefit costs | <b>1.3</b>                                              | 3.3         | (2.0)            | (60.6)%             |
| Exit costs                          | <b>—</b>                                                | 0.8         | (0.8)            | (100.0)%            |
| Total                               | <b>\$ 1.3</b>                                           | \$ 5.3      | \$ (4.0)         | (75.5)%             |

|                                     | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30,</b> |             |                  |                     |
|-------------------------------------|--------------------------------------------------------|-------------|------------------|---------------------|
|                                     | <b>2017</b>                                            | <b>2016</b> | <b>\$ Change</b> | <b>%<br/>Change</b> |
| Impairment charges                  | <b>\$—</b>                                             | \$ 3.8      | \$ (3.8)         | (100.0)%            |
| Severance and related benefit costs | <b>3.2</b>                                             | 12.6        | (9.4)            | (74.6)%             |
| Exit costs                          | <b>0.6</b>                                             | 2.3         | (1.7)            | (73.9)%             |
| Total                               | <b>\$3.8</b>                                           | \$18.7      | \$ (14.9)        | (79.7)%             |

Impairment and restructuring charges of \$1.3 million and \$3.8 million in the third quarter and first nine months of 2017, respectively, were primarily comprised of severance and related benefit costs related to initiatives to reduce headcount and right-size the Company's manufacturing footprint, including the planned closure of the Pulaski bearing plant.

Impairment and restructuring charges of \$5.3 million and \$18.7 million in the third quarter and first nine months of 2016, respectively, were primarily comprised of severance and related benefit costs related to initiatives to reduce headcount and right-size the Company's manufacturing footprint, including the planned closures of the Altavista, Pulaski and Benoni bearing plants. In addition, the Company also recognized

impairment charges associated with the planned closure of the Altavista and Benoni bearing plants of \$1.2 million and \$3.6 million, respectively, during the third quarter and first nine months of 2016.

Table of Contents**Interest Income and Expense:**

**Three  
Months  
Ended  
September  
30,**

|                  | <b>2017</b>     | <b>2016</b>    | <b>\$ Change</b> | <b>% Change</b> |
|------------------|-----------------|----------------|------------------|-----------------|
| Interest expense | <b>\$(10.1)</b> | <b>\$(8.0)</b> | <b>\$ (2.1 )</b> | <b>26.3 %</b>   |
| Interest income  | <b>\$0.7</b>    | <b>\$0.4</b>   | <b>\$ 0.3</b>    | <b>75.0 %</b>   |

**Nine Months  
Ended  
September 30,**

|                  | <b>2017</b>     | <b>2016</b>     | <b>\$ Change</b> | <b>% Change</b> |
|------------------|-----------------|-----------------|------------------|-----------------|
| Interest expense | <b>\$(26.5)</b> | <b>\$(25.1)</b> | <b>\$ (1.4 )</b> | <b>5.6 %</b>    |
| Interest income  | <b>\$2.0</b>    | <b>\$1.1</b>    | <b>\$ 0.9</b>    | <b>81.8 %</b>   |

Interest expense increased for the third quarter and the first nine months of 2017 compared to the third quarter and the first nine months of 2016, primarily due to borrowings associated with the Groeneveld acquisition. Refer to *Note 8 - Financing Arrangements* to the Consolidated Financial Statements for further discussion.

**Other Income (Expense):**

**Three  
Months  
Ended  
September  
30,**

|                              | <b>2017</b>  | <b>2016</b>    | <b>\$ Change</b> | <b>% Change</b>  |
|------------------------------|--------------|----------------|------------------|------------------|
| CDSOA expense                | <b>\$—</b>   | <b>\$(0.2)</b> | <b>\$ 0.2</b>    | <b>(100.0 )%</b> |
| Other income (expense), net  | <b>2.9</b>   | <b>(0.1 )</b>  | <b>3.0</b>       | <b>NM</b>        |
| Total other income (expense) | <b>\$2.9</b> | <b>\$(0.3)</b> | <b>\$ 3.2</b>    | <b>NM</b>        |

**Nine  
Months  
Ended  
September  
30,**

|                             | <b>2017</b>  | <b>2016</b>   | <b>\$ Change</b>  | <b>% Change</b>  |
|-----------------------------|--------------|---------------|-------------------|------------------|
| CDSOA income                | <b>\$—</b>   | <b>\$53.6</b> | <b>\$ (53.6 )</b> | <b>(100.0 )%</b> |
| Other income (expense), net | <b>9.1</b>   | <b>(1.8 )</b> | <b>10.9</b>       | <b>NM</b>        |
| Total other income          | <b>\$9.1</b> | <b>\$51.8</b> | <b>\$ (42.7 )</b> | <b>(82.4 )%</b>  |

CDSOA income in the first nine months of 2016 represents income recorded in connection with funds distributed to the Company from monies collected by U.S. Customs from antidumping cases. Refer to *Note 20 - Continued Dumping and Subsidy Offset Act* to the Consolidated Financial Statements for further discussion.

