UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended April 29, 2006

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 1-7923

HANDLEMAN COMPANY

(Exact name of registrant as specified in its charter)

MICHIGAN	**38-1242806**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

500 Kirts Boulevard, Troy, Michigan	**48084-4142**
(Address of principal executive offices)	**(Zip Code)**

248-362-4400

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
COMMON STOCK $.01 PAR VALUE	**NEW YORK STOCK EXCHANGE**

Securities registered pursuant to Section 12(g) of the Act:

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 at least the past 90 days. YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). YES ¨ NO x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. The aggregate market value as of October 29, 2005 was $251,464,000.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. The number of shares of common stock outstanding as of June 16, 2006 was 20,017,730.

DOCUMENTS INCORPORATED BY REFERENCE

Handleman Company s definitive Proxy Statement to be filed for the 2006 Annual Meeting of Shareholders is incorporated by reference into Part III, with the exception of the Compensation Committee Report and Audit Committee Report contained therein.

PART I

Item 1. BUSINESS

Handleman Company, a Michigan corporation (herein referred to as the Company or Handleman or Registrant), which has its executive offices in Troy, Michigan, is the successor to a proprietorship formed in 1934, and to a partnership formed in 1937.

Copies of the Forms 10-K, Forms 10-Q, Forms 8-K and all amendments to those reports are available, as soon as reasonably practicable after said material is electronically filed with or furnished to the Securities and Exchange Commission, free of charge on the Registrant s website, www.handleman.com. The Company s Code of Business Conduct and Ethics (Code) is also available on the Company s website, as well as any changes to or waivers from the Code. The Company s By-laws, Articles of Incorporation, Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, and Corporate Governance Guidelines are also available on the website. Written requests for copies of these materials may be directed to Investor Relations at the Company s executive offices.

DESCRIPTION OF BUSINESS:

Handleman Company operates in two business segments: category management and distribution operations, and video game operations. As a category manager, the Company manages a broad assortment of prerecorded music titles to optimize sales and inventory productivity in leading retail stores in the United States (U.S.), United Kingdom (UK) and Canada. Services offered as a category manager include direct-to-store shipments, marketing and in-store merchandising. The video game operations are related to the Company s subsidiary, Crave Entertainment Group, Inc. (Crave).

On November 22, 2005, the Company acquired the stock of privately-owned Crave. Crave is a distributor of video game hardware, software and accessories to major retailers throughout the U.S. This acquisition expands the Company s customer base, broadens its product lines and allows growth opportunities for both segments organizations through cross-selling customers, services and products.

On June 24, 2005, the Company acquired all of the operating assets and certain liabilities of REPS LLC (REPS). REPS provides nationwide in-store merchandising for home entertainment and consumer product brand owners at mass merchant, warehouse club and specialty retailers. The in-store merchandising structure of REPS is similar to the Company s in-store merchandising structure, thus providing the opportunity to consolidate certain functions and generate cost savings and synergies.

The operating results of Crave and REPS have been included in the Company s Consolidated Financial Statements since their dates of acquisition. See Note 2 of Notes to Consolidated Financial Statements for additional information related to the acquisitions.

The following table sets forth revenues and the percentage contribution to revenues from continuing operations for the fiscal years ended April 29, 2006 (fiscal 2006), April 30, 2005 (fiscal 2005) and May 1, 2004 (fiscal 2004) (in millions of dollars):

	Fiscal Years Ended		
	April 29, 2006 (52 weeks)	**April 30, 2005 (52 weeks)**	**May 1, 2004 (52 weeks)**
Category management and distribution operations	$ 1,226.9	$ 1,260.6	$ 1,214.0
% of Total	*93.5*	*100.0*	*99.8*
Video game operations	85.5		
% of Total	*6.5*		
Corporate income, including eliminations			2.3
% of Total			*0.2*
Total revenues from continuing operations	$ 1,312.4	$ 1,260.6	$ 1,216.3

Category Management and Distribution Operations

As a category manager and distributor of pre-recorded music, the Company creates value for its customers by leveraging its core competencies of intellectual services, field services and logistic services. Using these competencies, the Company manages the selection, acquisition, delivery, retail ticketing, display and return of music product for the Company s retail customers (retailers) stores. The following discussion pertains to these activities:

Intellectual services represent the systems and thought leadership provided by employees. Music is both a local and national business requiring that products selected for each store meet the demand of consumers who frequent each individual store. These intellectual services enable the Company to get the right product, in the right quantity, to the right store at the right time.

Field services are executed through the Company s in-store service organization in conjunction with the use of proprietary systems. The Company s field service staff visits retailers stores to execute a variety of merchandising responsibilities, including verifying that product has been placed on display, ensuring that the department is properly merchandised and that top-hit product is available, setting up point-of-purchase displays, reordering product with low inventory levels or required for local events, and ensuring that new product is displayed on the new release date. The field service staff also contributes to managing inventory turns by monitoring store inventory levels, identifying slow moving product and returning merchandise to the Company s automated distribution centers.

Logistic services represent all the activities that occur within the Company s automated distribution centers, including order management, shipping and returns handling. The Company bypasses the retailers distribution centers and ships shelf-ready product (i.e., product which includes store specific price tickets, theft deterrent devices and special displayers), directly to thousands of retail store locations. The Company also makes frequent shipments of less than case lot quantities to each store to tailor each store s inventory to its changing consumer demand.

The Company distributes throughout vast geographic regions, but adapts individual store selections to local tastes. In fiscal 2006, approximately 76% of the Company s revenues were in North America and approximately 24% were in the UK.

The music industry, in which the Company predominately operates, is seasonal in nature. Approximately 33% of U.S. music industry sales occur during the last three months of the calendar year, with the month of December accounting for approximately 18% of annual sales. Therefore, in order to meet consumer demand, the Company s second and third fiscal quarters ended October 29, 2005 and January 31, 2006, respectively, represented a higher proportion of annual revenues and net income than did its first and fourth quarters ended July 30, 2005 and April 29, 2006, respectively. As a result of the seasonal nature of the Company s business, certain working capital items are higher at some interim reporting dates than at others. For example, inventory and accounts payable are typically higher at the end of the Company s second quarter as a result of increased inventory purchases in anticipation of higher holiday season shipments, whereas accounts receivable is typically higher at the end of the Company s third quarter due to accounts receivable from holiday season shipments not yet paid by customers. See Note 14 of Notes to Consolidated Financial Statements for disclosure of quarterly results which indicates the seasonality of the Company s business.

Vendors

The Company purchases from many different vendors. The volume of purchases from individual vendors fluctuates from year to year based upon the salability of selections being offered by such vendors. Though a small number of major, financially sound vendors account for a high percentage of purchases, product must be selected from a variety of additional vendors in order to maintain an adequate selection for consumers. The Company closely monitors its inventory exposure and accounts payable balances with smaller vendors that may not have the financial resources to honor their return commitments.

Since the public s taste for the products the Company supplies is broad and varied, Handleman is required to maintain sufficient inventories to satisfy diverse tastes. The Company minimizes the effect of obsolescence through planned purchasing methods and computerized inventory controls. Since substantially all vendors from which the Company purchases product offer some level of return allowances and price protection, the Company s exposure to markdown risk is limited unless vendors are unable to fulfill their return obligations or non-salable product purchases exceed vendor return limitations. Vendors offer a variety of charge-based return programs whereby, a penalty is charged based on a per unit rate or a percentage of product value. Accordingly, the Company may possess in its inventories non-salable product that can only be returned to vendors with cost penalties or may be non-returnable until the Company can comply with the provisions of the vendors return policies.

The Company generally does not have distribution contracts with its vendors; consequently, its relationships with them may be discontinued at any time by such vendors or by Handleman.

Customers

Handleman Company s customers utilize its services for a variety of reasons. Products must be selected from a multitude of vendors offering numerous titles, different formats (e.g., compact discs, music DVDs) and different payment and return arrangements. In addition, retailers utilize category managers due to the complexity of managing the numerous stock keeping units (SKUs) required per department, the variability of salable items among individual stores of a retailer, the wide array of programs offered by the multitude of vendors, the hits nature of the business and the risk of inventory obsolescence. By utilizing the Company s category management services, customers avoid substantially all of the risks inherent in product selection and the risk of inventory obsolescence.

The Company must anticipate consumer demand for individual titles. In order to maximize sales, the Company must be able to immediately react to breakout titles while simultaneously minimizing inventory exposure for artists or titles that do not sell.

Customers are also offered a variety of value-added services:

Store Service: Sales representatives visit individual retail stores and meet with store management to discuss upcoming promotions, special merchandising efforts, department changes, current programs, or breaking releases which will increase revenues. They also monitor inventory levels, check merchandise displays and install point-of-purchase advertising materials. The Company is in the process of integrating its field service organization and business model into the REPS organization, following the acquisition of REPS. This integration will achieve cost savings through synergies and allow the Company to more efficiently service its customers.

Advertising: The Company supplies point-of-purchase materials and assists customers in preparing radio, television and print advertisements.

Fixturing: The Company provides specially designed fixtures that emphasize product visibility and accessibility.

Shipping and Handling: The Company coordinates delivery of product to each store.

Product Exchange: The Company protects its customers against product markdowns by offering the privilege of exchanging slower-selling product for newer product.

The nature of the Company s business lends itself to computerized ordering, distribution and store inventory management techniques. The Company is able to tailor the inventories of individual stores to reflect the customer profile of each store and to adjust inventory levels, product mix and selections according to seasonal and current selling trends.

