

TIMKEN CO  
Form DEF 14A  
March 27, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934 (Amendment No.            )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

The Timken Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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*Notice of  
2014  
Annual Meeting of  
Shareholders  
and  
Proxy Statement*

**THE TIMKEN COMPANY**

Canton, Ohio U.S.A.

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**Ward J. Timken, Jr.**

Chairman Board of Directors

March 27, 2014

Dear Shareholder:

The 2014 Annual Meeting of Shareholders of The Timken Company will be held on Tuesday, May 13, 2014, at 10:00 a.m. local time at the corporate offices of the company in Canton, Ohio.

This year, you are being asked to act upon four matters. The first three matters (Items 1 through 3) are the election of Directors, ratification of our independent auditor selection, and advisory approval of a resolution regarding our named executive officer compensation, all of which are recommended by your Board of Directors. The fourth matter is a shareholder proposal that, if properly presented, your Board recommends you do not support. Thus, your Board recommends that you vote FOR all nominees listed in Item 1, FOR Items 2 and 3, and AGAINST Item 4.

Details of these matters are contained in the accompanying Notice of 2014 Annual Meeting of Shareholders and Proxy Statement. Please read the enclosed information carefully before voting your shares. Voting your shares as soon as possible will ensure your representation at the meeting, whether or not you plan to attend.

I appreciate the strong support of our shareholders over the years and look forward to a similar vote of support at the 2014 Annual Meeting of Shareholders.

Sincerely,

Ward J. Timken, Jr.

Enclosure

The Timken Company

1835 Dueber Avenue,  
S.W.

P. O. Box 6927

Canton, OH 44706-0927

United States

**Stronger. Commitment. Stronger. Value. Stronger. Worldwide. Stronger. Together. |  
Stronger. By Design**

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**THE TIMKEN COMPANY**

**Canton, Ohio**

**NOTICE OF 2014 ANNUAL MEETING OF SHAREHOLDERS**

The 2014 Annual Meeting of Shareholders of The Timken Company will be held on Tuesday, May 13, 2014, at 10:00 a.m. local time, at 1835 Dueber Avenue, S.W., Canton, Ohio 44706, to act on the following matters:

1. Election of eleven Directors to serve for a term of one year.
2. Ratification of the selection of Ernst & Young LLP as our independent auditor for the fiscal year ending December 31, 2014.
3. An advisory resolution regarding named executive officer compensation.
4. A shareholder proposal requesting that the Company adopt a policy requiring that the Chairman of the Board be an independent Director.
5. Such other business as may properly come before the meeting.

Shareholders of record of common shares of The Timken Company at the close of business on February 24, 2014, are the shareholders entitled to notice of and to vote at the meeting.

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE 2014 ANNUAL MEETING OF SHAREHOLDERS, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE POSTAGE-PAID ENVELOPE PROVIDED OR VOTE YOUR SHARES ELECTRONICALLY THROUGH THE INTERNET OR BY TELEPHONE. VOTING INSTRUCTIONS ARE PROVIDED ON THE ENCLOSED PROXY CARD.**

**Effect of Not Casting Your Vote.** If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials will be forwarded to you by your broker, bank or nominee who is considered the shareholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or nominee how to vote and are also invited to attend the 2014 Annual Meeting of Shareholders. Your broker, bank or nominee will enclose a voting instruction card for

you to use in directing the broker, bank or nominee regarding how to vote your shares. If you do not return the voting instruction card, the broker, bank or other nominee will determine if it has the discretionary authority to vote on the particular matter. Under applicable New York Stock Exchange rules, brokers have the discretion to vote only on any matters deemed by the New York Stock Exchange to be routine, such as the ratification of the selection of the Company's independent auditor (Item 2 of this Proxy Statement). The election of Directors (Item 1 of this Proxy Statement), the shareholder advisory vote on named executive officer compensation (Item 3 of this Proxy Statement), and the shareholder proposal (Item 4 of this Proxy Statement) are not considered to be routine matters, and your broker will not have discretion to vote on those matters unless you specifically instruct your broker to do so by returning your signed voting instruction card. If you do not provide voting instructions to your broker, your shares will not be voted for the election of any Director nominee or on any matter for which your broker does not have discretionary authority.

William R. Burkhart

March 27, 2014

Senior Vice President and General Counsel

**Important Notice Regarding the Availability of Proxy Materials for the 2014 Annual Meeting of Shareholders to be held on May 13, 2014:** This Proxy Statement and our 2013 Annual Report to Shareholders are available on the Investors' section of our website [www.timken.com/investors](http://www.timken.com/investors).



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**THE TIMKEN COMPANY**

**PROXY STATEMENT**

The enclosed proxy is solicited by the Board of Directors of The Timken Company, an Ohio corporation (the Company, we, or us), in connection with the 2014 Annual Meeting of Shareholders to be held on May 13, 2014, at 10:00 a.m. local time at 1835 Dueber Avenue, S.W., Canton, Ohio 44706, and at any adjournments and postponements thereof, for the purpose of considering and acting upon the matters specified in the foregoing Notice. Our current mailing address for our corporate offices is where our 2014 Annual Meeting of Shareholders will be held. In the near future, the mailing address of our corporate offices will be changed to 4500 Mt. Pleasant Street, N.W., North Canton, Ohio 44720. The approximate date on which this Proxy Statement and proxy card will be first sent or given to our shareholders is March 27, 2014.

The Board of Directors is not aware that matters other than those specified in the foregoing Notice will be brought before the meeting for action. However, if any such matters should be brought before the meeting, the persons appointed as proxies may vote or act upon such matters according to their judgment.

**ELECTION OF DIRECTORS**

We presently have fourteen Directors. Pursuant to our Amended Regulations, all nominees for Director will stand for election for a one-year term to expire at the 2015 annual meeting. Candidates for Director receiving the greatest number of votes will be elected. Abstentions and broker non-votes (where a broker, other record holder, or nominee indicates on a proxy card that it does not have authority to vote certain shares on a particular matter) will not be counted in the election of Directors and will not have any effect on the result of the vote.

Pursuant to the Majority Voting Policy of the Board of Directors, any Director who fails to receive a majority of the votes cast in his or her election will submit his or her resignation to the Board of Directors promptly after the certification of the election results. The Board of Directors and the Nominating and Corporate Governance Committee will then consider the resignation in light of any factors they consider appropriate, including the Director's qualifications and service record, as well as any reasons given by shareholders as to why they voted against (or withheld votes from) the Director. The Board of Directors is required to determine whether to accept or reject the tendered resignation within 90 days following the election and to disclose its decision on a Current Report on Form 8-K, as well as the reasons for rejecting any tendered resignation, if applicable.

Ward J. Timken, a Director of the Company since 1971, is retiring from the Board of Directors, effective as of the Annual Meeting of Shareholders, pursuant to the Board's policy that a Director retire from the Board at the Annual Meeting of Shareholders after reaching age 72. James W. Griffith, a Director since 1999 and current President and Chief Executive Officer of the Company, is expected to retire as an executive officer of the Company in 2014, and will not stand for election as a Director in 2014. John M. Ballbach, a Director since 2009, and a member of the Audit and Compensation Committees, also will not stand for election as a Director in 2014. We are grateful for the many contributions made by these Directors during their service on the Board.

On September 5, 2013, our Board of Directors announced a plan to pursue a spinoff of our steel business into a separate public company, TimkenSteel Corporation (TimkenSteel). Among other conditions, the planned spinoff is

subject to final approval by our Board of Directors, receipt of an opinion from our tax counsel regarding the tax-free nature of the spinoff, receipt of regulatory approvals and the effectiveness of a registration statement on Form 10 that has been filed with the U. S. Securities and Exchange Commission (the SEC ). Approval by our shareholders is not required for completion of the planned spinoff. The planned spinoff is not expected to be completed until after the 2014 Annual Meeting of Shareholders. In connection with the completion of the spinoff, it is expected that Phillip R. Cox, a

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Director of the Company since 2004, and Diane C. Creel, a Director of the Company since 2012, will be appointed directors of TimkenSteel and will resign from the Board of Directors of the Company. In addition, it is expected that John P. Reilly, a Director of the Company since 2006, will be appointed a director of TimkenSteel at that time, but will also remain a Director of the Company. Ward J. Timken, Jr., current Chairman of the Company, is expected to be named Chairman and Chief Executive Officer of TimkenSteel and will remain a Director of the Company but will resign as Chairman. Additionally, John M. Timken, Jr. is expected to be named as the independent non-executive Chairman of the Board of the Company. As a result, following the spinoff, no Timken family member will serve as part of the executive management of the Company. If these changes occur, the Company will decide whether to reduce the size of the Board of Directors or fill the vacancies and will announce its decision on a Current Report on Form 8-K.

If any nominee becomes unable, for any reason, to serve as a Director, or should a vacancy occur before the election (which events are not anticipated), the Directors then in office may substitute another person as a nominee or may reduce the number of nominees as they deem advisable.

**ITEM NO. 1**

**ELECTION OF DIRECTORS**

The Board of Directors, by resolution at its February 14, 2014 meeting, based on the recommendation of the Nominating and Corporate Governance Committee of the Board, nominated the eleven individuals set forth below to be elected Directors at the 2014 Annual Meeting of Shareholders to serve for a term of one year expiring at the annual meeting in 2015 (or until their respective successors are elected and qualified). All of the nominees, except Richard G. Kyle and Christopher L. Mapes have been previously elected as a Director by our shareholders. Each of the nominees listed below has consented to serve as a Director if elected.

Unless otherwise indicated on any proxy, the persons named as proxies on the enclosed proxy card intend to vote the shares covered by such proxy card in favor of the nominees named below.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES NAMED BELOW.**

**NOMINEES**

The following information, obtained in part from the respective nominees and in part from our records, describes the background and experience of each nominee as of January 3, 2014.

**Phillip R. Cox**

Age 66

Director since 2004

Mr. Cox has been President and Chief Executive Officer of Cox Financial Corporation, a financial services company that he founded, for over 35 years. In addition, Mr. Cox is currently non-executive Chairman of Cincinnati Bell Inc., where he has served as a director since 1993. He has also served as a director of Touchstone Mutual Funds since 1994 and Diebold, Incorporated since 2005.

Mr. Cox provides guidance to our Board based on his extensive knowledge of finance, investments and capital markets. Mr. Cox brings the perspective of a member of several corporate boards, including as non-executive Chairman and a member of the Audit and Finance, Governance and Nominating and Compensation Committees of Cincinnati Bell and Chairman of the Compensation Committee and member of the Investment Committee of Diebold.

Mr. Cox is a member of the Audit Committee as well as the Nominating and Corporate Governance Committee.

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**Diane C. Creel**

Age 65

Director since 2012

Ms. Creel served as Chairman, Chief Executive Officer and President of Ecovation Inc., a subsidiary of Ecolab Inc., a waste stream technology company using patented technologies, until her retirement in 2008. Prior to Ecovation, Ms. Creel was Chairman, Chief Executive Officer and President of Earth Tech, Inc. from 1992 to 2003. Ms. Creel has served as a director of Allegheny Technologies Incorporated since 1996 and Enpro Industries, Inc. since 2009. Ms. Creel was formerly a director of Goodrich Corporation until 2012.

Ms. Creel brings our Board the benefits of her deep experience as a senior executive and Board member of several industrial companies. Ms. Creel's expertise in engineering, construction and green technology provides a key industry perspective to the Board. Ms. Creel also has experience in mergers and acquisitions, which serves the Board well when evaluating organic and inorganic growth opportunities. Ms. Creel brings the perspective of a member of several boards, including as Lead Independent Director as well as Chair of the Nominating and Governance Committee and member of the Finance and Personnel and Compensation Committees of Allegheny Technologies Incorporated and member of the Audit and Risk Management, Compensation and Human Resources and Nominating and Corporate Governance Committees of Enpro Industries, Inc.

Ms. Creel is a member of the Audit Committee as well as the Compensation Committee.

**Richard G. Kyle**

Age 48

Director since 2013

Mr. Kyle was appointed Chief Operating Officer – Bearings and Power Transmission of The Timken Company in 2013. At the time of his appointment, the Board indicated that it expects Mr. Kyle to succeed current President and Chief Executive Officer, James W. Griffith. Mr. Kyle joined the Company in 2006 as Vice President of Manufacturing and was named the President of the Aerospace and Mobile Industries Segments in 2008. In 2012, he was named Group President, with responsibility for the Aerospace and Steel segments as well as engineering and technology.

Mr. Kyle has significant experience with the Company and has demonstrated the ability to lead organizations through change and growth. In addition to his role as the future Chief Executive Officer ( CEO ) of the Company, Mr. Kyle's strong engineering and operational background, coupled with his strategic perspective regarding acquisitions and optimizing value, provides valued skills to the Board.

**John A. Luke, Jr.**

Age 65

Director since 1999

Mr. Luke has served as the Chairman and Chief Executive Officer of MeadWestvaco Corporation, a leading global producer of packaging, coated and specialty papers, consumer and office products and specialty chemicals since 2003. Mr. Luke joined the executive ranks of Westvaco in 1990 after holding leadership positions across the organization, including positions in treasury, marketing and international sales. As a senior executive at Westvaco, Mr. Luke led the process of merging the Westvaco Corporation with the Mead Corporation in 2002. Mr. Luke has also served as a director of The Bank of New York Mellon Corporation since 2007 and MeadWestvaco Corporation since 2002.