The increase in other income (expense), net for the third quarter of 2017 was primarily due to the gain on the sale of the former manufacturing facility in Altavista and lower foreign currency exchange losses. The increase in other income (expense), net for the first nine months of 2017 was primarily due to lower foreign currency exchange losses and the gain on the sale of former manufacturing facilities in Benoni and

Altavista during the second and third quarter of 2017, respectively.

Table of Contents**Income Tax Expense:****Three Months****Ended****September 30,**

|  | 2017 | 2016 | \$ Change | % Change |
|--|------|------|-----------|----------|
|--|------|------|-----------|----------|

|                    |        |        |        |        |
|--------------------|--------|--------|--------|--------|
| Income tax expense | \$21.1 | \$15.2 | \$ 5.9 | 38.8 % |
|--------------------|--------|--------|--------|--------|

|                    |        |        |   |    |
|--------------------|--------|--------|---|----|
| Effective tax rate | 28.1 % | 30.9 % | — | NM |
|--------------------|--------|--------|---|----|

**Nine Months****Ended****September 30,**

|  | 2017 | 2016 | \$ Change | % Change |
|--|------|------|-----------|----------|
|--|------|------|-----------|----------|

|                    |        |        |            |         |
|--------------------|--------|--------|------------|---------|
| Income tax expense | \$28.5 | \$65.8 | \$ (37.3 ) | (56.7)% |
|--------------------|--------|--------|------------|---------|

|                    |        |        |   |    |
|--------------------|--------|--------|---|----|
| Effective tax rate | 14.1 % | 30.8 % | — | NM |
|--------------------|--------|--------|---|----|

The effective tax rate for the three months ended September 30, 2017 is 28.1%. The income tax expense increase from the three months ended September 30, 2016 is driven by \$9.1 million of additional expense at the U.S. statutory rate as a result of the increase in income before income taxes and additional expense related to losses in jurisdictions with no tax benefit. These increases are partially offset by favorable U.S. tax deductions and tax credits, and discrete tax amounts.

The effective tax rate for the nine months ended September 30, 2017 is 14.1%. The decrease in income tax expense when compared to the first nine months ended September 30, 2016 was primarily due to the net reversal of accruals for prior year uncertain tax positions (including interest) of \$33.9 million in the second quarter of 2017 and favorable U.S. tax deductions and tax credits.

Refer to *Note 17 - Income Taxes* to the Notes to the Consolidated Financial Statements for more information on the computation of the income tax expense in interim periods.

Table of Contents**Business Segments**

The Company's reportable segments are business units that serve different industry sectors. While the segments often operate using shared infrastructure, each reportable segment is managed to address specific customer needs in these diverse market sectors. The primary measurement used by management to measure the financial performance of each segment is EBIT. Refer to *Note 13 - 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 completed in 2017 and 2016 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.

The following items highlight the Company's acquisitions completed in 2016 and the first nine months of 2017.

The Company acquired Groeneveld during the third quarter of 2017. Based on markets and customer served, substantially all of the results for Groeneveld are reported in the Mobile Industries segment. The Company acquired Torsion Control Products and PT Tech during the second quarter of 2017. Based on markets and customers served, substantially all of the results for both businesses are reported in the Mobile Industries segment.

The Company acquired EDT during the fourth quarter of 2016. Based on markets and customers served, substantially all of the results for EDT are reported in the Process Industries segment.

The Company acquired Lovejoy during the third quarter of 2016. Based on markets and customers served, substantially all of the results for Lovejoy are primarily reported in the Process Industries segment.

**Mobile Industries Segment:**

|             | <b>Three Months Ended September 30,</b> |             |                  |                 |
|-------------|-----------------------------------------|-------------|------------------|-----------------|
|             | <b>2017</b>                             | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales   | <b>\$422.8</b>                          | \$353.1     | \$ 69.7          | 19.7%           |
| EBIT        | <b>\$34.9</b>                           | \$25.9      | \$ 9.0           | 34.7%           |
| EBIT margin | <b>8.3</b>                              | %7.3        | %—               | 100 bps         |

|                                                              | <b>Three Months Ended September 30,</b> |             |                  |                 |
|--------------------------------------------------------------|-----------------------------------------|-------------|------------------|-----------------|
|                                                              | <b>2017</b>                             | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales                                                    | <b>\$422.8</b>                          | \$353.1     | \$ 69.7          | 19.7%           |
| Less: Acquisitions                                           | <b>42.2</b>                             | —           | 42.2             | NM              |
| Currency                                                     | <b>4.5</b>                              | —           | 4.5              | NM              |
| Net sales, excluding the impact of acquisitions and currency | <b>\$376.1</b>                          | \$353.1     | \$ 23.0          | 6.5%            |

|           | <b>Nine Months Ended September 30,</b> |             |                  |                 |
|-----------|----------------------------------------|-------------|------------------|-----------------|
|           | <b>2017</b>                            | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales | <b>\$1,214.2</b>                       | \$1,104.1   | \$ 110.1         | 10.0%           |



|             |                |        |        |          |
|-------------|----------------|--------|--------|----------|
| EBIT        | <b>\$100.1</b> | \$95.3 | \$ 4.8 | 5.0%     |
| EBIT margin | <b>8.2</b>     | %8.6   | %—     | (40) bps |

