

THE TIMKEN COMPANY

In 2002, The Timken Company was considering acquiring the Torrington Company from Ingersoll-Rand. The acquisition would make a clear statement to the market about Timken's commitment to remain a worldwide leader in the bearing industry by combining more than 100 years of bearing manufacturing and development experience. Because the two companies shared many of the same customers but had few products in common, customers would surely appreciate that Timken's sales representatives could meet more of their needs. Timken's potential annual cost savings from consolidating manufacturing facilities and processes were estimated to be more than \$80 million. If the price paid for Torrington were too high, Ingersoll-Rand, rather than Timken, would capture the value of the synergies. In addition, given the large size of the acquisition, Timken was concerned about the impact on its balance sheet. If Ingersoll-Rand demanded a cash deal and if Timken raised the money with new debt, the increased leverage would almost certainly prompt credit agencies to downgrade Timken's investment-grade rating.

The Bearing Industry

Bearings of various sizes and specifications found their way into everything from space shuttles to household appliances, automobiles, dentist drills, roller skates, and computer disk drives. In 2001, U.S. establishments involved in ball- and roller-bearing manufacturing employed more than 33,000 workers.

The bearing industry was facing a variety of complex problems. Policies favoring the steel industry did not always consider the best interests of the bearing industry, which, as manufacturers of secondary steel products, was in the middle of the production chain. Because bearings were essential components of military and civilian machinery and equipment, the federal government had historically been a major customer. Nonetheless, foreign competitors had taken business away from U.S. companies by selling bearings of equal quality at lower prices. The intensity of the competition at times resulted in charges by U.S. firms of illegal dumping practices by foreign competitors.. Found guilty of such practices, those companies

often turned around and either opened or bought plants in the United States to supply their American customers.

Shipments of ball and roller bearings grew steadily during the 1990s, peaking in 1998 at more than \$5.8 billion. Although 1999 and 2000 remained relatively strong, the value of shipments dropped dramatically in 2001, sinking to \$5.3 billion, the lowest since 1995. Reasons included the economic recession, decreased automotive demand, and the terrorist attacks on September 11, 2001. There had been moderate growth in the sector in 2002, led by automotive production, which had risen 5% due to sales incentives, including 0% financing. Overall, the bearings-industry demand was expected to soften as automotive demand had begun to decrease in late 2002 and was generally expected to remain flat for 2003. Thus, the bearings industry appeared to be in a cyclical trough from which many analysts predicted a more widespread recovery in 2003 of about 2% to 3% growth.

Bearings worldwide were doing significantly better. Orders had increased globally and were forecast to grow 6.5% a year through 2005, to \$42 billion. With supply levels remaining high worldwide, prices overall were stable and not expected to rise in 2003. Conversely, prices for imports were expected to increase in 2003. As bearings from China came into the United States, selling at below-market prices, the federal government had levied antidumping duties of up to 59.3%. Antidumping payments to Timken amounted to \$50 million in 2002 (\$30 million in 2001).

The major industry players included Timken, SKF, and NSK, Ltd. Sweden-based Aktiebolaget SKF controlled 20% of the world market in bearings, which was more than twice the market share held by its closest competitors. In 2002, its sales were \$4.8 billion, up 18.2% from 2001, and the company employed 39,000 workers. NSK, Ltd., based in Tokyo, produced bearings for the automotive, information technology, and electronics industries. In 2002, NSK's sales reached \$3.62 billion and employment topped 22,000, spread across 50 subsidiaries worldwide. In 2002, Timken reported a net income of \$38.7 million on sales of \$2.55 billion (**Exhibit 1**) and assets of \$2.75 billion (**Exhibit 2**). Two-thirds of Timken's sales came from bearings, and about 20% of its sales were from outside the United States. Timken had operations in 25 countries and employed nearly 18,000 workers.

The Timken Company

In 1898, veteran St. Louis carriage-maker Henry Timken patented a design for tapered roller bearings (bearings enclosed between a pair of concentric rings) to facilitate the motion of carriage axles. The following year, Timken and his sons, William and Henry (H. H.), founded The Timken Roller Bearing Axle Company, which was the beginning of what was to become a global manufacturer of highly engineered bearings, alloy and specialty steel, and related components. In 1902, the company moved to Canton, Ohio, to be near the growing steelworks in Pittsburgh, Pennsylvania, and the new automobile factories in Buffalo, New York, Cleveland,

Ohio, and Detroit, Michigan. In 1908, with the debut of the Ford Model T, the Timkens' business soared. In 1917, the company began making its own steel for bearings.