Mr. Luke brings deep executive leadership experience to our Board, including expertise in leading large corporate transformations and evaluating and executing inorganic growth opportunities through acquisitions. Mr. Luke brings the perspective gained from serving on two corporate boards, including as Chairman and a member of the Executive Committee of MeadWestvaco Corporation and Chair of the Corporate Governance and Nominating Committee and a member of the Risk and Executive Committees of Bank of New York Mellon Corporation.

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Mr. Luke chairs the Compensation Committee and is a member of the Nominating and Corporate Governance Committee.

**Christopher L. Mapes**

Age 51

Director since 2014

Mr. Mapes was named President and Chief Executive Officer of Lincoln Electric Holdings, Inc., a global manufacturer of welding, cutting and joining products, as of December 31, 2012, and Chairman as of December 31, 2013, after serving as Chief Operating Officer of Lincoln since 2011. From 2004 to 2011, he served as Executive Vice President of A. O. Smith Corporation, a global manufacturer with a water treatment and heating technologies business and an electric motor and motor solutions business, where he led the expansion and execution of the global strategy for its electrical products.

As an experienced executive with more than 25 years of service in global manufacturing and distribution companies, Mr. Mapes understands the challenges of global growth and the complexity of managing international operations. In addition to his business management experience, Mr. Mapes has a law degree.

Mr. Mapes will serve as a member of the Audit Committee and the Compensation Committee.

**Joseph W. Ralston**

Age 70

Director since 2003

General Ralston has served as Vice Chairman of The Cohen Group, an organization that provides clients with comprehensive tools for understanding and shaping their business, political, legal, regulatory and media environments, since 2003. General Ralston completed a distinguished 37-year Air Force career as Commander, U.S. European Command and Supreme Allied Commander Europe, NATO in 2003. Previously, General Ralston served as Vice Chairman of the Joint Chiefs of Staff, the nation's second highest-ranking military officer. General Ralston also has served on the boards of Lockheed Martin Corporation and URS Corporation since 2003.

General Ralston's experience in the private sector, combined with his distinguished military career, provides our Board with unmatched expertise across a range of complex operational, human resources, supply chain/logistical and other issues facing a global corporation. Based on his extensive military experience, General Ralston also provides specific insights and knowledge in the aerospace industry, which is a significant market for the Company. Additionally, General Ralston's understanding of the political environment in Washington allows him to guide our Board on the challenges and opportunities resulting from governmental actions. General Ralston also brings the perspective of a member of two corporate boards, including as Chair of the Compensation Committee as well as member of the Audit and Board Affairs Committees of URS Corporation and member of the Classified Business of Security, Ethics of Sustainability and Strategic Affairs Committees of Lockheed Martin.

General Ralston serves as Lead Director, chairs the Nominating and Corporate Governance Committee and is a member of the Compensation Committee.

**John P. Reilly**

Age 70

Director since 2006

Mr. Reilly served as the Chairman, President and Chief Executive Officer of Figgie International, an international diversified operating company, until 1998. He has more than 30 years of experience in the automotive industry, where he served as President and Chief Executive Officer of several automotive



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suppliers, including Stant Corporation and Tenneco Automotive. He also held leadership positions at the former Chrysler Corporation and Navistar International and served as President of Brunswick Corporation. Mr. Reilly also serves as a director and non-executive Chairman of Exide Technologies and Material Sciences Corporation, having served on each company's board since 2004.

Mr. Reilly brings to our Board the benefits of his extensive automotive industry experience and provides our Board with valuable insight in a significant market for the Company. Based on his 40 years of successful executive leadership with Figgie International, Stant Corporation and Tenneco Automotive, Mr. Reilly is also able to help guide the Board in making strategic and business decisions. Mr. Reilly brings his perspective as non-executive Chairman of two corporate boards, as well as a member of the Compensation Committee of Exide Technologies and Audit Committee of Material Sciences Corporation.

Mr. Reilly is a member of the Audit Committee as well as the Compensation Committee.

### **Frank C. Sullivan**

Age 53

Director since 2003

Mr. Sullivan has held the position of Chairman and Chief Executive Officer of RPM International Inc., a world leader in specialty coatings, since 2008. Mr. Sullivan was appointed RPM's Chief Executive Officer in 2002, prior to which he held positions in sales and corporate development before becoming Chief Financial Officer in 1993. Mr. Sullivan held various positions in the areas of commercial lending and corporate finance in the banking industry before joining RPM in 1987.

Mr. Sullivan provides the Board with extensive financial expertise based on his years as a Chief Financial Officer. In addition, having served as a Chief Executive Officer and director of a multinational company, Mr. Sullivan also brings invaluable executive experience on a wide array of issues including strategic planning and the evaluation and execution of merger and acquisition opportunities.

Mr. Sullivan chairs the Audit Committee as well as serving on the Nominating and Corporate Governance Committee.

### **John M. Timken, Jr.**

Age 62

Director since 1986

Mr. Timken is a private investor and a successful entrepreneur, who has been a significant shareholder of The Timken Company for many years. Mr. Timken is co-founder of Amgraph Packaging, a national supplier of flexible package printing used by major food and beverage brands and private labels. His entrepreneurial activities and passion for business building have included involvement in ventures ranging from injection molding, to ophthalmic laboratories, to logistics and trucking. He has also owned a cable television business and established one of the largest commercial mushroom farms in North America.

Mr. Timken's ability as an investor to identify and help increase value across a range of industries, as well as his familiarity with the Company's businesses, provides the Board with important input in evaluating and making

important capital allocation decisions. Since joining the Board, he has played an important role in the Company's strategic drive to add product lines that complement its bearing product portfolio, including the acquisition of The Torrington Company in 2003, the largest in the Company's history.

**Ward J. Timken, Jr.**

Age 46

Director since 2002

Mr. Timken has served as Chairman of the Board since 2005. Previously, Mr. Timken was President of our steel business from 2004 to 2005, Corporate Vice President from 2000 to 2003 and held key leadership positions in our European and Latin American businesses from 1992 to 2000. Prior to joining the Company, Mr. Timken opened and managed the Washington, D.C. office of McGough & Associates, a Columbus, Ohio-based government affairs consulting firm. Mr. Timken is also a member of the Board of Pella Corporation, where he has served since 2008.

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Mr. Timken provides the Board with relevant experience from having served in several key leadership positions during his tenure with the Company. As President of the steel business, Mr. Timken led the business to record levels of profitability, and as Corporate Vice President, he was responsible for strategy development, including leading the Company's diversification efforts in the Process Industries segment. Mr. Timken's broad-based experience and familiarity with each of our businesses, along with his deep understanding of the global industry dynamics across the Company's markets, allow Mr. Timken to play a key role in all matters involving the Board.

### **Jacqueline F. Woods**

Age 66

Director since 2000

Ms. Woods served as the President of Ameritech Ohio (subsequently renamed AT&T Ohio), a telecommunications company, until her retirement in 2000. At Ameritech Ohio, Ms. Woods also held various positions in finance, operations, marketing, sales and government affairs. Ms. Woods was inducted into the Ohio Women's Hall of Fame in 1998. Ms. Woods has served on the board of The Andersons, Inc. since 1999. Ms. Woods was formerly a director at School Specialty, Inc. until 2013.

Ms. Woods' extensive executive management experience within a large company enables her to help guide the Board in making decisions in areas such as marketing, strategy development, corporate governance and compensation. In addition, her executive experience at a primarily consumer-oriented company provides a valuable perspective on customer service. Ms. Woods also brings perspective gained from her service as a member of another corporate board, including serving as a member of the Audit, Governance and Nominating and Compensation and Leadership Development Committees of The Andersons, Inc.

Ms. Woods is a member of the Compensation Committee as well as the Nominating and Corporate Governance Committee.

### **Independence Determinations**

The Board of Directors has adopted the independence standards of the New York Stock Exchange listing requirements for determining the independence of Directors. The Board has determined that the following Director nominees meet those independence standards: Phillip R. Cox, Diane C. Creel, John A. Luke, Jr., Christopher L. Mapes, Joseph W. Ralston, John P. Reilly, Frank C. Sullivan, John M. Timken, Jr., and Jacqueline F. Woods. With respect to John M. Timken, Jr., the Board determined that his family relationship to Ward J. Timken, Jr. does not impair his independence.

### **Related Party Transactions Approval Policy**

Our Directors and executive officers are subject to our Standards of Business Ethics, which require that any potential conflicts of interest, such as significant transactions with related parties, be reported to our General Counsel. Our Directors and executive officers are also subject to the Timken Policy Against Conflicts of Interest, which requires that an employee or Director avoid placing himself or herself in a position in which his or her personal interests could interfere in any way with our interests. While not every situation can be identified in a written policy, the Timken Policy Against Conflicts of Interest does specifically prohibit the following situations:

competing against the Company;

holding a significant financial interest in a company doing business with or competing with the Company;

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accepting gifts, gratuities or entertainment from any customer, competitor or supplier of goods or services to the Company, except to the extent they are customary and reasonable in amount and not in consideration for an improper action by the recipient;

using for personal gain any business opportunities that are identified through a person's position with the Company;

using the Company's property, information or position for personal gain;

using the Company's property other than in connection with our business;

maintaining other employment or a business that adversely affects a person's job performance at the Company; and

doing business on the Company's behalf with a relative or another company employing a relative.

In the event of any potential conflict of interest, pursuant to the charter of the Nominating and Corporate Governance Committee and the provisions of the Standards of Business Ethics and the Timken Policy Against Conflicts of Interest, the Nominating and Corporate Governance Committee would review and, considering such factors as it deems appropriate under the circumstances, make a determination as to whether to grant a waiver to the policies for any such situation. Any waiver would be promptly disclosed to shareholders.

**Board and Committee Meetings**

The Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. During 2013, there were fourteen meetings of the Board of Directors, eight meetings of its Audit Committee, seven meetings of its Compensation Committee and six meetings of its Nominating and Corporate Governance Committee. All Directors attended 75% or more of the meetings of the Board and its committees on which they served. It is our policy that all members of the Board of Directors attend the annual meeting of shareholders, and in 2013, all members attended the meeting. At each regularly-scheduled meeting of the Board of Directors, the nonemployee Directors and the independent Directors also meet separately in executive sessions.

**DIRECTOR COMPENSATION**

**Cash Compensation**

Each nonemployee Director who served in 2013 was paid at the annual rate of \$80,000 for services as a Director. At its meeting on February 8, 2013, the Board of Directors approved a \$10,000 increase to the annual fee for the Lead Director to \$20,000, effective January 1, 2013. The Board of Directors also approved an increase to the chairperson fee for the Compensation Committee and the Nominating and Corporate Governance Committee from \$15,000 to \$17,500. In addition to base compensation, the following fees were paid for serving on a committee of the Board in 2013.

| Committee                         | Chairperson Fee | Member Fee |
|-----------------------------------|-----------------|------------|
| Audit                             | \$ 30,000       | \$ 15,000  |
| Compensation                      | \$ 17,500       | \$ 7,500   |
| Nominating & Corporate Governance | \$ 17,500       | \$ 7,500   |

### **Stock Compensation**

Each nonemployee Director serving at the time of our annual meeting of shareholders on May 7, 2013, received a grant of 2,280 common shares under The Timken Company 2011 Long-Term Incentive Plan (the Long-Term Incentive Plan ) following the meeting. The shares received are required to be held by each nonemployee Director until his or her departure from the Board of Directors. Upon a Director's initial election to the Board, each new nonemployee Director receives a grant of 2,000 restricted shares under the Long-Term Incentive Plan, which vest one-fifth annually over a five-year period. The Compensation Committee of the Board of Directors has adopted share ownership guidelines that require nonemployee Directors to own 8,000 common shares. As of December 31, 2013, all of our Directors, other than Diane Creel, met their ownership requirements. Ms. Creel joined the Board of Directors in 2012.

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Any Director may elect to defer the receipt of all or a specified portion of his or her cash and/or stock compensation in accordance with the provisions of the Director Deferred Compensation Plan. Pursuant to the plan, cash fees can be deferred and paid at a future date requested by the Director. The amount will be adjusted based on investment crediting options, which include interest earned quarterly at a rate based on the prime rate plus one percent or the total shareholder return of our common shares, with amounts paid either in a lump sum or in installments in cash. Stock compensation can be deferred to a future date and paid either in a lump sum or installments and is payable in shares plus a cash amount representing dividend equivalents during the deferral period.

**2013 DIRECTOR COMPENSATION TABLE**

The following table provides details of nonemployee Director compensation in 2013:

| Name (1)            | Fees Earned or |                  | Total      |
|---------------------|----------------|------------------|------------|
|                     | Paid in Cash   | Stock Awards (2) |            |
| John M. Ballbach    | \$ 99,375      | \$ 124,716       | \$ 224,091 |
| Phillip R. Cox      | \$ 99,375      | \$ 124,716       | \$ 224,091 |
| Diane C. Creel      | \$ 102,500     | \$ 124,716       | \$ 227,216 |
| John A. Luke, Jr.   | \$ 105,000     | \$ 124,716       | \$ 229,716 |
| Joseph W. Ralston   | \$ 125,000     | \$ 124,716       | \$ 249,716 |
| John P. Reilly      | \$ 102,500     | \$ 124,716       | \$ 227,216 |
| Frank C. Sullivan   | \$ 117,500     | \$ 124,716       | \$ 242,216 |
| John M. Timken, Jr. | \$ 87,500      | \$ 124,716       | \$ 212,216 |
| Ward J. Timken      | \$ 80,191      | \$ 124,716       | \$ 204,907 |
| Jacqueline F. Woods | \$ 95,000      | \$ 124,716       | \$ 219,716 |

- (1) Ward J. Timken, Jr., Chairman, James W. Griffith, President and Chief Executive Officer, and Richard G. Kyle, Chief Operating Officer – Bearings and Power Transmission, are not included in this table as they are employees of the Company and receive no compensation for their services as Directors.
- (2) The amount shown for each Director is the grant date fair value of the award of 2,280 common shares made on May 7, 2013, as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification (or FASB ASC ) Topic 718. These awards vested upon grant.