Using proprietary processes and systems to forecast consumer demand, the Company determines the selections to be offered in its customers retail stores and ships these selections to the stores from one of its distribution centers. Slow-selling items are removed from the stores by the Company and are recycled for redistribution to other stores or for return to the vendors. Returns from customer stores occur for a variety of reasons, including new releases that did not achieve their expected sales potential, advertised product to be returned after the promotion has ended, regularly scheduled realignment pick-ups and customer directed returns. The Company (for financial reporting purposes) reduces gross sales and direct product costs for estimated future returns at the time of revenue recognition.

The table below sets forth percentage contribution to revenues from continuing operations for the Company s two largest customers:

	Fiscal Years Ended		
	April 29, 2006	April 30, 2005	May 1, 2004
Wal-Mart Stores, Inc.	74%	74%	68%
Kmart Corporation	9	15	17
Total percentage of revenues from continuing operations	83%	89%	85%

Handleman generally does not have contracts with its customers, and such relationships may be changed or discontinued at any time by the customers or Handleman; the discontinuance of, or a significant unfavorable change in, the relationship with either of the two largest customers would have a materially adverse effect upon the Company s future sales and earnings.

During the fourth quarter of fiscal 2005, the Company announced a change in its business relationship with Kmart. Effective during the first quarter of fiscal 2006, Handleman Company continued to provide category management and distribution to approximately 1,070 Kmart stores, whereas another supplier began to provide music to Kmart s remaining stores (approximately 400). In addition, Kmart assumed responsibility for the performance of in-store merchandising in all of its stores. The Company s annual revenues were reduced by approximately $47.0 million due to these changes in its business arrangement with Kmart.

During the fourth quarter of fiscal 2006, the Company announced that it will provide distribution, in-store merchandising and category management support for music, video and video games to Tesco PLC beginning in April 2007. Tesco, the largest supermarket and general merchandise retailer in the United Kingdom, is also one of the world s leading international retailers. This agreement allows Handleman Company to extend its core services to over 700 Tesco stores in the United Kingdom and is expected to generate approximately $50 million in annual revenue for the Company.

Operations

The Company distributes products from facilities in North America and the United Kingdom. Besides economies of scale and through-put considerations in determining the number of facilities it operates, the Company must also consider freight costs to and from customers stores and the importance of timely delivery of new releases. Due to the nature of the music business, display of new releases close to vendor authorized street dates is an important driver of both retail sales and customer satisfaction.

The Company utilizes its proprietary systems and a third party Enterprise Resource Planning (ERP) suite of software products to automate and integrate the functions of ordering product, receiving, warehousing, order fulfillment, ticket printing and perpetual inventory maintenance. The inventory management system also provides the basis for title specific billing which allows the Company to better serve its customers.

The Company has automated distribution equipment in its distribution facilities located in Indianapolis, Indiana; Richmond, Virginia; Toronto, Ontario; and Warrington, United Kingdom. The Company began distributing new release titles from the Richmond facility during the second quarter of fiscal 2006. This facility supports quicker replenishment, reduces operating costs and improves in-store availability, allowing the Company to better serve customers while improving profitability.

Within its facilities, the Company operates return centers to expedite the processing of customer returns, including use of automated return processing equipment in the United States and Canada. In order to minimize inventory investment, customer returns must be sorted and identified for either redistribution or return to vendors as expeditiously as possible. An item returned from one store may be required for shipment to another store. Therefore, timely recycling prevents purchasing duplicate product for a store whose order could be filled with returns from other stores.

Competition

Handleman is primarily a category manager of music products, whose business is highly competitive as to both price and alternative supply arrangements. Besides competition among the Company s customers, the Company s customers compete with alternative sources from which consumers could acquire the same product, such as (1) specialty retail outlets, (2) electronic specialty stores, (3) record clubs, (4) internet direct sales, including direct to home shipment and direct downloading through a consumer s home computer, and (5) music product piracy via the internet. New methods of in-home delivery of entertainment software products are continually being introduced. The Company also competes directly for sales to its customers with (1) manufacturers that bypass wholesalers and sell directly to retailers, (2) independent distributors, and (3) other category managers. In addition, some large retailers have vertically integrated so as to provide their own category management and/or in-store merchandising. Some of these companies, however, also purchase from independent category managers.

Although Handleman Company cannot make any assurances, it believes that the distribution of home entertainment products will remain highly competitive and that customer service, sales to consumers and continual progress in operational efficiencies are the keys to growth and profitability in this competitive environment.

Other Developments

During fiscal 2006, the Company successfully completed the implementation of an ERP suite of software products in its U.S. operations. This integrated, flexible system facilitates the Company s growth with existing and new customers. This implementation involved replacing or modifying certain legacy systems and was done as a phased approach over a three-year period in order to mitigate risks, including capturing data, inventory management and supply chain disruptions. The Company has begun implementation of the ERP suite in its Canadian operations and is expected to be completed in the first quarter of fiscal 2007; implementation of the ERP suite in the UK operations is expected be completed in late fiscal 2007. There can be no assurances that the Company will successfully implement these new systems as planned or that they will occur without supply chain disruptions or without impacts on inventory management. These disruptions or impacts, if not anticipated and appropriately mitigated, could have a materially adverse effect on the Company s financial condition and results of operations.

During fiscal 2005, the Company launched Artist to Market Distribution (A2M), an independent music distributor and wholly-owned subsidiary. A2M is designed to work directly with branded artists and artists management to streamline the supply chain, and deliver new music product to the marketplace at a lower cost. Since inception, the Company has signed exclusive distribution agreements with four established artists. Revenues from A2M do not represent a significant portion of the Company s consolidated revenues.

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Video Game Operations

Video game operations, a new operating segment for Handleman Company, was added as a result of the Company s acquisition of Crave Entertainment Group, Inc. Crave, through one of its subsidiary companies, purchases video game software, hardware and accessories from first and third party hardware and software manufacturers, which support all Sony, Nintendo and Microsoft video game platforms. Following the acquisition, Crave s distribution operations were consolidated into the Company s automated distribution center in Indianapolis, Indiana. This consolidation allows for cost savings through synergies and economies of scale. Product is shipped directly to major retailers throughout the United States. In addition to general distribution, Crave also offers its retail customers:

- Integrated vendor managed inventory;
- Direct-to-store shipments of shelf ready products;
- Assortment planning and product procurement;
- Promotional planning and execution;
- Merchandising and display support; and
- Dedicated support personnel.

Crave also publishes video game titles under its Crave Entertainment brand. Titles are released in the value-price category and are distributed by Crave.

The Crave acquisition expanded the Company s customer base, broadened its product line and provides growth opportunities for both organizations through cross-selling customers, services and products.

Discontinued Operations

In the second quarter of fiscal 2004, the Company sold its Anchor Bay Entertainment subsidiary companies within its former proprietary operations business segment, North Coast Entertainment. The sale of Anchor Bay Entertainment allowed the Company to focus on its core category management and distribution competencies. In accordance with accounting guidance, the financial results of these subsidiary companies were reported separately as discontinued operations in the Company s Consolidated Statements of Income for all periods presented, since the operations and cash flows of these companies were eliminated from the ongoing operations of the Company. The Company does not have any continuing involvement in the operations of these companies after the disposal transaction. The sale was completed on December 11, 2003.

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See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding the Company s activities.

As of April 29, 2006, the Company had approximately 2,600 employees; none were unionized.

Item 1A. RISK FACTORS

During fiscal 2006, the Company completed an enterprise risk management initiative to identify the Company s major risks and implemented procedures to monitor and control such exposures. Identified risks were categorized into three areas strategic, financial/compliance and operational, and were ranked based on the likelihood of occurrence and the impact to the business should the risk occur. These risks, and other information included in this Annual Report on Form 10-K, should be carefully considered. If any of the risks occur, the Company s business, financial condition, operating results and cash flows could be materially adversely affected. The following represent Handleman s most significant risk factors:

Customer Concentration Handleman Company generally does not have contracts with its customers, and such relationships may be changed or discontinued at any time by the customers or the Company without penalty. The discontinuance of, or a significant unfavorable change in, the relationship with either of the Company s two largest customers would have a materially adverse effect upon the Company s future sales and earnings. The Company s two largest customers represented approximately 83% of the Company s consolidated revenues during fiscal 2006. In addition, the Company must be cognizant of the possibility of impacting its existing customer s business while executing the Company s defined growth strategy of expanding and diversifying its customer base.

Product Line Concentration The music industry, in which the Company predominately operates, can experience significant downward trends due to a lack of successful new releases. In addition, physical music product sales have been eroded by the growth in consumption of digital music, acquired from both legal and illegal channels. Future reductions in music product sales would have an adverse effect on the Company s future sales and earnings.

Gross Margin Compression The Company s gross margin as a percentage of revenues has decreased in recent years as a greater proportion of the Company s revenues have been in the UK, which carry a lower gross margin as a percentage of revenues than the Company s consolidated rate. Additionally, increased revenues attributable to less than full category management services, which carry a lower gross margin percentage of revenues than full category management services, have negatively impacted the Company s gross margin.

Inventory Management As a category manager and distributor of pre-recorded music, the Company manages the selection, delivery, retail ticketing and return of music product for its customers. The Company relies on its proprietary systems to manage store inventory levels to ensure the right product is in the right customer stores at the right time for consumers to purchase. As a result, the Company must also manage its warehouse inventory levels and assortment by buying smarter from its vendors and managing customer returns in order to avoid the risk of obsolescence and excess inventory levels.

Reliance on Third-Party Carriers The Company relies on third-party carriers for delivery of product from its distribution centers to its customers retail store locations. An interruption in service may result in a temporary delay in product shipments.