Timken stock was sold to the public for the first time in 1922. World War II created increased demand for Timken's products, and the company opened several new plants. H. H. Timken's son, W. Robert Timken, became president in 1960 and chair in 1968. The company continued to grow during the 1960s, when it opened plants in Brazil and France. In 1970, the company adopted its current name, the Timken Company. W. R. Timken Jr., grandson of the founder, became chair in 1975.

In 1982, with increasing competition from Europe and Japan, the company suffered its first loss since the Depression. During the years that followed, Timken engaged in joint ventures, acquisitions, and investments in the United States as well as various locations around the world, including the United Kingdom, Europe, India, China, Africa, and Australia. In 1999, Timken cut production capacity to 80%, and began to consolidate operations and restructure into global business units. The company closed plants in Australia, restructured operations in South Africa (cutting about 1,700 jobs), and outsourced its European distribution to a company in France. In early 2001, the company announced that it would lay off more than 7% of its work force.

Timken business units

In 2002, the company operated three segments: the Automotive Group, the Industrial Group, and the Steel Group. The Automotive and Industrial Groups designed, manufactured, and distributed a range of bearings and related products and services. Automotive Group customers included original-equipment manufacturers (OEMs) of passenger cars and trucks, ranging from light- and medium-duty to heavy-duty trucks and their suppliers. Industrial Group customers included both OEMs and distributors for agricultural, construction, mining, energy, mill, machine-tooling, aerospace, and rail applications. The Steel Group designed, manufactured, and distributed different alloys in both solid and tubular sections, as well as custom-made steel products, for both automotive and industrial applications, including bearings.

Automotive and Industrial Groups: The tapered roller bearing was Timken's principal product in the antifriction industry segment. It consisted of four components: the cone, the cup, the cage, and the tapered rollers. The roller bearing contained many individual and highly toleranced components. When properly applied to a qualified axle journal, it became a system whose function was to carry the weight of the railcar and its cargo reliably, with minimal rolling resistance. The bearing stack comprised both load-carrying and non-load-carrying components. Certain components of the bearing were designed to carry the load. Those components safely carried the weight of the railcar and its cargo with a minimum of rolling resistance. The non-load-carrying components positioned the bearing laterally on the axle and provided the force necessary to achieve proper bearing clamp. Although they did not directly carry the weight of the railcar and its cargo, those components were critical to overall bearing performance. Sometimes called auxiliary components, they completed the bearing stack. Timken manufactured or purchased those components and then sold them in a variety of configurations and sizes.

The company's aerospace and superprecision facilities produced high-performance ball bearings and cylindrical bearings for ultra high-speed and ultra high-accuracy applications in the aerospace, medical and dental, computer disk drive, and other industries. Those bearings utilized ball- and straight-rolling elements and were in the superprecision end of the bearing industry. A majority of Timken's aerospace and superprecision products were custom-designed bearings and spindle assemblies. They often involved specialized materials and coatings for use in applications that subjected the bearings to extreme speed and temperature.

The company competed with domestic manufacturers as well as foreign manufacturers of antifriction bearings, including SKF, INA-Holding Schaeffler KG, NTN Corporation, Koyo Seiko Company, Ltd., and NSK, Ltd. Timken's principal competitors in aerospace products included Ellwood Specialty, Slater/Atlas, and Patriot.

Steel Group: Steel products included steels of low and intermediate alloy, vacuum-processed alloys, tool steel, and some carbon grades. Those products were available in a range of solid and tubular sections with a variety of lengths and finishes. They were used in an array of applications, including bearings, automotive transmissions, engine crankshafts, oil drilling, aerospace, and other similarly demanding applications. Approximately 13% of Timken's steel production was devoted to its bearing operations.