A portion of the compensation for the Directors until 2005 included stock option grants. As of December 31, 2013, the following individuals had the following number of outstanding options and unvested restricted shares:

| Name              | Outstanding Options | Unvested Restricted Shares |
|-------------------|---------------------|----------------------------|
| John M. Ballbach  | 0                   | 400                        |
| Phillip R. Cox    | 0                   | 0                          |
| Diane C. Creel    | 0                   | 1,600                      |
| John A. Luke, Jr. | 6,000               | 0                          |
| Joseph W. Ralston | 0                   | 0                          |
| John P. Reilly    | 0                   | 0                          |

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|                     |   |   |
|---------------------|---|---|
| Frank C. Sullivan   | 0 | 0 |
| John M. Timken, Jr. | 0 | 0 |
| Ward J. Timken      | 0 | 0 |
| Jacqueline F. Woods | 0 | 0 |



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**BOARD LEADERSHIP STRUCTURE**

The Board is currently led by Chairman Ward J. Timken, Jr. In addition, the independent Directors have designated Joseph W. Ralston as Lead Director.

The Chairman oversees the planning of the annual Board calendar and, with the CEO, in consultation with the other Directors, schedules and sets the agenda for meetings of the Board and leads the discussions at such meetings. In addition, the Chairman provides guidance and oversight to management, helps with the formulation and implementation of the Company's strategic plans and acts as the Board's liaison to management. In this capacity, the Chairman, along with the CEO, is actively engaged on significant matters affecting the Company. The Chairman also leads the Company's annual meetings of shareholders and performs such other functions and responsibilities as set forth in the Board of Directors General Policies and Procedures or as requested by the Board from time to time.

The Board's preferred governance structure is to separate the roles of Chairman and CEO. With limited exceptions, these roles have been separate for over 80 years. While recognizing that there is no single, generally-accepted approach to providing Board leadership and that the Board's leadership structure may vary in the future as circumstances warrant, the Board considers this balance of leadership between the two positions to be a strength for the Company.

The Lead Director's duties include: (a) developing agendas for, and presiding over, the executive sessions of the independent Directors; (b) reporting the results of the executive sessions to the CEO and Chairman; (c) providing feedback as required to the other Directors on the issues discussed with the CEO and Chairman; (d) serving as a liaison with the CEO, Chairman and the independent Directors; (e) presiding at all meetings of the Board at which the Chairman is not present; (f) approving information sent to the Board; (g) approving agendas for Board meetings; (h) approving Board meeting schedules to ensure that there is sufficient time for discussion of all agenda items; (i) calling meetings of the independent Directors; and (j) ensuring that he or she is available for consultation and direct communications with major shareholders as appropriate.

On September 5, 2013, our Board of Directors announced a plan to pursue a spinoff of our steel business into a separate public company, TimkenSteel. In connection with the separation, it is expected that Ward J. Timken, Jr., will be named Chairman and Chief Executive Officer of TimkenSteel and John M. Timken, Jr., will be named as the independent non-executive Chairman of the Board of the Company.

**RISK OVERSIGHT**

The Board of Directors primarily relies on its Audit Committee for oversight of the Company's risk management. The Audit Committee regularly reviews issues that present particular risks to the Company, including those involving competition, customer demands, economic conditions, planning, strategy, finance, sales and marketing, products, information technology, facilities and operations, supply chain or legal matters. The full Board also reviews these issues as appropriate. The Board believes that this approach, supported by our senior leadership structure, provides appropriate checks and balances against undue risk taking.

**AUDIT COMMITTEE**

We have a standing Audit Committee that has oversight responsibility with respect to our independent auditor and the integrity of our financial statements. The Audit Committee is composed of Frank C. Sullivan (Audit Committee Chairman), John M. Ballbach, Phillip R. Cox, Diane C. Creel and John P. Reilly. Our Board of Directors has determined that each member of the Audit Committee is financially literate and independent as defined in the listing

standards of the New York Stock Exchange and the rules of the SEC. Our Board of Directors has determined that Frank C. Sullivan qualifies as the Audit Committee financial expert.

The Audit Committee's charter is available on our website at [www.timken.com/investors/governance](http://www.timken.com/investors/governance).

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**AUDIT COMMITTEE REPORT**

The Audit Committee has reviewed and discussed with management and our independent auditors the audited financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The Audit Committee has also discussed with our independent auditors the matters required to be discussed pursuant to Statement on Auditing Standards No. 16 Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board.

The Audit Committee has received and reviewed the written disclosure and the letter from our independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, has discussed with our independent auditor such independent auditor's independence, and has considered the compatibility of non-audit services with the auditor's independence.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC.

Frank C. Sullivan (Audit Committee Chairman)

John M. Ballbach

Phillip R. Cox

Diane C. Creel

John P. Reilly

**COMPENSATION COMMITTEE**

We have a standing Compensation Committee that establishes and administers our policies, programs and procedures for compensating our senior management and Board of Directors. Members of the Compensation Committee are John A. Luke, Jr. (Compensation Committee Chairman), John M. Ballbach, Diane C. Creel, Joseph W. Ralston, John P. Reilly and Jacqueline F. Woods. Our Board of Directors has determined that all members of the Compensation Committee are independent as defined in the listing standards of the New York Stock Exchange.

With the guidance and approval of the Compensation Committee, we have developed compensation programs for our executive officers, including the CEO and the other executive officers named in the Summary Compensation Table, that are intended to enable us to attract, retain and motivate superior quality executive management; reward executive management for sustained, strong business and financial results; and align the interests of our executives and shareholders. The Compensation Committee determines specific compensation elements for the CEO and the Chairman and considers and acts upon recommendations made by the CEO and the Chairman regarding the other executive officers.

The agenda for meetings of the Compensation Committee is determined by its Chairman with the assistance of the Senior Vice President Human Resources and Organizational Advancement. The meetings are regularly attended by the Chairman, CEO, Senior Vice President Human Resources and Organizational Advancement, and Vice President Total Rewards. At each meeting, the Compensation Committee meets in executive session. The Chairman of the

Compensation Committee reports the Committee's actions regarding compensation of executive officers to the full Board of Directors. Our Human Resources and Organizational Advancement department supports the Compensation Committee in its duties and may be delegated certain administrative duties in connection with our compensation programs. The Compensation Committee has the sole authority to retain and terminate compensation consultants to assist in the evaluation of Director or executive officer compensation and the sole authority to approve the fees and other retention terms of any compensation consultants. The Compensation Committee has engaged Towers Watson, a global professional services firm, to conduct annual reviews of its total compensation programs for executive officers and, from time-to-time, to review the total compensation of Directors. Towers Watson also provides information to the Compensation Committee on trends in executive compensation and other market data.

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With respect to Director compensation, as stated above, the Compensation Committee periodically engages Towers Watson to conduct reviews of total Director compensation, and the Committee then recommends to the full Board of Directors changes in Director compensation that will enhance our ability to attract and retain qualified Directors.

In January 2010, the firm of Towers Watson was created by the merger of Towers Perrin and Watson Wyatt. Towers Perrin had served as an advisor to the Compensation Committee for close to 20 years and was directly engaged by and accountable to the Committee. Watson Wyatt had been our long-time independent actuary. During fiscal 2013, Towers Watson was paid \$431,000 for executive compensation advice and \$2,363,000 for actuarial and other services to us and our benefit plans.

The Compensation Committee has concluded that the advice received by the Committee from Towers Watson continues to be objective, unbiased and independent. The Compensation Committee's careful oversight of the relationship with Towers Watson with respect to compensation advice mitigates the possibility that management could potentially misuse the actuarial engagement to influence Towers Watson's compensation work for the Committee. The Compensation Committee annually reviews the charges to the Company from Towers Watson for executive compensation advice and other services for the preceding three years, along with an estimate of services for the coming year. Additionally, Towers Watson has adopted internal safeguards to ensure that its executive compensation unit is maintained separately from its actuarial business.

The Compensation Committee has assessed the independence of Towers Watson, as required under the NYSE listing rules. The Compensation Committee has also considered and assessed relevant factors that could give rise to a potential conflict of interest with respect to Towers Watson. Based on this review, we are not aware of any conflict of interest that has been raised by the work performed by Towers Watson.

The Compensation Committee also plays an active role in our executive officer succession planning process. The Compensation Committee meets regularly with senior management to ensure that an effective succession process is in place and to discuss potential successors for executive officers. As part of this process, executive officer position profiles are updated to highlight the key skills required to meet future demands, and potential successors are evaluated and development plans are reviewed. At the end of each year, the Compensation Committee reviews the performance of the executive officers and potential successors. The Compensation Committee's succession planning activities are discussed with the full Board in executive session.

The Compensation Committee's charter is available on our website at [www.timken.com/investors/governance](http://www.timken.com/investors/governance).

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the "CD&A") for the year ended December 31, 2013 with our management. Following the review and discussion referred to above, the Compensation Committee recommended to our Board of Directors, and our Board approved, the inclusion of the CD&A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and this Proxy Statement for filing with the SEC.

John A. Luke, Jr. (Compensation Committee Chairman)

John M. Ballbach

Diane C. Creel

Joseph W. Ralston

John P. Reilly

Jacqueline F. Woods

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**NOMINATING AND CORPORATE GOVERNANCE COMMITTEE**

We have a standing Nominating and Corporate Governance Committee that is responsible for, among other things, evaluating new Director candidates and incumbent Directors and recommending Directors to serve as members of our Board committees. Members of the Nominating and Corporate Governance Committee are Joseph W. Ralston (Nominating and Corporate Governance Committee Chairman), Phillip R. Cox, John A. Luke, Jr., Frank C. Sullivan and Jacqueline F. Woods. Our Board of Directors has determined that all members of the Nominating and Corporate Governance Committee are independent as defined in the listing standards of the New York Stock Exchange.

Director candidates recommended by our shareholders will be considered in accordance with the criteria outlined below. In order for a shareholder to submit a recommendation, the shareholder must deliver a communication by registered mail or in person to the Nominating and Corporate Governance Committee, c/o The Timken Company, 4500 Mt. Pleasant Street, N.W., North Canton, Ohio 44720. Such communication should include the proposed candidate's qualifications, any relationship between the shareholder and the proposed candidate, and any other information that the shareholder would consider useful for the Nominating and Corporate Governance Committee to consider in evaluating such candidate.

A shareholder who wishes to nominate a person for election as a Director must provide written notice to our Secretary in accordance with the procedures specified in Article I, Sections 13 and 14 of our Amended Regulations. In general, to be timely, the written notice must be delivered and received by our Secretary at our principal executive offices not less than 90 nor more than 120 days prior to the first anniversary of the date on which the Company held the preceding year's Annual Meeting of Shareholders. If the date of the Annual Meeting of Shareholders is scheduled for a date more than 30 days prior to or more than 30 days after the first anniversary of the preceding year's Annual Meeting of Shareholders, then a shareholder's notice must be delivered to our Secretary at our principal executive offices not later than the close of business on the later of the 90th day prior to the Annual Meeting of Shareholders or the 10th day following the day on which public announcement of the date of the Annual Meeting of Shareholders is first made. The notice must provide certain information required by the Amended Regulations, including (a) biographical and share ownership information of the shareholder (and certain affiliates), (b) descriptions of any material interests of the shareholder (and certain affiliates) in the nomination and any arrangements between the shareholder (and certain affiliates) and another person or entity with respect to the nomination, (c) biographical and employment information of each nominee, and (d) a brief description of any arrangement or understanding between each individual proposed as a nominee and any other person pursuant to which the individual was selected as a nominee.

The Board of Directors General Policies and Procedures provide that the general criteria for Director candidates include, but are not limited to, the highest integrity and ethical standards, the ability to provide wise and informed guidance to management, a willingness to pursue thoughtful, objective inquiry on important issues before the Company, and a range of experience and knowledge commensurate with our needs as well as the expectations of knowledgeable investors.

The Nominating and Corporate Governance Committee utilizes a variety of sources to identify possible Director candidates, including professional associations and Board member recommendations. In evaluating candidates to recommend to the Board of Directors, the Nominating and Corporate Governance Committee considers factors consistent with those set forth in the Board of Directors General Policies and Procedures, including whether the candidate enhances the diversity of the Board. Such diversity includes professional background and capabilities, knowledge of specific industries and geographic experience, as well as the more traditional diversity concepts of race, gender and national origin. The attributes of the current Directors and the needs of the Board and the Company are evaluated whenever a Board vacancy occurs, and the effectiveness of the nomination process, including whether that process enhances the Board's diversity, is evaluated each time a candidate is considered. The Nominating and

Corporate Governance Committee is also responsible for reviewing the qualifications of, and making recommendations to the Board of Directors for, Director nominations submitted by our shareholders. All Director nominees are evaluated in the same manner by the Nominating and Corporate Governance Committee, without regard to the source of the nominee recommendation.