Compliance with Debt Covenants The Company has an unsecured line of credit agreement with a consortium of banks. Management relies on the revolving credit agreement, along with cash provided from operations, to provide sufficient liquidity to finance acquisitions, fund the Company s day-to-day operations, pay cash dividends and repurchase common stock. This agreement contains certain restrictions and covenants, relating to, among others, minimum debt service ratio, maximum leverage ratio and minimum consolidated tangible net worth. Given the seasonal nature of the Company s business and reliance on forecasted operating results and forecasted cash balances, the Company must continually monitor these covenants to ensure compliance. Failure to satisfy these bank covenants may result in defaulting on its loan agreement.

Business Continuity Program As with any company, Handleman has risk associated with potential disasters that may result in the interruption of service or the discontinuance of operations. Such threats could be natural (i.e. flooding, fire, tornado, hurricane, epidemic), technical (i.e. power failure, HVAC failure, IT hardware/software failure, communication failure) or human (i.e. robbery, terrorism, chemical spill, sabotage, vehicle crashes, work stoppage). To prepare for potential disruptions, Handleman Company has a dedicated team of employees who have developed and implemented Business Continuity Programs, including Emergency Response & Safety Plans and Incident (Crisis) Management Plans for its major facilities. In addition, the Company has implemented an Information Technology Disaster Recovery strategy for its major production environment. The Company will continue to analyze the recovery plans for its major facilities. Additionally, the Company is in the process of defining alternate recovery facilities for its corporate office, alternate shipping strategies for its distribution centers and strategies for its secondary information technology infrastructure. Nevertheless, future disasters could adversely affect the Company s business.

Foreign Exchange The UK and Canadian operations are exposed to foreign exchange rate fluctuations as their financial results are translated from the local currency into U.S. dollars upon consolidation. As exchange rates fluctuate, operating results, when translated, may differ materially from expectations. In addition, the Company is subject to gains and losses on foreign currency transactions, which could vary based on fluctuations in exchange rates and the timing of the transactions and their settlement.

Effective Execution of the Company s Business Growth Strategy The Company s growth strategy is based on leveraging its core competencies of intellectual services, field services and logistic services. The Company has identified three growth platforms expanding its core category management and distribution business model with existing and new customers; extending its core competencies within adjacent categories, markets and channels; and identifying strategic transactions aligned with its core competencies. The Company s future operating results will depend, among other things, on its success in implementing its strategic growth plan, including successfully integrating its recent acquisitions.

Information Systems The Company relies heavily on information systems for day-to-day operations, as well as providing a competitive advantage for its intellectual services core competency. The Company has elected to outsource a portion of application development and technology support to a third party. The failure of information systems to perform as designed, or an interruption of these information systems for a significant period of time could disrupt the Company s business and adversely affect sales and profitability.

Competition The Company s business is highly competitive as to both price and alternative supply arrangements. In addition to competition among the Company s customers, the Company s customers compete with alternative sources from which consumers could acquire the same product, such as (1) specialty retail outlets, (2) record clubs, (3) internet direct sales, including direct to home shipment and direct downloading through a consumer s home computer, and (4) music product piracy via the internet. Additionally, new methods of in-home delivery of entertainment software products are continually being introduced. The Company also competes directly for sales to its customers with (1) manufacturers that bypass wholesalers and sell directly to retailers, (2) independent distributors, and (3) other category managers. In addition, some large retailers are vertically integrated so as to provide their own category management and/or in-store merchandising. Some of these companies, however, also purchase from independent category managers. Increases in competition could materially affect the Company s business.

Item 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved staff comments to report.

Item 2. PROPERTIES

As of April 29, 2006, the Company occupied leased warehouses located in Indianapolis, Indiana; Richmond, Virginia; Toronto, Ontario; Warrington, United Kingdom; as well as seven leased satellite offices ranging in

size from 1,400 square feet to 7,500 square feet, located in the states of Maryland, Michigan, Minnesota, California, Tennessee and Arkansas, as well as the Canadian province of Quebec. Crave Entertainment Group leases its 15,100 square foot corporate office in Newport, California.

The Company owns its 130,000 square foot corporate office building located in Troy, Michigan.

Item 3. LEGAL PROCEEDINGS

See Notes 2 and 3 of Notes to Consolidated Financial Statements for a discussion of contingencies related to the Company s acquisitions and discontinued operations, respectively.

There are no additional pending legal proceedings to which the Registrant or any of its subsidiaries is a party, other than routine legal matters which are incidental to the business and the ultimate outcome of which are not expected to be material to future results of consolidated operations, financial position and cash flows. The Company has provided for all claims and legal proceedings based on its best estimate of the amounts it expects to pay.

Item 4. SUBMISSION OF MATTERS

TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of fiscal 2006, Handleman Company had no submission of matters to a vote of security holders.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY,

RELATED STOCKHOLDER MATTERS AND ISSUER

PURCHASES OF EQUITY SECURITIES

The Company s common stock is traded on the New York Stock Exchange under the symbol HDL.

Below is a summary of the market price of the Company s common stock:

	Fiscal Years Ended					
	April 29, 2006			April 30, 2005		
Quarter	**Low**	**High**	**Close**	**Low**	**High**	**Close**
First	$ 15.00	$ 18.81	$ 17.72	$ 21.10	$ 23.75	$ 21.47
Second	10.76	17.65	12.26	19.60	22.09	21.51
Third	10.84	14.65	11.88	18.61	23.84	19.45
Fourth	8.26	12.19	8.54	17.06	21.90	17.35

As of June 16, 2006, the Company had 2,703 shareholders of record.

Below is a summary of the dividends declared during the past two fiscal years:

	Fiscal Years Ended	
	April 29, 2006	**April 30, 2005**
First quarter	$ .08	$ .07
Second quarter	.08	.07
Third quarter	.08	.08
Fourth quarter	.08	.08

On February 23, 2005, the Company s Board of Directors authorized a share repurchase program. Under this authorization, which has no expiration date, the Company can repurchase up to 15% of its then outstanding balance of 21,787,611 shares. The table below sets forth information with respect to shares repurchased under the 15% authorization in the fourth quarter ended April 29, 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
February 1, 2006 through March 4, 2006				1,394,142
March 5, 2006 through April 1, 2006	90,000	$ 9.385	90,000	1,304,142
April 2, 2006 through April 29, 2006	80,000	$ 8.961	80,000	1,224,142
Total	170,000	$ 9.185	170,000	1,224,142

Item 6.

SELECTED FINANCIAL DATA
HANDLEMAN COMPANY
FIVE-YEAR REVIEW
(in thousands of dollars except per share data and ratios)

Fiscal 2006 operating results include those of REPS LLC and Crave Entertainment Group, Inc. since their dates of acquisition. Amounts related to operations at Anchor Bay Entertainment have been classified as discontinued operations for all periods presented as a result of the sale of those subsidiary companies during fiscal 2004. Accordingly, income from continuing operations for fiscal 2005 and 2004 substantially included only category management and distribution operations. Fiscal 2003 and 2002, though predominately reflective of category management and distribution operations, also included (i) results from Madacy Entertainment, which was sold during fiscal 2003, and (ii) activity from remaining proprietary operations, other than those companies that were sold during fiscal 2004. See Notes 2, 3 and 12 of Notes to Consolidated Financial Statements for additional information regarding the Company s acquisitions, discontinued operations and operating segments, respectively.

	Fiscal 2006 (52 weeks)	**Fiscal 2005 (52 weeks)**	**Fiscal 2004 (52 weeks)**		**Fiscal 2003 (53 weeks)**	**Fiscal 2002 (52 weeks)**		
SUMMARY OF OPERATIONS:								
Revenues	$ 1,312,404	$ 1,260,585	$ 1,216,311		$ 1,279,582	$ 1,252,636		
Gross profit, after direct product costs	225,476	244,251	251,147		262,740	259,774		
Selling, general & administrative expenses	210,029	193,412	199,969		205,695	215,086		
Impairment of subsidiary assets					33,100	5,693		
Interest expense	4,808	555	995		1,103	1,618		
Investment income	(6,736)	(3,012)	(1,636)		(1,333)	(989)		
Income from continuing operations	14,818	34,883	33,988		19,846	30,202		
Income (loss) from discontinued operations *	(1,250)	(687)	1,849		5,028	4,828		
Net income	13,568	34,196	35,837		24,874	35,030		
Pro forma net income excluding goodwill amortization expense, net of related income taxes **	13,568	34,196		Tax benefit from stock compensation	5.3		5.3	
Stock-based compensation expense	3.4		3.4					
Tender of 90,477 shares to treasury	(21.0)		(10.3)				(10.7)	
Issuance of 193,918 shares from authorized	0.7		0.7					
Balance at March 31, 2011	**$ 2,066.3**	**$ 53.1**	**$ 880.8**		**$ 1,721.5**	**$ (585.1)**	**$ (22.2)**	**$ 18.2**

The total comprehensive income for the three months ended March 31, 2010 was $46.8 million.

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Note 8 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, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Numerator:		
Income from continuing operations attributable to The Timken Company	**$ 112.7**	$ 28.3
Less: undistributed earnings allocated to nonvested stock	**0.5**	0.1
Income from continuing operations available to common shareholders for basic earnings per share and diluted earnings per share	**$ 112.2**	$ 28.2
Denominator:		
Weighted average number of shares outstanding basic	**97,444,389**	96,360,137
Effect of dilutive securities:		
Stock options and awards based on the treasury stock method	**1,451,437**	501,264
Weighted average number of shares outstanding, assuming dilution of stock options and awards	**98,895,826**	96,861,401
Basic earnings per share from continuing operations	**$ 1.15**	$ 0.29
Diluted earnings per share from continuing operations	**$ 1.13**	$ 0.29

The exercise prices for certain stock options that the Company has awarded exceed the average market price of the Company s common stock. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding were 353,000 and 2,367,304 during the first quarter of 2011 and 2010, respectively.

