

TIMKEN CO
Form 11-K
June 27, 2007

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

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission file number 1-1169

VOLUNTARY INVESTMENT PROGRAM FOR
HOURLY EMPLOYEES OF LATROBE STEEL COMPANY

(Full title of the Plan)

THE TIMKEN COMPANY, 1835 Dueber Avenue, S.W., Canton, Ohio 44706

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Audited Financial Statements and
Supplemental Schedules
Voluntary Investment Program for Hourly Employees
of Latrobe Steel Company
December 31, 2006 and 2005, and Year Ended December 31, 2006
With Report of Independent Registered Public Accounting Firm

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Audited Financial Statements and Supplemental Schedules
December 31, 2006 and 2005, and
Year Ended December 31, 2006
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Report of Independent Registered Public Accounting Firm

The Latrobe Steel Company, Administrator of the
Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company

We have audited the accompanying statements of net assets available for benefits of the Voluntary Investment Program for Hourly Employees of Latrobe Steel Company as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2006 and 2005, and the changes in its net assets available for benefits for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of delinquent participant contributions and assets (held at end of year) as of December 31, 2006, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Cleveland, Ohio
June 22, 2007

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Statements of Net Assets Available for Benefits

| | December 31, | |
|--|---------------------|--------------|
| | 2006 | 2005 |
| Assets | | |
| Investments, at fair value: | | |
| Interest in The Master Trust Agreement for The Timken Company | | |
| Defined Contribution Plans | \$11,566,471 | \$10,767,233 |
| Participant loans receivable | 195,251 | 206,053 |
| | | |
| Total investments, at fair value | 11,761,722 | 10,973,286 |
| | | |
| Contribution receivable from participants | | 24,815 |
| | | |
| Net assets available for benefits at fair value | 11,761,722 | 10,998,101 |
| | | |
| Adjustment from fair value to contract value for interest in The Master Trust Agreement for The Timken Company Defined Contributions Plans relating to fully benefit-responsive investment contracts | 13,104 | 11,046 |
| | | |
| Net assets available for benefits | \$11,774,826 | \$11,009,147 |

See accompanying notes.

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 2006

Additions

Investment income:

| | |
|---|---------------------|
| Net investment gain from The Master Trust Agreement for The Timken Company Defined Contribution Plans | \$ 1,015,715 |
| Interest | 12,237 |

Contributions:

| | |
|-------------|----------------|
| Participant | 738,348 |
|-------------|----------------|

| | |
|-----------------|------------------|
| Total additions | 1,766,300 |
|-----------------|------------------|

Deductions

| | |
|---|------------------|
| Benefits distributed directly to participants | 1,000,078 |
| Administrative expenses | 543 |

| | |
|------------------|------------------|
| Total deductions | 1,000,621 |
|------------------|------------------|

| | |
|---------------|----------------|
| Net increases | 765,679 |
|---------------|----------------|

| | |
|--|-------------------|
| Assets available for benefits at beginning of year | 11,009,147 |
|--|-------------------|

| | |
|--|----------------------|
| Assets available for benefits at the end of the year | \$ 11,774,826 |
|--|----------------------|

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements
December 31, 2006 and 2005, and
Year Ended December 31, 2006

1. Description of the Plan

The following description of the Voluntary Investment Program for Hourly Employees of Latrobe Steel Company (the Plan) provides only general information. Participants should refer to the *2002 401(k) Agreement Between Timken Latrobe Steel and the United Steelworkers of America AFL-CIO* (2002 401(k) Agreement) for a more complete description of the Plan's provisions.

General

Effective December 8, 2006, The Timken Company sold Latrobe Steel Company (the Company), which was a subsidiary of The Timken Company. As a result of this transaction, all participants in the Plan terminated their employment with The Timken Company and the Plan will no longer have any new participants or contributions. However, the Timken Company, the Plan Administrator, will continue to sponsor the Plan for those participants who have elected not to transfer their accounts to another plan. The Plan is a defined contribution plan which covered hourly employees of the Company who were represented by the United Steelworkers of America (USWA). Employees of the Company became eligible to participate in the Plan upon completion of the eligibility requirements under the 2002 Insurance Agreement and upon completion of 1,000 hours of service within a twelve-month period. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Under the provisions of the Plan, participants were able to contribute up to 15% of gross earnings, as defined in the Plan, subject to Internal Revenue Service (IRS) limitations. Participants were also able to contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. No Company contributions were provided under the Plan. Upon enrollment, a participant could direct their contribution in 1% increments to any of the Plan's fund options. Participants have access to their account information and the ability to make account changes daily through an automated telecommunication system and through the Internet.