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Christopher L. Mapes was recommended by the Company's Chief Executive Officer and approved by the Nominating and Corporate Governance Committee.

The Nominating and Corporate Governance Committee also plans for Director succession. The Committee regularly reviews the appropriate size of the Board and whether any vacancies are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Committee considers potential Director candidates. As part of this process, the Committee assesses the skills and attributes of our Board as a whole and of each individual Director and evaluates whether prospective candidates possess complementary skills and attributes that would strengthen our Board.

The Nominating and Corporate Governance Committee's charter is available on our website at [www.timken.com/investors/governance](http://www.timken.com/investors/governance).

Our code of business conduct and ethics, called the Standards of Business Ethics, and our corporate governance guidelines, called the Board of Directors General Policies and Procedures, are reviewed annually by the Nominating and Corporate Governance Committee and are available on our website at [www.timken.com/investors/governance](http://www.timken.com/investors/governance).

**BENEFICIAL OWNERSHIP OF COMMON STOCK**

The following table shows, as of January 3, 2014, the beneficial ownership of our common shares by each Director, nominee for Director and executive officer named in the Summary Compensation Table on page 38 of this Proxy Statement, and by all Directors, nominees for Director and executive officers as a group. Beneficial ownership of our common shares has been determined for this purpose in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 and is based on the sole or shared power to vote or direct the voting or to dispose or direct the disposition of our common shares. Beneficial ownership as determined in this manner does not necessarily bear on the economic incidents of ownership of our common shares.

**Amount and Nature of Beneficial Ownership of Common Stock**

| Name                                   | Shared Voting or Investment                    |                          | Aggregate Amount <sup>(1)</sup> | Percent of Class |
|--|--|--------------------------|---------------------------------|------------------|
|  | Sole Voting or Investment Power <sup>(1)</sup> | Power                    |                                 |                  |
| John M. Ballbach                       | 19,141   | 0                        | 19,141                          |                  |
| Christopher A. Coughlin <sup>(2)</sup> | 108,635  | 0                        | 108,635                         | *                |
| Phillip R. Cox                         | 22,055   | 0                        | 22,055                          | *                |
| Diane C. Creel                         | 4,340  | 0                        | 4,340                           | *                |
| Glenn A. Eisenberg <sup>(2)</sup>      | 121,568  | 0                        | 121,568                         | *                |
| James W. Griffith <sup>(2)</sup>       | 1,083,199                                      | 0                        | 1,083,199                       | 1.2%             |
| Richard G. Kyle <sup>(2)</sup>         | 101,411  | 0                        | 101,411                         | *                |
| John A. Luke, Jr.                      | 43,692   | 0                        | 43,692                          | *                |
| Christopher L. Mapes                   | 0  | 0                        | 0                               | *                |
| Joseph W. Ralston                      | 38,806   | 0                        | 38,806                          | *                |
| John P. Reilly                         | 32,559   | 0                        | 32,559                          | *                |
| Frank C. Sullivan                      | 33,882   | 0                        | 33,882                          | *                |
| John M. Timken, Jr.                    | 584,795 <sup>(3)</sup>                         | 856,744 <sup>(4)</sup>   | 1,441,539 <sup>(3)(4)</sup>     | 1.5%             |
| Ward J. Timken                         | 467,988  | 5,788,202 <sup>(4)</sup> | 6,256,190 <sup>(4)</sup>        | 6.7%             |

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|  |           |                          |                          |       |
|--|-----------|--------------------------|--------------------------|-------|
| Ward J. Timken, Jr. <sup>(2)</sup>   | 1,007,506 | 5,159,754 <sup>(4)</sup> | 6,167,260 <sup>(4)</sup> | 6.6%  |
| Jacqueline F. Woods  | 16,567    | 0                        | 16,567                   | *     |
| All Directors, nominees<br>for Director and executive<br>officers as a group <sup>(2)(5)</sup> | 3,822,513 | 6,193,756                | 10,016,269               | 10.8% |

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\* Percent of class is less than 1%.

(1) The following table provides additional details regarding beneficial ownership of our common shares:

| <b>Name</b>             | <b>Outstanding<br/>Options (a)</b> | <b>Vested Deferred<br/>Restricted<br/>Shares (b)</b> | <b>Deferred<br/>Common<br/>Shares (b)</b> |
|-------------------------|------------------------------------|--|---|
| John M. Ballbach        | 0                                  | 0  | 0   |
| Christopher A. Coughlin | 45,775                             | 0  | 0   |
| Phillip R. Cox          | 0                                  | 2,000  | 3,500                                     |
| Diane C. Creel          | 0                                  | 0  | 0   |
| Glenn A. Eisenberg      | 58,950                             | 0  | 0   |
| James W. Griffith       | 691,225                            | 20,000   | 0   |
| Richard G. Kyle         | 45,775                             | 0  | 0   |
| John A. Luke, Jr.       | 6,000                              | 0  | 0   |
| Christopher L. Mapes    | 0                                  | 0  | 0   |
| Joseph W. Ralston       | 0                                  | 0  | 12,000                                    |
| John P. Reilly          | 0                                  | 0  | 6,280                                     |
| Frank C. Sullivan       | 0                                  | 2,000  | 0   |
| John M. Timken, Jr.     | 0                                  | 0  | 0   |
| Ward J. Timken          | 0                                  | 0  | 0   |
| Ward J. Timken, Jr.     | 607,425                            | 0  | 0   |
| Jacqueline F. Woods     | 0                                  | 0  | 2,500                                     |

- (a) Includes shares that the individual named in the table has the right to acquire on or before March 4, 2014 through the exercise of stock options pursuant to the Long-Term Incentive Plan. Including those listed, all Directors, nominees for Director, and executive officers as a group have the right to acquire 1,455,150 shares on or before March 4, 2014 through the exercise of stock options pursuant to the Long-Term Incentive Plan. These shares have been treated as outstanding for the purpose of calculating the percentage of the class beneficially owned by such individual or group, but not for the purpose of calculating the percentage of the class owned by any other person.
- (b) Awarded as annual grants under the Long-Term Incentive Plan, which will not be issued until a later date under The Director Deferred Compensation Plan. The Vested Deferred Restricted Shares held by James W. Griffith are deferred under the 1996 Deferred Compensation Plan.
- (2) Excludes performance shares awarded but not vested pursuant to the Long-Term Incentive Plan as follows: Christopher A. Coughlin 2,600; Glenn A. Eisenberg 5,875; James W. Griffith 19,850; Richard G. Kyle 2,600; Ward J. Timken, Jr. 15,900; and remaining executive officers 2,700. These shares vest in 25% increments over four years.

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- (3) Includes 197,886 shares for which John M. Timken, Jr. has sole voting and investment power as trustee of three trusts created as the result of distributions from the estate of Susan H. Timken.
- (4) Includes shares for which another individual named in the table is also deemed to be the beneficial owner, as follows: John M. Timken, Jr. 460,000; Ward J. Timken 5,610,944; and Ward J. Timken, Jr. 5,150,944.
- (5) The number of shares beneficially owned by all Directors, nominees for Director and executive officers as a group has been calculated to eliminate duplication of beneficial ownership. This group consists of 19 individuals. The following table gives information known to us about each beneficial owner of more than 5% of our common shares as of January 3, 2014, unless otherwise indicated below.

| <b>Beneficial Owner</b>   | <b>Amount</b>    | <b>Percent of Class</b> |
|---|------------------|-------------------------|
| Timken family <sup>(1)</sup>  | 9,536,373 shares | 10.2%                   |
| Relational Investors, LLC <sup>(2)</sup>  | 8,256,535 shares | 8.9%                    |
| Participants in The Timken Company Savings and Investment Pension Plan <sup>(3)</sup> | 5,918,093 shares | 6.4%                    |
| BlackRock, Inc. <sup>(4)</sup>  | 6,363,570 shares | 6.5%                    |

- (1) Members of the Timken family, including John M. Timken, Jr., Ward J. Timken and Ward J. Timken, Jr., have in the aggregate sole or shared voting and dispositive power with respect to 9,536,373 (10.2%) of our common shares, which includes 607,425 shares that Ward J. Timken, Jr., has the right to acquire on or before March 4, 2014. The Timken Foundation of Canton (the Foundation), 200 Market Avenue, North, Suite 210, Canton, Ohio 44702, holds 5,097,944 of these shares, representing 5.5% of our outstanding common shares. Ward J. Timken, Joy A. Timken, Ward J. Timken, Jr., William R. Timken, Jr. and Jeffrey A. Halm are trustees of the Foundation and share the voting and investment power with respect to such shares.

There are no voting agreements or other arrangements among the members of the Timken family regarding the 9,536,373 common shares and, accordingly, the members of the Timken family shall not be deemed a group for purposes of Rule 13d-3 under the Securities Exchange Act of 1934 with respect to such shares. Accordingly, each member of the Timken family disclaims beneficial ownership of any of our common shares as to which such member does not have sole or shared voting or investment power.

- (2) A Form 13F filed with the SEC on February 14, 2014, by Relational Investors, LLC, 12400 High Bluff Drive, Suite 600, San Diego, California 92130, indicated that it has sole voting and investment power over 8,256,535 shares, representing 8.9%, of our outstanding common shares.
- (3) Trustee of the plan is J. P. Morgan Retirement Plan Services LLC, P. O. Box 419784, Kansas City, Missouri 64179-0654.
- (4) A Schedule 13G/A filed with the SEC on January 30, 2014, by BlackRock, Inc., 40 East 52<sup>nd</sup> Street, New York, New York 10022, indicated that it has sole voting power over 5,704,046 shares and sole investment power over 6,363,570 shares, representing 6.5%, of our outstanding common shares.

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**COMPENSATION DISCUSSION AND ANALYSIS**

**Executive Summary**

Our executive compensation programs are designed to reward our executives for delivering exceptional performance and building shareholder value. The structure of our programs enables us to provide a competitive total rewards package while aligning senior executive interests to those of our shareholders. The following chart highlights the key considerations behind the development, review and approval of the compensation for our executive officers named in the 2013 Summary Compensation Table (our named executive officers or NEOs).

**Our executive compensation program is designed to:**

Align the interests of our executives and shareholders

**Objectives**

Reward for sustained, strong business and financial results

Attract, retain and motivate the best talent

**Our executive compensation philosophy is built on the following principles:**

Recognize that people are our strongest asset

**Philosophy**

Reward results linked to short-, medium- and long-term performance (pay-for performance)

Position pay affordably and competitively in the marketplace

Drive a focus on increasing shareholder value

**2013 Performance**

In 2013, challenging conditions in many of the markets served by the Company, alongside a weak recovery in the global economy, resulted in sales of \$4.3 billion and earnings per diluted share of \$2.74. Despite these economic challenges, earnings per share were among the strongest in Company history, and management's commitment to improving market exposure and internal operating performance has positioned the Company for improvement in the future.

To strengthen our margins in the face of a slow economic recovery, we took an approach that combines long-term strategic action with more aggressive tactical adjustments. We have taken actions to improve our cost structure, remain focused on growth in long-term attractive markets and continue performance improvements across the Company. In addition, we continue to expand our geographical presence in Asia and in Africa, which will add long-term stability and strength to our earnings.

As a result of our performance in 2013, incentive plans for our NEOs generally paid below target levels. Overall, executive compensation for 2013 was consistent with our compensation objectives and reflects our operating performance, demonstrating our long-standing commitment to pay our executives for the performance they deliver.

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- (1) Reconciliation of EBIT/BIC and return on invested capital to their respective U.S. GAAP equivalents is contained in Appendix A.

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**2013 Compensation Decisions and Actions**

**Factors Guiding Our Decisions**

*(see page 26 for details)*

Executive compensation program objectives and philosophy

Financial performance

Recommendations of the Chairman and CEO for other NEOs

Assessment of risk management, including avoidance of unnecessary or excessive risk taking to ensure long-term shareholder value

Shareholder input including say-on-pay vote

Advice of independent outside compensation consultant

Market pay practices

Current and historical compensation

**Program Updates Implemented at the Beginning of 2013**

No changes were made to the 2013 executive compensation programs based specifically on the results of our 2012 advisory, non-binding say-on-pay vote with over 94% of the votes cast approving the compensation for our NEOs.

**Key 2013 Compensation Decisions**

*(see page 29 for details)*

The Compensation Committee recognizes that 2013 was a challenging year for the Company, with results falling below expectations. Although actions taken by management in recent years drove the Company to reach high levels of sales and profitability in 2012 and 2011, challenging conditions in many of the markets served by the Company, alongside a weak recovery in the global economy, resulted in below-target performance in 2013. The compensation decisions made in light of this, as well as the longer-term implications of past and present compensation decisions, as outlined below, demonstrate our strong, sustained commitment to paying for performance.



### **Base Salary**

None of the NEOs, other than Mr. Kyle, received a base salary increase in 2013. The increase in base salary reflected in the Summary Compensation Table in 2013 compared to 2012 resulted from having a full year of base salary at the higher levels that were approved in 2012.

Mr. Kyle received a base salary increase of 40% in connection with his promotion to Chief Operating Officer - Bearings and Power Transmission. This increase was effective September 1, 2013.

### **Annual Incentive**

Based on 2013 performance, the Annual Performance Award was paid at 90% of target for the CEO and the Chairman and between 75% and 90% of target for the other NEOs, reflecting below-target EBIT/BIC performance for the year.

