

TIMKEN CO
Form 10-Q
April 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 1-1169

THE TIMKEN COMPANY
(Exact name of registrant as specified in its charter)

OHIO 34-0577130
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1835 Dueber Ave., SW, 44706-2798
Canton, OH
(Address of principal executive offices) (Zip Code)

330.438.3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Edgar Filing: TIMKEN CO - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 2013
Common Shares, without par value	96,153,921 shares

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
THE TIMKEN COMPANY AND SUBSIDIARIESConsolidated Statements of Income
(Unaudited)

	Three Months Ended March 31,		
	2013	2012	
(Dollars in millions, except per share data)			
Net sales	\$1,089.9	\$1,421.0	
Cost of products sold	815.4	1,009.4	
Gross Profit	274.5	411.6	
Selling, general and administrative expenses	153.6	164.7	
Impairment and restructuring charges	1.2	0.2	
Operating Income	119.7	246.7	
Interest expense	(6.4) (8.6)
Interest income	0.5	0.7	
Other (expense), net	—	(1.3)
Income Before Income Taxes	113.8	237.5	
Provision for income taxes	38.8	81.5	
Net Income	75.0	156.0	
Less: Net (loss) income attributable to noncontrolling interest	(0.1	) 0.3
Net Income attributable to The Timken Company	\$75.1	\$155.7	
Net Income per Common Share attributable to The Timken Company Common Shareholders			
Basic earnings per share	\$0.78	\$1.59	
Diluted earnings per share	\$0.77	\$1.58	
Dividends per share	\$0.23	\$0.23	

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,		
	2013	2012	
(Dollars in millions)			
Net Income	\$75.0	\$156.0	
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(16.1	) 23.4
Pension and postretirement liability adjustment	29.6	12.3	
Change in fair value of marketable securities	—	(0.5)
Change in fair value of derivative financial instruments	0.8	1.0	
Other comprehensive income	14.3	36.2	
Comprehensive Income	89.3	192.2	
Less: comprehensive (loss) income attributable to noncontrolling interest	(0.1	) 0.2
Comprehensive Income attributable to The Timken Company	\$89.4	\$192.0	
See accompanying Notes to the Consolidated Financial Statements.			

Consolidated Balance Sheets

	(Unaudited)	
	March 31, 2013	December 31, 2012
(Dollars in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$457.9	\$586.4
Accounts receivable, less allowances: 2013 – \$12.6 million; 2012 – \$12.1 million	607.2	546.7
Inventories, net	833.8	862.1
Deferred income taxes	80.0	98.6
Deferred charges and prepaid expenses	34.2	12.6
Other current assets	60.1	67.7
Total Current Assets	2,073.2	2,174.1
Property, Plant and Equipment, net	1,423.6	1,405.3
Other Assets		
Goodwill	345.2	338.9
Other intangible assets	225.8	224.7
Deferred income taxes	58.7	62.5
Other non-current assets	38.6	39.2
Total Other Assets	668.3	665.3
Total Assets	\$4,165.1	\$4,244.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	\$7.4	\$14.3
Accounts payable, trade	229.7	216.2
Salaries, wages and benefits	164.7	213.9
Income taxes payable	95.3	33.5
Deferred income taxes	7.8	2.9
Other current liabilities	161.9	177.5
Current portion of long-term debt	9.8	9.6
Total Current Liabilities	676.6	667.9
Non-Current Liabilities		
Long-term debt	455.3	455.1
Accrued pension cost	266.9	391.4
Accrued postretirement benefits cost	365.9	371.8
Deferred income taxes	8.9	4.9
Other non-current liabilities	68.6	107.0
Total Non-Current Liabilities	1,165.6	1,330.2
Shareholders' Equity		
Class I and II Serial Preferred Stock, without par value:		
Authorized – 10,000,000 shares each class, none issued	—	—
Common stock, without par value:		
Authorized – 200,000,000 shares		
Issued (including shares in treasury) (2013 – 98,375,135 shares; 2012 – 98,375,135 shares)		
Stated capital	53.1	53.1
Other paid-in capital	890.2	891.4
Earnings invested in the business	2,464.2	2,411.2
Accumulated other comprehensive loss	(998.9	)(1,013.2