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Note 9 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,	
	2011	2010
Net sales to external customers:		
Mobile Industries	**$ 442.9**	$ 367.5
Process Industries	**284.1**	205.9
Aerospace and Defense	**79.1**	92.1
Steel	**448.0**	248.2
	$ 1,254.1	$ 913.7
Intersegment sales:		
Mobile Industries	**$ 0.1**	$
Process Industries	**0.9**	0.7
Steel	**33.5**	22.1
	$ 34.5	$ 22.8
Segment EBIT:		
Mobile Industries	**$ 68.0**	$ 39.6
Process Industries	**66.7**	24.1
Aerospace and Defense	**2.2**	11.9
Steel	**60.0**	19.9
Total EBIT for reportable segments	**$ 196.9**	$ 95.5
Unallocated corporate expenses	**(18.0)**	(14.4)
Interest expense	**(9.8)**	(9.6)
Interest income	**1.5**	0.6
Intersegment adjustments	**0.6**	2.5
Income from continuing operations before income taxes	**$171.2**	$ 74.6

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Note 10 Impairment and Restructuring Charges

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

For the three months ended March 31, 2011:

	Mobile Industries	**Process Industries**	**Aerospace & Defense**	**Corporate**	**Total**
Severance expense and related benefit costs	**$ 1.1**	**$**	**$**	**$**	**$ 1.1**
Total	**$ 1.1**	**$**	**$**	**$**	**$ 1.1**

For the three months ended March 31, 2010:

	Mobile Industries	Process Industries	Aerospace & Defense	Corporate	Total
Severance expense and related benefit costs	$ 2.2	$ 1.6	$ 0.6	$ 0.6	$ 5.0
Exit costs	0.4		0.1		0.5
Total	$ 2.6	$ 1.6	$ 0.7	$ 0.6	$ 5.5

The following discussion explains the major 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.

Workforce Reductions

In 2009, the Company began the realignment of its organization to improve efficiency and reduce costs as a result of the economic downturn that began during the latter part of 2008. This initiative was completed in 2010. During the first quarter of 2010, the Company recorded $4.7 million of severance and related benefit costs related to this initiative, which included both selling and administrative cost reductions, as well as manufacturing workforce reductions. Of the $4.7 million charge recorded during the first quarter of 2010, $1.9 million related to the Mobile Industries segment, $1.6 million related to the Process Industries segment, $0.6 million related to the Aerospace and Defense segment and $0.6 million related to Corporate positions.

Mobile Industries

In March 2007, the Company announced the closure of its manufacturing facility in Sao Paulo, Brazil. The Company has substantially completed the closure of this facility. Pretax costs associated with the closure are expected to be approximately $40 million, which includes restructuring costs and rationalization costs recorded in cost of products sold and selling, administrative and general expenses. During the first quarter of 2011 and 2010, the Company recorded $1.1 million and $0.3 million, respectively, of severance and related benefit costs associated with the closure of this facility.

The following is a rollforward of the consolidated restructuring accrual for the three months ended March 31, 2011 and the twelve months ended December 31, 2010:

	March 31, 2011	December 31, 2010

Beginning balance, January 1	**$**	**22.1**	$	34.0
Expense		**1.1**		17.0
Payments		**(2.2)**		(28.9)
Ending balance	**$**	**21.0**	$	22.1

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Note 10 Impairment and Restructuring Charges (continued)

The restructuring accrual at March 31, 2011 and December 31, 2010 was included in other current liabilities on the Consolidated Balance Sheets. The accrual at March 31, 2011 included $7.5 million of severance and related benefits, which are expected to be paid by the end of 2011. The accrual for severance and related benefits at March 31, 2011 primarily related to the closure of the distribution center in Bucyrus, Ohio, which is expected to be completed during the second quarter of 2011, and the closure of the manufacturing facility in Sao Paulo, Brazil. The remainder of the restructuring accrual at March 31, 2011 primarily represented environmental exit costs, which is principally related to Sao Paulo, Brazil. 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. Actual remediation costs may be more or less than estimated.

Note 11 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, 2011 are based on actuarial calculations prepared during 2010. Consistent with prior years, these calculations will be updated later in the year. These updated calculations may result in different net periodic benefit cost for 2011. The net periodic benefit cost recorded for the three months ended March 31, 2011 is the Company s best estimate of the period s proportionate share of the amounts to be recorded for the year ending December 31, 2011.

	Pension Three Months Ended March 31,		**Postretirement Three Months Ended March 31,**	
	2011	2010	**2011**	2010
Components of net periodic benefit cost				
Service cost	**$ 8.3**	$ 9.5	**$ 0.5**	$ 0.7
Interest cost	**39.8**	39.7	**8.7**	9.1
Expected return on plan assets	**(50.1)**	(49.3)	**(0.7)**	
Amortization of prior service cost (credit)	**2.4**	2.3	**(0.4)**	(0.3)
Amortization of net actuarial loss	**12.8**	12.2	**1.0**	1.3
Net periodic benefit cost	**$ 13.2**	$ 14.4	**$ 9.1**	$ 10.8

Note 12 Income Taxes

	Three Months Ended March 31,	
	2011	2010
Provision for income taxes	**$ 57.4**	$ 45.9
Effective tax rate	**33.5%**	61.5%

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.

The effective tax rate in the first quarter of 2011 was lower than the U.S. federal statutory tax rate primarily due to the earnings in certain foreign jurisdictions where the effective tax rate is less than 35%, the U.S. research tax credit and the U.S. manufacturing deduction, partially offset by losses at certain foreign subsidiaries where no tax benefit could be recorded, U.S. state and local taxes and other U.S. tax items.

The effective tax rate in the first quarter of 2010 was higher than the U.S. federal statutory tax rate primarily due to a $21.6 million charge to income tax expense to record the deferred tax impact of the U.S. Patient Protection and Affordable Care Act (as amended) enacted in March 2010, losses at certain foreign subsidiaries where no tax benefit could be recorded and U.S. state and local taxes. These increases were partially offset by the earnings in certain foreign jurisdictions where the effective tax rate is less than 35%.

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Note 13 Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Financial Accounting Standards Board (FASB) provides accounting rules that classify the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

The following table presents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2011:

	Fair Value at March 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$ 637.6	$ 637.6	$	$
Short-term investments	28.6	28.6		
Foreign currency hedges	4.1		4.1	
Total Assets	$ 670.3	$ 666.2	$ 4.1	$
Liabilities:				
Foreign currency hedges	$ 7.6	$	$ 7.6	$
Total Liabilities	$ 7.6	$	$ 7.6	$

Cash and cash equivalents are highly liquid investments with maturities of three months or less when purchased and are valued at redemption value. Short-term investments are investments with maturities between four months and one year and are valued at amortized cost. The Company uses publicly available foreign currency forward and spot rates to measure the fair value of its foreign currency forward contracts.

The Company does not believe it has significant concentrations of risk associated with the counterparts to its financial instruments.

The following table presents those assets measured at fair value on a nonrecurring basis for the three months ended March 31, 2011 using Level 3 inputs:

	Carrying Value	Fair Value Adjustment	Fair Value
Assets held for sale:			
Equity Investments	$ 5.9	$ (1.8)	$ 4.1
Total assets held for sale	$ 5.9	$ (1.8)	$ 4.1

The Company s equity investment, International Component Supply LTDA, was reviewed for impairment during the first quarter of 2011. This equity investment was written down to its fair value of $4.1 million, resulting in an impairment charge of $1.8 million recognized in other expense, net during the first quarter of 2011. The fair value of this investment was based on the estimated sales proceeds to be received from a third party if the Company were to sell its interest in the joint venture.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, commercial paper, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. The fair value of the Company s long-term fixed-rate debt, based on quoted market prices, was $487.7 million and $468.7 million at March 31, 2011 and December 31, 2010, respectively. The carrying value of this debt was $438.4 million and $430.4 million at March 31, 2011 and December 31, 2010, respectively.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Overview
Introduction
The Timken Company engineers, manufactures, sells and services highly engineered anti-friction bearings and assemblies, high-quality alloy steels and aerospace power transmission systems, as well as provides a broad spectrum of related products and services. The Company operates under four operating segments: (1) Mobile Industries; (2) Process Industries; (3) Aerospace and Defense; and (4) Steel. The following is a description of the Company s segments:

Mobile Industries provides bearings, power transmission components and related products and services to original equipment manufacturers and suppliers of agricultural, construction and mining equipment, passenger cars, light trucks, medium and heavy-duty trucks, rail cars and locomotives, as well as to automotive and heavy truck aftermarket distributors.

Process Industries provides bearings, power transmission components and related products and services to original equipment manufacturers and suppliers of power transmission, energy and heavy industries machinery and equipment. This includes rolling mills, cement and aggregate processing equipment, paper mills, sawmills, printing presses, cranes, hoists, drawbridges, wind energy turbines, gear drives, drilling equipment, coal conveyors, coal crushers and food processing equipment. The segment also serves the aftermarket through its global network of authorized industrial distributors.

Aerospace and Defense provides bearings, helicopter transmission systems, rotor head assemblies, turbine engine components, gears and other precision flight-critical components for commercial and military aviation applications and also provides aftermarket services, including repair and overhaul of engines, transmissions and fuel controls, as well as aerospace bearing repair and component reconditioning. Additionally, this segment manufactures precision bearings, higher-level assemblies and sensors for equipment manufacturers of health and positioning control equipment.

