Twin Disc, Incorporated
Fourth Quarter and Year End Fiscal 2009 Earnings
August 4, 2009

Operator: Good day ladies and gentlemen. Thank you so much for standing by. Welcome to the Twin Disc Inc. 2009 fourth quarter and year end financial results conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation the conference will be open for questions. If you have a question you may press the star followed the by 1 on your touch tone phone. Please press star 0 for operator assistance at any time. For participants using speaker equipment please note it may be necessarily to lift up your handset before making your selection. As a reminder the conference is being recorded today on Tuesday the fourth of August, 2009, I'd like to turn conference over to our host Mr. Andrew Burton. Please go ahead.

Andrew Burton: Thanks Michael. On behalf of the management of Twin Disc, we are extremely pleased that you have taken the time to participate in our call. I thank you for joining us to discuss the company's fiscal 2009 fourth quarter and full year financial results and business outlook.

Before I introduce management, I would like to remind everyone that certain statements made during the course of this conference call, especially those that state management's intentions, hopes, beliefs, expectations, or predictions for the future, are forward-looking statements. It is important to remember that the company's actual results could differ materially from those projected in such forward looking-statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the company's annual report on Form 10K, copies of which may be obtained by contacting either the company or the SEC. By now you should have received a copy of the news release which was issued this morning before the market opened. If you have not received a copy, please call Annette Miyaneki (sp?), at 262 638 4000 and she will send a copy to you.

Hosting the call today are Michael Batten, Twin Disc's Chairman and Chief Executive Officer, John Batten, President and Chief Operating Officer, and Christopher Eperjesy, the company's Vice President of Finance, Chief Financial Officer, and Treasurer. At this time I'll turn the call over to Michael Batten. Mike?

Michael Batten: Thank you, Andy. Good afternoon everyone, and welcome to our fourth quarter conference call. As Andy has indicated I will start with a brief statement, and John and Chris and I will be available to answer questions in a few minutes.

Sales for the fourth quarter were 72.1 million compared to 90.3 million for fiscal 2008 fourth quarter. Sales for the entire fiscal year of 2009 was 295 million compared to 332 million for fiscal 2008. Foreign currency translations negatively impacted sales by 3.4 million and 4.8 million respectively.

The company continues to experience the impact of softening in many of our key product markets. The mega yacht, marine, oil, and gas, and industrial markets continue to experience a significant fall-off in both shipments and orders. However, we continue to experience encouraging demands in our commercial marine, land, and marine based military, and airport rescue and firefighting markets. And while North American and European markets experienced year-over-year declines in sales, the Pacific Rim continues to offer expanding opportunities for the company as both sales and orders into the region continue to grow at historically high levels.

Gross profit as a percentage of our fiscal 2009 fourth quarter sales was 26.7% compared to 32.1% in the same quarter last year. For the entire fiscal year 2009, gross profit as a percentage of sales was 27.6% compared to 31.6% for fiscal 2008. The gross margin for the quarter and the year was unfavorably impacted by a lower sales volume and unfavorable shift in product mix, primarily due to lower shipments of oil and gas transmissions and an increase in warranty expenses.

As a percentage of sales, marketing, and engineering, and administrative expenses for the fourth fiscal quarter was 17.5% compared to 21.4% for the same fiscal quarter in 2008. As a percentage of sales EMEA (sp?) expenses for fiscal year 2009 were 20.5% compared to 20% for fiscal 2008.

Several significant adjustments were recorded in the fourth fiscal quarter, and are set out in the press release. Chris will be available to answer questions on them, as well as on the fourth quarter tax rate in a few minutes.

Net earnings for fiscal 2009 fourth quarter were 2.8 million or $0.25 per diluted share compared to 7 million or $0.62 per diluted share recorded in the same quarter last year. For the current full year net earnings were 11.5 million or $1.03 per diluted share compared to 24.3 million or $2.13 per diluted share for fiscal year 2008.