Edgar Filing: TIMKEN CO - Form 10-Q

Treasury shares at cost (2013 – 2,221,214 shares; 2012 – 2,476,921 shares)	(100.0	)(110.3)
Total Shareholders' Equity	2,308.6	2,232.2	
Noncontrolling Interest	14.3	14.4	
Total Equity	2,322.9	2,246.6	
Total Liabilities and Shareholders' Equity	\$4,165.1	\$4,244.7	
See accompanying Notes to the Consolidated Financial Statements.			

3

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
(Dollars in millions)		
CASH PROVIDED (USED)		
Operating Activities		
Net income attributable to The Timken Company	\$75.1	\$155.7
Net income attributable to noncontrolling interest	(0.1)	)0.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48.4	49.8
Loss on sale of assets	0.6	1.6
Deferred income tax provision	(0.3)	)0.4
Stock-based compensation expense	4.1	4.4
Pension and other postretirement expense	22.5	21.0
Pension contributions and other postretirement benefit payments	(117.1)	)104.7
Changes in operating assets and liabilities:		
Accounts receivable	(61.8)	)112.0
Inventories	27.3	(21.4)
Accounts payable, trade	12.4	22.1
Other accrued expenses	(74.9)	)103.4
Income taxes	31.5	58.2
Other, net	(3.6)	)9.9
Net Cash Used by Operating Activities	(35.9)	)38.7
Investing Activities		
Capital expenditures	(63.4)	)46.0
Acquisitions	(14.4)	)0.2
Proceeds from disposals of property, plant and equipment	0.6	0.9
Investments in short-term marketable securities, net	8.0	17.5
Other	0.1	(1.4)
Net Cash Used by Investing Activities	(69.1)	)29.2
Financing Activities		
Cash dividends paid to shareholders	(22.1)	)22.5
Net proceeds from common share activity	9.1	12.6
Purchase of treasury shares	—	(26.2)
Payments on long-term debt	—	(1.5)
Short-term debt activity, net	(7.0)	)9.9
Net Cash Used by Financing Activities	(20.0)	)47.5
Effect of exchange rate changes on cash	(3.5)	)5.9
Decrease In Cash and Cash Equivalents	(128.5)	)109.5
Cash and cash equivalents at beginning of year	586.4	464.8
Cash and Cash Equivalents at End of Period	\$457.9	\$355.3
See accompanying Notes to the Consolidated Financial Statements.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Dollars in millions, except per share data)

Note 1 - Basis of Presentation

The accompanying Consolidated Financial Statements (unaudited) for The Timken Company (the Company) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by the accounting principles generally accepted in the United States (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to the Consolidated Financial Statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Note 2 - Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," effective for annual and interim reporting periods beginning after December 15, 2012. The new accounting rules require all U.S. public companies to report the effect of items reclassified out of accumulated other comprehensive income on the respective line items of net income, net of tax, either on the face of the financial statements where net income is presented or in a tabular format in the notes to the financial statements. Effective January 1, 2013, the Company adopted ASU No. 2013-02. The new accounting rules expand the disclosure of other comprehensive income and had no impact on the Company's results of operations and financial condition. See Note 8 - Accumulated Other Comprehensive Loss for additional information on the new disclosure.

Note 3 - Inventories

The components of inventories were as follows:

	March 31, 2013	December 31, 2012
Manufacturing supplies	\$60.1	\$64.3
Raw materials	92.9	110.7
Work in process	276.5	278.1
Finished products	426.1	430.4
Subtotal	855.6	883.5
Allowance for obsolete and surplus inventory	(21.8)	(21.4)
Total Inventories, net	\$833.8	\$862.1

Inventories are valued at the lower of cost or market, with approximately 55% valued by the last-in, first-out (LIFO) method and the remaining 45% valued by the first-in, first-out (FIFO) method. The majority of the Company's domestic inventories are valued by the LIFO method and all of the Company's international (outside the United States) inventories are valued by the FIFO method.