Steel produces more than 450 grades of carbon and alloy steel, which are sold in both solid and tubular sections in a variety of chemistries, lengths and finishes. The segment s metallurgical expertise and operational capabilities result in solutions for the automotive, industrial and energy sectors. Timken® specialty steels feature prominently in a wide variety of end products including oil country drill pipe, bits and collars; gears, hubs, axles, crankshafts and connecting rods; bearing races and rolling elements, and bushings, fuel injectors and wind energy shafts.

The Company s strategy balances corporate aspirations for sustained growth and a determination to optimize the Company s existing portfolio of business, with the objective of generating strong profits and cash flows. Specifically, the growth element of the strategy addresses differentiation and expansion.

For differentiation, the Company undertakes investments in new technologies to enhance existing products and services or to create new products that capture value for its customers. The Company recently broadened its product offering by introducing new housed bearings, adding to its spherical and cylindrical bearing line, developing new products and services for the wind energy market sector and introducing several new grades of steel.

Regarding expansion, the Company s strategy is to grow in attractive sectors, with particular emphasis on those industrial markets that test the limits of the Company s products and create significant aftermarket, thereby providing a lifetime of opportunity in both product sales and services. The Company s strategy also encompasses expanding its portfolio in new geographic spaces, with an emphasis in Asia. The Company s acquisition strategy is directed at complementing its existing portfolio and expanding the Company s market position.

Simultaneously, the Company works to optimize its existing business with specific initiatives aimed at transformation and execution. This includes transforming the overall portfolio of businesses and products to create further value and profitability, which can include addressing or repositioning underperforming product lines and segments, revising market sector or geographic strategies and divesting non-strategic assets. The Company drives execution by embracing a continuous improvement culture that is charged with lowering costs, increasing efficiency, encouraging organizational agility and building greater brand equity.

Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following items highlight the more recent significant strategic accomplishments:

In April 2011, the Company announced it will increase its annual steelmaking capacity by 120,000 tons across its steel manufacturing facilities in Canton, Ohio. The Company is achieving this boost through a series of improvements at its Harrison Steel Plant. Additional investments and crew additions will enable a further increase in output and will allow the Company to optimize production loads between its Harrison and Faircrest plants. The changes will effectively create new capacity at both of these steel facilities to support growing demand for finished bar products and billets for tubing product which serve customers in the global industrial; oil and gas; and mobile markets.

During the first quarter of 2011, the Company began expanding three of its Process Industries plants in Asia. The three plants are located in Chennai, India and Wuxi and Xiangtan, China. The Company expects to investment approximately $50 million for these expansions.

In February 2011, the Company announced a $35 million investment to install a high-volume, in-line forge press at its Faircrest rolling mill facility in Canton, Ohio. Slated to begin operation in early 2013, the addition of the in-line forge press is expected to generate value by increasing capacity, lowering costs through improved yield, expanding product capabilities to meet ultrasonic specifications that are more demanding and reducing cycle times for larger products.

Financial Overview:

Overview:

	1Q 2011	1Q 2010	$ Change	% Change
Net sales	**$ 1,254.1**	$ 913.7	$ 340.4	37.3%
Income from continuing operations	**113.8**	28.7	85.1	296.5%
Income from discontinued operations		0.3	(0.3)	(100.0)%
Income attributable to noncontrolling interest	**1.1**	0.4	0.7	175.0%
Net income attributable to The Timken Company	**112.7**	28.6	84.1	294.1%
Diluted earnings per share	**$ 1.13**	$ 0.29	$ 0.84	289.7%
Average number of shares diluted	**98,895,826**	96,861,401		2.1%

The Timken Company reported net sales for the first quarter of 2011 of $1.3 billion, compared to $913.7 million in the first quarter of 2010, an increase of 37.3%. Higher sales were driven by strong demand from all business segments except the Aerospace and Defense segment, as well as higher surcharges and pricing. For the first quarter of 2011, net income per diluted share was $1.13 compared to $0.29 per diluted share for the first quarter of 2010.

The Company s first quarter results reflect the continued improvement in the end market sectors served by the Mobile Industries and Steel segments, as well as the industrial distribution channel within the Process Industries segment. In addition, the first quarter results reflect higher surcharges and improved manufacturing performance, partially offset by lower demand from aerospace markets, higher raw material costs and higher expense related to incentive compensation plans. Results for the first quarter of 2010 reflect a one-time charge of $21.6 million to record the deferred tax impact of U.S. health care legislation enacted in March 2010.

Outlook

The Company s outlook for 2011 reflects continued improvement in the global economy following the recovery in 2010. The Company expects higher sales of approximately 20% to 25%, primarily driven by stronger sales in all segments. The Company expects to leverage sales growth to drive improved operating performance. However, the strengthening margins will be partially offset by slightly higher selling, general and administrative expenses to support

the higher sales.
From a liquidity standpoint, the Company expects to generate cash from operations of approximately $390 million in 2011, which is an increase of approximately 25% over 2010, driven primarily by higher operating margins. Pension contributions are expected to be approximately $170 million in 2011, compared to $230 million in 2010. The Company expects to increase capital expenditures to $220 million in 2011, compared to $115 million in 2010. Dividends are also expected to increase to approximately $70 million in 2011, compared to $51 million in 2010, reflecting the full-year impact of the current quarterly dividend rate of $0.18 per share.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
The Statement of Income
Sales by Segment:

	1Q 2011	1Q 2010	$ Change	% Change
Mobile Industries	**$ 442.9**	$ 367.5	$ 75.4	20.5%
Process Industries	**284.1**	205.9	78.2	38.0%
Aerospace and Defense	**79.1**	92.1	(13.0)	(14.1)%
Steel	**448.0**	248.2	199.8	80.5%
Total Company	**$ 1,254.1**	$ 913.7	$ 340.4	37.3%

Net sales for the first quarter of 2011 increased $340.4 million, or 37.3%, compared to the first quarter of 2010, primarily due to higher volume of approximately $210 million across all business segments except the Aerospace and Defense segment, higher surcharges of approximately $75 million and higher pricing and favorable sales mix of approximately $55 million.
Gross Profit:

	1Q 2011	1Q 2010	$ Change	Change
Gross profit	**$ 333.3**	$ 222.7	$ 110.6	49.7%
Gross profit % to net sales	**26.6%**	24.4%		220 bps

Gross profit margin increased in the first quarter of 2011 compared to the first quarter of 2010 primarily due to the impact of higher sales volume of approximately $85 million, the timing of surcharges of approximately $75 million and higher pricing and favorable sales mix of approximately $50 million, partially offset by higher raw material and logistics costs of approximately $100 million.
Selling, General and Administrative Expenses:

	1Q 2011	1Q 2010	$ Change	Change
Selling, general and administrative expenses	**$ 150.3**	$ 133.0	$ 17.3	13.0%
Selling, general and administrative expenses % to net sales	**12.0%**	14.6%		(260) bps

The increase in selling, general and administrative expenses of $17.3 million in first quarter of 2011, compared to the first quarter of 2010, was primarily due to higher expenses related to incentive compensation plans of approximately $6 million, with the remainder of the increase relating to higher employee and professional costs.
Impairment and Restructuring Charges:

	1Q 2011	1Q 2010	$ Change
Severance and related benefit costs	**$ 1.1**	$ 5.0	$ (3.9)
Exit costs		0.5	(0.5)
Total	**$ 1.1**	$ 5.5	$ (4.4)

The decrease in impairment and restructuring charges of $4.4 million in the first quarter of 2011, compared to the first quarter of 2010, was primarily due to the completion of most of the Company s major restructuring programs. In the first quarter of 2010, the Company recorded $5.0 million of severance and related benefits costs primarily due to restructuring programs that began in 2009 to realign its organization to improve efficiency and reduce costs as a result of the economic downturn. These programs included both selling and administrative cost reductions, as well as manufacturing workforce reductions.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Interest Expense and Income:

	1Q 2011	1Q 2010	$ Change	% Change
Interest expense	**$ 9.8**	$ 9.6	$ 0.2	2.1%
Interest income	**$ (1.5)**	$ (0.6)	$ (0.9)	(150.0)%

Interest expense for the first quarter of 2011 increased slightly compared to the first quarter of 2010, primarily due to higher debt levels at non-U.S. affiliates. Interest income for the first quarter of 2011 increased compared to the same period in the prior year, primarily due to higher invested cash balances.

Other Expense:

	1Q 2011	1Q 2010	$ Change	% Change
Other expense, net	**$ 2.4**	$ 0.6	$ 1.8	300.0%

Other expense, net for the first quarter of 2011 increased compared to the same period in the prior year primarily due to an impairment loss on an equity investment of $1.8 million. The Company recorded the impairment loss as a result of the carrying value of this investment exceeding its expected future cash flows.

Income Tax Expense:

	1Q 2011	1Q 2010	$ Change	Change
Income Tax Expense:	**$ 57.4**	$ 45.9	$ 11.5	25.1%
Effective tax rate	**33.5%**	61.5%		(2,800)bps

The decrease in the effective tax rate in the first quarter of 2011, compared to the first quarter of 2010, was primarily due to a $21.6 million charge to income tax expense to record the deferred tax impact of the U.S. Patient Protection and Affordable Care Act (as amended) enacted in the first quarter of 2010.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Business Segments:

Effective January 1, 2011, the primary measurement used by management to measure the financial performance of each segment was EBIT (earnings before interest and taxes). Prior to January 1, 2011, the primary measurement used by management to measure the financial performance of each segment was adjusted EBIT (earnings before interest and taxes, excluding the effect of impairment and restructuring, manufacturing rationalization and integration charges, one-time gains or losses on disposal of non-strategic assets, allocated receipts received or payments made under the U.S. Continued Dumping Subsidy Offset Act (CDSOA) and gains and losses on the dissolution of subsidiaries). The change in 2011 was primarily due to the completion of most of the Company s previously-announced restructuring initiatives. Segment results for 2010 have been reclassified to conform to the 2011 presentation of segments. Refer to Note 13 Segment Information in the Notes to the Consolidated Financial Statements for the reconciliation of EBIT by segment to consolidated income before income taxes.