Timken also produced custom-made steel products, including alloy and steel components for automotive and industrial customers. That business provided the company with the opportunity to further expand its market for tubing and to capture higher value-added steel sales. It also enabled Timken's traditional tubing customers in the automotive and bearing industries to take advantage of higher-performing components that cost less than alternative products. Custom-made products were a growing portion of the company's steel business.

Timken's worldwide competitors in seamless mechanical tubing included Copperweld, Plymouth Tube, V & M Tube, Sanyo Special Steel, Ovako Steel, and Tenaris. Competitors in steel-bar products included such North American producers as Republic, Mac Steel, North Star Steel, and a variety of offshore steel producers that imported into North America. Competitors in the precision-steel market included Metaldyne, Linamar, and such overseas companies as Showa Seiko, SKF, and FormFlo. High-speed steel competitors in North America and Europe included Erasteel, Bohler, and Crucible. Tool-and-die steel competitors included Crucible, Carpenter Technologies, and Thyssen.

Ingersoll-Rand

Ingersoll-Rand was an \$8.9 billion global diversified manufacturer of industrial and commercial equipment and components. It traced its history to 1871, when Simon Ingersoll patented a steam-powered rock drill, a watershed event that led to the formation of the Ingersoll Rock Drill Company. In 1872, Albert Rand started Rand & Waring Drill and Compressor Company, and changed the name to Rand Drill Company in 1879. Later that year, the first Rand

air compressor was introduced. In 1885, the Sergeant Drill Company was formed when Henry Sergeant left the Ingersoll Rock Drill Company. In 1888, the Ingersoll Rock Drill Company merged with the Sergeant Drill Company to form the Ingersoll-Sergeant Drill Company. In 1905, Ingersoll-Sergeant merged with Rand Drill to form Ingersoll-Rand, headquartered in New York City.

In the 1960s, the company completed nine acquisitions, including The Torrington Company in 1968. In 1985, the Fafnir Bearing Division of Textron was purchased and merged with Torrington. Those acquisitions made Ingersoll-Rand (IR) the largest U.S. bearing manufacturer. Over the ensuing 20 years, IR continued in acquisition mode until, in 2002, the company consisted of four segments: Climate Control, Industrial Solutions, Infrastructure, and Security and Safety.

Climate Control segment

This segment accounted for 25% of consolidated sales and 17% of income among all segments (segment income). Climate Control produced transport temperature units and heating-ventilation and air-conditioning systems for trucks, buses, and passenger railcars.

Infrastructure segment

This segment accounted for 27% of consolidated sales and 28% of segment income. Infrastructure produced equipment for the construction, renovation, and repair of public works and private projects, as well as golf carts and utility vehicles.

Security and Safety segment

This segment accounted for 15% of consolidated sales and 43% of segment income. Security and Safety produced a broad array of commercial and residential security and safety products, including steel doors, electronic-access control systems, and personnel-attendance systems.

Industrial Solutions segment

This segment accounted for 33% of consolidated sales and 22% of segment income. A group of diverse businesses, Industrial Solutions was divided into three major subsegments: Air Solutions, Engineered Solutions, and Dresdner-Rand. Air Solutions made such products as motion-control components, gas and other compressors, and fluid products. In 2002, Air Solutions reported revenues of \$1.3 billion. Engineered Solutions, with sales of \$1.2 billion, comprised IR's worldwide operations relating to precision bearings and motion-control components. Dresdner-Rand, with sales of \$1.024 billion, produced energy-conversion technology for the oil, gas, and chemical industries.

In early 2002, IR decided to divest the Engineered Solutions segment (Torrington). Strategically, that decision appeared to be consistent with the company's desire to allocate capital to higher potential growth and higher return service businesses, where IR could leverage its cross-selling strategy. IR could not justify allocating substantial capital resources to maintain a leading competitive position in a consolidating, relatively slow-growth industry. Moreover, from an end-market standpoint, the divestiture would reduce IR's exposure to the North American automotive markets.

In 2002, IR reported a loss of \$173.5 million on sales of \$8.9 billion (**Exhibit 3**) and assets of \$10.8 billion (**Exhibit 4**).

