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TIMKEN CO  
Form 8-K  
October 17, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 8-K

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

Date of report (Date of earliest event reported):                      October 16, 2002  
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THE TIMKEN COMPANY

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(Exact name of registrant as specified in charter)

|                                                   |                             |                                      |
|---------------------------------------------------|-----------------------------|--------------------------------------|
| Ohio                                              | 1-1169                      | 34-0577130                           |
| -----                                             | -----                       | -----                                |
| (State or Other Jurisdiction<br>of Incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification No.) |
| 1835 Dueber Avenue, S.W., Canton, Ohio            |                             | 44706-2798                           |
| -----                                             | -----                       | -----                                |
| (Address of Principal Executive Offices)          |                             | (Zip Code)                           |

Registrant's telephone number, including area code: (330) 438-3000

ITEM 5. OTHER EVENTS.

Press Releases

On October 16, 2002, The Timken Company issued the following press release:

THE TIMKEN COMPANY ANNOUNCES  
THIRD QUARTER RESULTS:

SALES AND EARNINGS BOTH UP

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CANTON, OHIO -- October 16, 2002 - The Timken Company (NYSE: TKR) today reported third quarter 2002 earnings of \$0.17 per diluted share versus a loss of (\$0.03) per diluted share a year ago, excluding restructuring and reorganization charges, goodwill amortization and the impact of an accounting change related to goodwill. Earnings were above consensus analyst estimates of \$0.14 per share. Sales were \$628.6 million and about 9 percent above the \$577.7 million recorded in last year's third quarter.

Including the impact of the special charges, goodwill amortization and the change in accounting principle, the company reported a third quarter net loss of (\$10.9) million or (\$0.18) per diluted share versus a net loss last year of (\$30.5) million or (\$0.51) per share. Results in the third quarter of 2002 were negatively impacted by a goodwill impairment write-off, which is reflected as the cumulative effect of a change in accounting principle. This amounted to \$20.5

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million before taxes or \$12.7 million after taxes (\$0.21 per share).

Earnings before interest and taxes (EBIT) were \$12.8 million -- an improvement from last year's loss of (\$23.0) million.

"Our third-quarter results demonstrate the ongoing success of our strategic manufacturing restructuring and cost-cutting actions, which are improving our profitability," said James W. Griffith, president and chief executive officer. "These initiatives are on track to deliver an annualized savings rate of \$80 million by the end of the year. Automotive demand also continued strong in the quarter due to incentive programs from automakers which spurred light vehicle production. Changing environmental regulations for heavy trucks created a surge in demand in that sector. While industrial sales continue to be sluggish, the third quarter reflected an improved sales mix which contributed to profitability."

In September, the company contributed 3 million shares of common stock in lieu of cash to its pension plan, which increased shareholders' equity by \$54.5 million.

In the first nine months, net income excluding special charges, goodwill amortization and the cumulative effect of the accounting change, rose from a year ago to \$41.3 million or \$0.68 per diluted share on sales of \$1.91 billion from \$12.1 million or \$0.20 per diluted share on sales of \$1.87 billion. Including these items, the company had net income of \$2.3 million or \$0.04 per diluted share in the first nine months of 2002 versus a loss of (\$42.9) million or a loss of (\$0.71) per diluted share a year ago.

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THE FOLLOWING SEGMENT RESULTS EXCLUDE RESTRUCTURING AND REORGANIZATION CHARGES AND GOODWILL AMORTIZATION.

AUTOMOTIVE BEARINGS' RESULTS

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Automotive third quarter EBIT was \$2.1 million on sales of \$207.1 million compared to a loss of (\$7.9) million on sales of \$176.5 million a year ago. Widespread incentive programs on light vehicles from automotive manufacturers and changing environmental regulations on heavy trucks drove North American demand in the third quarter. North American light and heavy truck production showed strong increases over the prior year, while demand in Europe and the rest of the world was flat. New light truck platforms that include Timken bearings also boosted North American sales.

Improved automotive performance reflected the favorable impact of both strong sales volume and the company's restructuring initiatives. This was partially offset by additional manufacturing costs necessary to meet high levels of demand while the company restructures its automotive supply chain and currency exchange losses.

For the first nine months, Automotive EBIT was \$21.0 million on sales of \$630.0 million compared to a loss of \$9.4 million on sales of \$565.8 million for the same period in 2001.