An actual valuation of the inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these calculations are subject to many factors beyond management's control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation.

The LIFO reserve at March 31, 2013 and December 31, 2012 was \$276.7 million and \$280.6 million, respectively. The Company recognized a decrease in its LIFO reserve of \$3.9 million during the first quarter of 2013, compared to an increase in its LIFO reserve of \$8.8 million during the first quarter of 2012.

Based on current expectations of inventory levels and costs, the Company expects to recognize a decrease of approximately \$3.7 million in its LIFO reserve for the year ended December 31, 2013. The expected decrease in the LIFO reserve for 2013 reflects lower anticipated costs, especially scrap steel costs. A 1.0% increase in costs would increase the current LIFO expense estimate for 2013 by \$5.8 million. A 1.0% increase in inventory quantities would have no effect on the current LIFO expense estimate for 2013.

Note 4 - Property, Plant and Equipment

The components of property, plant and equipment were as follows:

	March 31, 2013	December 31, 2012
Land and buildings	\$658.1	\$653.8
Machinery and equipment	3,180.5	3,138.3
Subtotal	3,838.6	3,792.1
Accumulated depreciation	(2,415.0	)(2,386.8
Property, Plant and Equipment, net	\$1,423.6	\$1,405.3

Depreciation expense for the three months ended March 31, 2013 and 2012 was \$43.8 million and \$44.6 million, respectively. At March 31, 2013 and December 31, 2012, machinery and equipment included \$84 million and \$85 million, respectively, of capitalized software. Depreciation expense on capitalized software for the three months ended March 31, 2013 and 2012 was approximately \$6.2 million and \$6.7 million, respectively.

Note 5 - Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2013 were as follows:

	Mobile Industries	Process Industries	Aerospace	Steel	Total
Beginning balance	\$17.7	\$146.4	\$162.2	\$12.6	\$338.9
Acquisitions	5.5	(0.1	)—	—	5.4
Other	—	1.0	(0.1	)—	0.9
Ending balance	\$23.2	\$147.3	\$162.1	\$12.6	\$345.2

The change related to acquisitions primarily reflects the preliminary purchase price allocation for the acquisition of Interlube Systems Ltd. (Interlube) completed on March 11, 2013. See Note 14 - Acquisitions for additional information on the acquisition of Interlube.

The following table displays intangible assets as of March 31, 2013 and December 31, 2012:

	As of March 31, 2013			As of December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	\$163.3	\$41.6	\$121.7	\$159.6	\$38.1	\$121.5
Know-how	27.9	3.1	24.8	26.1	2.8	23.3
Industrial license agreements	0.2	0.1	0.1	0.2	0.1	0.1
Land-use rights	8.7	4.2	4.5	8.6	4.1	4.5
Patents	2.2	1.7	0.5	2.5	1.8	0.7
Technology use	46.4	11.6	34.8	47.0	11.5	35.5
Trademarks	3.9	2.2	1.7	4.2	3.4	0.8
PMA licenses	8.8	3.7	5.1	8.8	3.6	5.2
Non-compete agreements	4.5	3.4	1.1	4.4	3.3	1.1
Unpatented technology	7.2	7.2	—	7.2	6.7	0.5
	\$273.1	\$78.8	\$194.3	\$268.6	\$75.4	\$193.2
Intangible assets not subject to amortization:						
Tradenname	\$17.3	\$—	\$17.3	\$17.3	\$—	\$17.3
FAA air agency certificates	14.2	—	14.2	14.2	—	14.2
	\$31.5	\$—	\$31.5	\$31.5	\$—	\$31.5
Total intangible assets	\$304.6	\$78.8	\$225.8	\$300.1	\$75.4	\$224.7

Amortization expense for intangible assets was \$4.6 million and \$5.2 million for the three months ended March 31, 2013 and March 31, 2012, respectively. Amortization expense for intangible assets is estimated to be approximately \$19.5 million for 2013; \$19.3 million in 2014; \$19.2 million in 2015; \$18.9 million in 2016; and \$18.6 million in 2017.