Turning to our financial conditions, our liquidity and balance sheets continue to remain strong. At fiscal year-end, we had 13 million in cash, and total debt stood at 50.7 million. Total debt to capital was 32.2% and the interest rate on our revolving credit facility was 4%. During the fourth quarter we renewed our $35 million credit facility until May 2012. Our six month back-log at June 30 2009 was 66.6 million compared to 120.8 million a year ago and 81.5

million at the end of March 2009. While the June back-log typically is softer reflecting the vacation months of the first quarter, there was no doubt that some of our markets had weakened.

As mentioned previously, certain of our markets, mainly mega yacht, marine, oil and gas, and industrial, have seen significant softening over the past few quarters, although inquiries (sp?) for oil and gas have increased in the last 2 months. Other markets, mainly our commercial marine, land and marine based military, and air force rescue and firefighting have held steady or even increased in strength.

In addition, North America and Europe have suffered, while the Pacific Rim and Asia in general has strengthened. In this context, we took strong action in the fourth quarter to address the softening demand in the American and European sectors by announcing a $25 million cost reduction and avoidance (sp?) program for fiscal 2010. These actions included expense-enforced reductions, rolling layoffs, as well as freezing our domestic pension plans in the United States. Utilization of government-sponsored layoff programs in Europe and other downsizing and subsidiary operations were appropriate elsewhere in the world.

At the same time, we have maintained our focus on spending on differentiating new product development that will help grow our business in the short and long term. The 7500 series transmission for oil and gas applications, our joystick marine control, and hybrid ready marine transmissions are but 3 examples of these initiatives. Other new product programs are in development that we believe will foster additional growth.

Further, we are taking actions to enhance our positions in the developing countries where we are seeing continuing growth opportunities.

As we look ahead to the next fiscal year, our outlook is somewhat mixed. On the one hand we are tightening our belt to control costs, to deal with the softer market in the early part of the year. On the other hand, we are moving forward aggressively to take advantage of the opportunities we see, and are cautiously optimistic about the second half of the year as a result.

That concludes my prepared remarks, and John, Chris, and I will be happy to take your questions now. Michael?

Operator: Thank you, sir. Ladies and gentlemen at this time we will begin our question and answer session. As a reminder if you do have a question at this time please press the star followed by the one on your touch-tone phone. Once you make that choice, if you decide you'd like to withdraw your question, press the star followed by the 2. We will remove your line from the queue. If you are using speaker equipment today, again please note you will need to lift your handset prior to making that selection. Our first question is from the line of Bo McKenzie with Lafitte Capital. Please go ahead.

Bo McKenzie: Hey, guys. Congratulations on a really good quarter in a tough environment. On the inquiries that you talked about, Michael, from the oil patch, specifically what are you seeing in terms of the pickup in inquiries, and if you don't mind, I'd like to follow up with a few questions about the 8500 and 7500 as well.

Michael Batten: Okay, Bo, I'm going to ask John to respond to that.

John Batten: Sure. Bo, the activity compared to the first three calendar quarters of the year has been much stronger for mainly the frac transmissions and the air clutches, but also keeping projects for off-shore marine drilling (sp?), particularly in Asia. Unfortunately, not a lot of the inquiries in the frac transmissions have turned into orders yet, but the activity keeps increasing as the price of oil continues to creep higher.

Bo McKenzie: If I could ask specifically a question on the on shore and the off shore side. On-shore is a little long winded, so I'll apologize in advance. If you look at the overall, at least in North America, what may be happening internationally with time, you had a decline in overall drilling, but the decline in the directional drilling, which is tied into these shale plays has been a lot less, shale plays are getting bigger and bigger frac jobs. When you look at the market for the 7500 in particular, what, and by the way, the frac companies are scrapping some of their older equipment, but when you look at the market for the 7500 in particular, what are the key selling points? Are you able to go in and convince them somehow or another that this is something could go into an upgrade as opposed to, a new product, a new unit sales?

John Batten: Bo, I would say, 50% or more of the inquiries from the 7500 have been into rebuild of existing frac rates as opposed to new construction.

Bo McKenzie: And what is the big selling point in it? What is it offering that the 8500 doesn't?