Table of Contents

|                                                              | <b>Nine Months<br/>Ended<br/>September 30,</b> |                  |                  |                 |
|--------------------------------------------------------------|------------------------------------------------|------------------|------------------|-----------------|
|                                                              | <b>2017</b>                                    | <b>2016</b>      | <b>\$ Change</b> | <b>% Change</b> |
| Net sales                                                    | <b>\$1,214.2</b>                               | <b>\$1,104.1</b> | <b>\$ 110.1</b>  | <b>10.0%</b>    |
| Less: Acquisitions                                           | <b>54.2</b>                                    | <b>—</b>         | <b>54.2</b>      | <b>NM</b>       |
| Currency                                                     | <b>3.7</b>                                     | <b>—</b>         | <b>3.7</b>       | <b>NM</b>       |
| Net sales, excluding the impact of acquisitions and currency | <b>\$1,156.3</b>                               | <b>\$1,104.1</b> | <b>\$ 52.2</b>   | <b>4.7%</b>     |

The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$23.0 million or 6.5% in the third quarter of 2017 compared with the third quarter of 2016, reflecting organic growth in the off-highway and heavy truck sectors, partially offset by lower demand in the automotive sector. EBIT increased by \$9.0 million or 34.7% in the third quarter of 2017 compared with the third quarter of 2016, primarily due to the impact of higher volume of \$9 million, favorable manufacturing performance of \$7 million, the benefit of acquisitions of \$6 million, lower restructuring charges and the favorable impact of foreign currency exchange rate changes. These factors were partially offset by higher SG&A expense of \$9 million, higher material and logistics costs of \$6 million and unfavorable price/mix.

The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$52.2 million or 4.7% in the first nine months of 2017 compared with the first nine months of 2016, reflecting organic growth in the off-highway and heavy truck sectors, partially offset by decreased demand in the rail and automotive sectors. EBIT increased by \$4.8 million or 5.0% in the first nine months of 2017 compared with the first nine months of 2016 primarily due to higher volume of \$19 million, the benefit of acquisitions of \$9 million, favorable manufacturing performance of \$8 million, lower restructuring charges of \$6 million and the impact of foreign currency exchange rate changes of \$6 million. These factors were partially offset by higher material and logistics costs of \$17 million, increased SG&A expense of \$14 million and unfavorable price/mix of \$12 million.

Full-year sales for the Mobile Industries segment are expected to be up approximately 13% in 2017 compared with 2016. This reflects improved demand in the off-highway and heavy truck sectors, the benefit of acquisitions and the favorable impact of foreign currency exchange rate changes, partially offset by lower demand in the rail sector. EBIT for the Mobile Industries segment is expected to increase in 2017 compared with 2016 primarily due to the impact of higher volume and the impact of acquisitions, mostly offset by unfavorable price/mix and higher SG&A expense. The results for 2016 include the impacts of pension and other postretirement benefit mark-to-market remeasurement charges, which are not accounted for in the 2017 outlook because the amount will not be known until the fourth quarter.

Table of Contents**Process Industries Segment:**

|             | <b>Three Months<br/>Ended<br/>September 30,</b> |             |                  |                 |
|-------------|-------------------------------------------------|-------------|------------------|-----------------|
|             | <b>2017</b>                                     | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales   | <b>\$348.6</b>                                  | \$304.3     | \$ 44.3          | 14.6%           |
| EBIT        | <b>\$61.7</b>                                   | \$42.0      | \$ 19.7          | 46.9%           |
| EBIT margin | <b>17.7</b>                                     | %13.8       | %—               | 390 bps         |

|                                                              | <b>Three<br/>Months<br/>Ended<br/>September<br/>30,</b> |             |                  |                 |
|--------------------------------------------------------------|---------------------------------------------------------|-------------|------------------|-----------------|
|                                                              | <b>2017</b>                                             | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales                                                    | <b>\$348.6</b>                                          | \$304.3     | \$ 44.3          | 14.6%           |
| Less: Acquisitions                                           | <b>2.2</b>                                              | —           | 2.2              | NM              |
| Currency                                                     | <b>4.4</b>                                              | —           | 4.4              | NM              |
| Net sales, excluding the impact of acquisitions and currency | <b>\$342.0</b>                                          | \$304.3     | \$ 37.7          | 12.4%           |