Note 6 - Financing Arrangements

Short-term debt at March 31, 2013 and December 31, 2012 was as follows:

	March 31, 2013	December 31, 2012
Variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 0.62% to 2.28% and 0.61% to 2.28% at \$7.4 March 31, 2013 and December 31, 2012, respectively		\$14.3
Short-term debt	\$7.4	\$14.3

The lines of credit for certain of the Company's foreign subsidiaries provide for short-term borrowings up to \$215.6 million. Most of these lines of credit are uncommitted. At March 31, 2013, the Company's foreign subsidiaries had borrowings outstanding of \$7.4 million and guarantees of \$0.1 million, which reduced the availability under these facilities to \$208.1 million.

The Company has a \$200 million Amended and Restated Asset Securitization Agreement (Asset Securitization Agreement), which matures on November 30, 2015. Under the terms of the Asset Securitization Agreement, the Company sells, on an ongoing basis, certain domestic trade receivables to Timken Receivables Corporation, a wholly-owned consolidated subsidiary, that in turn uses the trade receivables to secure borrowings, which are funded through a vehicle that issues commercial paper in the short-term market. Borrowings under the agreement are limited by certain borrowing base calculations. Any amounts outstanding under this Asset Securitization Agreement would be reported in short-term debt on the Company's Consolidated Balance Sheet. As of March 31, 2013, there were no outstanding borrowings under the Asset Securitization Agreement. However, certain borrowing base limitations reduced the availability of the Asset Securitization Agreement to \$190.6 million at March 31, 2013. The cost of this facility, which is the commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statements of Income.

Long-term debt at March 31, 2013 and December 31, 2012 was as follows:

	March 31, 2013	December 31, 2012
Fixed-rate Medium-Term Notes, Series A, mature at various dates through May 2028, with interest rates ranging from 6.74% to 7.76%	\$175.0	\$175.0
Fixed-rate Senior Unsecured Notes, maturing on September 15, 2014, with an interest rate of 6.0%	249.9	249.9
Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.11% at March 31, 2013)	12.2	12.2
Variable-rate State of Ohio Air Quality Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.21% at March 31, 2013)	9.5	9.5
Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 (0.21% at March 31, 2013)	8.5	8.5
Other	10.0	9.6
	\$465.1	\$464.7
Less current maturities	9.8	9.6
Long-term debt	\$455.3	\$455.1

The Company has a \$500 million Amended and Restated Credit Agreement (Senior Credit Facility), which matures on May 11, 2016. At March 31, 2013, the Company had no outstanding borrowings under the Senior Credit Facility but had letters of credit outstanding totaling \$8.6 million, which reduced the availability under the Senior Credit Facility to \$491.4 million. Under the Senior Credit Facility, the Company has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At March 31, 2013, the Company was in full compliance with the covenants under the Senior Credit Facility.

In 2011, the Company was notified that its variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033, had lost their tax-exempt status and would now be taxable to its bondholders. As part of the negotiation with the Internal Revenue Service (IRS), the Company redeemed half of the balance during the third quarter of 2012. The Company now expects to pay off the remaining balance of \$8.5 million on December 31, 2022.

Certain of the Company's foreign subsidiaries have facilities that also provide for long-term borrowings up to \$9.6 million. At March 31, 2013, the Company had outstanding borrowings of \$9.6 million, leaving no availability under these long-term facilities.

