

TIMKEN CO
Form 11-K
June 26, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K**

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2008

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 VOLUNTARY INVESTMENT PENSION PLAN FOR
HOURLY EMPLOYEES OF THE TIMKEN COMPANY**

(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)

Table of Contents

Audited Financial Statements and
Supplemental Schedule
Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
December 31, 2008 and 2007, and
Year Ended December 31, 2008
With Report of Independent Registered Public Accounting Firm

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Audited Financial Statements and Supplemental Schedule
December 31, 2008 and 2007, and
Year Ended December 31, 2008
Table of Contents

| | |
|---|----|
| <u>Report of Independent Registered Public Accounting Firm</u> | 1 |
| Audited Financial Statements | |
| <u>Statements of Net Assets Available for Benefits</u> | 2 |
| <u>Statement of Changes in Net Assets Available for Benefits</u> | 3 |
| <u>Notes to Financial Statements</u> | 4 |
| <u>Supplemental Schedule</u> | |
| <u>Schedule H, Line 4i Schedule of Assets (Held at End of Year)</u> | 14 |
| <u>EX-23</u> | |

Table of Contents

Report of Independent Registered Public Accounting Firm

The Timken Company, Administrator of the
Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company

We have audited the accompanying statements of net assets available for benefits of the Voluntary Investment Pension Plan for Hourly Employees of The Timken Company as of December 31, 2008 and 2007, and the related statement of changes in net assets available for benefits for the year ended December 31, 2008. 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, 2008 and 2007, and the changes in its net assets available for benefits for the year ended December 31, 2008, in conformity with US generally accepted accounting principles.

Our audits were performed 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, 2008, 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. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule 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.

/s/ Ernst & Young LLP

Cleveland, Ohio
June 24, 2009

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Statements of Net Assets Available for Benefits

| | December 31, | |
|---|--------------------------|-------------------|
| | 2008 | 2007 |
| Assets | | |
| Investments, at fair value: | | |
| Interest in The Master Trust Agreement for The Timken Company | | |
| Defined Contribution Plans | \$ 96,944,990 | \$131,718,703 |
| Participant notes receivable | 3,932,361 | 4,290,448 |
| Total investments, at fair value | 100,877,351 | 136,009,151 |
| Contribution receivable from participants | 46,826 | 61,295 |
| Net assets available for benefits, at fair value | 100,924,177 | 136,070,446 |
| 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 | 2,895,694 | 478,492 |
| Net assets available for benefits | \$103,819,871 | \$136,548,938 |

See accompanying notes.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 2008

Additions

| | |
|-----------------------|------------------|
| Investment income: | |
| Interest | \$ 344,052 |
| | 344,052 |
| Participant rollovers | 83,615 |
| Contributions: | |
| Participants | 7,475,837 |
| | 7,475,837 |
| Total additions | 7,903,504 |

Deductions

| | |
|---|-----------------------|
| Investment loss: | |
| Net investment loss from The Master Trust Agreement for The Timken Company Defined Contribution Plans | \$ 33,954,357 |
| Benefits paid directly to participants | 6,654,300 |
| Administrative expenses | 10,733 |
| Total deductions | 40,619,390 |
| Net decrease prior to transfers | (32,715,886) |
| Transfers between plans | (13,181) |
| Net decrease | (32,729,067) |
| Net assets available for benefits: | |
| Beginning of year | 136,548,938 |
| End of year | \$ 103,819,871 |

See accompanying notes.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements
December 31, 2008 and 2007, and
Year Ended December 31, 2008

1. Description of the Plan

The following description of the Voluntary Investment Pension Plan for Hourly Employees of The Timken Company (the Plan) provides only general information. Participants should refer to the *2005 401(k) Agreement Between The Timken Company and the United Steelworkers of America, AFL-CIO* (the 401(k) Agreement), for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan covering all employees of The Timken Company (the Company and Plan Administrator) who are represented by the United Steelworkers of America (USWA). Employees of the Company become eligible to participate in the Plan beginning the first month following completion of a 120 working day probationary period, provided that health care benefits have become effective. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Each year, participants may contribute up to 25% of gross earnings, as defined in the Plan, subject to Internal Revenue Service (IRS) limitations. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. No Company contributions are provided under the Plan. Upon enrollment, a participant must direct their contribution in 1% increments to any of the Plan's fund options. Participants have access to their account information and the ability to make account transfers and contribution changes daily through an automated telecommunication system and through the Internet.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of plan earnings, and is charged administrative expenses, as appropriate. Allocations are based on account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Vesting

Participants vest immediately in their contributions plus actual earnings thereon.