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

1. Description of the Plan (continued)

Participant Accounts

Each participant's account was credited with the participant's contributions and allocations of Plan earnings, and is charged administrative expenses, as appropriate. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Participants were able to elect to have their dividends in the Timken Company Common Stock Fund distributed to them in cash rather than automatically reinvested in Timken common shares.

Vesting

Participants vested immediately in their contributions plus actual earnings thereon.

Participant Notes Receivable

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their account balance. Loan terms generally cannot exceed four years. The loans are secured by the balance in the participant's account and bear interest at an interest rate of 1% in excess of the prime rate, as published the first business day of each month in the Wall Street Journal. Principal and interest are paid ratably through payroll deductions.

Payment of Benefits

As a result of their termination of service to The Timken Company due to the sale of the Company, participants having a vested account balance greater than \$1,000 were given the option of: (i) transferring their account balance to another plan; (ii) receiving a lump-sum amount equal to the vested balance of their account; (iii) receiving installment payments of their vested assets over a period of time not to exceed their life expectancy, or; (iv) leaving their vested account balance in the Plan. Participants having a vested account balance less than \$1,000 received a lump-sum amount equal to their vested account balance. Participants electing to leave their vested assets in the Plan may do so until age 70 1/2 after which time the lump-sum or installment distribution options would apply.

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

1. Description of the Plan (continued)

Plan Termination

The Plan shall continue in full force and effect until December 31, 2008, and yearly thereafter, unless either the Company or the USWA shall notify the other party in writing that they desire to terminate the 2002 401(k) Agreement. The Plan may generally be amended by mutual consent of the Company and the USWA. In the event of Plan termination, the Trustee shall distribute to each participant the balance in their separate account.

2. Accounting Policies

Basis of Accounting

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

New Accounting Pronouncement

In December 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP). The FSP defines the circumstances in which an investment contract is considered fully benefit-responsive and provides certain reporting and disclosure requirements for fully benefit-responsive investment contracts in defined contribution health and welfare and pension plans. The financial statement presentation and disclosure provisions of the FSP are effective for financial statements issued for annual periods ending after December 15, 2006, and are required to be applied retroactively to all prior periods presented for comparative purposes. The Plan has adopted the provisions of the FSP at December 31, 2006.

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

2. Accounting Policies (continued)

As required by the FSP, investments in the accompanying Statements of Net Assets Available for Benefits include fully benefit-responsive investment contracts recognized at fair value. AICPA Statement of Position 94-4-1, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Pension Plans*, as amended, requires fully benefit-responsive investment contracts to be reported at fair value in the Plan's Statement of Net Assets Available for Benefits with a corresponding adjustment to reflect these investments at contract value. The requirements of the FSP have been applied retroactively to the Statement of Net Assets Available for Benefits as of December 31, 2005, presented for comparative purposes. Adoption of the FSP had no effect on the Statement of Changes in Net Assets Available for Benefits for any period presented.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value and are invested in The Master Trust Agreement for The Timken Company Defined Contribution Plans (Master Trust), which was established for the investment of assets of the Plan and the seven other defined contribution plans sponsored by the Company. The fair value of the Plan's interest in the Master Trust is based on the value of the Plan's interest in the fund plus actual contributions and allocated investment income (loss) less actual distributions.

The Trustee maintains a collective investment trust of Timken common shares in which The Timken Company's defined contribution plans participate on a unit basis. Timken common shares are traded on a national securities exchange and participation units in The Timken Company Common Stock Fund are valued at the last reported sales price on the last business day of the plan year. The valuation per unit of The Timken Company Common Stock Fund was \$16.20 and \$17.79 at December 31, 2006 and 2005, respectively.