### **Long-term incentives**

*Strategic performance shares and Nonqualified Stock Options:* The NEOs received target grants of long-term incentive awards in 2013, with values ranging from approximately \$1.2 million to \$4.0 million.

*Performance Units:* Based on return on invested capital ( ROIC ) and earnings per share ( EPS ) performance, performance unit awards were earned at 119% of target for the 2011-2013 performance period.

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**2014 Program Updates      Replacing Strategic Performance Share Grants with RSUs for 2014 Grant**

In mid-2014, our steel business is expected to become an independent company. Due to this separation, the Company has undertaken a significant review of executive compensation programs for 2014 and beyond. The Company will suspend strategic performance share grants and replace the award with restricted shares for the 2014 grant.

This is a temporary measure necessitated by the impending separation since strategic performance share payouts are based on future Company EPS, ROIC and share price results over the coming three-year period. Since the Company will no longer be one entity, the Compensation Committee determined it would be unable to set performance targets for a 2014 grant.

Currently, no other changes to our compensation programs related to the separation of the steel business have been approved by the Compensation Committee.

**Discontinuing Excess Benefit Agreement**

To align with market trends, and because alternate forms of retirement compensation are available, the Company is discontinuing its Excess Benefit Agreement (the Supplemental Executive Retirement Program or SERP ) in 2014. Any existing agreements will be grandfathered.

**Evaluating Executive Compensation Programs following Company Separation**

The Compensation Committee determined that it expects to make no other changes to our compensation programs for 2014 based on the results of our 2013 advisory, non-binding say-on-pay vote with over 87% of the votes cast approving the compensation for our NEOs. Following the Company separation proposed for mid-2014, executive compensation programs will be re-evaluated for the remaining business based on both market practice and business strategy.

**CEO Pay At-A-Glance**

The CEO's target pay for 2013 positioned his target total direct compensation (base salary, target annual incentives and target long-term incentive grants) slightly above the 50th percentile as defined below in the Determining Compensation for 2013 discussion. The Compensation Committee determined that the appropriate total direct compensation for Mr. Griffith was \$6,539,929. The Committee considered recent shareholder-value creation as well as market data and considered the total compensation package in relation to the target established for the position, taking into account the scope of responsibilities for the particular position. Further details are provided on page 26.

Elements of our executive total rewards consist of base salary, annual incentives and long-term incentives that include strategic performance shares, stock options, retirement income programs and other benefits.

The chart below shows the components of total compensation awarded to our CEO for 2012 and 2013 performance, both on a targeted basis and based on the realizable value of each year's compensation as of December 31, 2013. The targeted value of long-term incentives granted in 2012 and 2013 reflect grant date share prices of \$51.76 and \$56.27, respectively. The realizable value of these awards reflects our year-end share price of \$55.07.

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**Base Salary:**  
Represents the yearly guaranteed fixed amount of compensation

**Annual Cash:**  
Represents annual performance award payout amounts for 2012 and 2013

**Long-Term Incentives:**  
Includes the realizable value of stock options, performance units, and strategic performance share grants for 2012 and 2013

The relationship between target and realizable compensation is attributable to several factors:

The below target payout of the 2013 annual incentive award (90% of target);

The decline in the Company's share price since the grant date of 2013 stock options and strategic performance shares (the stock options granted in 2013 had no intrinsic value as of the end of 2013); and

The minimal share price appreciation (approximately 6%) since the grant of the 2012 share options and strategic performance shares.

As shown earlier, while creating longer-term value, the Company's short-term stock price performance has lagged the market. The analysis shown above, which shows realizable compensation falling below target compensation, reinforces the performance orientation of our program and the alignment of interests between our executives and our shareholders.

The primary differences between the total amounts shown in this chart and in the 2013 Summary Compensation Table are that this table reflects the current value of stock options as of December 31, 2013, as opposed to the fair value of stock and options awards at the time of grant, and this chart does not reflect perquisites and certain other compensation amounts that are shown in the 2013 Summary Compensation Table or increases in pension values. While this table is included here to provide investors with additional important information about CEO pay, it should not be considered a substitute for the 2013 Summary Compensation Table appearing later in this Proxy Statement.

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**Benchmarking Our 2013 Executive Compensation Program**

*The Company establishes target compensation levels that are consistent with market practice and internal equity considerations relative to base salaries, annual incentive awards and long-term incentive grants, as well as with the Compensation Committee’s assessment of the appropriate pay element mix for the position.*

In order to gauge the competitiveness of its compensation programs, the Company periodically reviews survey data from nationally recognized consulting firms. Collectively, these databases reflect the pay practices of hundreds of companies in a range of industries. The Company attempts to position itself to attract and retain qualified senior executives in the face of competitive pressures in its relevant general labor markets.

In 2013, the Company used information regarding the pay practices of over 600 companies in these databases with revenues adjusted (through the consultant’s use of regression analysis) to reflect a company of Timken’s revenue size. Specifically, the Company uses both the Towers Watson Executive Compensation Database and the Aon Hewitt US Total Compensation Measurement Executive Survey for these purposes. The compensation data subjected to this regression analysis, and not the identity of the individual companies participating in the surveys for these databases, was the most significant factor considered by the Compensation Committee with respect to its 2013 executive compensation decisions for our NEOs. The regression analysis was used to adjust the market data presented to the Compensation Committee, not to narrow the list of companies to a readily identifiable subset of companies.

The Company believes that revenues are an appropriate indicator of the size and complexity of an organization, which should be reflected in determining compensation levels. Furthermore, the Company views general industrial companies of comparable size as the relevant market for the Company’s senior executive talent.

**Aligning Pay with Performance**

The Company’s success depends largely on the contributions of motivated, focused and energized people all working to achieve our strategic objectives. This understanding shapes our approach to providing a competitive total rewards package to our CEO and the other NEOs.

Pay-for-performance is one of the four principles that make up our executive compensation philosophy. To ensure that we are adhering to this principle, we evaluate the degree of alignment of our total incentive compensation to our business results, including the ratio of earnings before interest and taxes to beginning invested capital ( EBIT/BIC ), ROIC and EPS (measured on an absolute basis, but targeted to achieve desired levels of growth) over the applicable period and total shareholder return ( TSR ) relative to the market over the prior three fiscal years.

**The Company’s Approach to Rewarding Performance**

*Strategic Performance Shares*

Reward long-term financial results that drive value creation

Reinforce ownership in the Company

Help diversify long-term portfolio

*Stock Options*

Reinforce ownership in the  
Company

Reward long-term value creation

The Company uses a balance of short-, medium- and long-term incentives as well as cash and non-cash compensation to meet these objectives. The elements of executive compensation provided to our NEOs for 2013 consisted of base salary, annual incentives, long-term incentives including strategic performance shares and stock options, retirement income programs and other benefits. Our compensation programs are designed to link pay and performance.

**Program Design:** 83% of the total direct compensation delivered to our CEO, and between 70-80% delivered to the other NEOs, is comprised of incentive-based pay. With the introduction of strategic performance shares in 2012, our long-term compensation plan was more aligned with shareholder interests by aligning actual payouts with the Company's performance results.

**Performance Assessment:** Our Compensation Committee uses a comprehensive and well-defined process to assess Company performance. We believe our metrics focus management on the appropriate objectives for the creation of both short- and long-term shareholder value.

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The Company's incentive compensation programs for executives are designed to link compensation performance with the full spectrum of our business goals, some of which are short-term, while others take several years or more to achieve:

|                  | <b>Short-Term</b><br>(Cash)<br><b>Annual</b><br><b>Incentive</b>           | <b>Long-Term</b><br>(Equity/Cash)<br><b>Strategic</b><br><b>Performance</b><br><b>Shares</b> | <b>Long-Term</b><br>(Equity)<br><b>Nonqualified</b><br><b>Stock</b><br><b>Options</b> |
|------------------|--|--|---|
| <b>Objective</b> | Short-term operational business priorities                                 | Medium-term strategic financial goals  | Long-term shareholder value creation  |
| <b>Time</b>      | 1 Year   | 3 Years  | 10 Years  |
| <b>Horizon</b>   |  |  |   |
| <b>Metrics</b>   | 80% corporate EBIT/BIC<br><br>20% working capital as a percentage of sales | ROIC and EPS<br><br>Stock Price  | Stock Price   |

Other key features of our executive compensation program include:

**Stock ownership requirements:** Our stock ownership guidelines require all senior executives to meet specific ownership targets based on position. This requirement subjects these executives to the same long-term stock price volatility our shareholders experience.

**Clawback policy:** If the Compensation Committee determines that an executive has engaged in detrimental activity, the Company may retract compensation awarded to that executive through our incentive plans. This clawback policy serves to increase transparency and discourage executives from engaging in behavior that could potentially harm the Company or its shareholders.

**Other practices:** In recent years, the Company eliminated gross-ups on perquisites and added double-trigger vesting requirements to change in control provisions in severance agreements and equity grants. Double-trigger vesting requirements generally require a qualifying termination of employment within a specific period of time after a change in control before severance is paid or equity awards vest in connection



with the change in control. We also eliminated excise tax gross-ups for new participants in our executive compensation program.

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### **Consideration of 2013 Say-on-Pay Vote**

In evaluating the design of our executive compensation programs and the specific compensation decisions for each of our NEOs, the Compensation Committee considers shareholder input, including the advisory say-on-pay vote at our annual meeting. In 2013, over 87% of the votes cast approved the compensation for our NEOs described in our Proxy Statement for the 2013 Annual Meeting of Shareholders. Based on this vote, as well as other input from conversations held with investors during the course of 2013, the Compensation Committee determined that no changes to our compensation programs were warranted as a result of the shareholder advisory vote.

### **Determining Compensation for 2013**

#### ***Role of the Compensation Committee***

Each year, the Compensation Committee determines the appropriate level of compensation for all executive officers, including the CEO, Chairman and other NEOs. As part of this process, the Compensation Committee reviews all the components of compensation for the NEOs and determines that each individual's total compensation is reasonable and consistent with the Company's compensation philosophy. The Compensation Committee may also consider additional factors, such as the executive's operating responsibilities, experience level, retention risk and tenure and performance in the position, and make adjustments to a particular element of an executive's compensation.

In establishing and reviewing the Company's compensation programs, the Compensation Committee considers whether the programs encourage unnecessary or excessive risk taking and has determined that they do not.

The Compensation Committee then approves, with any modifications it deems appropriate, base salary ranges, target annual performance award opportunities and long-term incentive grants for the Company's NEOs. The amount of past compensation realized or potentially realizable has not directly impacted the level at which current and long-term pay opportunities have been set, though the Compensation Committee does consider this information in its deliberations.

In the course of this analysis and development of proposed total compensation packages, Towers Watson, the Compensation Committee's external compensation consultant, reviews the relevant information and discusses their findings with the Compensation Committee.

#### ***Role of the CEO***

The CEO, in consultation with the Senior Vice President, Human Resources and Organizational Advancement and Towers Watson, prepares compensation recommendations for the NEOs (other than the CEO and the Chairman) and presents these recommendations to the Compensation Committee. These recommendations are based on the CEO's personal review of their performance, job responsibilities and importance to our overall business strategy, as well as our compensation philosophy. Although these recommendations are given significant weight, the Committee retains full discretion when determining compensation.

As part of this process, the Company also compares each element of compensation provided to its NEOs to market data and considers the total compensation package in relation to the target established for the position, taking into account the scope of responsibilities for the particular position. Total direct compensation (base salary, annual incentives and long-term incentive grants) is also evaluated in relation to the total compensation of comparable positions derived from the general market data as well as internal equity considerations.



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The compensation packages for the CEO and the Chairman are determined by the Compensation Committee and approved by the independent members of the Board of Directors during executive session.

***Role of the Compensation Consultant***

The Compensation Committee retains the authority to approve and monitor all compensation and benefit programs (other than broad-based welfare benefit programs). However, to add rigor in the review process and to inform the Compensation Committee of market trends, the Compensation Committee engages the services of Towers Watson, an independent executive compensation consultant, to analyze our executive compensation structure and plan designs, and to assess whether the compensation program is competitive and supports the Compensation Committee's goal to align the interests of executive officers with those of shareholders. Towers Watson also directly provides the Compensation Committee with market data, which the Compensation Committee references when determining compensation for executive officers.

During 2009, the Compensation Committee established a multi-year agreement with Towers Watson to provide this service. In 2013, Towers Watson's primary areas of assistance were:

Gathering information related to current trends and practices in executive compensation in response to questions raised by the Compensation Committee and management;

Reviewing information developed by management for the Compensation Committee and providing its input on such information to the Committee;

Attending and participating in meetings with the Compensation Committee, as well as briefings with the committee chairperson and management prior to meetings; and

Reviewing with management and the Compensation Committee materials to be used in the Company's Proxy Statement.

The Compensation Committee has authorized Towers Watson to interact with the Company's management, as needed, on behalf of the Compensation Committee.

The Compensation Committee has the sole authority to approve the independent compensation consultant's fees and terms of the engagement. Thus, the Compensation Committee annually reviews its relationship with, and assesses the independence of, Towers Watson to ensure executive compensation consulting independence. The process includes a review of the services Towers Watson provides, the quality of those services, and fees associated with the services during the fiscal year. During fiscal year 2013, Towers Watson received \$431,000 for the executive compensation consulting services it provided to the Committee. Other professional consulting services provided by Towers Watson to our Company totaled \$2,363,000 for actuarial and other services to us and our benefit plans. The Compensation Committee has also considered and assessed all relevant factors that could give rise to a potential conflict of interest with respect to the work performed by Towers Watson. Based on this review, the Compensation Committee did not identify any conflict of interest raised by the work performed by Towers Watson.