The presentations of segment results below include a reconciliation of the changes in net sales for each segment reported in accordance with U.S. GAAP to net sales adjusted to remove the effects of acquisitions made in 2010 and currency exchange rates. The effects of acquisitions and currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage change in net sales on a comparable basis from period to period. During the third quarter of 2010, the Company completed the acquisition of QM Bearings and Power Transmission, Inc. (QM Bearings). QM Bearings is part of the Process Industries segment. During the fourth quarter of 2010, the Company completed the acquisition of City Scrap and Salvage Co. (City Scrap). City Scrap is part of the Steel segment. The year 2010 represents the base year for which the effects of currency are measured; as such, currency is assumed to be zero for 2010.

Mobile Industries Segment:

	1Q 2011	1Q 2010	$ Change	Change
Net sales, including intersegment sales	**$ 443.0**	$ 367.5	$ 75.5	20.5%
EBIT	**$ 68.0**	$ 39.6	$ 28.4	71.7%
EBIT margin	**15.3%**	10.8%		450 bps

	1Q 2011	1Q 2010	$ Change	% Change
Net sales, including intersegment sales	**$ 443.0**	$ 367.5	$ 75.5	20.5%
Currency	**5.7**		5.7	NM
Net sales, excluding the impact of currency	**$ 437.3**	$ 367.5	$ 69.8	19.0%

The Mobile Industries segment s net sales, excluding the effects of currency-rate changes, increased 19.0% for the first quarter of 2011, compared to the first quarter of 2010, primarily due to higher volume of approximately $60 million, as well as higher pricing and a favorable sales mix of approximately $10 million. The sales increases were seen across most market sectors, led by a 52% increase in off-highway, a 44% increase in rail and a 23% increase in heavy truck. EBIT was higher in the first quarter of 2011 compared to the first quarter of 2010, primarily due to higher volume of approximately $20 million and better manufacturing utilization of approximately $20 million, partially offset by higher logistics costs of approximately $10 million.

The Mobile Industries segment s sales are expected to increase by 10 to 15 percent in 2011, compared to 2010, primarily due to higher demand across most of the Mobile Industries market sectors, led by increases in off-highway, rail and heavy truck, partially offset by lower light vehicle demand. EBIT for the Mobile Industries segment is expected to increase primarily due to slightly higher volume, as well as better manufacturing utilization.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Process Industries Segment:

	1Q 2011	1Q 2010	$ Change	Change
Net sales, including intersegment sales	**$ 285.0**	$ 206.6	$ 78.4	37.9%
EBIT	**$ 66.7**	$ 24.1	$ 42.6	176.8%
EBIT margin	**23.4%**	11.7%		1,170 bps

	1Q 2011	1Q 2010	$ Change	% Change
Net sales, including intersegment sales	**$ 285.0**	$ 206.6	$ 78.4	37.9%
Acquisitions	**5.5**		5.5	NM
Currency	**3.7**		3.7	NM
Net sales, excluding the impact of acquisitions and currency	**$ 275.8**	$ 206.6	$ 69.2	33.5%

The Process Industries segment s net sales, excluding the effects of acquisitions and currency-rate changes, increased 33.5% in the first quarter of 2011 compared to the same period in the prior year, primarily due to higher volume of approximately $60 million, as well as higher pricing and a favorable sales mix of approximately $10 million. The higher sales were primarily due to an approximately 50% increase to industrial distributors. EBIT was higher in the first quarter of 2011, compared to the first quarter of 2010, primarily due to the impact of higher volumes of approximately $30 million, as well as higher pricing and a favorable sales mix of approximately $10 million.

The Company expects the Process Industries segment s sales to increase by 20% to 25% in 2011 compared to 2010. The increase in sales reflects strengthening global industrial distribution, growth in Asia and sales from new product lines. EBIT for 2011 is expected to be higher than 2010, as a result of increased volume.

Aerospace and Defense Segment:

	1Q 2011	1Q 2010	$ Change	Change
Net sales, including intersegment sales	**$ 79.1**	$ 92.1	$ (13.0)	(14.1)%
EBIT	**$ 2.2**	$ 11.9	$ (9.7)	(81.5)%
EBIT margin	**2.8%**	12.9%		(1,010)bps

	1Q 2011	1Q 2010	$ Change	% Change
Net sales, including intersegment sales	**$ 79.1**	$ 92.1	$ (13.0)	(14.1)%
Currency	**0.4**		0.4	NM
Net sales, excluding the impact of currency	**$ 78.7**	$ 92.1	$ (13.4)	(14.5)%

The Aerospace and Defense segment s net sales, excluding the impact of currency-rate changes, decreased 14.5% in the first quarter of 2011, compared to the first quarter of 2010, primarily due to a decrease in volume of approximately $15 million. The decrease in volume was driven by reduced demand from the defense sector as the Aerospace and Defense segment continues to experience softening that began in the middle of 2009. Profitability for the first quarter of 2011 compared to the first quarter of 2010 declined primarily due to lower volume.

The Company expects the Aerospace and Defense segment to see an increase in sales of approximately 5% to 10% as a result of strengthening in the commercial aerospace and health and positioning control market sectors, partially offset by continued weakness in the general aviation and defense market sectors. EBIT for 2011 is expected to increase from 2010 levels as a result of higher commercial aerospace demand, partially offset by weakness in defense demand.

Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Steel Segment:

	1Q 2011	1Q 2010	$ Change	Change
Net sales, including intersegment sales	**$ 481.5**	$ 270.3	$ 211.2	78.1%
EBIT	**$ 60.0**	$ 19.9	$ 40.1	201.5%
EBIT margin	**12.5%**	7.4%		510 bps

	1Q 2011	1Q 2010	$ Change	% Change
Net sales, including intersegment sales	**$ 481.5**	$ 270.3	$ 211.2	78.1%
Acquisitions	**1.8**		1.8	NM
Currency	**0.3**		0.3	NM
Net sales, excluding the impact of acquisitions and currency	**$ 479.4**	$ 270.3	$ 209.1	77.4%

The Steel segment s net sales for the first quarter of 2011, excluding the effect of acquisitions and currency-rate changes, increased 77.4% compared to the first quarter of 2010 primarily due to higher volume across all market sectors of approximately $100 million and higher surcharges in the first quarter of 2011 compared to the first quarter of 2010. The higher volume was primarily driven by increases in oil and gas demand and industrial demand. Surcharges increased to $133.3 million in the first quarter of 2011 from $59.5 million in the first quarter of 2010. Surcharges are a pricing mechanism that the Company uses to recover scrap steel, energy and certain alloy costs, which are derived from published monthly indices. The average scrap index for the first quarter of 2011 was $476 per ton compared to $416 per ton for the first quarter of 2010. Steel shipments for the first quarter of 2011 were approximately 330,000 tons compared to 218,000 tons for the first quarter 2010, an increase of approximately 51%. The Steel segment s average selling price, including surcharges, was $1,459 per ton for the first quarter of 2011 compared to an average selling price of $1,239 per ton in the first quarter of 2010. The increase in the average selling prices was primarily the result of higher surcharges and a favorable sales mix. The higher surcharges were the result of higher market prices for certain input raw materials, especially scrap steel, nickel and molybdenum.

The Steel segment s EBIT increased $40.1 million in the first quarter of 2011 compared to the first quarter of 2010, primarily due to the timing of surcharges of approximately $75 million, the impact of higher sales volume of approximately $40 million, a favorable sales mix of approximately $20 million and higher pricing of approximately $15 million, partially offset by the impact of higher raw materials costs of approximately $90 million and unfavorable manufacturing utilization of approximately $15 million. Raw material costs consumed in the manufacturing process, including scrap steel, alloys and energy, increased 33% in the first quarter of 2011 over the comparable period in the prior year to an average cost of $503 per ton.

The Company expects the Steel segment to see a 35% to 40% increase in sales for 2011, compared to 2010, due to higher volume and higher average selling prices. The higher average selling prices are driven by higher surcharges as scrap steel and alloy prices are expected to increase in 2011. The Company expects stronger demand across most market sectors, primarily driven by a 70% increase in oil and gas market sectors and a 20% increase in industrial market sectors. The Company expects the Steel segment s EBIT to increase in 2011, compared to 2010, primarily due to the stronger demand, higher average selling prices and favorable sales mix, partially offset by higher raw material costs. Scrap, alloy and energy costs are expected to increase in the near term from current levels as global industrial production improves and then levels off.

Corporate:

	1Q 2011	1Q 2010	$ Change	Change
Corporate expenses	**$ 18.0**	$ 14.4	$ 3.6	25.0%
Corporate expenses % to net sales	**1.4%**	1.6%		(20) bps

Corporate expenses increased for the first quarter of 2011 compared to the same period in 2010 primarily due to higher performance-based compensation of $2.5 million.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The Balance Sheet

Total assets as shown on the Consolidated Balance Sheets at March 31, 2011 were essentially flat compared to December 31, 2010. The following discussion is a comparison of the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010.