The Torrington Company

Founded in 1866 as Excelsior Needle Company, a maker of sewing-machine needles, The Torrington Company was an old-line industrial firm. In 1866, the sewing-machine industry was in its infancy, and Excelsior used a new technology to make the first uniform needles for sewing machines. By the turn of the century, the company expanded into making needles for a wide variety of fabric-sewing, shoemaking, and knitting machines. It later moved into other products, including spokes, marine engines, spark plugs, carburetors, and carpet sweepers, together with a new line of ball bearings for the fledgling automobile industry. During World War II, Torrington developed needle bearings for many military products, including the B-29 Super Fortress bomber, which contained more than 2,000 of the small bearings. Over the decades, Torrington expanded into Europe and Asia before it was acquired by Ingersoll-Rand in 1969.

Torrington operated its business in two segments that were familiar to Timken: automotive and industrial. Sales were approximately equal across the two segments. The OEM business focused on higher-margin niche products.

Torrington's 2002 sales were split as follows: 73% in North America, 17% in Europe, and 10% elsewhere. The company employed 10,500 workers at 27 plants worldwide, and served many diverse end-use markets, including automotive, consumer, general industrial, construction, agricultural, and natural resources. The company's products included spherical roller bearings, radial cylindrical roller bearings, planetary gear shafts, engine bearings, assembled camshafts, radial ball bearings, precision ball screws, radial tapered ball bearings, steering-column shafts, sensor bearings, thrust roller bearings, and needle rollers.

In 2002, revenues and operating income for IR's Torrington Division were \$1.204 billion and \$85.2 million, respectively, and were expected to reach \$1.65 billion and \$116.7 million by 2007 (**Exhibit 5**).

Timken's Operating and Financial Strategies

In 2002, Timken was involved in a companywide restructuring, which included consolidating operations into global business units to reduce costs and to set the stage for international growth. In addition, Timken was planning to add new products to its portfolio to become more than a supplier of bearings. Within the industry, this strategy was called "bundling." The strategy arose in response to the reality that foreign competitors were making simple products at substantially lower costs than U.S. companies could produce them. To differentiate their products and command higher margins, Timken and other companies had begun to enhance their basic product with additional components in order to more precisely meet customers' needs with a higher-value-added product.

Bundling was not designed solely to fight imports. Bearing manufacturers were increasingly assembling customized products that took one standard part and surrounded it with casings, pins, lubrication, and electronic sensors. In many cases, manufacturers offered installation and maintenance services, as well as ongoing engineering, all in the name of offering products and services the imports were not offering.

In the 1990s, bundling began in earnest in the auto industry, where parts suppliers saw it as a way to increase profits and to make themselves indispensable to increasingly demanding and cost-conscious auto manufacturers. According to a survey of auto-parts suppliers by the University of Michigan and Oracle Corporation, companies that sold integrated systems posted better results than did those making only commodity products. The bundling process could also benefit buyers by reducing the number of suppliers and relieving them of routine labor- and cost-intensive tasks such as finishing and assembly.

Like other auto suppliers, Timken began bundling prelubricated, preassembled bearing packages for car makers in the early 1990s. Industrial business customers, which accounted for about 38% of Timken's sales, had begun putting the same pressure on their suppliers: Cut prices or lose business to lower-priced foreign producers. Customers not only wanted higher-value-added products, but they also wanted their suppliers to handle an increasing number of tasks.

Over the past 10 years, Timken had experienced significant variation in its financial performance. Earnings per share (EPS) had peaked at \$2.73 in 1997, but had hit a low in 2001, with a loss of \$0.69 per share. Dividends had steadily increased until 1998, when they remained flat until the loss in 2001 led to the dividends' being cut to \$0.52 in 2002. With 2002 EPS at \$0.63, Timken's dividend payout had risen to a very demanding 83%. At the same time, Timken's leverage, as measured by total debt to capital, had steadily risen from a low of 20.5% in 1995 to a high of 43.1% in 2002. The trend of increasing leverage had prompted the rating agencies to place Timken's BBB rating on review. Timken considered it a priority to carry an investment-grade debt rating in order to maintain access to the public debt markets at reasonable interest rates.