Note 7 - Equity

The changes in the equity components for the three months ended March 31, 2013 were as follows:

	The Timken Company Shareholders						
	Total	Stated Capital	Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive (Loss)	Treasury Stock	Non-controlling Interest
Balance at December 31, 2012	\$2,246.6	\$53.1	\$891.4	\$2,411.2	\$(1,013.2)	\$(110.3)	\$14.4
Net income	75.0			75.1			(0.1)
Foreign currency translation adjustment	(16.1)				(16.1)		
Pension and postretirement liability adjustment (net of the income tax benefit of \$11.4 million)	29.6				29.6		
Change in fair value of derivative financial instruments	0.8				0.8		
Dividends – \$0.23 per share	(22.1)			(22.1)			
Excess tax benefit from stock compensation	4.5		4.5				
Stock-based compensation expense	4.1		4.1				
Stock option exercise activity	6.5		(6.1)			12.6	
Restricted shares (issued)	—		(3.7)			3.7	
Shares surrendered for taxes	(6.0)					(6.0)	
Balance at March 31, 2013	\$2,322.9	\$53.1	\$890.2	\$2,464.2	\$(998.9)	\$(100.0)	\$14.3

Note 8 - Accumulated Other Comprehensive Loss

The following table presents details about components of accumulated other comprehensive loss for the three months ended March 31, 2013:

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance, December 31, 2012	\$49.0	\$(1,061.5)	\$(0.7)	\$(1,013.2)
Other comprehensive (loss) income before reclassifications, before income tax	(16.1)	)9.0	1.0	(6.1)
Amounts reclassified from accumulated other comprehensive income, before income taxes	—	32.0	0.1	32.1
Income tax (benefit) expense	—	(11.4)	)(0.3	)(11.7)
Net current period other comprehensive, net of income taxes	(16.1)	)29.6	0.8	14.3
Balance, March 31, 2013	\$32.9	\$(1,031.9)	)\$0.1	\$(998.9)

The following table presents details about components of accumulated other comprehensive loss for the three months ended March 31, 2012:

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of marketable securities	Change in fair value of derivative financial instruments	Total
Balance, December 31, 2011	\$38.5	\$(928.3)	)\$0.6	\$(0.3)	\$(889.5)
Other comprehensive income (loss) before reclassifications, before income tax	23.4	(3.8)	)—	1.2	20.8
Amounts reclassified from accumulated other comprehensive income before income taxes	—	24.5	(0.9)	)0.4	24.0
Income tax (benefit) expense	—	(8.4)	)0.4	(0.6)	)(8.6)
Non-controlling interest	—	—	0.1	—	0.1
Net current period other comprehensive, net of income taxes	23.4	12.3	(0.4)	)1.0	36.3
Balance, March 31, 2012	\$61.9	\$(916.0)	)\$0.2	\$0.7	\$(853.2)

Other comprehensive (loss) income before reclassifications and income taxes, includes the effect of currency. The reclassification of the pension and postretirement liability adjustment was included in costs of products sold and selling, general and administrative expenses on the Consolidated Statements of Income. The reclassification of the remaining components of accumulated other comprehensive loss were included in the other income (expense), net on the Consolidated Statements of Income.

Note 9 - Earnings Per Share

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
Numerator:		
Net income attributable to The Timken Company	\$75.1	\$155.7
Less: undistributed earnings allocated to nonvested stock	0.1	0.4
Net income available to common shareholders for basic earnings per share and diluted earnings per share	\$75.0	\$155.3
Denominator:		
Weighted average number of shares outstanding, basic	95,848,450	97,451,935
Effect of dilutive securities:		
Stock options and awards based on the treasury stock method	975,033	1,135,687
Weighted average number of shares outstanding, assuming dilution of stock options and awards	96,823,483	98,587,622
Basic earnings per share	\$0.78	\$1.59
Diluted earnings per share	\$0.77	\$1.58

The exercise prices for certain stock options that the Company has awarded exceed the average market price of the Company's common shares. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding during the three months ended March 31, 2013 and 2012 were 307,240 and 306,970, respectively.

Note 10 - Segment Information

The primary measurement used by management to measure the financial performance of each segment is EBIT (earnings before interest and taxes).