### INDUSTRIAL BEARINGS' RESULTS

Third-quarter Industrial EBIT was \$18.1 million on sales of \$217.2 million compared to \$9.8 million on sales of \$214.1 million a year ago. While sales increased only slightly compared to last year, an improved mix of higher-margin industrial products, the cost reduction impact of restructuring initiatives, and an inventory write-up contributed to strong EBIT performance. Improvement in global industrial markets continues to be slow. Global aerospace markets remain weak versus last year's levels, and military demand has not increased substantially.

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In the first nine months, Industrial achieved EBIT of \$37.7 million on sales of \$658.2 million, which was about even with last year's EBIT on greater sales of \$678.0 million.

### STEEL BUSINESS RESULTS

The Steel Business reported third quarter EBIT of \$5.6 million on net sales, including intersegment sales, of \$246.8 million. This compares with EBIT of \$1.6 million on sales of \$222.1 million in last year's third quarter. The improved performance reflected strong shipments to the automotive industry, higher capacity utilization and improved efficiency. Strong sales to automotive customers were offset by continuing weak sales to other sectors. While raw material costs increased slightly during the quarter, the Steel Business continued to control costs and to improve productivity.

For the first nine months of 2002, Steel's EBIT was \$32.3 million on sales of \$740.6 million versus \$19.7 million on sales of \$744.3 million last year.

### OUTLOOK

"The automotive sector continues to be strong, but we expect some seasonal impact in the fourth quarter and slowing demand in the heavy truck segment because of emissions regulations for trucks taking effect in October," said Mr. Griffith. Industrial markets are recovering slowly, and we expect the recovery to continue at this slow pace into next year. Our operating improvements have

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had a positive impact on our performance this year, and they have us well-prepared for the economic upturn."

The Timken Company (NYSE: TKR) (<http://www.timken.com>) is a leading international manufacturer of highly engineered bearings, alloy and specialty steels and components, as well as a provider of related products and services. With operations in 24 countries, the company employs about 18,100 people worldwide and reported 2001 sales of U.S. \$2.4 billion.

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The company will conduct a teleconference on October 17 at 8:30 a.m. Eastern Daylight Time on its third quarter earnings. Dial 706-634-0975 (reference Timken) or link to [www.timken.com](http://www.timken.com) for the Web cast. Replay will be available at 706-645-9291, beginning at 11:30 a.m. EDT, October 17 through 11:59 p.m. EDT, October 24, 2002. Access Code 4717573.

NOTE: Certain statements in this news release (including statements regarding the company's forecasts, beliefs and expectations) that are not historical in nature are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. The company cautions that actual results may differ materially from those projected or implied in forward-looking statements due to a variety of important factors, including the impact on operations of general economic conditions, the cyclical nature of the company's business, customer demand and the company's ability to achieve the benefits of its ongoing restructuring and cost-reduction programs. These and additional factors are described in greater detail in the company's 2001 Annual Report, page 39, the Annual Report on Form 10-K for the year ended December 31, 2001 and the quarterly reports on Form 10-Q for the periods ended March 31 and June 30, 2002. The company undertakes no obligation to update or revise any forward-looking statement.

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### CONSOLIDATED STATEMENT OF INCOME

AS R

(THOUSANDS OF U.S. DOLLARS, EXCEPT SHARE DATA)

3Q 02

3Q 01

|                                                   |           |            |
|---------------------------------------------------|-----------|------------|
| Net sales                                         | \$628,591 | \$577,698  |
| Cost of products sold                             | 515,271   | 483,995    |
| Goodwill amortization                             | -         | 1,535      |
| Reorganization expenses - cost of products sold   | 2,058     | 1,217      |
| <hr/>                                             |           |            |
| GROSS PROFIT                                      | \$111,262 | \$90,951   |
| Selling, administrative & general expenses (SG&A) | 84,999    | 85,474     |
| Reorganization expenses - SG&A                    | 2,383     | 1,354      |
| Impairment and restructuring                      | 7,703     | 24,639     |
| <hr/>                                             |           |            |
| OPERATING INCOME (LOSS)                           | \$16,177  | (\$20,516) |
| Other expense                                     | (3,415)   | (2,476)    |
| <hr/>                                             |           |            |