Torrington as a Potential Acquisition

Timken originally approached Ingersoll-Rand to purchase only the industrial side of Torrington's business. Such a purchase would have represented substantial growth of that market for Timken while reducing Timken's exposure to the auto industry, which continued to be a concern to management. Early in 2002, as the initial negotiations progressed and Timken's management team got a closer look at Torrington, it concluded that Torrington's automotive business was stronger than originally thought, prompting the company to begin pursuing the purchase of Torrington in its entirety. Although such an acquisition would be considerably larger than initially intended, it was consistent with management's desire to increase market share within the global bearing industry.

If Timken succeeded in acquiring Torrington, the combined companies would become the third-largest producer of bearings in the world, and it would have many complementary products. Timken, the inventor of the tapered roller bearing, and Torrington, the pioneer and leading global producer of needle roller bearings, had only a 5% overlap in their product offerings. Conversely, the two companies' customer lists overlapped by approximately 80%. Thus, it was expected that the combined companies would be able to create more value for customers with a more complete product line and, eventually, more effective new-product development. Torrington had sophisticated needle-bearing solutions for automotive power-train applications, which complemented Timken's existing portfolio of tapered roller bearings and precision-steel components for wheel ends and drivelines. Industrial customers required a broad range of industrial solutions and services involving tapered and needle roller bearings as well as cylindrical, spherical, and ball bearings.

Timken's cylindrical bearings, which reduced friction in giant dump trucks and industrial mills, provided an example of how Timken could benefit from acquiring Torrington and its product lines. Timken's cylindrical bearings could be married with flap-like parts from Torrington that lubricated moving pieces. Previously, Timken's customers had been combining the friction and lubrication functions themselves. By assuming that task, Timken hoped to distinguish itself from its foreign competitors and add enough value to increase margins.

On a broader level, Timken executives planned to use the company's international distribution network to deliver Torrington products under the well-known Timken brand name and increase its range of products for aftermarket customers. With that acquisition, Timken would increase its penetration of the global bearing market from 7% to 11%. The company would offer a broader range of complementary products, and its customer base would become larger and more diverse, with more end-use applications and significant cross-selling opportunities. In addition, being number three in the industry would help give Timken more clout in negotiations with customers and suppliers.

Of particular interest to Timken's executives were the expected annual cost savings of \$80 million by the end of 2007. According to Ward J. Timken, "There will be certain redundancies in sales forces. You can identify where some of the areas will be." In addition to

reducing the combined sales forces, Timken expected to realize significant purchasing synergies by giving much larger volume to a reduced list of suppliers in exchange for price reductions. Before the \$80 million in cost savings could be realized, however, certain other costs associated with integrating the two companies were likely to be incurred. One industry analyst estimated that those integration costs would total \$130 million over the first couple of years following the merger.

Regardless of the price paid for Torrington, Timken would face significant challenges regarding the financing of the deal. Both Moody's and Standard & Poor's had placed Timken's ratings of Baa1/BBB on review. In view of Torrington's size, Timken knew it would be very difficult to raise the needed cash without significantly raising the level of debt on the books. For example, if IR agreed to sell Torrington for \$800 million (analysts' estimated minimum value for the company) and Timken raised the entire amount with a debt offering, Timken's leverage ratios would suffer enough to virtually guarantee that Timken would lose its investment-grade rating.¹ This was particularly troubling, not only because Timken would be forced to borrow the money at "high-yield" rates, but also because the availability of future funds could become limited for companies carrying non-investment-grade ratings.

In light of the size of the transaction, Timken management concluded that the ideal capital structure needed to be a combination of debt and equity financing. Timken could do this by issuing shares to the public to raise cash and/or by issuing shares directly to IR as consideration for Torrington. **Exhibit 7** compares the stock performances of IR and Timken with the S&P Industrials Index for 1998–2002. Timken's prior equity issuance occurred in 1987, when it raised \$63.4 million for 7.2 million shares.² Over the past five years, Timken had relied solely on debt to raise \$140 million for refunding existing debt and for investment purposes. With the company's stock currently trading around \$19 a share, it would require almost double the shares issued in 1987 to raise the same amount of money today.

Information on bearing-industry companies is reported in **Exhibit 8**. **Exhibit 9** depicts government- and corporate-bond yields as of December 2002.

¹ **Exhibit 6** reports the median financial ratios for industrial firms by S&P industrial debt-rating categories. Investment-grade ratings included AAA, AA, A, and BBB.