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 four years. 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 balance of their account or elect to receive installment payments of their assets over a period of time not to exceed their life expectancy. If a participant's account balance is greater than \$1,000, they may leave their vested assets in the Plan until age 70².

Plan Termination

The Plan shall continue in full force and effect until January 1, 2010, and for yearly periods thereafter unless either the Company or the USWA shall notify the other party in writing within 60 days before the termination date of the 401(k) Agreement that they desire to terminate the agreement. The Plan may generally be amended by mutual consent of the Company and the USWA. In the event of Plan termination, the Trustee shall distribute to each participant the amount standing to their credit in their separate account. Participants may elect to have dividends in The Timken Company Common Stock Fund distributed to them in cash rather than automatically reinvested in Timken common shares.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

2. Accounting Policies

Basis of Accounting

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

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value and are invested in The Master Trust Agreement for the 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 fair value of the Plan's interest in the Master Trust is based on the value of the Plan's interest in the fund plus actual contributions and allocated investment income (loss) less actual distributions.

The Plan's trustee, JP Morgan (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 \$10.85 and \$18.18 at December 31, 2008 and 2007 respectively.

Investments in registered investment companies, common collective funds and investment contracts are valued at the redemption value of units held at year-end. Participant loans are valued at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

2. Accounting Policies (continued)**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. Actual results could differ from those estimates.

3. Investments

The Trustee holds all the Plan's investment assets and executes investment transactions. All investment assets of the Plan, except for participant loans, are pooled for investment purposes in the Master Trust.

The following table presents a summary of the investments of the Master Trust as of December 31:

| | 2008 | 2007 |
|---|----------------------|-----------------|
| Investments, at fair value: | | |
| The Timken Company Common Stock Fund | \$225,514,383 | \$ 324,783,232 |
| Registered investment companies | 221,647,760 | 340,698,963 |
| Common collective funds | 182,763,527 | 267,376,313 |
| | 629,925,670 | 932,858,508 |
| Investment contracts, at fair value | 156,437,336 | 149,281,023 |
| Adjustments from fair value to contract value | 20,458,669 | 3,584,578 |
| Investment contracts, at contract value | 176,896,005 | 152,865,601 |
| | \$806,821,675 | \$1,085,724,109 |

At December 31, 2008, The Timken Company Common Stock Fund consisted of 20,781,153 units of The Timken Company's common stock. The Plan's interest in the Master Trust as of December 31, 2008 and 2007 was 12.37% and 12.18% respectively.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

3. Investments (continued)

Investment income (loss) relating to the Master Trust is allocated to the individual plans based upon the average balance invested by each plan in each of the individual funds of the Master Trust. Investment income (loss) for the Master Trust is as follows:

| | Year Ended December 31, | |
|---|--------------------------------|--------------|
| | 2008 | 2007 |
| Net appreciation (depreciation) in fair value of investments determined by quoted market price: | | |
| The Timken Company Common Stock Fund | \$(120,044,417) | \$41,478,441 |
| Registered investment companies | (128,819,219) | 9,055,413 |
| Common collective funds | (73,116,499) | 14,493,137 |
| | (321,980,135) | 65,026,991 |
| Net appreciation in investment contracts | 3,154,296 | 5,567,300 |
| Interest and dividends | 15,478,607 | 26,138,420 |
| Total Master Trust | \$(303,347,232) | \$96,732,711 |

4. Fair Value

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value that is based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information to develop those assumptions. Additionally, the standard expands the disclosures about fair value measurements to include separately disclosing the fair value measurements of assets or liabilities within each level of the fair value hierarchy. The implementation of SFAS No. 157, effective January 1, 2008, did not have a material impact on the Plan's financial statements.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

4. Fair Value (continued)

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

The following table presents the fair value hierarchy for those investments of the Master Trust measured at fair value on a recurring basis as of December 31, 2008:

| | Total | Level 1 | Level 2 | Level 3 |
|---------------------------------|----------------------|----------------------|----------------------|----------------|
| Assets: | | | | |
| The Timken Company | | | | |
| Common Stock Fund | \$225,514,383 | \$ | \$225,514,383 | \$ |
| Registered investment companies | 221,647,760 | 221,647,760 | | |
| Common collective funds | 182,763,527 | | 182,763,527 | |
| Investment contracts | 176,896,005 | | 176,896,005 | |
| Total Assets | \$806,821,675 | \$221,647,760 | \$585,173,915 | \$ |