**Table of Contents****Elements of the Executive Compensation Program*****Key Elements of Our 2013 Total Rewards Program***

|  | <b>Link to Program Objectives</b>  | <b>Type of Compensation</b> | <b>Key Features</b>   |
|--|--|-----------------------------|---|
| <b>Base Salary</b>                                       | Compensation Committee considers base salaries paid by companies for comparable roles in general industry and uses the 50 <sup>th</sup> percentile as a guideline, offering market competitive fixed compensation.         | Cash                        | Provides a stable source of income and is a standard compensation element in executive compensation packages.   |
| <b>Annual Incentive</b>                                  | A cash-based award that encourages executives to focus on specific corporate performance goals.  | Cash                        | Target incentive opportunity is set as a percentage of base salary and is granted only if threshold performance levels are met.   |
| <b>Long-Term Incentive: Nonqualified Stock Options</b>   | Helps ensure that executive pay is directly linked to the achievement of the Company's long-term objectives.   | Long-Term Equity            | Four-year vesting promotes retention, and NEOs holding nonqualified stock options will receive greater value if the stock price rises.  |
| <b>Long-Term Incentive: Strategic Performance Shares</b> | Links compensation of executives to the building of long-term shareholder value, balances short-term operating focus, and aligns the long-term financial interests of executive management with those of our shareholders. | Long-Term Equity            | Performance-based restricted stock units designed to reward executives for attainment of specified medium-term corporate performance goals and the value of which is linked to the stock price. |
| <b>Retirement</b>  | Critical element of a total rewards program that helps attract and retain executive talent.  | Benefit                     | NEOs receive retirement benefits through several plans:<br><br>Qualified and nonqualified defined contribution plans;<br><br>Qualified and nonqualified defined benefit plans; and              |

|  |  |         |  |
|--|--|---------|--|
|  |  |         | Deferred compensation plan.  |
| <b>Other Benefits</b>                              | Keeps program competitive and provides protection for executives, where warranted. | Benefit | Perquisites are limited in amount and the Compensation Committee limits eligibility and use.   |
| <b>Employment and Change of Control Agreements</b> | Helps ensure NEOs remain focused on creating sustainable performance.              | Benefit | Agreements protect the Company and the NEOs from risks by providing:<br><br>Economic stability;<br><br>Death or disability payments; and<br><br>Payments and benefits in the event of a change in control. |

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Guidelines for base salaries, annual incentives and long-term incentive grants are based on the 50th percentile of the general industry data for comparable roles. The Company may provide target compensation above or below the 50th percentile for a particular position, however, based on internal factors such as the executive's operating responsibilities, experience level, retention risk and tenure and performance in the position. The Company establishes compensation levels in this way for two main reasons:

First, this approach sets fair and reasonable pay levels needed to attract and retain qualified executives; and

Second, it requires excellent performance for pay that is higher than that provided by the majority of companies in the comparison group.

**Analysis of 2013 Compensation*****Base Salary***

Base salaries for the NEOs are intended to reflect the scope of their responsibilities, the length of their experience performing those responsibilities and their performance. The Compensation Committee initially determines base salary ranges for executive officers using external surveys of salary practices for positions with similar levels of responsibility. The Compensation Committee also reviews base salaries for the NEOs annually in light of each officer's experience, leadership, current salary and position in the salary range.

**2013 base salary decisions**

In 2013, the Compensation Committee did not increase the base salary for the CEO. The Compensation Committee also did not increase the base salary for Messrs. Timken, Eisenberg or Coughlin in 2013. Mr. Kyle received a base salary increase of 40% in connection with his promotion to Chief Operating Officer - Bearings and Power Transmission. His increase was effective September 1, 2013.

***Annual Incentive***

The Company's annual incentive provides the NEOs with the opportunity to earn rewards based on the achievement of corporate performance goals established by the Compensation Committee and approved by the Board of Directors. It is intended to focus the NEOs on specific performance goals in the current year. For the NEOs, the annual incentive is delivered through the Senior Executive Management Performance Plan (the SEMPP).

Our SEMPP permits us to grant awards that may comply with Section 162(m) of the Internal Revenue Code. In order for amounts earned under this plan to qualify as performance-based, the Compensation Committee can exercise discretion only to reduce an award. As a result, performance at target levels results in the plan being funded above the level of the Company's other annual incentive plans. This provides the Compensation Committee with the flexibility to determine actual awards for the NEOs that are consistent with the awards made to other annual incentive plan participants, which has been the historical practice.

**Establishing Base Salaries**

When establishing base salaries for NEOs, the Compensation Committee considers as a guideline the 50th percentile of the general industry data for comparable roles.



For 2013, the SEMPP provided both the CEO and the Chairman a target award opportunity of 120% of base salary. The SEMPP provided the other NEOs a target award opportunity of 70% to 75% of base salary, with the exception of Mr. Kyle, who had a target award opportunity of 75% of base salary through August 31, 2013 and 100% of base salary after September 1, 2013, as a result of his promotion to Chief Operating Officer Bearings and Power Transmission. Target award opportunity levels for executive officers were determined by the Compensation Committee based on external surveys of practices for positions with similar levels of responsibility. The actual awards could be higher or lower than the target opportunity based on the results for each performance measure and the extent to which the Compensation Committee uses discretion to reduce the awards.

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The Company used two performance measures for funding the SEMPP for 2013: (1) corporate EBIT/BIC (calculated to exclude the effects of acquisitions and divestitures above \$50 million in size, changes in tax laws or accounting principles, non-cash impairments, changes in other comprehensive income and any amounts received under the U.S. Continued Dumping and Subsidy Offset Act); and (2) working capital as a percentage of sales. Corporate EBIT/BIC constituted 80% of the total award calculation and working capital as a percentage of sales constituted 20%.

The Company's 2013 performance goals, associated plan funding levels, and actual calculated performance for the SEMPP are summarized in the following table:

**Senior Executive Management Performance Plan 2013**

|                       | <b>Threshold</b> | <b>Target</b> | <b>Maximum</b> | <b>Actual</b> |
|-----------------------|------------------|---------------|----------------|---------------|
| EBIT/BIC              | 7.8%             | 18.4%         | 24.3%          | 13.5%         |
| Working Capital/Sales | 29.0%            | 25.0%         | 21.0%          | 26.8%         |
|                       | é                | é             | é              | é             |
| <b>Plan Funding</b>   | <b>80%</b>       | <b>170%</b>   | <b>260%</b>    | <b>128.6%</b> |

**Linking Compensation to Performance**

The Compensation Committee established corporate EBIT/BIC as the primary performance measure because it believes this measure is closely correlated with the creation of shareholder value. Working capital as a percentage of sales was used to focus the NEOs on managing working capital.

**Aligning Executive Annual Incentives with Company-wide Annual Performance Award Incentive Plan**

Like all salaried Timken employees, our NEOs have the opportunity to receive an annual incentive award for meeting and exceeding a series of individual and collective performance targets over the course of the year. While the SEMPP is the plan executives participate in, the payouts from this plan take into account payouts associated with the company-wide Annual Performance Award (APA) plan that covers all salaried employees. APA payouts are determined by the following factors:

Corporate performance (measured by EBIT/BIC)

Business unit or corporate center performance (measured by EBIT/BIC, working capital as a percentage of sales, and customer service or new business sales ratio)

Individual performance

Goals are set for each component of performance annually. In addition to the performance measures outlined by the SEMPP, achievement of these goals is a factor the Compensation Committee considers when determining an NEO s annual incentive payout. A summary of 2013 Annual Performance Award performance and calculated payouts is shown in the chart below.

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*2013 annual performance award decisions*

The corporate EBIT/BIC target level for 2013 was set based on the Company's business plan for 2013 and taking into account ongoing uncertainty in most of our global markets. The actual calculated corporate EBIT/BIC was 13.5%, or between threshold and target levels, while the ratio of working capital to sales was 26.8%, or between target and threshold levels. As a result, the SEMPP was eligible to be funded at 128.6% of target.

The Compensation Committee determined the actual annual incentive award for each NEO under the SEMPP at a level consistent with the calculated award, as a percentage of target opportunity, under the Company's annual incentive plan for other management-level employees (detailed in the chart above). The calculated award for 2013 for this broad-based plan was 75%. Accordingly, the 2013 cash award payout equaled 90% of the target opportunity for the CEO and the Chairman, and between 75% and 90% of the target opportunity for the other NEOs.

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***Long-Term Incentives***

The Compensation Committee administers the Long-Term Incentive Plan, which was approved by our shareholders. Awards under the Long-Term Incentive Plan can be made in the form of nonqualified stock options, incentive stock options, appreciation rights, performance shares, performance units, restricted shares, restricted stock units and deferred shares. In 2013, the Company utilized two different types of long-term incentive grants for the NEOs:

**Driving Shareholder Return**

Long-term incentive grants are intended to balance the short-term operating focus of the Company and align the long-term financial interests of executive management with those of our shareholders. The Company's total shareholder return for 2013 was 17%.

Nonqualified stock options, which vest over time (four years) and are intended to provide value to the holder only if shareholders receive additional value after the date of grant; and

Strategic performance shares, which are performance-based restricted stock units designed to reward executives for attainment of specified medium-term corporate performance goals and the value of which is linked to the share price.

In total, the Company believes that these grants provide a balanced focus on shareholder value creation and retention of key managers over the course of a full business cycle. These grants also serve to balance the short-term operating focus of the Company and align the long-term financial interests of executive management with those of our shareholders.

The value of each type of long-term incentive grant is linked directly to the performance of the Company or the price of its common shares. In the case of stock options, the recipient recognizes value only to the extent that the share price rises above the market price of the share at the time the option is granted. For strategic performance shares, a payout is entirely contingent on the attainment of specified corporate performance targets and the value of the payout is directly linked to the share price. In each case, an executive must generally remain employed by the Company for a specified period of time to earn the full value of an award, which aids the Company in retaining executives.

The size of the long-term incentive grants and the allocation of grant value among the long-term incentive grant types is based on a combination of market practice, internal equity considerations and the relative importance of the objectives behind each of the grants (to reward attainment of multi-year performance goals, provide value tied to share price appreciation and foster share ownership).

**2013 long-term incentives decisions**

For the grants made in 2013, the target value to be delivered in stock options and strategic performance shares was 400% of base salary midpoint for the CEO and the Chairman, and 215% of base salary midpoint for the other NEOs. The allocation percentage between stock options and strategic performance shares was 60/40 for the CEO and the Chairman and 50/50 for the other NEOs. Greater emphasis was placed on the stock option component for the CEO and the Chairman, reflecting the Compensation Committee's belief that the CEO and the Chairman, more than other officers, are directly accountable for long-term shareholder value creation.

The target value for each grant is converted to a number of shares or options based on a calculated average share price over a defined period prior to the grant. The Compensation Committee used the average share price over the five trading days immediately preceding the grant date in determining the number of shares granted in 2013.

The Compensation Committee typically makes long-term incentive grants at the first regularly scheduled meeting of each year, when the Committee determines all elements of the NEOs' compensation for the year. Board and committee meetings are generally scheduled at least a year in advance.

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### **Stock Options**

In 2013, our key employees (including the NEOs) received nonqualified stock options that:

have an exercise price equal to the opening price of the stock on the date of grant;

generally will vest over a four-year period in equal amounts each year; and

generally will expire ten years after the date of grant.

The Compensation Committee believes that these awards help the Company retain executives and focus attention on longer-term performance. Stock options are an effective motivational tool because they only have value to the extent the share price on the date of exercise exceeds the exercise price on the grant date. They are an effective element of compensation and retention, however, only if the share price grows over the term of the award. For information about the specific number of stock options awarded in 2013 to each of the NEOs, see the 2013 Grants of Plan-Based Awards Table below.

Under accounting rules, the fair value of the stock options on the grant date is expensed over the vesting period in the year the options become vested.

### **Strategic Performance Shares**

In an effort to further align the long-term interests of executive leadership with those of our shareholders, and to provide an incentive to achieve medium-term financial objectives, the Compensation Committee in 2012 began granting strategic performance shares in lieu of performance units and performance shares used in prior years. Strategic performance shares are performance-based restricted stock units that vest pending achievement of specified performance objectives. They are closely tied to the Company's strategic plan, which is based on achieving top quartile shareholder return. Strategic performance shares also serve to both reward and retain executives, as the receipt of a payout is linked to performance and the value of the payout is linked to the share price when the shares vest.

The performance objectives for strategic performance shares granted in 2013 were average corporate ROIC and cumulative EPS (calibrated to reflect an appropriate level of growth) for the three-year performance period. The Compensation Committee selected these metrics because it believes they are key components of shareholder value creation and highly correlated to achievement of the Company's business strategy. Actual performance is calculated to exclude the effects of changes in tax laws or accounting principles, non-cash impairments, changes in other comprehensive income and any amounts received under the U.S. Continued Dumping and Subsidy Offset Act. At the time the specific performance targets for each metric were established, the Compensation Committee believed that the targets for the strategic performance shares granted in 2013 were very challenging, but achievable.

