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

FORM 8-K/A

Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported) **July 2, 2018**

TWIN DISC, INCORPORATED

(Exact name of registrant as specified in its charter)

WISCONSIN	**001-7635**	**39-0667110**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1328 Racine Street, Racine, Wisconsin 53403

(Address of principal executive offices)

Registrant's telephone number, including area code: **(262) 638-4000**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

EXPLANATORY NOTE

As previously reported under Item 2.01 of the July 3, 2018 Current Report on Form 8-K (the "Original Form 8-K") filed by Twin Disc, Incorporated ("Twin Disc" or the "Company"), on July 2, 2018, Twin Disc completed its acquisition of Veth Propulsion Holding B.V. and its wholly-owned subsidiaries, Exploitatiemaatschappij Veth B.V., Veth Diesel B.V., Veth Electra B.V., Veth Propulsion B.V. and Veth Thrusters B.V. ("Veth Subsidiaries", and together with Veth Propulsion Holding B.V., "Veth Propulsion"). This Form 8-K/A amends the Original Form 8-K to provide the financial statements of Veth Propulsion required by Item 9.01(a) and the pro forma financial information required by Item 9.01(b).

FORWARD LOOKING STATEMENTS

The disclosures in this report on Form 8-K/A and in the documents incorporated herein by reference contain or may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believes," "expects," "intends," "plans," "anticipates," "hopes," "likely," "will," and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company (or entities in which the Company has interests), or industry results, to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements. Certain factors that could cause the Company's actual future results to differ materially from those discussed are noted in connection with such statements, but other unanticipated factors could arise. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's view only as of the date of this Form 8-K/A. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions or circumstances.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The audited consolidated financial statements of Veth Propulsion as of and for the year ended December 31, 2017, and the related notes, are attached hereto as Exhibit 99.1.

The unaudited condensed consolidated financial information of Veth Propulsion as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and June 30, 2017, and the related notes, are attached hereto as Exhibit 99.2.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial information of Twin Disc and Veth Propulsion for the twelve months ended June 30, 2018 are being furnished hereunder as Exhibit 99.3 attached hereto. They were prepared for informational and illustrative purposes in accordance with Article 11 of SEC Regulation S-X. Such information is preliminary and based on currently available information and assumptions that the Company believes are reasonable but may be subject to change. They shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as set forth by specific reference in such filing.

Below are the following unaudited pro forma condensed combined financial information:

- Unaudited pro forma condensed combined statement of operations for the twelve months ended June 30, 2018
- Unaudited pro forma condensed combined balance sheet as of June 30, 2018
- Notes to unaudited pro forma condensed combined financial statements

The unaudited pro forma condensed combined financial information was based on and should be read in conjunction with:

- Separate audited historical consolidated financial statements of the Company as of June 30, 2018 and 2017 and for each of the years in the three-year period ended June 30, 2018 and related notes
- Separate audited historical consolidated financial statements of Veth Propulsion as of and for the year ended December 31, 2017 and related notes
- Separate unaudited historical condensed consolidated financial information of Veth Propulsion as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and 2017 and related notes

(d) Exhibits

EXHIBIT NUMBER	DESCRIPTION
23.1	Consent of RSM US LLP
99.1	Audited consolidated financial statements of Veth Propulsion as of and for the year ended December 31, 2017 and notes thereto
99.2	Unaudited condensed consolidated financial information of Veth Propulsion as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and 2017 and notes thereto
99.3	Unaudited pro forma condensed combined financial information of Twin Disc and Veth Propulsion for the twelve months ended June 30, 2018 and notes thereto

SIGNATURE

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.

Date: August 29, 2018	Twin Disc, Incorporated
	/s/ Jeffrey S. Knutson
	Jeffrey S. Knutson Vice President-Finance, Chief Financial Officer, Treasurer & Secretary

EXHIBIT INDEX

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99.2	Unaudited historical consolidated financial information of Veth Propulsion as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and 2017 and notes thereto.
99.3	Unaudited pro forma condensed combined financial information of Twin Disc and Veth Propulsion for the twelve months ended June 30, 2018 and notes thereto.

