TIMKEN CO
Form 11-K
June 22, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-1169

THE HOURLY PENSION INVESTMENT PLAN

(Full title of the Plan)

THE TIMKEN COMPANY, 1835 Dueber Avenue, S.W., Canton, Ohio 44706

(Name of issuer of the securities held pursuant to the Plan

and the address of its principal executive office)

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The Hourly Pension Investment Plan

Financial Statements and Supplemental Schedule

December 31, 2011 and 2010, and

Year Ended December 31, 2011

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Report of Independent Registered Public Accounting Firm

The Timken Company, Administrator of

The Hourly Pension Investment Plan

We have audited the accompanying statements of net assets available for benefits of The Hourly Pension Investment Plan as of December 31, 2011 and 2010, and the related statement of changes in net assets available for benefits for the year ended December 31, 2011. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2011 and 2010, and the changes in its net assets available for benefits for the year ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2011 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan s management. The information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Cleveland, Ohio /s/ Ernst & Young LLP

June 22, 2012

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The Hourly Pension Investment Plan

Statements of Net Assets Available for Benefits

	December 31, 2011	2010
Assets		
Investments, at fair value:		
Interest in The Master Trust Agreement for The Timken Company Defined Contribution Plans	**$ 128,059,403**	$ 144,501,211
Receivables:		
Contributions receivable from participants	**124,062**	304,057
Contributions receivable from The Timken Company	**346,327**	544,931
Participant notes receivable	**8,615,683**	8,503,599
	9,086,072	9,352,587
Total assets reflecting investments at fair value	**137,145,475**	153,853,798
Adjustment from fair value to contract value for interest in The Master Trust Agreement for The Timken Company Defined Contribution Plans relating to fully benefit-responsive investment contracts	**(53,043)**	280,798
Net assets available for benefits	**$ 137,092,432**	$ 154,134,596

See accompanying notes.

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The Hourly Pension Investment Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2011

Additions	
Investment income:	
Net investment loss from The Master Trust Agreement for The Timken Company Defined Contribution Plans	**$ (9,949,866)**
Interest income from participant notes	**420,276**
Participant rollovers	**10,032**
Contributions:	
Participants	**3,605,706**
The Timken Company	**3,375,075**
	6,980,781
Total additions	**(2,538,777)**
Deductions	
Benefits paid directly to participants	**14,301,981**
Administrative expenses	**201,406**
Total deductions	**14,503,387**
Net decrease	**(17,042,164)**
Net assets available for benefits:	
Beginning of year	**154,134,596**
End of year	**$ 137,092,432**

See accompanying notes.

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The Hourly Pension Investment Plan

Notes to Financial Statements

December 31, 2011 and 2010, and

Year Ended December 31, 2011

1. Description of the Plan

The following description of The Hourly Pension Investment Plan (the Plan) provides only general information. Participants should refer to their *Total Rewards* handbook (Summary Plan Description) for a more complete description of the Plan s provisions. Copies of the handbook are available from The Timken Company (Timken, the Company, and Plan Administrator).

General

The Plan is a defined contribution plan covering nonbargaining hourly employees of the Company s manufacturing facilities located in Canton, Ohio; Bucyrus, Ohio; Lincolnton, North Carolina; and Gaffney, South Carolina and employees working as Brickmasons at any Ohio facility. Employees of the Company become eligible to participate in the Plan the first of the month following the completion of one full calendar month of full-time service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Under the provisions of the Plan, participants may elect to contribute up to 20% of their gross earnings directly to the Plan subject to Internal Revenue Service (IRS) limitations. Participants may also roll over amounts representing distributions from other qualified defined benefit or defined contribution plans. The Company matches employee contributions, Matching Contributions, at an amount equal to 100% of the first 3% of the participant s gross earnings and 50% of the excess of 3% up to the next 3% of the participant s gross earnings.

The Plan provides for a quarterly Core Contribution by the Company for employees who did not have five years of Continuous Service and 50 points (in Continuous Service and age) as of December 31, 2003. This contribution is based on the participant s full years of service and age as of December 31 of the previous calendar year. Core Contribution amounts range from 1.0% to 4.5% of the participant s eligible compensation.