Current Assets:

	March 31, 2011	Dec. 31, 2010	$ Change	% Change
Cash and cash equivalents	**$ 637.6**	$ 877.1	$ (239.5)	(27.3)%
Restricted cash	**4.8**		4.8	NM
Accounts receivable, net	**672.5**	516.6	155.9	30.2%
Inventories, net	**917.5**	828.5	89.0	10.7%
Deferred income taxes	**100.4**	100.4		
Deferred charges and prepaid expenses	**14.3**	11.3	3.0	26.5%
Other current assets	**70.3**	65.3	5.0	7.7%
Total current assets	**$ 2,417.4**	$ 2,399.2	$ 18.2	0.8%

Refer to the Consolidated Statement of Cash Flows for a discussion of the decrease in cash and cash equivalents. Refer to Note 5 Financing Arrangements for discussion of restricted cash. Accounts receivable, net increased as a result of the higher sales in the first quarter of 2011, compared to the fourth quarter of 2010. Inventories increased primarily to support higher sales and expected future demand.

Property, Plant and Equipment Net:

	March 31, 2011	Dec. 31, 2010	$ Change	% Change
Property, plant and equipment	**$ 3,484.5**	$ 3,454.0	$ 30.5	0.9%
Less: allowances for depreciation	**(2,233.6)**	(2,186.3)	(47.3)	(2.2)%
Property, plant and equipment net	**$ 1,250.9**	$ 1,267.7	$ (16.8)	(1.3)%

The decrease in property, plant and equipment net in the first quarter of 2011 was primarily due to current-year depreciation expense exceeding capital expenditures, partially offset by the impact of foreign currency translation.

Other Assets:

	March 31, 2011	Dec. 31, 2010	$ Change	% Change
Goodwill	**$ 225.9**	$ 224.4	$ 1.5	0.7%
Other intangible assets	**127.1**	129.2	(2.1)	(1.6)%
Deferred income taxes	**116.3**	121.5	(5.2)	(4.3)%
Other non-current assets	**43.0**	38.4	4.6	12.0%

Total other assets	**$ 512.3**	$ 513.5	$ (1.2)	(0.2)%

The decrease in other intangible assets was primarily due to current-year amortization.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Current Liabilities:

	March 31, 2011	Dec. 31, 2010	$ Change	% Change
Short-term debt	**$ 31.2**	$ 22.4	$ 8.8	39.3%
Accounts payable	**320.9**	263.5	57.4	21.8%
Salaries, wages and benefits	**174.9**	233.4	(58.5)	(25.1)%
Income taxes payable	**47.2**	14.0	33.2	237.1%
Deferred income taxes	**0.8**	0.7	0.1	14.3%
Other current liabilities	**160.3**	176.3	(16.0)	(9.1)%
Current portion of long-term debt	**7.9**	9.6	(1.7)	(17.7)%
Total current liabilities	**$ 743.2**	$ 719.9	$ 23.3	3.2%

The increase in short-term debt was primarily due to increased net borrowings by the Company s foreign subsidiaries under lines of credit due to higher seasonal working capital requirements. The increase in accounts payable was primarily due to higher volumes. The decrease in accrued salaries, wages and benefits was the result of the payout of the 2010 performance-based compensation. The increase in the income taxes payable was primarily due to the current-year provision for income taxes, partially offset by income tax payments in 2011.

Non-Current Liabilities:

	March 31, 2011	Dec. 31, 2010	$ Change	% Change
Long-term debt	**$ 483.3**	$ 481.7	$ 1.6	0.3%
Accrued pension cost	**241.0**	394.5	(153.5)	(38.9)%
Accrued postretirement benefits cost	**529.4**	531.2	(1.8)	(0.3)%
Deferred income taxes	**6.2**	6.0	0.2	3.3%
Other non-current liabilities	**111.2**	105.3	5.9	5.6%
Total non-current liabilities	**$ 1,371.1**	$ 1,518.7	$ (147.6)	(9.7)%

The decrease in accrued pension cost was primarily due to the Company s contributions of approximately $155 million to its defined benefit plans during the first quarter of 2011.

Shareholders Equity:

	March 31, 2011	Dec. 31, 2010	$ Change	% Change
Common stock	**$ 933.9**	$ 934.8	$ (0.9)	(0.1)%
Earnings invested in the business	**1,721.5**	1,626.4	95.1	5.8%
Accumulated other comprehensive loss	**(585.1)**	(624.7)	39.6	6.3%
Treasury shares	**(22.2)**	(11.5)	(10.7)	(93.0)%

Noncontrolling interest	**18.2**	16.8	1.4	8.3%
Total shareholders equity	**$ 2,066.3**	$ 1,941.8	$ 124.5	6.4%

Earnings invested in the business increased in the first quarter of 2011 by net income of $112.7 million, partially offset by dividends declared of $17.6 million. The decrease in accumulated other comprehensive loss was primarily due to the effect of foreign currency translation adjustments of $33.0 million due to the weakening of the U.S. dollar relative to other currencies, such as the Euro and the Romanian lei. See Foreign Currency for further discussion regarding the impact of foreign currency translation. Treasury shares increased in the first quarter of 2011 as a result of the Company repurchasing stock under its 2006 common stock purchase plan.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Cash Flows:

	March 31, 2011	March 31, 2010	$ Change
Net cash used by operating activities	**$ (197.6)**	$ (13.9)	$ (183.7)
Net cash used by investing activities	**(32.2)**	(15.1)	(17.1)
Net cash used by financing activities	**(23.9)**	(10.7)	(13.2)
Effect of exchange rate changes on cash	**14.2**	(6.5)	20.7
Decrease in cash and cash equivalents	**$ (239.5)**	$ (46.2)	$ (193.3)

Net cash from operating activities used cash of $197.6 million in the first quarter of 2011, after using cash of $13.9 million in the first quarter of 2010. The change in cash from operating activities was primarily due to higher cash used for working capital items, particularly accounts receivable, inventories and accrued expenses, as well as higher pension contributions and other postretirement benefit payments, partially offset by higher net income. Accounts receivable used cash of $149.6 million in the first quarter of 2011, after using cash of $82.1 million in the first quarter of 2010. Inventories used cash of $80.4 million in the first quarter of 2011, after using cash of $22.5 million in the first quarter of 2010. Accounts receivable and inventories increased in the first quarter of 2011, primarily due to higher volumes compared to the first quarter of 2010. Accrued expenses used cash of $81.0 million in the first quarter of 2011, after using cash of $7.8 million in the first quarter of 2010 due to the payout of the 2010 performance-based compensation in 2011. Pension contributions and other postretirement benefit payments were $166.0 million for the first quarter of 2011, compared to $118.7 million for the first quarter of 2010. Net income increased $84.1 million in the first quarter of 2011 compared to the first quarter of 2010.

The net cash used by investing activities of $32.2 million for the first three months of 2011 increased from the same period in 2010 primarily due to an increase in net investments of $13.3 million and a $6.1 million increase in capital expenditures in the current year. The Company expects to increase capital expenditures by approximately 90% in 2011 compared to the 2010 level.

The net cash flows from financing activities used cash of $23.9 million in the first quarter of 2011, after using cash of $10.7 million in the first quarter of 2010, as a result of an increase in the Company s repurchases of Company stock of $11.3 million and higher cash dividends paid to shareholders of $8.9 million. These uses of cash were partially offset by higher net proceeds from stock option exercises during the first quarter of 2011 compared to the first quarter of 2010.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources

At March 31, 2011, cash and cash equivalents of $637.6 million exceeded total debt of $522.4 million. At December 31, 2010, cash and cash equivalents of $877.1 million exceeded total debt of $513.7 million. The net debt to capital ratio was a negative 5.9% and 23.0%, respectively, at March 31, 2011 and December 31, 2010.

Reconciliation of total debt to net debt and the ratio of net debt to capital:

Net Debt:

	March 31, 2011	Dec. 31, 2010
Short-term debt	**$ 31.2**	$ 22.4
Current portion of long-term debt	**7.9**	9.6
Long-term debt	**483.3**	481.7
Total debt	**522.4**	513.7
Less: cash and cash equivalents	**(637.6)**	(877.1)
Net (cash) debt	**$ (115.2)**	$ (363.4)

Ratio of Net Debt to Capital:

	March 31, 2011	Dec. 31, 2010
Net (cash) debt	**$ (115.2)**	$ (363.4)
Shareholders equity	**2,066.3**	1,941.8
Net (cash) debt + shareholders equity (capital)	**$ 1,951.1**	$ 1,578.4
Ratio of net (cash) debt to capital	**(5.9)%**	(23.0)%

The Company presents net (cash) debt because it believes net (cash) debt is more representative of the Company s financial position.

At March 31, 2011, the Company had no outstanding borrowings under its two-year Accounts Receivable Securitization Financing Agreement (Asset Securitization Agreement), which provides for borrowings up to $150 million, subject to certain borrowing base limitations, and is secured by certain domestic trade receivables of the Company. The Company had full availability under the Asset Securitization Agreement as of March 31, 2011.

At March 31, 2011, the Company had no outstanding borrowings under its $500 million Amended and Restated Credit Agreement (Senior Credit Facility), but had letters of credit outstanding totaling $17.2 million, which reduced the availability under the Senior Credit Facility to $482.8 million. The Senior Credit Facility matures on July 10, 2012. Under the Senior Credit Facility, the Company has three financial covenants: a consolidated leverage ratio; a consolidated interest coverage ratio; and a consolidated minimum tangible net worth test. At March 31, 2011, the Company was in full compliance with the covenants under the Senior Credit Facility and its other debt agreements. The maximum consolidated leverage ratio permitted under the Senior Credit Facility is 3.75 to 1.0. As of March 31, 2011, the Company s consolidated leverage ratio was 0.68 to 1.0. The minimum consolidated interest coverage ratio permitted under the Senior Credit Facility is 4.0 to 1.0. As of March 31, 2011, the Company s consolidated interest coverage ratio was 22.03 to 1.0. As of March 31, 2011, the Company s consolidated tangible net worth exceeded the minimum required amount by a significant margin. Refer to Note 6 Financing Arrangements in the Notes to the

Consolidated Financial Statements for further discussion.