Exhibit 23.1

CONSENT OF RSM US LLP

We consent to the incorporation by reference in the Registration Statement (Nos. 333-99229, 333-119770, 333-169965, 333-169963 and 333-169962) on Form S-8 of Twin Disc, Incorporated of our report dated August 29, 2018, relating to the financial statements of Veth Propulsion Holding B.V. and its subsidiaries, appearing in this Form 8-K/A of Twin Disc, Incorporated, for the year ended December 31, 2017.

/s/ RSM US LLP

Milwaukee, Wisconsin
August 29, 2018

Independent Auditor's Report

To the Board of Directors
Twin Disc, Incorporated

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Veth Propulsion Holding B.V. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017, the related consolidated statements of operations, changes in business equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Veth Propulsion Holding B.V. and its subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ RSM US LLP

Milwaukee, Wisconsin
August 29, 2018

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2017
(In thousand euros)

ASSETS		
Current assets:		
Cash and cash equivalents	€	308
Accounts receivable, net		8,357
Inventories		16,476
Total current assets		25,141
Property, plant and equipment, net		1,215
Other assets		863
Total assets	€	27,219
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and customer deposits	€	13,228
Accrued liabilities		675
Total current liabilities		13,903
Business equity		13,316
Total liabilities and equity	€	27,219

See accompanying notes to the consolidated financial statements.

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended December 31, 2017
(In thousand euros)

Net sales	€	43,194
Cost of goods sold		30,629
Gross profit		12,565
as a % of net sales		*29.1%*
Marketing, engineering and administrative expenses		8,109
Income from operations		4,456
as a % of net sales		*10.3%*
Other income (expense):		37
Income before income taxes		4,493
Income tax expense		753
effective income tax rate		*16.8%*
Net income	**€**	**3,740**

See accompanying notes to the consolidated financial statements.

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2017
(In thousand euros)

Cash flows from operating activities:		
Net income	€	3,740
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation		473
Changes in operating assets and liabilities		
Trade accounts receivable		(1,482)
Inventories		(2,729)
Other assets		(28)
Accounts payable		1,751
Accrued liabilities		(58)
Net cash provided by operating activities		1,667
Cash flows from investing activities:		
Capital expenditures, net		(173)
Net cash used by investing activities		(173)
Cash flows from financing activities:		
Net transfers to previous parent		(1,767)
Net cash used by financing activities		(1,767)
Net change in cash		(273)
Cash, beginning of year		581
Cash, end of year	€	308
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	€	-
Income taxes	€	409

See accompanying notes to the consolidated financial statements.

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF BUSINESS EQUITY
December 31, 2017
(In thousand euros)

Balance as of January 1, 2017	€	11,343
Net income		3,740
Net transfers to previous parent		(1,767)
Balance as of December 31, 2017	€	13,316

See accompanying notes to the consolidated financial statements.

A. BACKGROUND AND BASIS OF PRESENTATION

On July 2, 2018, Twin Disc, Incorporated ("Twin Disc" or the "Company") acquired all of the outstanding common stock of Veth Propulsion Holding B.V. and its wholly-owned subsidiaries, Exploitatiemaatschappij Veth B.V., Veth Diesel B.V., Veth Electra B.V., Veth Propulsion B.V. and Veth Thrusters B.V. ("Veth Subsidiaries", and together with Veth Propulsion Holding B.V., "Veth Propulsion").

Veth Propulsion Holding B.V. was incorporated on June 12, 2018 to facilitate its acquisition by Twin Disc NL Holding, B.V., a wholly-owned Twin Disc subsidiary. Prior to the creation of Veth Propulsion Holding B.V., the Veth Subsidiaries operated under a privately held Dutch parent company.