The Hourly Pension Investment Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Upon enrollment, a participant must direct the percentage of his or her contribution to be invested in each fund in increments of 1%. If a participant fails to make a deferral election, he/she will be automatically enrolled in the Plan at a 3% deferral rate.

Effective April 15, 2010, any employee hired prior to 2007 who had not enrolled as a participant in the Plan as of February 22, 2010; and any employee hired after 2006 who, prior to February 22, 2010, had elected not to participate in the Plan, were automatically enrolled in the Plan at a 3% deferral rate. If the participant makes no further changes to his/her deferral rate, then each year following the year in which the participant was automatically enrolled in the Plan the participant s deferral rate will be increased by 1% until a deferral rate of 6% has been attained. All Matching Contributions are made in Timken common shares.

Participants are not allowed to direct the investment of the Matching Contributions made in Timken common shares until (i) attaining age 55, (ii) the third anniversary of the date on which such participant is hired, (iii) the date such participant obtains three years of Continuous Service, or (iv) following retirement. Core Contributions are invested based on the participant s investment election. If a participant fails to make investment elections, his/her deferrals will default to an appropriate Vanguard Target Retirement Fund, based on the participant s age.

Participants have access to their account information and the ability to make account transfers and contribution changes daily through an automated telecommunications system and through the Internet.

Participants may elect to have their dividends in The Timken Company Common Stock Fund distributed to them in cash rather than automatically reinvested in Timken common shares.

Participant Accounts

Each participant s account is credited with the participant s contributions and allocations of (a) the Company s contributions and (b) Plan earnings, and is charged administrative expenses, as appropriate. Plan earnings are allocated based on the participant s share of net earnings or losses of their respective elected investment options. Allocations of administrative expenses are based on the participant s account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Vesting

Participants are immediately vested in their contributions and Matching Contributions plus actual earnings thereon. Participants vest in the Core Contributions after the completion of three years of service.

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The Hourly Pension Investment Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Forfeitures

Under the provisions of the Plan, if a participant leaves the Company with less than three years of continuous service, all Core Contributions, and any earnings on those contributions, are forfeited and used to fund other Company contributions for eligible associates. Unallocated forfeitures balances as of December 31, 2011 and 2010 were approximately $124,000 and $115,000, respectively.

Participant Notes Receivable

Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their account balance. Loan terms generally cannot exceed five years for general purpose loans and 30 years for residential loans.

The loans are secured by the balance in the participant s account and bear interest at an interest rate of 1% in excess of the prime rate, as published the first business day of each month in the *Wall Street Journal*. Principal and interest are paid ratably through payroll deductions.

Payment of Benefits

On termination of service, a participant may receive a lump-sum amount equal to the vested balance of their account, or elect to receive installment payments over a period of time not to exceed their life expectancy. If a participant s vested balance is greater than $1,000, they may leave their assets in the Plan until age 70 $^{1}/2$.

Hardship withdrawals are allowed for participants incurring an immediate and severe financial need, as defined by the Plan. Hardship withdrawals are strictly regulated by the IRS and a participant must exhaust all available loan options and distributions prior to requesting a hardship withdrawal.

Plan Termination

Although it has not expressed any interest to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the Plan s trustee, JP Morgan (Trustee), shall distribute to each participant the vested balance in their separate account.

The Hourly Pension Investment Plan

Notes to Financial Statements (continued)

2. Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Participant Notes Receivable

Participant notes receivable represents participant loans that are recorded at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2011 or 2010. If a participant ceases to make loan repayments and the Plan Administrator deems the participant loan to be a distribution, the participant loan balance is reduced and a benefit payment is recorded.