The interest rate under the Senior Credit Facility is based on the Company s consolidated leverage ratio. In addition, the Company pays a facility fee based on the consolidated leverage ratio multiplied by the aggregate commitments of all of the lenders under this agreement.

Other sources of liquidity include lines of credit for certain of the Company s foreign subsidiaries, which provide for borrowings up to $327.7 million. The majority of these lines are uncommitted. At March 31, 2011, the Company had borrowings outstanding of $51.1 million and guarantees of $2.7 million, which reduced the availability under these facilities to $273.9 million.

Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The Company expects that any cash requirements in excess of cash on hand and cash generated from operating activities will be met by the committed funds available under its Asset Securitization and the Senior Credit Facility. The Company believes it has sufficient liquidity to meet its obligations through at least the term of the Senior Credit Facility.

The Company expects to remain in compliance with its debt covenants. However, the Company may need to limit its borrowings under the Senior Credit Facility or other facilities in order to remain in compliance. As of March 31, 2011, the Company could have borrowed the full amounts available under the Senior Credit Facility and Asset Securitization Agreement, and would have still been in compliance with its debt covenants.

The Company expects to generate cash from operations of $390 million in 2011, an improvement of approximately $75 million over 2010 levels, as the Company continues to experience improved operating margins. In addition, the Company expects to increase capital expenditures by approximately 90% in 2011, compared to 2010. The Company also expects to make approximately $170 million in pension contributions in 2011, compared to $230 million in 2010, of which $155 million has been contributed to date.

Financing Obligations and Other Commitments

During the first three months of 2011, the Company made contributions of approximately $155 million to its defined benefit pension plans. The Company currently expects to make cash contributions of approximately $170 million, over $150 million of which is discretionary, to its global defined benefit pension plans in 2011. The Company may consider making additional discretionary contributions to either its defined benefit pension plans or its postretirement benefit plans during 2011. Returns for the Company s global defined benefit pension plan assets in 2010 were significantly above the expected rate-of-return assumption of 8.75 percent due to broad increases in global equity markets. These favorable returns positively impacted the funded status of the plans at the end of 2010 and are expected to result in lower pension expense and required pension contributions over the next several years. However, the impact of these favorable returns will be partially offset by the impact of the lower discount rate for expense in 2011, compared to 2010. Returns for the Company s U.S. defined benefit plan pension assets for the first three months of 2011 were approximately 3%, due to the continued strong performance in the global equity markets.

During the first quarter of 2011, the Company purchased 500,000 shares of common stock for approximately $25.3 million under the Company s 2006 common stock purchase plan. This plan authorizes the Company to buy, in the open market or in privately negotiated transactions, up to four million shares of common stock, which are to be held as treasury shares and used for specified purposes, up to an aggregate of $180 million. The authorization expires on December 31, 2012. As of March 31, 2011, the Company has purchased 1.5 million shares of its common stock for an aggregate amount of approximately $54.6 million under this plan.

The Company does not have any off-balance sheet arrangements with unconsolidated entities or other persons.

Critical Accounting Policies and Estimates:

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The Company reviews its critical accounting policies throughout the year. The Company has concluded that there have been no changes to its critical accounting policies or estimates, as described in its Annual Report on Form 10-K for the year ended December 31, 2010, during the three months ended March 31, 2011.

Other Matters:

Foreign Currency:

Assets and liabilities of subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the quarter. Related translation adjustments are reflected as a separate component of accumulated other comprehensive loss. Foreign currency gains and losses resulting from transactions are included in the Consolidated Statements of Income.

Foreign currency exchange losses included in the Company s operating results for the three months ended March 31, 2011 were $2.2 million, compared to a loss of $1.6 million during the three months ended March 31, 2010. For the three months ended March 31, 2011, the Company recorded a positive non-cash foreign currency translation adjustment of $33.0 million that increased shareholders equity, compared to a negative non-cash foreign currency translation adjustment of $13.2 million that decreased shareholders equity for the three months ended March 31, 2010. The foreign currency translation adjustment for the three months ended March 31, 2011 was positively impacted by the weakening of the U.S. dollar relative to other currencies, such as the Euro and the Romanian lei.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Forward Looking Statements

Certain statements set forth in this document and in the Company s 2010 Annual Report to Shareholders (including 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. In particular, Management s Discussion and Analysis contain numerous forward-looking statements. The Company cautions readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of the Company due to a variety of important factors, such as:

a) deterioration in world economic conditions, including additional adverse effects from the global economic slowdown, terrorism or hostilities. This includes, but is not limited to, political risks associated with the potential instability of governments and legal systems in countries in which the Company or its customers conduct business, and changes in currency valuations;

b) the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which the Company operates. This includes the ability of the Company to respond to the rapid changes in customer demand, the effects of customer bankruptcies or liquidations, the impact of changes in industrial business cycles and whether conditions of fair trade continue in the U.S. markets;

c) competitive factors, including changes in market penetration, increasing price competition by existing or new foreign and domestic competitors, the introduction of new products by existing and new competitors and new technology that may impact the way the Company s products are sold or distributed;

d) changes in operating costs. This includes: the effect of changes in the Company s manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; higher cost and availability of raw materials and energy; the Company s ability to mitigate the impact of fluctuations in raw materials and energy costs and the operation of the Company s surcharge mechanism; changes in the expected costs associated with product warranty claims; changes resulting from inventory management and cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; and changes in the cost of labor and benefits;

e) the success of the Company s operating plans; the ability of acquired companies to achieve satisfactory operating results; and the Company s ability to maintain appropriate relations with unions that represent Company associates in certain locations in order to avoid disruptions of business;

f) unanticipated litigation, claims or assessments. This includes, but is not limited to, claims or problems related to intellectual property, product liability or warranty, environmental issues, and taxes;

g) changes in worldwide financial markets, including availability of financing and interest rates, which affect: the Company s cost of funds and/or ability to raise capital; the Company s pension obligations and investment performance; and/or customer demand and the ability of customers to obtain financing to purchase the Company s products or equipment that contain the Company s products; and

h) those items identified under Item 1A. Risk Factors in the Annual Report on Form 10-K for the year ended December 31, 2010.

Additional risks relating to the Company s business, the industries in which the Company operates or the Company s common stock may be described from time to time in the Company s filings with the SEC. All of these risk factors are difficult to predict, are subject to material uncertainties that may affect actual results and may be beyond the Company s control.

Except as required by the federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to information appearing under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q. Furthermore, a discussion of market risk exposures is included in Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk, of the Company s Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes in reported market risk since the inclusion of this discussion in the Company s Annual Report on Form 10-K referenced above.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting

During the Company s most recent fiscal quarter, there have been no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a materially adverse effect on the Company s consolidated financial position or results of operations.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 includes a detailed discussion of our risk factors. There have been no material changes to the risk factors included the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Common Stock

The following table provides information about purchases by the Company during the quarter ended March 31, 2011 of its common stock.

Period	**Total number of shares purchased[(1)]**	**Average price paid per share[(2)]**	**Total number of shares purchased as part of publicly announced plans or programs**	**Maximum number of shares that may yet be purchased under the plans or programs[(3)]**
1/1/11 1/31/11	52,663	$ 48.74		3,000,000
2/1/11 2/28/11	568,171	50.78	382,000	2,618,000
3/1/11 3/31/11	118,732	48.79	118,000	2,500,000
Total	739,566	$ 50.32	500,000	2,500,000

(1) The shares purchased in January, 186,171 of the shares purchased in February, and 732 of the shares purchased in March represent shares of the Company s common stock that are owned and tendered by employees to exercise stock options, and to satisfy withholding obligations in connection with the exercise of stock options and vesting of restricted shares.

(2) For shares tendered in connection with the vesting of restricted shares, the average price paid per share is an average calculated using the daily high and low of the Company s common stock as quoted on the New York Stock Exchange at the time of vesting. For shares tendered in connection with the exercise of stock options, the price paid is the real-time trading stock price at the time the options are exercised.

(3) Pursuant to the Company s 2006 common stock purchase plan, the Company may purchase up to four million shares of common stock at an amount not to exceed $180 million in the aggregate. The Company may purchase shares under its 2006 common stock purchase plan until December 31, 2012. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share purchases or Rule 10b5-1 plans.

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Item 6. Exhibits

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31.1 Certification of James W. Griffith, President and Chief Executive Officer (principal executive officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Glenn A. Eisenberg, Executive Vice President Finance and Administration (principal financial officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of James W. Griffith, President and Chief Executive Officer (principal executive officer) and Glenn A. Eisenberg, Executive Vice President Finance and Administration (principal financial officer) of The Timken Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Financial statements from the quarterly report on Form 10-Q of The Timken Company for the quarter ended March 31, 2011, filed on May 2, 2011, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements tagged as blocks of text.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TIMKEN COMPANY

Date May 2, 2011

By /s/ James W. Griffith
James W. Griffith
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date May 2, 2011

By /s/ Glenn A. Eisenberg
Glenn A. Eisenberg
Executive Vice President Finance and Administration (Principal Financial Officer)