The Timken Company Stock Fund participates in units and is valued based on the closing price of Timken Common Shares traded on a national securities exchange. Registered investment companies are valued based on quoted market prices reported on the active market on which the individual securities are traded. Common collective funds and investment contracts are valued based on quoted prices for similar assets in active markets.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

4. Fair Value (continued)

The following table presents the fair value hierarchy for those investments of the Plan measured at fair value on a recurring basis as of December 31, 2008:

| | Total | Level 1 | Level 2 | Level 3 |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| Assets: | | | | |
| Participant notes receivable | \$3,932,361 | | | \$3,932,361 |
| Total Assets | \$3,932,361 | | | \$3,932,361 |

Participant notes receivable are valued at amortized cost, which approximates fair value.

The table below sets forth a summary of changes in the fair value of the Plan's level 3 assets for the year ended December 31, 2008:

| | |
|--------------------------------|---------------------|
| Participant notes receivable | |
| Balance, beginning of year | \$ 4,290,448 |
| Issuances and settlements, net | (358,087) |
| Balance, end of year | \$ 3,932,361 |

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

5. Investment Contracts

The Master Trust invests in synthetic guaranteed investment contracts (GICs), or a Stable Value Fund, that credit a stated interest rate for a specified period of time. The Stable Value Fund provides principal preservation plus accrued interest through fully benefit-responsive wrap contracts issued by a third party which back the underlying assets owned by the Master Trust. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The investment contract issuer is contractually obligated to repay the principal at a specified interest rate that is guaranteed to the Plan.

As described in FASB Staff Position (FSP) AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the fully benefit-responsive investment contracts. Contract value represents contributions made under the contracts, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rates for the wrap contracts are calculated on a quarterly basis (or more frequently if necessary) using contract value, market value of the underlying fixed income portfolio, the yield of the portfolio, and the duration of the index, but cannot be less than zero.

| | December 31, | |
|---|---------------------|-------------|
| | 2008 | 2007 |
| Average yields for synthetic GICS | | |
| Based on actual earnings | 6.5% | 6.7% |
| Based on interest rate credited to participants | 3.2% | 5.4% |

11

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

5. Investment Contracts (continued)

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

| | December 31, | |
|--|----------------------|---------------|
| | 2008 | 2007 |
| Net assets available for benefits per the financial statements | \$103,819,871 | \$136,548,938 |
| Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (2,895,654) | (478,492) |
| Net assets available for benefits per the Form 5500 | \$100,924,177 | \$136,070,446 |

The fully benefit-responsive investment contracts have been adjusted from fair value to contract value for purposes of the financial statements. For purposes of the Form 5500, the investment contracts will be stated at fair value.

6. Risks and Uncertainties

The Master Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
Notes to Financial Statements (continued)

7. Income Tax Status

The Plan has received a determination letter from the IRS dated April 23, 2003, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code), and therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax-exempt. The Plan Administrator will take the necessary steps, if any, to maintain compliance with the Code.

8. Related-Party Transactions

Related-party transactions included the investments in the common stock of the Company and the investment funds of the Trustee. Such transactions are exempt from being prohibited transactions.

The following is a summary of transactions in Timken common shares with the Master Trust for the year ended December 31, 2008:

| | Shares | Dollars |
|---|---------------|----------------|
| Purchased | 2,710,653 | \$37,524,874 |
| Issued to participants for payment of benefits | 122,559 | 1,424,418 |
| Benefits paid to participants include payments made in Timken common shares valued at quoted market prices at the date of distribution. | | |

Certain legal and accounting fees and certain administrative expenses relating to the maintenance of participant records are paid by the Company. Fees paid during the year for services rendered by parties in interest were based on customary and reasonable rates for such services.

Table of Contents

Supplemental Schedule

Table of Contents

Voluntary Investment Pension Plan for
Hourly Employees of The Timken Company
EIN #34-0577130 Plan #019
Schedule H, Line 4i Schedule of Assets
(Held at End of Year)
December 31, 2008

| Identity of Issue, Borrower, Lessor, or Similar Party | Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value | Current Value |
|--|---|--------------------------|
| Participant notes receivable* | Interest rates ranging from 5.0% to 9.25% with various maturity dates | \$ 3,932,361 |

* Indicates party
in interest to the
Plan.

Table of Contents

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other person who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

THE VOLUNTARY INVESTMENT
PENSION PLAN FOR HOURLY
EMPLOYEES OF THE TIMKEN
COMPANY

Date: June 26, 2009

By: /s/ Scott A. Scherff
Scott A. Scherff
Corporate Secretary and
Assistant General Counsel