The Company's performance targets for the strategic performance shares granted in 2013 are summarized in the following table:

### **2013 to 2015 Strategic Performance Shares Targets**

|                     | <b>Threshold</b> | <b>Target</b> | <b>Maximum</b> |
|---------------------|------------------|---------------|----------------|
| Average ROIC        | 10.0%            | 15.0%         | 16.0%          |
| Cumulative EPS      | \$ 9.00          | \$ 14.75      | \$ 16.50       |
|                     | é                | é             | é              |
| <b>Plan Funding</b> | <b>50%</b>       | <b>100%</b>   | <b>150%</b>    |

The award was designed so that, for any award to be earned, actual performance must achieve at least the threshold performance levels for both ROIC and EPS. If the threshold performance level for either measure is not attained, then no payment will occur. If an award is payable, the number of shares earned could range from 50% to 150% of target based upon the actual performance over the three-year performance period. The value of a share is equal to the share price when the shares vest. Final awards are settled in cash, or in cash and shares of the Company, as follows:



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Executives who have met their share ownership requirement at the time of grant receive the value of any final award in cash; and

Executives who have not met their share ownership requirement at the time of grant receive half of the value of any final award in cash and the other half in equity.

At the time these awards were granted in 2013, all of our NEOs had met their share ownership requirement. For information about the strategic performance shares awarded in 2013 to each of the NEOs, see the 2013 Grants of Plan-Based Awards Table below.

Under the accounting rules, strategic performance shares that are paid in cash result in variable accounting, whereby the Company's expense equals the actual value paid to the executives. As such, the ultimate expense is not determinable until the end of the three-year performance period. For strategic performance shares that are paid in equity, the grant date fair value is expensed over the service/vesting period.

**Performance Units**

In 2011, the NEOs received awards of performance units. The awards were designed to focus the NEOs' efforts on the Company's medium-term performance goals. The three-year performance cycle started on January 1, 2011 and concluded on December 31, 2013.

For the 2011 to 2013 performance cycle, the Compensation Committee established two performance measures: (1) average ROIC; and (2) cumulative EPS. The Compensation Committee selected these metrics because it believed they were key components of shareholder value creation and highly correlated to achievement of the Company's business strategy. Each metric was weighted equally because they were viewed as equally important for the performance cycle. Actual performance was calculated to exclude the effects of changes in tax laws or accounting principles, non-cash impairments, changes in other comprehensive income and any amounts received under the Continued Dumping and Subsidy Offset Act.

The specific performance targets for each metric were tied to the Company's three-year strategic plan. Given the uncertain environment at the time the targets were established, the Compensation Committee believed that the targets for the 2011 to 2013 cycle were very challenging, but achievable. The target payout opportunity for the performance units granted in 2011 was 100% of base salary (as of January 1, 2011) for the CEO and the Chairman and ranged from 70% to 80% of base salary (as of January 1, 2011) for the other NEOs.

The Company's performance goals and actual calculated results for the 2011 to 2013 cycle are summarized in the following table:

**2011 to 2013 Performance Unit Goals**

|                     | <b>Threshold</b> | <b>Target</b> | <b>Maximum</b> | <b>Actual</b> |
|---------------------|------------------|---------------|----------------|---------------|
| Average ROIC        | 6.5%             | 12.5%         | 18.5%          | 14.9%         |
| Cumulative EPS      | \$ 5.50          | \$ 10.50      | \$ 15.50       | \$ 12.25      |
|                     | é                | é             | é              | é             |
| <b>Plan Funding</b> | <b>50%</b>       | <b>100%</b>   | <b>150%</b>    | <b>119%</b>   |

Based on these results, the CEO and the Chairman each received a cash payment equal to 119% of their January 1, 2011 base salaries and the other NEOs received cash payments equal to 83% to 95% of their January 1, 2011 base salaries for the 2011 to 2013 performance units.

Under the accounting rules, performance units result in variable accounting, whereby the Company's expense equals the value paid to the executives. As such, the ultimate expense was not determinable until the end of the three-year performance period.

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***Retirement Income Programs***

The Company's retirement income programs are an important retention tool. The Company maintains both qualified and nonqualified retirement income programs. The NEOs participate in qualified plans on the same terms and conditions as all other salaried employees and also participate in the Company's nonqualified retirement income programs. The Company currently provides retirement income through several types of plans:

The Company's retirement income programs support an important part of our executive compensation program objectives: retention.

Qualified and nonqualified defined contribution plans provide for after-tax savings based on each executive's contributions, Company matching contributions and core defined contributions in excess of tax limits. The nonqualified defined contribution plan in which the NEOs participate is the Post-Tax Savings Plan. This plan is primarily intended to restore benefits that would be provided under the qualified retirement plans were it not for limits on benefits and compensation imposed by the Internal Revenue Code.

Qualified and nonqualified defined benefit plans provide for a targeted percentage of salary and annual incentive income that will continue through retirement. The nonqualified defined benefit plan in which the NEOs participate is the SERP. The SERP provides for a benefit based on final average earnings with offsets for benefits provided under the Company's other retirement programs. The SERP promotes retention of executive officers because it requires ten years of service, including five years as an officer, for full benefits to be earned.

Although the policies and procedures underlying the Company's retirement income programs are the same for all participants, the age and length of service (including service as an officer of the Company) of each participant can have a significant effect on their benefit calculation because the programs have changed over time. In addition, because benefits under the Company's retirement income programs are based on base salary and cash annual incentive compensation for the five highest non-consecutive years (out of the final ten years), pension values can increase significantly as salary and cash annual incentive compensation increases. Pension values are also influenced by external factors such as the current environment of low interest rates, which have caused pension values to increase. See "Pension Benefits" below.

The value of the nonqualified retirement income programs is quantified each year and these programs are periodically reviewed for their competitiveness. To date, the value of these programs has not had a significant impact on decisions regarding salary, annual incentive awards or long-term incentive grants.

***Deferred Compensation***

The Company maintains a Deferred Compensation Plan that allows certain employees, including the NEOs, to defer receipt of all or a portion of their salary, employee contributions and Company matching contributions that would otherwise be directed to the Post-Tax Savings Plan and/or incentive compensation payable in cash or common shares until a specified point in the future. Cash deferrals earn interest quarterly at a rate based on the prime rate plus one percent. None of the NEOs earned "above-market" interest, as defined by the SEC.

The Deferred Compensation Plan is not funded by the Company, and participants have an unsecured contractual commitment by the Company to pay the amounts due under the plan. When such payments are due, they will be

distributed from the Company's general assets. In the event of a change in control of the Company, as defined in the plan, participants are entitled to receive deferred amounts immediately. The Compensation Committee believes that providing employees with tax deferral opportunities aids in the attraction and retention of such employees.

The value of deferred compensation amounts is quantified each year and this program is periodically reviewed for its competitiveness. To date, the value of deferred compensation has not had a significant impact on decisions regarding salary, annual incentive awards or long-term incentive grants for our NEOs.

**Table of Contents*****Other Benefits***

The Company's executive officers, including all of the NEOs, are eligible to participate in a number of broad-based benefit programs, including health, disability and life insurance programs.

The NEOs may also receive certain perquisites including term life insurance coverage (although this program is closed to new entrants), financial counseling and tax preparation assistance, access to corporate country club memberships (although personal expenses are not reimbursed), and home security systems. The value of these benefits is reflected in the All Other Compensation column in the 2013 Summary Compensation Table below.

The Company does not provide tax gross-ups for these benefits to executives. These benefits are intended to provide executives with a competitive perquisite program that is reasonable and consistent with the Company's overall approach to executive compensation. The total cost of these benefits is a small percentage of each NEO's total compensation.

***Severance Agreements***

In addition to retirement payments, the Company provides termination-related payments in the event of involuntary termination without cause and involuntary termination without cause following a change in control through severance agreements with individual executives. Severance agreements are provided based on competitive market practice and the Company's desire to ensure some level of income continuity should an executive's employment be terminated without cause. The Company believes that providing for such income continuity results in greater management stability and lower unwanted management turnover.

Severance agreements also provide for termination payments following involuntary termination without cause following a change in control. These provisions are based on competitive practice and are designed to ensure that executives' interests remain aligned with shareholders should a potential change in control occur. They are also intended to provide some level of income continuity should an executive's employment be terminated without cause. The Company believes, as stated above, that providing for such income continuity results in greater management stability and lower unwanted management turnover.

The Company believes that providing for income continuity results in greater management stability and lower unwanted management turnover.

The level of severance benefits reflects the Company's perception of competitive market practice for the NEOs positions, based on an assessment by Towers Watson. Severance pay was established as a multiple of base salary and annual incentive compensation, based on competitive market practice. Specific dollar values were not targeted by the Compensation Committee, although the Compensation Committee did review tally sheets that showed the estimated cost of such benefits under various scenarios. The amounts of potential payouts are indicated in the Termination Scenarios table on page 47.

**Table of Contents*****Stock Ownership Guidelines***

Stock ownership guidelines have been established for all senior executives and are intended to align the interests of executive management with those of our shareholders by requiring executives to be subject to the same long-term stock price volatility our shareholders experience. These guidelines establish the following specific ownership target for each of the NEOs:

Mr. Griffith 100,000 shares

Mr. Timken 80,000 shares

Mr. Eisenberg 33,000 shares

Mr. Kyle 60,000 shares

Mr. Coughlin 33,000 shares

The Company considers all shares owned by the executive, including deferred shares, restricted shares and performance shares still subject to forfeiture, but not shares that are subject to unexercised options, in determining whether the executive has met the ownership targets. As of December 31, 2013, the NEOs all exceeded their ownership targets. The Company has a formal policy that prohibits pledging Company stock or hedging the economic risk related to such stock ownership.

***Clawback Provisions***

The Company maintains specific provisions regarding the recovery ( clawback ) of awards to deter certain types of conduct, including conduct that could affect the accuracy of the Company's financial statements. These provisions apply to both short- and long-term incentive programs where, if personal misconduct or any fraudulent activity on the part of the executive leads to the restatement of Company results, the Company can clawback an award. In such cases, the Compensation Committee has discretion, based on applicable facts and circumstances, to cause the Company to recover all or any portion of the incentive paid or payable to the executive for some or all of the years covered by the restatement.

***Tax Accounting Rules and Regulations*****Linking Compensation to Stock****Performance**

Guidelines tie the compensation of the NEOs to our stock performance, since the increase or decrease in our stock price impacts their personal holding. As of December 31, 2013, the NEOs all exceeded their ownership targets.

The Company analyzes the overall expense arising from aggregate executive compensation, as well as the accounting and tax treatment of such programs. Section 162(m) of the Internal Revenue Code generally disallows a federal income tax deduction to publicly traded companies for compensation paid to certain executives to the extent such compensation exceeds \$1 million per executive in any fiscal year. Compensation that satisfies the Internal Revenue Code's requirements for performance-based compensation is not subject to that deduction limitation. The Company has considered the impact of Section 162(m) of the Code by obtaining shareholder approval of the SEMPP and the Long-Term Incentive Plan. In addition, it may structure certain grants under the Long-Term Incentive Plan as performance-based compensation.

The Compensation Committee considers the deductibility of compensation and benefits for federal income tax purposes, along with other relevant factors, when determining executive compensation practices. While the Compensation Committee may take action from time to time to design certain elements of the NEOs' compensation to meet the requirements for qualified performance-based compensation and limit the impact of Section 162(m) of the Code, the Compensation Committee also believes that tax deductibility is only one of several relevant considerations in setting compensation. The Compensation Committee believes that the tax deduction limitation should not compromise its ability to design and maintain executive compensation arrangements that will attract, motivate and help retain executive talent. Accordingly, achieving the desired flexibility in the design and delivery of compensation may result in compensation that in certain cases is not deductible for federal income tax purposes.