|             | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |                  |                 |
|-------------|------------------------------------------------|-------------|------------------|-----------------|
|             | <b>2017</b>                                    | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales   | <b>\$1,011.6</b>                               | \$910.9     | \$ 100.7         | 11.1%           |
| EBIT        | <b>\$164.9</b>                                 | \$123.7     | \$ 41.2          | 33.3%           |
| EBIT margin | <b>16.3</b>                                    | %13.6       | %                | 270 bps         |

|                                                              | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |                  |                 |
|--------------------------------------------------------------|------------------------------------------------|-------------|------------------|-----------------|
|                                                              | <b>2017</b>                                    | <b>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net sales                                                    | <b>\$1,011.6</b>                               | \$910.9     | \$ 100.7         | 11.1%           |
| Less: Acquisitions                                           | <b>32.3</b>                                    | —           | 32.3             | NM              |
| Currency                                                     | <b>0.2</b>                                     | —           | 0.2              | NM              |
| Net sales, excluding the impact of acquisitions and currency | <b>\$979.1</b>                                 | \$910.9     | \$ 68.2          | 7.5%            |

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$37.7 million or 12.4% in the third quarter of 2017 compared with the same period in 2016. The increase was primarily driven by organic growth in industrial distribution, heavy industries and wind market sectors. EBIT increased \$19.7 million or 46.9% in the third quarter of 2017 compared with the third quarter of 2016 primarily due to the impact of higher volume of \$18 million and favorable manufacturing performance of \$7 million, partially offset by higher SG&A expense and higher material and logistics costs.

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$68.2 million or 7.5% in the first nine months of 2017 compared with the first nine months of 2016. The increase was primarily driven by organic growth in industrial distribution and heavy industries market sector. EBIT increased \$41.2 million or 33.3% in the first nine months of 2017 compared with the first nine months of 2016 primarily due to the impact of higher volume of \$34 million, favorable manufacturing performance of \$21 million, lower restructuring charges of \$5 million and the benefit of acquisitions, partially offset by unfavorable price/mix of \$20 million and higher SG&A expense. Full-year sales for the Process Industries segment are expected to be up approximately 11% in 2017 compared with 2016. This reflects expected growth across most end market sectors, led by industrial

distribution and the benefit of acquisitions and the favorable impact of foreign currency exchange rate changes. EBIT for the Process Industries segment is expected to increase in 2017 compared with 2016 primarily due to the impact of higher volume, the benefit of acquisitions and lower restructuring charges, partially offset by unfavorable price/mix and higher SG&A expense. The results for 2016 include the impacts of pension and other postretirement benefit mark-to-market remeasurement charges, which are not accounted for in the 2017 outlook because the amount will not be known until the fourth quarter.

Table of Contents**Corporate:****Three Months  
Ended****September 30,**

|                                   | <b>2017</b>   | <b>2016</b>   | <b>\$ Change</b> | <b>Change</b>   |
|-----------------------------------|---------------|---------------|------------------|-----------------|
| Corporate expenses                | <b>\$12.0</b> | <b>\$10.9</b> | <b>\$ 1.1</b>    | <b>10.1%</b>    |
| Corporate expenses % to net sales | <b>1.6</b>    | <b>%1.7</b>   | <b>%—</b>        | <b>(10) bps</b> |

**Nine Months****Ended****September 30,**

|                                   | <b>2017</b>   | <b>2016</b>   | <b>\$ Change</b> | <b>Change</b> |
|-----------------------------------|---------------|---------------|------------------|---------------|
| Corporate expenses                | <b>\$37.8</b> | <b>\$34.8</b> | <b>\$ 3.0</b>    | <b>8.6%</b>   |
| Corporate expenses % to net sales | <b>1.7</b>    | <b>%1.7</b>   | <b>%—</b>        | <b>—</b>      |

Table of Contents**The Balance Sheet**

The following discussion is a comparison of the Consolidated Balance Sheets at September 30, 2017 and December 31, 2016.

**Current Assets:**

|                                       | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
|---------------------------------------|-------------------------------|------------------------------|------------------|-----------------|
| Cash and cash equivalents             | <b>\$ 137.2</b>               | \$ 148.8                     | \$ (11.6 )       | (7.8 )%         |
| Restricted cash                       | <b>3.3</b>                    | 2.7                          | 0.6              | 22.2 %          |
| Accounts receivable, net              | <b>542.2</b>                  | 438.0                        | 104.2            | 23.8 %          |
| Inventories, net                      | <b>687.5</b>                  | 553.7                        | 133.8            | 24.2 %          |
| Deferred charges and prepaid expenses | <b>39.9</b>                   | 20.3                         | 19.6             | 96.6 %          |
| Other current assets                  | <b>64.2</b>                   | 48.4                         | 15.8             | 32.6 %          |
| Total current assets                  | <b>\$ 1,474.3</b>             | \$ 1,211.9                   | \$ 262.4         | 21.7 %          |

Refer to the "Cash Flows" section for discussion on the change in cash and cash equivalents. Accounts receivable, net increased primarily due to higher sales in September 2017 compared to December 2016, current-year acquisitions and the impact of foreign currency exchange rate changes.