Investments in registered investment companies and common collective funds are valued at the redemption value of units held at year-end. Participant loans are valued at cost, which approximates fair value. The fair value of investment contracts is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

2. Accounting Policies (continued)

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Investments

The Plan's trustee, JP Morgan holds all the Plan's investment assets and executes investment transactions. All investment assets of the Plan, except for participant loans, are pooled for investment purposes in the Master Trust. The following table presents a summary of the investments of the Master Trust as of December 31:

| | 2006 | 2005 |
|--|------------------------|---------------|
| Investments, at fair value as determined by quoted market price: | | |
| The Timken Company Common Stock Fund | \$ 328,532,326 | \$371,273,167 |
| Registered investment companies | 276,803,386 | 204,247,230 |
| Common collective funds | 277,910,070 | 251,476,932 |
| | 883,245,782 | 826,997,329 |
| Investment contracts, at fair value | 145,405,625 | 127,627,313 |
| Adjustment from fair value to contract value | 1,818,969 | 1,338,233 |
| Investment contracts, at contract value | 147,224,594 | 128,965,546 |
| | \$1,030,470,376 | \$955,962,875 |

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

3. Investments (continued)

At December 31, 2006, The Timken Company Common Stock Fund consisted of 20,281,150 units of the Company's common stock. The Plan's interest in the Master Trust was 1.12% as of December 31, 2006.

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

| | Year Ended December 31, | |
|---|--------------------------------|----------------|
| | 2006 | 2005 |
| Net (depreciation) appreciation in fair value of investments determined by quoted market price: | | |
| The Timken Company Common Stock Fund | \$(29,486,575) | \$ 62,912,449 |
| Registered investment companies | 19,973,017 | 15,627,808 |
| Common collective funds | 37,607,507 | 17,964,100 |
| | 28,093,949 | 96,504,357 |
| Net appreciation in investment contracts | 4,447,290 | 4,206,220 |
| Interest and dividends | 19,254,001 | 11,134,434 |
| Total Master Trust | \$ 51,795,240 | \$ 111,845,011 |

4. Investment Contracts

Investment contracts consist of a global wrap structure, or Stable Value Fund, with three fully benefit-responsive wrap contracts. The Stable Value Fund provides principal preservation plus accrued interest through fully benefit-responsive wrap contracts issued by a third party which are backed by underlying assets owned by the Master Trust. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan.

As described in Note 2, because the investment contracts are fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the investment contracts. Contract value represents contributions made under the contracts, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

4. Investments Contracts (continued)

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

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

| | December 31, 2006 |
|--|------------------------------|
| Net assets available for benefits per the financial statements | \$ 11,774,826 |
| Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (13,104) |
| Net assets available for benefits per the Form 5500 | \$ 11,761,722 |

The following is a reconciliation of investment income per the financial statements to the Form 5500:

| | December 31, 2006 |
|--|------------------------------|
| Total investment income per the financial statements | \$ 1,015,715 |
| Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (13,104) |
| Total investment income per the Form 5500 | \$ 1,002,611 |

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

5. Risks and Uncertainties

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

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
Notes to Financial Statements (Continued)

6. Income Tax Status

The Plan has received a determination letter from the IRS dated April 23, 2003, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt.

7. Related-Party Transactions

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

The following is a summary of transactions in Timken common shares with the Master Trust for the year ended December 31, 2006:

| | Shares | Dollars |
|--|---------------|----------------|
| Purchased | 1,912,796 | \$33,336,551 |
| Issued to participants for payment of benefits | 82,802 | 935,591 |
| Dividends received | 404,143 | 6,948,308 |
| Benefits paid to participants include payments in Timken common shares valued at quoted market prices at the date of distribution. | | |

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

Supplemental Schedules

Voluntary Investment Program for
Hourly Employees of Latrobe Steel Company
EIN #25-0610595 Plan #018

Schedule H, Line 4a Schedule of Delinquent Participant Contributions
December 31, 2006

**Participant Contributions
Transferred Late to the Plan
\$160**

**Total That Constitute
Nonexempt Prohibited
Transactions
\$160**

Voluntary Investment Program for Hourly
Employees of Latrobe Steel Company
EIN #25-0610595 Plan #018
Schedule H, Line 4i Schedule of Assets
(Held at End of Year)
December 31, 2006

| Identity of Issue, Borrower, Lessor, or Similar Party | Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value | Current Value |
|--|---|--------------------------|
| Participant notes receivable* | Interest rates ranging from 5.0% to 10.5% with various maturity dates | \$ 195,251 |

* Indicates party
in interest to the
Plan.

SIGNATURES

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

VOLUNTARY INVESTMENT
PROGRAM FOR HOURLY
EMPLOYEES OF LATROBE STEEL
COMPANY

Date: June 27, 2007

By: /s/ Scott A. Scherff
Scott A. Scherff
Assistant Secretary