² The actual number of shares issued (1.8 million) has been adjusted for 2-for-1 stock splits in 1988 and 1997.

Exhibit 1

THE TIMKEN COMPANY

Timken Corporate Income Statements, 2001–02
(\$ in millions, except percentages)

	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Total operating revenue	2,447.2	2,550.1	100.0%	100.0%
Cost of goods sold	<u>(2,046.5)</u>	<u>(2,080.5)</u>		
Gross profit	400.7	469.6	16.4%	18.4%
Sales, general, and administrative	<u>(363.7)</u>	<u>(358.9)</u>		
Impairment and restructuring expenses	<u>(54.7)</u>	<u>(32.1)</u>		
Operating profit	<u>(17.7)</u>	78.6	-0.7%	3.1%
Interest expense (net of interest income)	<u>(31.3)</u>	<u>(29.9)</u>		
Receipt of Continued Dumping and Subsidy Offset Act payment	29.5	50.2		
Other nonoperating expenses	<u>(7.5)</u>	<u>(13.4)</u>		
Income before tax	<u>(27.0)</u>	85.5		
Income taxes	<u>(14.8)</u>	<u>(34.1)</u>		
Net income before cumulative effect of accounting change	<u>(41.7)</u>	51.4	-1.7%	2.0%
Cumulative effect of accounting change	<u>0.0</u>	<u>(12.7)</u>		
Net income	<u>(41.7)</u>	38.73		
EBIT (before nonrecurring)	37.0	110.7		
Depreciation	152.5	146.5		
Capital expenditures	102.3	90.7		

Exhibit 2

THE TIMKEN COMPANYTimken Balance Sheet
(\$ in millions)

	<u>2001</u>	<u>2002</u>
Assets		
Cash	33.4	82.1
Receivables	307.8	361.3
Inventory	429.2	488.9
Other current assets	<u>58.0</u>	<u>36.0</u>
Total current assets	828.4	968.3
Net property, plant, and equipment	1,305.3	1,226.2
Other assets	<u>399.4</u>	<u>553.9</u>
Total assets	\$2,533.1	\$2,748.4
Liabilities		
Accounts payable	258.0	296.5
Current portion of long-term debt	42.4	111.1
Notes payable	2.0	0.0
Other current liabilities	<u>338.8</u>	<u>226.5</u>
Total current liabilities	641.2	634.1
Long-term debt	368.2	350.1
Deferred tax liability	<u>742.0</u>	<u>1,155.1</u>
Total liabilities	\$1,751.3	\$2,139.3
Shareholders' equity	<u>781.7</u>	<u>609.1</u>
Total liabilities and owners' equity	\$2,533.1	\$2,748.4

Exhibit 3

THE TIMKEN COMPANY

Ingersoll-Rand and Torrington Comparative Income Statements, 2001–02
(\$ in millions, except percentages)

Ingersoll-Rand

	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Net sales	\$8,604.2	\$8,951.3	100.0%	100.0%
Cost of goods sold	<u>6,736.5</u>	<u>6,826.5</u>		
Gross profit	1,867.7	2,124.8	21.7%	23.7%
Selling and administrative expenses	1,370.5	1,439.8		
Restructuring charges	<u>73.7</u>	<u>41.9</u>		
Operating income	423.5	643.1	4.9%	7.2%
Net interest expense	(268.8)	(241.0)		
Minority interests	(20.7)	(14.4)		
Earnings before income taxes	134.0	387.7		
(Benefit)/provision for income taxes	(48.1)	<u>20.3</u>		
Earnings from continuing operations	182.1	367.4		
Discontinued operations (net of tax)	64.1	93.6		
Cumulative effect of accounting changes	<u>0.0</u>	(634.5)		
Net earnings	\$ 246.2	(\$173.5)	2.9%	-1.9%

Torrington

	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Sales	\$1,004.3	\$1,204	100.0%	100.0%
Operating Income	\$ 78.0	\$ 85.2	7.8%	7.1%

Exhibit 4

THE TIMKEN COMPANYIngersoll-Rand Balance Sheet
(\$ in millions)