John Batten: Well, dimensionally, its narrower, it can fit into the same frame-rails that the competition can, so you can take an existing rig. You have to modify it, but you don't have to change the overall structure of the trailer. So, the lighter weight allows you to, it's rotable without the special permit, so you can use the same tractor trailer arrangement. Secondly, the ratios are designed specifically for pressure pumping, so they're even-stepped ratios and it's not a converted vehicular transmission. Those are the key selling features.

Bo McKenzie: Does, Alisson (sp?)… I guess, you mean by your main competitor in there, have a comparable product that is designed specifically to the frac market or are they largely taking a medium-duty truck application and putting it into the frac business?

John Batten: Every other frac transmission started its life doing something else.

Bo McKenzie: Okay

John Batten: And it's been, probably modified over time, but to our knowledge, basically the ratios that are in there were designed for a particular application. The 7500 was never designed for vehicle (sp?) only pressure pumping.

Bo McKenzie: Okay. And it is it able to handle a higher horsepower?

John Batten: Yes, well, the horsepower is less than the 8500, kind of below 2250 range, and the durability of this should be much better than anything that's out there in the field as a result of being designed specifically for pressure pumping.

Bo McKenzie: And then, one last question on this and then I'll put myself back in queue and come back on the 8500. You talk about this being commercially available sometime late next year, late next fiscal year. I would assume you guys are in the field testing phase right now?

John Batten: The goal is to be ready for shipment in the fourth quarter of this fiscal year.

Bo McKenzie: This fiscal year being, by the June quarter of 2010?

John Batten: Correct. Right now we are in the process of moving out of the initial spin test in the lab into the power test, and then we'll also be going into some test well applications down in Texas before we go out to an actual field test.

Bo McKenzie: Okay. Well I'll back off and let some other people ask some questions.

John Batten: Okay.

Operator: Thank you. Our next question comes from Paul Mammola of Sidoti Company. Please go ahead.

Paul Mammola: Hi, good afternoon everyone. The 25 million in costs savings. Can you give us a sense of how much of that would fall in costs of goods sold and MENA? (sp?)

Male Speaker: That's a good question, Paul. I would say probably a good two thirds of it would fall at cost of goods sold, and a third would fall in MENA, plus or minus, you know, 10%.

Paul Mammola: Okay. And, should we expect that to be evenly spread throughout the year? Or is it more scattered?

Male Speaker: No, I would say, it's more evenly spread than scattered, but I would say that there's probably, given that we have announced the one month shutdown of our facility here in Racine in July, obviously that's going to have an effect in July. In general I would say that a lot of the costs are evenly spread throughout the year.

Paul Mammola: Okay, that's helpful. And can you give us a sense of what the marine and off-highway sales declines were in general in the quarter?

John Batten: Marine and which?

Paul Mammola: Off-highway.

John Batten: In marine, it's mostly related to pleasure crafts, the mega yacht, and off highway would mostly be the oil field activity.

Paul Mammola: Sorry, John. In terms of numerical declines? Just, generally?

Michael Batten: The marine — Paul, this is Mike. The marine business actually grew in the fourth quarter.

Paul Mammola: Oh, okay.

Michael Batten: And, the transmission business declined primarily because of the year over year comparisons, that was the impact there.

Male Speaker: And for point of clarification Paul, when Michael says that the marine grew, that's the marine transmission portion of our business.

Paul Mammola: Okay. Is the pickup in the second half 2010 sales you alluded to in the press release and right now substantiated by any comments or forecasts from BJ services? Or is this more of your general feel, Mike?

Michael Batten: It's more of a general feel than it is specific to any given customer. As John indicated, we are seeing inquiry activity increase, especially in the last couple of months, and we are also looking at the forthcoming introduction of the 7500 on the inquiries and the discussions we've had with potential customers.

Paul Mammola: Okay, that's fair. Can you expand at all on what product lines observed the increased warranty spend (sp?) and do you see that as a more of a one time blip than anything else?