	Three Months Ended March 31,	
	2013	2012
Net sales to external customers:		
Mobile Industries	\$397.0	\$469.1
Process Industries	283.9	354.1
Aerospace	82.5	91.3
Steel	326.5	506.5
	\$1,089.9	\$1,421.0
Intersegment sales:		
Mobile Industries	\$0.1	\$—
Process Industries	1.3	1.5
Steel	19.6	29.0
	\$21.0	\$30.5
Segment EBIT:		
Mobile Industries	\$51.2	\$86.7
Process Industries	42.6	82.3
Aerospace	8.6	10.7
Steel	35.8	88.0
Total EBIT for reportable segments	\$138.2	\$267.7
Unallocated corporate expenses	(19.9)	(20.7)
Interest expense	(6.4)	(8.6)
Interest income	0.5	0.7
Intersegment adjustments	1.4	(1.6)
Income before income taxes	\$113.8	\$237.5

Note 11 - Impairment and Restructuring Charges

Impairment and restructuring charges by segment are comprised of the following:

For the three months ended March 31, 2013:

	Mobile Industries	Process Industries	Total
Severance and related benefit costs	\$0.8	\$0.2	\$1.0
Exit costs	0.2	—	0.2
Total	\$1.0	\$0.2	\$1.2

For the three months ended March 31, 2012:

	Mobile Industries
Severance and related benefit costs	\$0.1
Exit costs	0.1
Total	\$0.2

The following discussion explains the impairment and restructuring charges recorded for the periods presented; however, it is not intended to reflect a comprehensive discussion of all amounts in the tables above.

Mobile Industries:

In May 2012, the Company announced the closure of its manufacturing facility in St. Thomas, Ontario, Canada (St. Thomas), expected to be completed in approximately one year, and its intent to consolidate bearing production at this plant with its existing U.S. operations to better align the Company's manufacturing footprint and customer base. The Company will also move customer service for the Canadian market to its offices in Toronto. Production is expected to be transferred to the Company's operations in Ohio, North Carolina and South Carolina by mid-2013. The closure of the St. Thomas manufacturing facility will displace approximately 190 employees. The Company expects to incur pretax costs of approximately \$55 million to \$65 million in connection with this closure, of which approximately \$20 million to \$25 million is expected to be pretax cash costs.

The Company has incurred pretax costs of approximately \$32.7 million as of March 31, 2013, including rationalization costs recorded in cost of products sold. During the first quarter of 2013, the Company recorded \$0.8 million of severance and related benefits.

In March 2007, the Company announced the closure of its manufacturing facility in Sao Paulo, Brazil (Sao Paulo). The Company completed the closure of this manufacturing facility on March 31, 2010. Pretax costs associated with the closure could be as high as approximately \$60 million, which includes restructuring costs and rationalization costs recorded in cost of products sold and selling, general and administrative expenses. Mobile Industries has incurred cumulative pretax costs of approximately \$57.1 million as of March 31, 2013 related to this closure. During the first three months of 2012, the Company recorded \$2.8 million of exit costs associated with the closure of this facility, primarily related to environmental remediation costs. The Company accrues environmental remediation costs when they are probable and estimable.

In addition to the above charges, the Company recorded a favorable adjustment of \$2.8 million during the first three months of 2012 for environmental exit costs at the site of its former plant in Columbus, Ohio. The favorable adjustment was a result of the sale of the real estate at the site of this former plant during the first quarter of 2012. The buyer assumed responsibility for the environmental remediation as a result of the sale. The buyer was able to obtain funding from the State of Ohio to remediate the site.