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|                                                                                               |            |            |
|-----------------------------------------------------------------------------------------------|------------|------------|
| EARNINGS BEFORE INTEREST AND TAXES (EBIT)                                                     | \$12,762   | (\$22,992) |
| Interest expense                                                                              | (8,072)    | (8,432)    |
| Interest income                                                                               | 294        | 573        |
| -----                                                                                         |            |            |
| INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE<br>EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE  | \$4,984    | (\$30,851) |
| Provision for income taxes                                                                    | 3,147      | (319)      |
| -----                                                                                         |            |            |
| INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE<br>IN ACCOUNTING PRINCIPLE                   | \$1,837    | (\$30,532) |
| Cumulative effect of change in accounting principle (net of<br>income tax benefit of \$7,786) | (12,702)   | -          |
| -----                                                                                         |            |            |
| NET (LOSS) INCOME                                                                             | (\$10,865) | (\$30,532) |
| =====                                                                                         |            |            |
| EARNINGS PER SHARE:                                                                           |            |            |
| INCOME (LOSS) BEFORE ACCOUNTING CHANGE                                                        | \$0.03     | (\$0.51)   |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE                                                        | (\$0.21)   | -          |
| -----                                                                                         |            |            |
| EARNINGS PER SHARE                                                                            | (\$0.18)   | (\$0.51)   |
| =====                                                                                         |            |            |
| EARNINGS PER SHARE-ASSUMING DILUTION:                                                         |            |            |
| INCOME (LOSS) BEFORE ACCOUNTING CHANGE                                                        | \$0.03     | (\$0.51)   |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE                                                        | (\$0.21)   | -          |
| -----                                                                                         |            |            |
| EARNINGS PER SHARE-ASSUMING DILUTION                                                          | (\$0.18)   | (\$0.51)   |
| =====                                                                                         |            |            |
| Average Shares Outstanding                                                                    | 61,091,924 | 59,958,690 |
| Average Shares Outstanding-assuming dilution                                                  | 61,430,256 | 60,086,662 |
| =====                                                                                         |            |            |

| CONSOLIDATED STATEMENT OF INCOME                  | ADJUSTED  |           |
|---------------------------------------------------|-----------|-----------|
| (THOUSANDS OF U.S. DOLLARS, EXCEPT SHARE DATA)    | 3Q 02     | 3Q 01     |
| -----                                             |           |           |
| Net sales                                         | \$628,591 | \$577,698 |
| Cost of products sold                             | 515,271   | 483,995   |
| Goodwill amortization                             | -         | -         |
| Reorganization expenses - cost of products sold   | -         | -         |
| -----                                             |           |           |
| GROSS PROFIT                                      | \$113,320 | \$93,703  |
| Selling, administrative & general expenses (SG&A) | 84,999    | 85,474    |
| Reorganization expenses - SG&A                    | -         | -         |
| Impairment and restructuring                      | -         | -         |
| -----                                             |           |           |
| OPERATING INCOME (LOSS)                           | \$28,321  | \$8,229   |
| Other expense                                     | (3,415)   | (2,476)   |
| -----                                             |           |           |
| EARNINGS BEFORE INTEREST AND TAXES (EBIT)         | \$24,906  | \$5,753   |
| Interest expense                                  | (8,072)   | (8,432)   |
| Interest income                                   | 294       | 573       |
| -----                                             |           |           |
| INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE  |           |           |

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|                                                                                               |            |            |
|-----------------------------------------------------------------------------------------------|------------|------------|
| EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                                      | \$17,128   | (\$2,106)  |
| Provision for income taxes                                                                    | 6,497      | (286)      |
| <hr/>                                                                                         |            |            |
| INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE<br>IN ACCOUNTING PRINCIPLE                   | \$10,631   | (\$1,820)  |
| Cumulative effect of change in accounting principle (net of<br>income tax benefit of \$7,786) | -          | -          |
| <hr/>                                                                                         |            |            |
| NET (LOSS) INCOME                                                                             | \$10,631   | (\$1,820)  |
| <hr/>                                                                                         |            |            |
| EARNINGS PER SHARE:                                                                           |            |            |
| INCOME (LOSS) BEFORE ACCOUNTING CHANGE                                                        | \$0.17     | (\$0.03)   |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE                                                        | -          | -          |
| <hr/>                                                                                         |            |            |
| EARNINGS PER SHARE                                                                            | \$0.17     | (\$0.03)   |
| <hr/>                                                                                         |            |            |
| EARNINGS PER SHARE-ASSUMING DILUTION:                                                         |            |            |
| INCOME (LOSS) BEFORE ACCOUNTING CHANGE                                                        | \$0.17     | (\$0.03)   |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE                                                        | -          | -          |
| <hr/>                                                                                         |            |            |
| EARNINGS PER SHARE-ASSUMING DILUTION                                                          | \$0.17     | (\$0.03)   |
| <hr/>                                                                                         |            |            |
| Average Shares Outstanding                                                                    | 61,091,924 | 59,958,690 |
| Average Shares Outstanding-assuming dilution                                                  | 61,430,256 | 60,086,662 |
| <hr/>                                                                                         |            |            |