Assets	<u>2001</u>	<u>2002</u>
Cash	\$ 114.0	\$ 342.2
Receivables	1,359.8	1,405.3
Inventory	1,143.9	1,983.8
Deferred tax asset	321.2	0.0
Other current assets	<u>760.2</u>	<u>381.1</u>
Total current assets	3,699.1	4,112.4
Net property, plant, and equipment	1,289.5	1,279.9
Goodwill	4,807.5	4,005.5
Intangible assets	848.1	890.9
Other assets	<u>489.6</u>	<u>520.9</u>
Total assets	\$11,133.8	\$10,809.6
 Liabilities		
Accounts payable	\$701.6	\$2,347.4
Accrued expenses	1,470.7	1,155.5
Short-term debt	561.9	0.0
Other current liabilities	<u>249.3</u>	<u>295.2</u>
Total current assets	2,983.5	3,798.1
Long-term debt	2,900.7	2,092.1
Minority interests	107.6	115.1
Other noncurrent liabilities	<u>1,225.4</u>	<u>1,326.1</u>
Total liabilities	7,217.2	7,331.4
Shareholders' equity	<u>3,916.6</u>	<u>3,478.2</u>
Total liabilities and owners' equity	\$11,133.8	\$10,809.6

Exhibit 5

THE TIMKEN COMPANY

Torrington Financial Summary and Projections, 1999–2007
(\$ in millions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003E</u>	<u>2004E</u>	<u>2005E</u>	<u>2006E</u>	<u>2007E</u>
Net sales	\$1,239.5	\$1,161.0	\$1,004.3	\$1,204	\$1,282.0	\$1,365.3	\$1,454.1	\$1,548.6	\$1,649.2
Operating income	\$145.7	\$172.6	\$78.0	\$85.2	\$90.7	\$96.6	\$102.9	\$109.5	\$116.7
Sales Growth		−6.3%	−13.5%	19.9%	6.5%	6.5%	6.5%	6.5%	6.5%
Operating Margin	11.8%	14.9%	7.8%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
Capital Expenditures	\$84.0	\$85.0	\$45.0	\$41.0	\$175.0	\$130.0	\$140.0	\$150.0	\$160.0
Depreciation Expense	\$75.0	\$77.0	\$79.0	\$80.0	\$84.2	\$90.0	\$96.0	\$102.0	\$108.5

Data source: Case writer estimates based on stock analysts' reports.

Exhibit 6

THE TIMKEN COMPANY

Select Financial Ratios by S&P Credit-Rating Categories
(median value for industrial companies, 2000–02)

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>
EBIT interest coverage (×)	23.4	13.3	6.3	3.9	2.2	1.0	0.1
EBITDA interest coverage (×)	25.3	16.9	8.5	5.4	3.2	1.7	0.7
EBITDA/sales (%)	23.4	24.0	18.1	15.5	15.4	14.7	8.8
Total debt/capital (%)	5.0	35.9	42.6	47.0	57.7	75.1	91.7

Ratio Definitions:

EBIT interest coverage = EBIT/interest expense

EBITDA interest coverage = EBITDA/interest expense

EBITDA/sales = EBITDA/sales

Total debt/capital = (Long-term debt plus current maturities and other short-term borrowings)/(Long-term debt plus current maturities and other short-term borrowings + shareholders' equity)

Exhibit 7

THE TIMKEN COMPANY

Timken, Ingersoll-Rand, and S&P 500 Stock Performance
Indexed to Timken's January 1998 Price
(1998–2002)