Inventories, net increased due to higher demand, current-year acquisitions and the impact of foreign currency exchange rate changes. Deferred charges and prepaid expenses at September 30, 2017 included a prepayment of U.S. income taxes for 2017. Other current assets primarily increased due to an increase in short-term investments and current-year acquisitions.

**Property, Plant and Equipment, Net:**

|                                    | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
|------------------------------------|-------------------------------|------------------------------|------------------|-----------------|
| Property, plant and equipment      | <b>\$ 2,360.6</b>             | \$ 2,233.0                   | \$ 127.6         | 5.7 %           |
| Accumulated depreciation           | <b>(1,518.4 )</b>             | (1,428.6 )                   | (89.8 )          | 6.3 %           |
| Property, plant and equipment, net | <b>\$ 842.2</b>               | \$ 804.4                     | \$ 37.8          | 4.7 %           |

The increase in property, plant and equipment, net in the first nine months of 2017 was primarily due to capital expenditures of \$56 million, current-year acquisitions of \$32 million and the impact of foreign currency exchange rate changes of \$27 million, partially offset by current-year depreciation of \$73 million.

**Other Assets:**

|                            | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
|----------------------------|-------------------------------|------------------------------|------------------|-----------------|
| Goodwill                   | <b>\$ 510.3</b>               | \$ 357.5                     | \$ 152.8         | 42.7 %          |
| Non-current pension assets | <b>31.6</b>                   | 32.1                         | (0.5 )           | (1.6 )%         |
| Other intangible assets    | <b>428.9</b>                  | 271.0                        | 157.9            | 58.3 %          |
| Deferred income taxes      | <b>47.9</b>                   | 51.4                         | (3.5 )           | (6.8 )%         |
| Other non-current assets   | <b>28.4</b>                   | 34.9                         | (6.5 )           | (18.6 )%        |
| Total other assets         | <b>\$ 1,047.1</b>             | \$ 746.9                     | \$ 300.2         | 40.2 %          |

The increase in goodwill was primarily due to \$148 million of goodwill acquired from current-year acquisitions. The increase in other intangible assets was primarily due to \$175 million of intangible assets acquired from the current-year acquisitions and current-year expenditures for software of \$6 million, partially offset by current-year amortization of \$29 million.



Table of Contents**Current Liabilities:**

|                                   | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |    |
|-----------------------------------|-------------------------------|------------------------------|------------------|-----------------|----|
| Short-term debt                   | <b>\$ 41.1</b>                | \$ 19.2                      | \$ 21.9          | 114.1           | %  |
| Current portion of long-term debt | <b>5.0</b>                    | 5.0                          | —                | —               | %  |
| Accounts payable                  | <b>248.1</b>                  | 176.2                        | 71.9             | 40.8            | %  |
| Salaries, wages and benefits      | <b>112.2</b>                  | 85.9                         | 26.3             | 30.6            | %  |
| Income taxes payable              | <b>7.4</b>                    | 16.9                         | (9.5)            | (56.2)          | )% |
| Other current liabilities         | <b>154.9</b>                  | 149.5                        | 5.4              | 3.6             | %  |
| Total current liabilities         | <b>\$ 568.7</b>               | \$ 452.7                     | \$ 116.0         | 25.6            | %  |

The increase in short-term debt was primarily due to higher borrowings of \$16 million under foreign lines of credit. The increase in accounts payable was primarily due to increased purchasing activity, as well as higher days outstanding driven by the Company's initiative to extend payment terms with its suppliers. The increase in accrued salaries, wages and benefits was primarily due to higher accruals for incentive compensation expense, as well as current-year acquisitions. The decrease in income taxes was primarily due to the Company being in a prepaid position with respect to U.S. income taxes at September 30, 2017 as reflected on the balance sheet; at December 31, 2016, the Company had a current income tax payable balance that included \$13.7 million payable for U.S. income taxes.

**Non-Current Liabilities:**

|                                      | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |    |
|--------------------------------------|-------------------------------|------------------------------|------------------|-----------------|----|
| Long-term debt                       | <b>\$ 959.8</b>               | \$ 635.0                     | \$ 324.8         | 51.1            | %  |
| Accrued pension cost                 | <b>160.3</b>                  | 154.7                        | 5.6              | 3.6             | %  |
| Accrued postretirement benefits cost | <b>126.7</b>                  | 131.5                        | (4.8)            | (3.7)           | )% |
| Deferred income taxes                | <b>44.9</b>                   | 3.9                          | 41.0             | NM              |    |
| Other non-current liabilities        | <b>47.3</b>                   | 74.5                         | (27.2)           | (36.5)          | )% |
| Total non-current liabilities        | <b>\$ 1,339.0</b>             | \$ 999.6                     | \$ 339.4         | 34.0            | %  |

The increase in long-term debt was primarily due to additional borrowings of \$176.5 million under the 2027 Notes and \$117.8 million under the 2020 Term Loan to finance the Groeneveld acquisition, as well as additional borrowings of \$20 million classified as long-term under the Accounts Receivable Facility and additional borrowings of \$8 million under the Company's Senior Credit Facility.