BUSINESS SEGMENTS

| (THOUSANDS OF U.S. DOLLARS)                 | 3Q 02     | 3Q 01      |
|---------------------------------------------|-----------|------------|
| <hr/>                                       |           |            |
| AUTOMOTIVE BEARINGS                         |           |            |
| Net sales to external customers             | \$207,136 | \$176,518  |
| Impairment and restructuring                | 2,550     | 23,597     |
| Reorganization expenses                     | 2,604     | 848        |
| Goodwill amortization                       | -         | 23         |
| Earnings before interest and taxes (EBIT) * | (\$3,081) | (\$32,351) |
| EBIT Margin                                 | -1.5%     | -18.3%     |
| INDUSTRIAL BEARINGS                         |           |            |
| Net sales to external customers             | \$217,232 | \$214,130  |
| Impairment and restructuring                | 4,330     | 641        |
| Reorganization expenses                     | 1,837     | 1,723      |
| Goodwill amortization                       | -         | 1,201      |
| Earnings before interest and taxes (EBIT) * | \$11,953  | \$6,186    |
| EBIT Margin                                 | 5.5%      | 2.9%       |
| STEEL                                       |           |            |
| Net sales to external customers             | \$204,223 | \$187,050  |
| Intersegment sales                          | 42,623    | 35,007     |
| <hr/>                                       |           |            |
| Total net sales                             | \$246,846 | \$222,057  |
| Impairment and restructuring                | 823       | 401        |
| Reorganization expenses                     | -         | -          |
| Goodwill amortization                       | -         | 311        |
| Earnings before interest and taxes (EBIT) * | \$4,769   | \$911      |

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EBIT Margin 1.9% 0.4%

BUSINESS SEGMENTS

| (THOUSANDS OF U.S. DOLLARS)                 | 3Q 02     | 3Q 01     |
|---------------------------------------------|-----------|-----------|
| <b>AUTOMOTIVE BEARINGS</b>                  |           |           |
| Net sales to external customers             | \$207,136 | \$176,518 |
| Impairment and restructuring                | -         | -         |
| Reorganization expenses                     | -         | -         |
| Goodwill amortization                       | -         | -         |
| Earnings before interest and taxes (EBIT) * | \$2,073   | (\$7,883) |
| EBIT Margin                                 | 1.0%      | -4.5%     |
| <b>INDUSTRIAL BEARINGS</b>                  |           |           |
| Net sales to external customers             | \$217,232 | \$214,130 |
| Impairment and restructuring                | -         | -         |
| Reorganization expenses                     | -         | -         |
| Goodwill amortization                       | -         | -         |
| Earnings before interest and taxes (EBIT) * | \$18,120  | \$9,751   |
| EBIT Margin                                 | 8.3%      | 4.6%      |
| <b>STEEL</b>                                |           |           |
| Net sales to external customers             | \$204,223 | \$187,050 |
| Intersegment sales                          | 42,623    | 35,007    |
| Total net sales                             | \$246,846 | \$222,057 |
| Impairment and restructuring                | -         | -         |
| Reorganization expenses                     | -         | -         |
| Goodwill amortization                       | -         | -         |
| Earnings before interest and taxes (EBIT) * | \$5,592   | \$1,623   |
| EBIT Margin                                 | 2.3%      | 0.7%      |

\*Automotive Bearings, Industrial Bearings and Steel EBIT do not equal Consolidated EBIT due to intersegment adjustments which are eliminated upon consolidation.