Investment Valuation and Income Recognition

The Plan s investments are stated at fair value and are invested in The Master Trust Agreement for The Timken Company Defined Contribution Plans (Master Trust), which was established for the investment of assets of the Plan and the seven other defined contribution plans sponsored by the Company. The Plan s trustee maintains a collective investment trust of Timken common shares in which the Company s defined contribution plans participate on a unit basis. Timken common shares are traded on a national securities exchange and participation units in The Timken Company Common Stock Fund are valued at the last reported sales price on the last business day of the plan year. The valuation per unit of The Timken Company Common Stock Fund was $21.05 and $25.94 at December 31, 2011 and 2010, respectively.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

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The Hourly Pension Investment Plan

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements,* (ASU 2010-06). ASU 2010-06 amended Accounting Standards Codification (ASC) 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each class of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 is effective for reporting periods beginning after December 15, 2009. Since ASU 2010-06 only affects fair value measurement disclosures, adoption of ASU 2010-06 did not affect the Plan s net assets available for benefits or its changes in net assets available for benefits.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, (ASU 2011-04). ASU 2011-04 amended ASC 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures although certain of these new disclosures will not be required for nonpublic entities. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Plan management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Plan s financial statements.

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The Hourly Pension Investment Plan

Notes to Financial Statements (continued)

3. Investments

The Plan s assets are held in the Master Trust, commingled with assets of other Company-sponsored benefit plans.

Each participating plan s interest in the investment funds (i.e., separate accounts) of the Master Trust is based on account balances of the participants and their elected investment funds. The Master Trust assets are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all plans, in proportion to the fair value of the assets assigned to each plan, income and expenses resulting from the collective investment of the assets of the Master Trust. The Plan s interest in the Master Trust as of December 31, 2011 and 2010 was 11.57% and 12.31% respectively.

At December 31, 2011 and 2010, The Timken Company Common Stock Fund consisted of 14,235,559 and 13,839,282 units, respectively, of The Timken Company s common stock.

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The Hourly Pension Investment Plan

Notes to Financial Statements (continued)

3. Investments (continued)

The following tables present the fair values of the net assets in the Master Trust and the Plan s percentage interest in each investment fund of the Master Trust:

	December 31, 2011					
	Company Stock	Registered Investment Companies	Common Collective	Investment Contracts	Total Assets	Plan's Ownership Percentage
Investments, at Fair Value:						
The Timken Company Common Stock Fund	$ 299,608,700	$	$	$	$ 299,608,700	15.71%
Morgan Stanley Small Company Growth		14,124,854			14,124,854	5.54%
American Funds EuroPacific Growth		72,122,610			72,122,610	11.39%
American Funds Washington Mutual Investors		16,322,636			16,322,636	8.15%
American Beacon Small Cap Value		19,995,849			19,995,849	5.52%
Vanguard Target Retirement Income		9,032,047			9,032,047	4.12%
Vanguard Target Retirement 2005		8,463,967			8,463,967	5.19%
Vanguard Target Retirement 2015		61,428,882			61,428,882	6.02%
Vanguard Target Retirement 2025		30,074,232			30,074,232	6.79%
Vanguard Target Retirement 2035		30,092,816			30,092,816	6.02%
Vanguard Target Retirement 2045		12,163,963			12,163,963	9.50%
Vanguard Target Retirement 2020		43,531			43,531	0.00%
Vanguard Target Retirement 2030		38,305			38,305	0.00%
Vanguard Target Retirement 2040		25,722			25,722	0.00%
Vanguard Target Retirement 2050		14,981			14,981	0.00%
JPMorgan S&P 500 Index			30,539,328		30,539,328	0.00%
JPMorgan Core Bond			102,933,082		102,933,082	12.75%
JPMorgan Equity Index			123,489,446		123,489,446	15.14%
Nuveen Winslow Large-Cap Growth			63,463,896		63,463,896	10.21%
SSgA Russell 2000-A Index			41,177,230		41,177,230	11.54%
	$ 299,608,700	$ 273,944,395	$ 361,602,982	$	$ 935,156,077	
JPMorgan Stable Value	$	$	$	$ 171,581,331	$ 171,581,331	
Wrapper Value				25,677	25,677	
Adjustments from fair value to contract value				(536,503)	(536,503)	