The increase in deferred income taxes was primarily due to current-year acquisitions of \$42 million. The decrease in other non-current liabilities was primarily driven by the reversal of accruals for uncertain tax positions of \$34 million due to the expiration of statutes of limitation in various jurisdictions.



Table of Contents**Shareholders' Equity:**

|                                      | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
|--------------------------------------|-------------------------------|------------------------------|------------------|-----------------|
| Common stock                         | <b>\$ 951.3</b>               | \$ 960.0                     | \$ (8.7 )        | (0.9 )%         |
| Earnings invested in the business    | <b>1,400.2</b>                | 1,289.3                      | 110.9            | 8.6 %           |
| Accumulated other comprehensive loss | <b>(41.0 )</b>                | (77.9 )                      | 36.9             | (47.4 )%        |
| Treasury shares                      | <b>(887.5 )</b>               | (891.7 )                     | 4.2              | (0.5 )%         |
| Noncontrolling interest              | <b>32.9</b>                   | 31.2                         | 1.7              | 5.4 %           |
| Total shareholders' equity           | <b>\$ 1,455.9</b>             | \$ 1,310.9                   | \$ 145.0         | 11.1 %          |

Earnings invested in the business in the first nine months of 2017 increased by net income attributable to the Company of \$174.2 million, partially offset by dividends declared of \$62.4 million.

The decrease in accumulated other comprehensive loss was primarily due to foreign currency adjustments of \$40.9 million. The foreign currency translation adjustments were due to the weakening of the U.S. dollar relative to other foreign currencies, including the Romanian Leu, Chinese Yuan, Indian Rupee and Polish Zloty. See *"Other Matters - Foreign Currency"* for further discussion regarding the impact of foreign currency translation.

Table of Contents**Cash Flows**

|                                                     | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |                  |
|-----------------------------------------------------|------------------------------------------------|-------------|------------------|
|                                                     | <b>2017</b>                                    | <b>2016</b> | <b>\$ Change</b> |
| Net cash provided by operating activities           | <b>\$142.9</b>                                 | \$278.7     | \$(135.8 )       |
| Net cash used in investing activities               | <b>(407.4 )</b>                                | (143.3 )    | (264.1 )         |
| Net cash provided by (used in) financing activities | <b>236.3</b>                                   | (139.7 )    | 376.0            |
| Effect of exchange rate changes on cash             | <b>16.6</b>                                    | 3.7         | 12.9             |
| Decrease in cash and cash equivalents               | <b>\$(11.6 )</b>                               | \$(0.6 )    | \$(11.0 )        |

Operating Activities:

Operating activities provided net cash of \$142.9 million in the first nine months of 2017, compared with net cash of \$278.7 million provided in the first nine months of 2016. The decrease was primarily due to the unfavorable impact of income taxes of \$79.6 million and a net unfavorable change in working capital items of \$71.5 million, partially offset by higher net income of \$26.2 million. Refer to the tables below for additional detail of the impact of each line on net cash provided by operating activities.

The following table displays the impact of working capital items on cash during the first nine months of 2017 and 2016, respectively:

|                                    | <b>Nine Months<br/>Ended<br/>September<br/>30,</b> |             |                      |
|------------------------------------|----------------------------------------------------|-------------|----------------------|
|                                    | <b>2017</b>                                        | <b>2016</b> | <b>\$<br/>Change</b> |
| Cash Provided (Used):              |                                                    |             |                      |
| Accounts receivable                | <b>\$(61.6)</b>                                    | \$12.2      | \$(73.8 )            |
| Inventories                        | <b>(85.4 )</b>                                     | (13.6 )     | (71.8 )              |
| Trade accounts payable             | <b>55.7</b>                                        | 15.0        | 40.7                 |
| Other accrued expenses             | <b>15.9</b>                                        | (17.5 )     | 33.4                 |
| Cash used by working capital items | <b>\$(75.4)</b>                                    | \$(3.9 )    | \$(71.5 )            |

The following table displays the impact of income taxes on cash during the first nine months of 2017 and 2016, respectively:

|                            | <b>Nine Months<br/>Ended<br/>September<br/>30,</b> |             |                      |
|----------------------------|----------------------------------------------------|-------------|----------------------|
|                            | <b>2017</b>                                        | <b>2016</b> | <b>\$<br/>Change</b> |
| Accrued income tax expense | <b>\$28.5</b>                                      | \$65.8      | \$(37.3 )            |
| Income tax payments        | <b>(77.2 )</b>                                     | (32.5 )     | (44.7 )              |
| Other miscellaneous items  | <b>(3.4 )</b>                                      | (5.8 )      | 2.4                  |
| Change in income taxes     | <b>\$(52.1)</b>                                    | \$27.5      | \$(79.6 )            |

Investing Activities:

Net cash used in investing activities of \$407.4 million in the first nine months of 2017 increased \$264.1 million from the same period in 2016 primarily due to an increase of \$284.4 million in cash used for acquisitions, partially offset by a \$21.9 million reduction in capital expenditures.