(1) "Adjusted" statements exclude the impact of restructuring and reorganization charges for all quarters shown, elimination of goodwill amortization in 2001 and cumulative effect of change in accounting principle recognized in 2002.

CONSOLIDATED STATEMENT OF CASH FLOWS

| (THOUSANDS OF U.S. DOLLARS) | For the three months ended |                 |
|-----------------------------|----------------------------|-----------------|
|                             | SEPT 30<br>2002            | Sept 30<br>2001 |

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|                                                                                      |            |            |
|--------------------------------------------------------------------------------------|------------|------------|
| CASH PROVIDED (USED)                                                                 |            |            |
| OPERATING ACTIVITIES                                                                 |            |            |
| Net Income (Loss)                                                                    | (\$10,865) | (\$30,532) |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |            |            |
| Cumulative effect of accounting change                                               | 12,702     | -          |
| Depreciation and amortization                                                        | 37,101     | 37,794     |
| Provision (credit) for deferred income taxes                                         | (476)      | (6,259)    |
| Stock issued in lieu of cash to employee benefit plans                               | (788)      | 289        |
| Non-cash impact of impairment and restructuring charges                              | (4,297)    | 19,583     |
| Changes in operating assets and liabilities:                                         |            |            |
| Accounts receivable                                                                  | 5,075      | 19,195     |
| Inventories                                                                          | (11,757)   | 7,938      |
| Other assets                                                                         | 10,537     | (2,038)    |
| Accounts payable and accrued expenses                                                | 18,852     | (43,017)   |
| Foreign currency translation                                                         | 4,714      | 1,077      |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                                            | \$60,798   | \$4,030    |
| INVESTING ACTIVITIES                                                                 |            |            |
| Purchases of property, plant and equipment, net<br>Acquisitions                      | (\$13,222) | (\$21,859) |
| NET CASH USED BY INVESTING ACTIVITIES                                                | (\$13,222) | (\$21,859) |
| FINANCING ACTIVITIES                                                                 |            |            |
| Cash dividends paid to shareholders                                                  | (\$7,841)  | (\$10,786) |
| Purchase of treasury shares                                                          | -          | (2,795)    |
| Payments on long-term debt                                                           | (35,449)   | (495)      |
| Proceeds from issuance of long-term debt                                             | -          | 76,092     |
| Short-term debt activity - net                                                       | 1,356      | (33,230)   |
| NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES                                     | (\$41,934) | 28,786     |
| Effect of exchange rate changes on cash                                              | \$76       | (694)      |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                                     | 5,718      | 10,263     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                     | \$31,094   | \$15,652   |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                                           | \$36,812   | \$25,915   |

|                             |           |
|-----------------------------|-----------|
| -----                       |           |
| CONSOLIDATED BALANCE SHEET  | SEPT 30   |
| (THOUSANDS OF U.S. DOLLARS) | 2002      |
| -----                       |           |
| ASSETS                      |           |
| Cash & cash equivalents     | \$36,812  |
| Accounts receivable         | 376,416   |
| Refundable income taxes     | -         |
| Deferred income taxes       | 42,790    |
| Inventories                 | 464,394   |
| -----                       |           |
| TOTAL CURRENT ASSETS        | \$920,412 |



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|                                            |             |
|--------------------------------------------|-------------|
| Property, plant & equipment                | 1,237,407   |
| Other assets                               | 384,224     |
| -----                                      |             |
| TOTAL ASSETS                               | \$2,542,043 |
| =====                                      |             |
| LIABILITIES                                |             |
| Accounts payable & other liabilities       | \$263,303   |
| Short-term debt & commercial paper         | 131,432     |
| Accrued expenses                           | 272,242     |
| -----                                      |             |
| TOTAL CURRENT LIABILITIES                  | \$666,977   |
| Long-term debt                             | 350,515     |
| Accrued pension cost                       | 270,179     |
| Accrued postretirement benefits            | 413,319     |
| Other non-current liabilities              | 21,980      |
| -----                                      |             |
| TOTAL LIABILITIES                          | \$1,722,970 |
| SHAREHOLDERS' EQUITY                       | 819,073     |
| -----                                      |             |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$2,542,043 |
| =====                                      |             |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE TIMKEN COMPANY

By: /s/ William R. Burkhart

-----  
Name: William R. Burkhart  
Title: Senior Vice President and  
General Counsel

Dated: October 16, 2002