The following is a rollforward of the consolidated restructuring accrual for the three months ended March 31, 2013 and the twelve months ended December 31, 2012:

	March 31, 2013	December 31, 2012
Beginning balance, January 1	\$17.6	\$21.8
Expense	1.2	12.2
Payments	(2.3	)(16.4
Ending balance	\$16.5	\$17.6

The restructuring accrual at March 31, 2013 and December 31, 2012 was included in other current liabilities on the Consolidated Balance Sheets. The restructuring accrual at March 31, 2013 included \$5.8 million of environmental remediation costs, of which \$4.8 million relates to Sao Paulo. The Company adjusts environmental remediation accruals based on the best available estimate of costs to be incurred, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties. The Company's estimated total liability for this site ranges from a minimum of \$4.8 million to a maximum of \$8.7 million. It is possible that the estimates may change in the near term.

Note 12 - Retirement and Postretirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company's defined benefit pension and postretirement benefit plans. The amounts for the three months ended March 31, 2013 are based on actuarial calculations prepared during the fourth quarter of 2012. Consistent with prior years, these calculations will be updated later in the year. These updated calculations may result in a different net periodic benefit cost for 2013. The net periodic benefit cost recorded for the three months ended March 31, 2013 is the Company's best estimate of each period's proportionate share of the amounts to be recorded for the year ending December 31, 2013.

	Pension		Postretirement	
	March 31, 2013	2012	March 31, 2013	2012
Components of net periodic benefit cost:				
Service cost	\$10.1	\$8.8	\$0.8	\$0.7
Interest cost	34.0	37.8	5.7	7.2
Expected return on plan assets	(57.3	)(55.2	)(2.8	)(2.8
Amortization of prior service cost	1.2	2.3	(0.1	)(0.1
Amortization of net actuarial loss	29.2	21.2	1.7	1.1
Net periodic benefit cost	\$17.2	\$14.9	\$5.3	\$6.1

Note 13 - Income Taxes

The Company's provision for income taxes in interim periods is computed by applying the appropriate annual effective tax rates to income or loss before income taxes for the period. In addition, non-recurring or discrete items, including interest on prior year tax liabilities, are recorded during the period(s) in which they occur.

	Three Months Ended March 31,		
	2013	2012	
Provision for income taxes	\$38.8	\$81.5	
Effective tax rate	34.1	% 34.3	%

The effective tax rate in the first quarter of 2013 was lower than the U.S. federal statutory rate of 35% primarily due to earnings in certain foreign jurisdictions where the effective tax rate is less than 35%, the U.S. manufacturing deduction, the U.S. research tax credit, and other discrete net income tax benefits related to prior tax periods. These factors were partially offset by U.S. state and local taxes, U.S. taxation of foreign income, and losses at certain foreign subsidiaries where no tax benefit could be recorded.

The effective tax rate in the first quarter of 2012 was lower than the U.S. federal statutory tax rate primarily due to earnings in certain foreign jurisdictions where the effective tax rate was less than 35%, the U.S. manufacturing deduction, and other U.S. tax benefits. These factors were partially offset by U.S. state and local taxes, U.S. taxation of foreign income, losses at certain foreign subsidiaries where no tax benefit could be recorded and other net discrete income tax expense items related to prior tax periods.

Note 14 - Acquisitions

On March 11, 2013, the Company completed the acquisition of Interlube which makes and markets automated lubrication delivery systems and related components to end market sectors including commercial vehicles, construction, mining, and heavy and general industries, for approximately \$14.8 million, including cash acquired of approximately \$0.3 million that is subject to a post-closing indebtedness adjustment. Based in Plymouth, United Kingdom, Interlube employs about 90 employees and had 2012 sales of approximately \$13 million. The results of Interlube will be reported in the Mobile Industries segment.

The following table presents the preliminary purchase price allocation for acquisitions in 2013:

	Initial Purchase Price Allocation
Assets:	
Accounts receivable, net	\$2.0
Inventories, net	2.8
Deferred charges and prepaid expenses	0.2
Other current assets	0.1
Property, plant and equipment, net	2.0
Goodwill	5.5
Other intangible assets	5.7
Total assets acquired	\$18.3
Liabilities:	
Accounts payable, trade	\$1.0
Salaries, wages and benefits	0.2

Other current liabilities	0.7
Other non-current liabilities	1.9