Financing Activities:

Net cash provided by financing activities was \$236.3 million in the first nine months of 2017 compared with net cash of \$139.7 million used in financing activities in the first nine months of 2016. The increase was primarily due to an increase in net borrowings of \$323.1 million, primarily needed to fund the Groeneveld acquisition that closed on July 3, 2017, and less cash used in share repurchases of \$42 million during the first nine months of 2017 compared with the first nine months of 2016.

Table of Contents**Liquidity and Capital Resources:**

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

**Net Debt:**

|                                   | <b>September 30,</b> | <b>December 31,</b> |
|-----------------------------------|----------------------|---------------------|
|                                   | <b>2017</b>          | <b>2016</b>         |
| Short-term debt                   | \$ 41.1              | \$ 19.2             |
| Current portion of long-term debt | 5.0                  | 5.0                 |
| Long-term debt                    | 959.8                | 635.0               |
| Total debt                        | \$ 1,005.9           | \$ 659.2            |
| Less: Cash and cash equivalents   | 137.2                | 148.8               |
| Restricted cash                   | 3.3                  | 2.7                 |
| Net debt                          | \$ 865.4             | \$ 507.7            |

**Ratio of Net Debt to Capital:**

|                                              | <b>September 30,</b> | <b>December 31,</b> |   |
|----------------------------------------------|----------------------|---------------------|---|
|                                              | <b>2017</b>          | <b>2016</b>         |   |
| Net debt                                     | \$ 865.4             | \$ 507.7            |   |
| Shareholders' equity                         | 1,455.9              | 1,310.9             |   |
| Net debt plus shareholders' equity (capital) | \$ 2,321.3           | \$ 1,818.6          |   |
| Ratio of net debt to capital                 | 37.3                 | % 27.9              | % |

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, 2017, \$137.0 million of the Company's \$137.2 million of cash and cash equivalents resided in jurisdictions outside the U.S. It is the Company's practice to use available cash in the U.S. to pay down its Senior Credit Facility or Accounts Receivable Facility in order to minimize total interest expense. Repatriation of non-U.S. cash 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 U.S. This strategy includes making investments in facilities, 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 where feasible.

The Company has a \$100 million Accounts Receivable Facility, which matures on November 30, 2018. The Accounts Receivable Facility is subject to certain borrowing base limitations and is secured by certain domestic accounts receivable of the Company. Certain borrowing base limitations reduced the availability of the Accounts Receivable Facility to \$80.3 million at September 30, 2017. As of September 30, 2017, the Company had \$74.8 million in outstanding borrowings, which reduced the availability under the facility to \$5.5 million. The interest rate on the Accounts Receivable Facility is variable and was 2.07% as of September 30, 2017, which reflects the prevailing commercial paper rate plus facility fees.

The Company has a \$500 million Senior Credit Facility, which matures on June 19, 2020. At September 30, 2017, the Senior Credit Facility had outstanding borrowings of \$91.2 million, which reduced the availability to \$408.8 million. The Senior Credit Facility has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2017, 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, 2017, the Company's consolidated leverage ratio was 2.23 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, 2017, the Company's consolidated interest coverage ratio was 13.57 to 1.0.

Table of Contents

The interest rate under the Senior Credit Facility is variable and represents a blended U.S. Dollar and Euro rate with a spread based on the Company's debt rating. This rate was 1.59% as of September 30, 2017. 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 the Senior Credit Facility.

Other sources of liquidity include short-term lines of credit for certain of the Company's foreign subsidiaries, which provide for borrowings of up to approximately \$250.0 million in the aggregate. Most of these credit lines are uncommitted. At September 30, 2017, the Company had borrowings outstanding of \$35.5 million and bank guarantees of \$2.0 million, which reduced the aggregate availability under these facilities to \$212.5 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, 2017, the Company could have borrowed the full amounts available under the Senior Credit Facility and Accounts Receivable Facility and still would have been in compliance with its debt covenants.

The Company issued €150 million of 2027 Notes, which mature on September 7, 2027. On September 18, 2017, the Company entered into a €100 million 2020 Term Loan, which matures on September 18, 2020. Refer to *Note 8 - Financing Arrangements* for additional information.

The Company expects cash from operations of approximately \$280 million in 2017, a decrease from 2016 of approximately \$124 million or 31%, driven by the absence of CDSOA receipts, higher tax payments and unfavorable working capital, partially offset by higher operating income. The Company expects capital expenditures to be between 3% and 3.5% of net sales in 2017, compared with 5% of net sales in 2016.