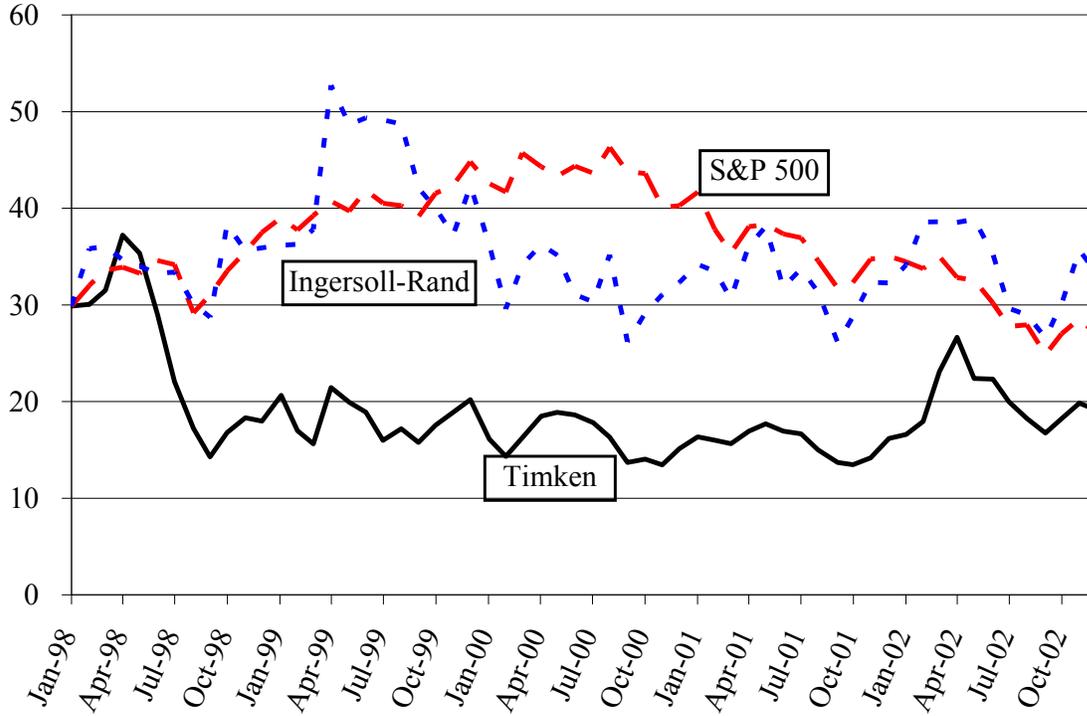


Exhibit 8

THE TIMKEN COMPANY

Financial Data on Companies in Bearing Industry

<u>Bearing Companies</u>	<u>Beta</u>	<u>Debt*</u>	<u>Sales*</u>	<u>EBITDA*</u>	<u>Net Income*</u>	<u>EBITDA Interest Coverage</u>	<u>Number of Shares*</u>	<u>Price per Share</u>	<u>EBITDA/ Sales</u>	<u>Enterprise Value/ EBITDA</u>	<u>Debt Rating</u>
Kaydon Corp.	1.25	\$72.4	\$279.4	\$60.1	\$25.4	3.6	30.3	\$20.0	21.5%	11.3	
NN, Inc.	0.85	\$53.1	\$180.2	\$26.2	\$4.7	6.5	15.4	\$9.3	14.5%	7.5	
Timken	1.10	\$461.2	\$2,550.1	\$257.2	\$51.5	8.6	63.4	\$16.8	10.1%	5.9	BBB
Commercial Metals	0.63	\$255.6	\$2,441.5	\$138.2	\$40.5	5.2	28.0	\$17.9	5.7%	5.5	BBB
Metals USA, Inc.	0.38	\$128.7	\$943.7	\$4.0	\$48.8	0.2	20.2	-	0.4%	-	
Mueller Industries	1.08	\$18.2	\$955.3	\$123.9	\$71.2	84.9	34.3	\$25.9	13.0%	7.3	BBB
Precision Castparts Corp.	1.10	\$612.4	\$2,117.2	\$389.6	\$159.4	6.2	52.8	\$21.7	18.4%	4.5	
Quanex Corp.	0.75	\$75.6	\$994.4	\$127.0	\$55.5	5.2	16.4	\$34.7	12.8%	5.1	
Worthington Ind.	0.49	\$290.9	\$2,219.9	\$188.0	\$75.2	2.4	85.9	\$18.7	8.5%	10.1	BBB

* Millions

Exhibit 9

THE TIMKEN COMPANY

Capital Market Information
(December 2002)

<u>Government</u>	<u>Yield</u>
Short-term	1.86%
Intermediate	3.55%
Long-term	4.97%

<u>Industrials</u>	<u>Yield</u>
AAA	5.22%
AA	5.38%
A	5.84%
BBB	7.23%
BB	9.69%
B	10.84%