**Table of Contents****EXECUTIVE COMPENSATION****2013 SUMMARY COMPENSATION TABLE**

The following table sets forth information concerning compensation for our NEOs for 2013:

| Name and Principal Position                         | Year | Salary       | Stock Awards<br>(1) | Option Awards<br>(2) | Non-Equity Incentive Plan Compensation<br>(3) | Change in Pension Value and Nonqualified Deferred Compensation Earnings<br>(4) | All Other Compensation<br>(5) | Total         |
|---|------|--------------|---------------------|----------------------|---|--|-------------------------------|---------------|
| James W. Griffith                                   | 2013 | \$ 1,095,000 | \$ 1,648,711        | \$ 2,482,218         | \$ 2,400,021                                  | \$ 364,000   | \$ 147,301                    | \$ 8,137,252  |
|   | 2012 | \$ 1,090,000 | \$ 1,552,800        | \$ 2,411,664         | \$ 3,132,184                                  | \$ 4,601,000   | \$ 189,694                    | \$ 12,977,340 |
| President and Chief Executive Officer               | 2011 | \$ 1,058,334 | \$ 1,098,020        | \$ 2,630,760         | \$ 4,624,356                                  | \$ 3,283,000   | \$ 162,052                    | \$ 12,856,522 |
| Edward J. Timken, Jr.                               | 2013 | \$ 865,200   | \$ 1,316,718        | \$ 1,986,202         | \$ 1,896,472                                  | \$ 0   | \$ 198,393                    | \$ 6,262,985  |
|   | 2012 | \$ 861,000   | \$ 1,242,240        | \$ 1,928,476         | \$ 2,474,649                                  | \$ 2,253,000   | \$ 213,957                    | \$ 8,973,322  |
| Chairman - Board of Directors                       | 2011 | \$ 835,000   | \$ 888,398          | \$ 2,112,580         | \$ 3,651,691                                  | \$ 1,717,000   | \$ 217,320                    | \$ 9,421,989  |
| Ann A. Eisenberg Executive Vice President - Finance | 2013 | \$ 642,000   | \$ 607,716          | \$ 611,468           | \$ 933,217                                    | \$ 0   | \$ 119,738                    | \$ 2,914,139  |
|   | 2012 | \$ 638,840   | \$ 595,240          | \$ 617,882           | \$ 1,348,005                                  | \$ 1,689,000   | \$ 133,173                    | \$ 5,022,140  |
| Chief of Administration                             | 2011 | \$ 619,540   | \$ 314,433          | \$ 627,795           | \$ 1,963,705                                  | \$ 1,517,000   | \$ 132,486                    | \$ 5,174,959  |
| Richard G. Kyle Chief Operating Officer - B&PT      | 2013 | \$ 566,693   | \$ 607,716          | \$ 658,504           | \$ 792,519                                    | \$ 140,000   | \$ 94,856                     | \$ 2,860,288  |
|   | 2012 | \$ 464,020   | \$ 1,430,720        | \$ 560,156           | \$ 702,000                                    | \$ 479,000   | \$ 93,479                     | \$ 3,729,375  |
| Christopher A. Coughlin                             | 2013 | \$ 500,040   | \$ 607,716          | \$ 658,504           | \$ 695,051                                    | \$ 58,000  | \$ 55,977                     | \$ 2,575,288  |
|   | 2012 | \$ 464,020   | \$ 1,430,720        | \$ 560,156           | \$ 756,000                                    | \$ 1,202,000   | \$ 52,498                     | \$ 4,465,394  |
| Group President                                     | 2011 | \$ 433,370   | \$ 259,532          | \$ 550,068           | \$ 1,016,791                                  | \$ 753,000   | \$ 42,586                     | \$ 3,055,347  |

- (1) The amounts shown in this column for 2013 represent the grant date fair market value of strategic performance shares granted in 2013 (calculated in accordance with FASB ASC Topic 718). See the description of strategic performance shares on page 33. For 2013, we reviewed the accounting treatment of such awards and determined new awards should be reported at the time of grant under the Stock Awards column in accordance with their treatment under FASB ASC Topic 718. For consistency of presentation, the information reported for 2012 in this column has been revised to reflect the grant date fair market value of the strategic performance shares granted during 2012. Should performance equal or exceed the maximum goals for these 2013 strategic performance shares, the grant date fair market value for such awards would be: Mr. Griffith \$2,473,067; Mr. Timken,



- Jr. \$1,975,077; Mr. Eisenberg \$911,574; Mr. Kyle \$911,574; and Mr. Coughlin \$911,574.
- (2) The amounts shown in this column for 2013 represent the grant date fair value of nonqualified stock options granted in 2013 (calculated in accordance with FASB ASC Topic 718) using the Black-Scholes model. All stock options vest at a rate of 25% per year. Assumptions used to determine the value of these nonqualified stock options are listed in the discussion of Stock Compensation Plans in Note 12 of the Company's Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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- (3) The amounts shown in this column for 2013 represent cash awards under the Senior Executive Management Performance Plan (annual incentive plan) for 2013 and the performance units covering the 2011-2013 performance cycle. Amounts earned under the Senior Executive Management Performance Plan and the 2011-2013 performance units, respectively, for each of the named executive officers were as follows: Mr. Griffith \$1,182,316 and \$1,217,705; Mr. Timken \$934,192 and \$962,280; Mr. Eisenberg \$361,038 and \$572,179; Mr. Kyle \$434,914 and \$357,605; and Mr. Coughlin \$337,446 and \$357,605.
- (4) The amounts shown in this column for 2013 represent the difference between the accumulated benefit amounts shown in the 2013 Pension Benefits Table on page 43 as of December 31, 2013 and those amounts calculated as of December 31, 2012. See the discussion of Pension Benefits on pages 42 and 43 for a description of how the amounts as of December 31, 2013 were calculated. The amounts as of December 31, 2012 were calculated using the same assumptions, except that a discount rate of 4% was used. As a result of the discount rate change from 4% to 5.02%, the change in pension value was negative for Messrs. Timken and Eisenberg and therefore the entries are shown as \$0. The negative change in pension value is as follows: Mr. Timken \$898,000 and Mr. Eisenberg \$574,000. For both years, liabilities were determined assuming no probability of termination, retirement, death, or disability before age 62 (the earliest age unreduced pension benefits are payable from the plans). None of the NEOs earned above-market earnings in a deferred compensation plan.
- (5) The amounts shown in this column for 2013 are broken down in detail in the following table:

| Name                    | Annual Company Contribution to SIP Plan and Core DC Program (a) | Annual Company Contribution to Post-Tax Savings Plan (b) | Annual Life Insurance Premium (Company Paid) (c) | Executive Physicals (Company Required) (d) | Financial Planning Reimbursement (Company) (e) | Home Security (Company Required) (f) | Personal Use of Company Club Memberships (g) | Spousal Travel (h) | Tax Gross-Ups for Life Insurance, Financial Planning, Home Security and Spousal Travel (i) | Other (j) |
|-------------------------|---|--|--|--|--|--------------------------------------|--|--------------------|--|-----------|
| James W. Griffith       | \$ 11,475   | \$ 109,660   | \$ 5,284   | \$ 1,613                                   | \$ 10,000                                      | \$ 360                               | \$ 0   | \$ 3,517           | \$ 0   | \$ 5,392  |
| Ward J. Timken, Jr.     | \$ 21,675   | \$ 158,937   | \$ 2,937   | \$ 3,675                                   | \$ 5,765                                       | \$ 168                               | \$ 0   | \$ 3,767           | \$ 0   | \$ 1,469  |
| Glenn A. Eisenberg      | \$ 20,400   | \$ 82,207  | \$ 4,530   | \$ 2,757                                   | \$ 7,500                                       | \$ 710                               | \$ 0   | \$ 0               | \$ 0   | \$ 1,634  |
| Richard G. Kyle         | \$ 19,125   | \$ 53,783  | \$ 0   | \$ 1,704                                   | \$ 520   | \$ 476                               | \$ 7,735                                     | \$ 10,701          | \$ 0   | \$ 812    |
| Christopher A. Coughlin | \$ 11,475   | \$ 29,284  | \$ 0   | \$ 1,022                                   | \$ 955   | \$ 167                               | \$ 10,125                                    | \$ 1,704           | \$ 0   | \$ 1,245  |

- (a) SIP Plan refers to the Savings and Investment Pension Plan, which is the Company's qualified defined contribution plan for salaried employees. Core DC Program refers to the core defined contribution program for all salaried employees hired on or after January 1, 2004, as well as for salaried employees whose age plus

years of service with the Company equaled less than 50 as of December 31, 2003. Messrs. Timken, Eisenberg and Kyle participate in the Core DC Program.

- (b) The Post-Tax Savings Plan is the Company's non tax-qualified restoration plan for salaried employees whose contributions and benefits in qualified retirement plans are limited by Section 415 of the Internal Revenue Code.
- (c) The amounts shown for personal use of country club memberships reflect pro-rated amounts of company-paid annual membership dues in 2013 that were used for personal use by the NEOs. There are no incremental costs to the Company for personal use, as all such costs are borne by the officer.

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- (d) The amounts shown for spousal travel include actual incremental travel expenses, as well as estimated incremental costs of traveling on the Company's aircraft (if used), when accompanying the NEO on business travel.
- (e) The Company does not provide tax gross-ups for benefits to executives.
- (f) The amounts shown represent imputed income for the cost of pre-tax term life insurance (which is provided by the Company for all associates equal to one times their annual salary) for the portion that exceeds the IRS pre-tax limit of \$50,000.

**2013 GRANTS OF PLAN-BASED AWARDS**

The following table sets forth information concerning certain grants made to our NEOs during 2013:

|         | Grant Date                          | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |              |              | Estimated Future Payouts Under Equity Incentive Plan Awards |        |         | All Other Awards: Number of Securities Underlying Options | Exercise or Base Price of Option Awards (\$/share) | Grant Fair Value of Stock and Option Awards |
|---------|-------------------------------------|---|--------------|--------------|---|--------|---------|---|--|---|
|         |                                     | Threshold   | Target       | Maximum      | Threshold   | Target | Maximum |   |  |   |
| W.      | 02/07/2013 Perf RSUs <sup>(1)</sup> |   |              |              | 14,650  | 29,300 | 43,950  |   |  | \$ 1,648                                    |
| th      | 02/07/2013 SEMPP <sup>(2)</sup>     | \$ 1,051,200  | \$ 2,233,800 | \$ 3,416,400 |   |        |         |   |  |   |
|         | 02/07/2013 NQSOs <sup>(3)</sup>     |   |              |              |   |        |         | 116,100   | \$ 56.27   | \$ 2,482                                    |
| J.      | 02/07/2013 PerfRSUs <sup>(1)</sup>  |   |              |              | 11,700  | 23,400 | 35,100  |   |  | \$ 1,316                                    |
| en, Jr. | 02/07/2013 SEMPP <sup>(2)</sup>     | \$ 830,592  | \$ 1,765,008 | \$ 2,699,424 |   |        |         |   |  |   |
|         | 02/07/2013 NQSOs <sup>(3)</sup>     |   |              |              |   |        |         | 92,900  | \$ 56.27   | \$ 1,986                                    |
| A.      | 02/07/2013 PerfRSUs <sup>(1)</sup>  |   |              |              | 5,400   | 10,800 | 16,200  |   |  | \$ 607                                      |
| berg    | 02/07/2013 SEMPP <sup>(2)</sup>     | \$ 385,200  | \$ 818,550   | \$ 1,251,900 |   |        |         |   |  |   |
|         | 02/07/2013 NQSOs <sup>(3)</sup>     |   |              |              |   |        |         | 28,600  | \$ 56.27   | \$ 611                                      |
| rd G.   | 02/07/2013 PerfRSUs <sup>(1)</sup>  |   |              |              | 5,400   | 10,800 | 16,200  |   |  | \$ 607                                      |
|         | 02/07/2013 SEMPP <sup>(2)</sup>     | \$ 386,683  | \$ 821,701   | \$ 1,256,719 |   |        |         |   |  |   |
|         | 02/7/2013 NQSOs <sup>(3)</sup>      |   |              |              |   |        |         | 30,800  | \$ 56.27   | \$ 658                                      |
| topher  | 02/07/2013 PerfRSUs <sup>(1)</sup>  |   |              |              | 5,400   | 10,800 | 16,200  |   |  | \$ 607                                      |
| hlin    | 02/07/2013 SEMPP <sup>(2)</sup>     | \$ 300,024  | \$ 637,551   | \$ 975,078   |   |        |         |   |  |   |
|         | 02/07/2013 NQSOs <sup>(3)</sup>     |   |              |              |   |        |         | 30,800  | \$ 56.27   | \$ 658                                      |

- (1) The Perf RSUs amounts shown indicate aggregate threshold, target and maximum award opportunities for strategic performance shares covering the 2013-2015 performance cycle granted to each NEO in 2013 under the Long-Term Incentive Plan. See the description of strategic performance shares on page 33.

- (2) The SEMPP amounts shown indicate possible funding levels at threshold, target and maximum performance levels under the SEMPP for 2013. The SEMPP is a shareholder-approved plan in which all the NEOs participated in 2013. Target award amounts under the SEMPP for each of the named executive officers were as follows: Mr. Griffith - \$1,314,000; Mr. Timken - \$1,038,240; Mr. Eisenberg - \$481,500; Mr. Kyle - \$483,353; and Mr. Coughlin - \$375,030. See the description of the Annual Incentive on page 29.
- (3) The NQSOs amounts shown reflect nonqualified stock options granted in 2013. All options granted to the NEOs during 2013 were granted on February 7, 2013. All options were granted pursuant to the Long-Term Incentive Plan with an exercise price equal to the fair market value (as defined in the plan) on the date of grant, have a ten-year term and will generally become exercisable over four years in 25% increments on the anniversary of the date of grant. The agreements pertaining to these options provide that such options will become exercisable in full and will vest in the event of death or disability of the option holder or a change in control of the Company, in each case as defined in such agreements. In the cases of normal retirement and retirement with the Company's consent (prior to the age of 62), such options will become exercisable with the same terms and conditions as normal vesting, as if the option holder had remained in the continuous employ of the Company.

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(4) The amounts shown reflect the grant date fair market value of options and strategic performance shares granted in 2013, calculated in accordance with FASB ASC Topic 718. The fair market value of performance-based restricted stock units is the opening price of Common Stock on the date of grant multiplied by the number of full shares granted. The fair market value of options is determined by using the Black-Scholes model.

**OUTSTANDING EQUITY AWARDS AT 2013 YEAR-END**

The following table sets forth information concerning unexercised options and stock awards that have not vested for each of our NEOs as of December 31, 2013:

| Name              | Grant Date               | Option Awards <sup>(1)</sup>                         |   |                           |                        | Stock Awards <sup>(2)</sup>                             |  |   |   |
|-------------------|--------------------------|--|---|---------------------------|------------------------|---|--|---|---|
|                   |                          | Number of Unexercised Options Available for Exercise | Number of Securities Underlying Unexercised Options | Exercise Price (\$/share) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested | Market Value of Stock That Have Not Vested | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |
| James W. Griffith | 02/05/2007<br>02/04/2008 | 134,000  | 0   | \$ 29.23                  | 02/05/2017             | 02/08/2010  | 8,850                                      | \$ 487,370  |   |