**Financing Obligations and Other Commitments:**

During the first nine months of 2017, the Company made contributions of \$8.8 million to its global defined benefit pension plans. The Company currently expects to make contributions to its global defined benefit pension plans in 2017 totaling approximately \$10 million. Returns for the Company's U.S. defined benefit plan pension assets for the first nine months of 2017 were approximately 10.1%. Returns for the Company's global defined benefit pension plan assets in 2016 were 8.5%, which was above the weighted-average expected rate of return of 5.78% predominantly due to both strong returns in equity and fixed-income markets. The Company expects to record pension expense of approximately \$15 million in 2017, including the mark-to-market remeasurement losses of approximately \$4 million recorded during the first quarter, compared with pension expense of \$73.4 million in 2016, which included approximately \$60 million of mark-to-market remeasurement losses. The amount for 2017 does not include actuarial gains and losses that will be recognized immediately through earnings as a result of the remeasurement of pension plan assets and obligations in the fourth quarter of 2017.

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



Table of Contents**Critical Accounting Policies and Estimates:**

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the U.S. 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 significant changes to its critical accounting policies or estimates, as described in its Annual Report on Form 10-K for the year ended December 31, 2016, during the nine months ended September 30, 2017 other than the change in accounting principles described below.

**Benefit Plans:**

Effective January 1, 2017, the Company voluntarily changed its accounting principles for recognizing actuarial gains and losses and expected returns on plan assets for its defined benefit pension and other postretirement benefit plans, with retrospective application to prior periods. Prior to 2017, the Company amortized, as a component of pension and other postretirement expense, unrecognized actuarial gains and losses (included within Accumulated other comprehensive income (loss)) over the average remaining service period of active plan participants expected to receive benefits under the plan, or average remaining life expectancy of inactive plan participants when all or almost all of individual plan participants were inactive. The Company also historically calculated the market-related value of plan assets based on a five-year market adjustment. Under the new principles, actuarial gains and losses will be immediately recognized through net periodic benefit cost in the Statement of Income, upon the annual remeasurement in the fourth quarter, or on an interim basis if specific events trigger a remeasurement. In addition, the Company has changed its accounting policy for measuring the market-related value of plan assets from a calculated amount (based on a five-year smoothing of asset returns) to fair value. The Company believes these changes are preferable as they result in an accelerated recognition of actuarial gains and losses and changes in fair value of plan assets in its Consolidated Statement of Income, which provides greater transparency and better aligns with fair value principles by fully reflecting the impact of interest rate and economic changes on the Company's pension and other postretirement benefit liabilities and assets in the Company's operating results in the year in which the gains and losses are incurred.

***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.

For the nine months ended September 30, 2017, the Company recorded positive foreign currency translation adjustments of \$40.9 million that increased shareholders' equity, compared with a positive foreign currency translation adjustments of \$3.3 million that increased shareholders' equity for the nine months ended September 30, 2016. The foreign currency translation adjustments for the nine months ended September 30, 2017 were positively impacted by the weakening of the U.S. dollar relative to other foreign currencies, including the Romanian Leu, Chinese Yuan, Indian Rupee and Polish Zloty.

Foreign currency exchange losses resulting from transactions included in the Company's operating results for the third quarter of 2017 were \$1.2 million, compared with losses of \$2.8 million during the third quarter



of 2016. Foreign currency exchange losses resulting from transactions included in the Company's operating results for the first nine months of 2017 were \$2.6 million, compared with losses of \$5.8 million during the first nine months of 2016.

Table of Contents

**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, 2016 that are not historical in nature (including the Company's forecasts, beliefs and expectations) 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," "intend," "may," "possible," "potential," "pre" "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, 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, as well as 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;

retention of CDSOA distributions; 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, 2016.

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.

Table of Contents

**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, 2016. 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.

Table of Contents**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, 2016, 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, 2016.

**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, 2017.

| 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> |
|------------------|-------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| 7/1/17 - 7/31/17 | 66,761                                          | \$ 46.96                                    | 64,000                                                                           | 9,368,000                                                                                     |
| 8/1/17 - 8/31/17 | 233,321                                         | 44.31                                       | 206,000                                                                          | 9,162,000                                                                                     |
| 9/1/17 - 9/30/17 | 43,397                                          | 46.36                                       | 42,000                                                                           | 9,120,000                                                                                     |
| Total            | 343,479                                         | \$ 45.09                                    | 312,000                                                                          | 9,120,000                                                                                     |

Of the shares purchased in July, August and September, 2,761, 27,321 and 1,397, respectively, (1) represent common shares of the 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 (2) the New York Stock Exchange at the time of vesting. For shares tendered in connection with the exercise of stock options, the price paid is the real-time trading stock price at the time the options are exercised.

On February 6, 2017, 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. This (3) share repurchase plan expires on February 28, 2021. 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.



Table of Contents

Item 6. Exhibits

12 Computation of Ratio of Earnings to Fixed Charges.

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, 2017, filed on October 25, 2017, 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.

Table of Contents

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 25, 2017

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

Date: October 25, 2017

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