Michael Batten: Yeah, the warranty expense is primarily, and really, warranty is a little bit of a misnomer, it was in the 8500 and pressure pumping, and it was basically on a new application where we were spending more time in a ratio that we had not seen before, so we had to convert at the Munich because the operator was operating at a ratio that was typically not used.

Paul Mammola: Okay, perfect. Thanks for your time.

Michael Batten: All right Paul, thank you.

Operator: All right, thank you. Peter Lisnic with Robert W Baird, Please go ahead.

Peter Lisnic: Good afternoon gentlemen. I guess, first question, maybe for Chris, on the pension curtailment, can you give us the breakdown of how that allocates between COGS and MENA please?

Chris Eperjesy: You know, and I have to apologize. I have a lot of pages here on the pension but it's probably the one I can't give. Pete, I apologize, I don't have the split between MENA and cost of goods sold.

Peter Lisnic: Okay, that's fine.

Chris Eperjesy: I can say that I know it's probably close to two thirds, one third, in terms of the two thirds being cost of goods sold.

Peter Lisnic: All right, okay, that's fine. If you look at the, I guess the restructuring savings that you're talking about, the 25 million that you put on the press release a couple months ago I guess it was, in two thirds of that coming through cost of goods sold, the implication is 500 or 600 basis points of potential gross margin improvement year on year, is that the kind of right way to think about it with the volume pressure that you might see in the first half of the year, is it reasonable to assume that you'll still be able to put up a 30% gross margin in fiscal 2010?

Chris Eperjesy: I think it goes back to what Mike was talking about earlier, some of the cost reductions are the cost savings, some of them are cost avoidance, so the portion that's cost avoidance is really to maintain margin, so I guess the answer is that. A lot of the cost reduction is cost avoidance.

Peter Lisnic: Yeah.

Chris Eperjesy: So aren't necessarily going to drop through as incremental.

Peter Lisnic: Okay.

Chris Eperjesy: And if I remember right it was about half and half, of, avoidance versus savings. Is that the right mix?

Chris Eperjesy: It's probably not too far off, give or take 10%.

Peter Lisnic: All right. Okay, that's fine. And then, can you talk a little bit about the military business, the military transmission business? Whether there's any new programs, or awards that are coming down the pipe that ought to help you? And then in the context of all the focus on military budgets and government spending, what the longer term implications for that business might be as well?

Michael Batten: Well, the first part is a little bit easier than the second part. For the military contracts we have ongoing business for the XD 1410, the Hercules, and that we have booked out quite a ways throughout the fiscal year and there are some potential add-on parts to that, and the double AD 7 may have some life yet again at the end of this fiscal year. And we're always looking for new projects that we feel we can add value to and earn a good margin both domestically and overseas. There are a lot of projects that we have in the pipeline that we have just haven't heard thumbs up or thumbs down. There has been, as you've probably read in the newspaper, a big reshuffling in the priorities of our defense department, and it's just to soon to tell how that could potentially affect some of the projects that we're on. I mean, there's probably pluses and minuses, we just can't say for sure yet.

Peter Lisnic: Okay. That was very, very helpful. Thank you all.

Operator: Thank you. Our next question's from Julian Allen with Spitfire Capital. Please go ahead.

Julian Allen: Good afternoon. Thanks for taking my question. Can you please give us a little more color on the commercial marine segment, which obviously has at least 2 components – one is the Asian distribution business, and then also the domestic business, which is more oriented toward the Gulf Coast vessels, and new builds (sp?)? And specifically, given that your back-log number's a six month number, are you preparing for a potential downturn, particularly domestically, as that late cycle of business potentially winds down? I'd love to get some color from you on that segment, thank you.

Michael Batten: A couple pieces, you hit everything. A lot of the business in Asia commercial and marine (sp?) is new construction and order activity is increasing, project activity is increasing, and I think it's partially attributed to the Chinese stimulus package. There's a lot of building still going on, and we're doing quite well there. In the US, the commercial activity is focused around offshore oils and then, mainly for us, river traffic. Push boats, tugboats, harbor activity, and there, we're participating both in new construction but also retrofits. In the offshore, we're retrofitting our quick shift transmissions and DP2 control systems in the vessels that haven't had that before. We're also retrofitting and new construction in some of the larger fleet operators on the rivers with quick shift and electronic control. And then, there are some projects out there for the core of engineers, for a lot of vessels, it should start to kick in, so I'm hopeful if this market, I'm pretty sure it's going to stay active in Asia, but in North America I'm hopeful that there's enough here, even with retrofits, to keep a pretty strong market going for a while. But, obviously, if conditions change we'll have to readjust, but optimistic on this market particularly.

Julian Allen: Great, thank you very much.

Operator: Thank you. Ladies and gentlemen if there are any additional questions that this time please press the star followed by the 1 at this time. Just a reminder if you're using speaker equipment you'll need to lift the handset prior to making that selection. Bo McKenzie, please go ahead with your follow-up.

Bo McKenzie: Hi, on the quick shift, I know you guys have talked in the past about, I believe you said, that you're trying to get the push power capabilities up to the point that you could market towards some of the bigger equipment out in the oil patch. I was wondering how that stood, in terms of the larger horsepower end of the quick shift market. I know you guys picked up a number of crew-boats projects before with Secord and a few other people.

Michael Batten: Yes, we have, I mean, for Twin Disc, for our range, we're at the max. horsepower capability and we're always looking at the opportunity, but for right now the top of our line for the crew-boats is MGX61500, and for offshore vessels is MGX5600, and at least for the next 12 to 18 months, we have the horsepower range we're going to have for the next year and a half, or so.

Bo McKenzie: All right. And then, I guess, if there's one thing that stood out a little bit. Inventory levels are still a kind of high. Is there much you guys can do to take, cash out inventory over the next several quarters?

Michael Batten: Yeah, you would have seen a bigger decrease. There were significant decreases at the manufacturing operations, specifically here in Racine, in Belgium, and in Italy. We shift a lot of stuff to Asia that's going to be delivered in this quarter, so there should be a continued trend of inventory going down.

Bo McKenzie: Okay, then one final and unrelated question. If you looked at the cash you got and the renewed credit lines, and the fact that valuations are up (sp?), I would assume for anything that might be of interest to you guys, pretty much, half of what they were a year ago, are you guys seeing any kind of opportunities that are out there that might give you a chance to expand like you did when you picked up the stuff in the mega yachts a couple years ago?

Michael Batten: We're, Bo it's Mike, we're active in the market, you hit the right point, the valuations have been on the high side, and should be coming down and we feel we've got enough dry powder to make a meaningful acquisition as we go forward, so we're back in the market and that's about all I'll say at the moment. But it's definitely something that we're working on.

Bo McKenzie: Great. Thanks a lot, again.

Michael Batten: Okay, good.

Operator: Ladies and gentlemen there are no further questions at this time. Please continue with any closing remarks you might have.

Michael Batten: Thank you Michael. And thank you all for attending the conference call today. We're very pleased to have your continuing interest in Twin Disc and we appreciate your attention. The process that we're going through, as I've indicated is to tighten our belts for the near term, and that is clearly one of the things that our cost reduction program is targeted to do, is to address the softness that is here in the North American and European markets. Offsetting that, as we've said, in our remarks, is continuing (sp?) encouraging of demand rates coming out of Asia and we're doing everything possible to grow that sector of the world. While back-logs have moderated, nevertheless, exposure to Asia and the Pacific Rim has helped us and we see that as a good sign going forward. Having said that, of course, we do see that the near-term is going to be an issue, but as we look out into the latter part of the fiscal year, we should be seeing more positive signs and results occurring. So again, thank you for your attention and have a good day.

Operator: All right, thank you. Ladies and gentlemen, this does conclude the Twin Disc Inc. 2009 fourth quarter and year end financial results conference call. This conference will be available for replay after 3 pm central daylight time today through August 11 at midnight. We thank you very much for your participation, you may now disconnect. Have a very pleasant rest of your day.