Veth Propulsion is a global manufacturer of highly-engineered auxiliary propulsions and propulsion machinery for maritime vessels, including rudder propellers, bow thrusters, and generator sets based in the Netherlands. It primarily sells direct to the shipbuilder through a direct sales force that focuses on custom solutions and applications. It is also engaged in engine service and repair, and is a global supplier of main and auxiliary marine propulsion products.

The accompanying consolidated financial statements pertain to the historical operations and financial condition of the Veth Subsidiaries prior to the Twin Disc acquisition and were prepared in accordance with U.S. GAAP and for the purpose of complying with financial information required by the U.S. Securities and Exchange Commission ("SEC"). All significant intercompany transactions have been eliminated.

Because Veth Propulsion was not a legal entity prior to its incorporation on June 12, 2018, the business equity balances presented herein represent the net assets of the acquired business and are not historical balances of the stockholders' equity of the Veth Subsidiaries under direct ownership by the previous parent company.

B. SIGNIFICANT ACCOUNTING POLICIES

Management Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Foreign Currency Transactions
The functional currency of Veth Propulsion is the euro. Accordingly, the accompanying financial statements were prepared in euros. Gains and losses from foreign currency transactions are included in net income.

Cash
All highly liquid investments with original maturities of three months or less are considered to be cash equivalent.

Accounts Receivable
These represent trade accounts receivable and are stated net of an allowance for doubtful accounts. An allowance for doubtful accounts for certain customers where a risk of default has been specifically identified is recorded, as well as provisions determined on a general basis when it is believed that some default is probable and estimable.

Inventories
Inventories are valued at the lower of cost or net realizable value. Management specifically identifies obsolete products and analyzes historical usage, forecasted production based on future orders, demand forecasts, and economic trends, among others, when evaluating the adequacy of the reserve for excess and obsolete inventory.

Property, Plant and Equipment and Depreciation
Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and depreciated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Income Taxes
Veth Propulsion recognizes deferred tax assets and liabilities for the expected future income tax consequences of events that have been recognized in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which temporary differences are expected to reverse. Valuation allowances are provided for deferred tax assets where it is considered more likely than not that the benefit of such assets will not be realized. Management evaluates its uncertain tax positions as new information becomes available. Tax benefits are recognized to the extent a position is more likely than not to be sustained upon examination by the taxing authority.

Fair Value of Financial Instruments
The carrying amount reported in the consolidated balance sheet for cash, accounts receivable, notes receivable (included in other assets) and accounts payable approximate fair value primarily because of the short-term maturity of these financial instruments**.** If measured at fair value, cash would be classified as Level 1 and all other items listed above would be classified as Level 2 in the fair value hierarchy.

Revenue Recognition
Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred and ownership has transferred to the customer; the price to the customer is fixed or determinable; and collectibility is reasonably assured. Revenue is recognized at the time product is delivered to the customer, net of discounts and indirect taxes such as the Value Added Tax ("VAT"). Management has performed an assessment of the impact of ASC 606, Revenue from Contracts with Customers on its financial reporting. It does not anticipate that there will be a significant impact to its financial statements. It plans to adopt the new guidance in July 2018, the first period it is required to be in compliance.

Leases
Management has performed an assessment of the impact of the new leasing guidance under ASU 2016-02 on its financial reporting. It plans to adopt the new guidance in July 2018, and anticipates recording a right of use asset and corresponding liability in the approximate amount of €8,000 – €10,000.

Subsequent Event
Veth Propulsion's policy is to evaluate subsequent events through the date the financial statements are available to be issued. Accordingly, management has evaluated subsequent events through August 29, 2018. These financial statements include relevant disclosures relating to the acquisition of Veth Propulsion by Twin Disc on July 2, 2018.

C. INVENTORIES

The major classes of inventories were as follows:

Raw materials	€	12,190
Work in progress projects		5,979
Reserve for obsolete and slow-moving inventories		(1,693)
	€	16,476

Work in progress projects pertain to custom designed projects commissioned by third party customers. They are carried at the accumulated actual costs, including raw materials, labor, and outsourced services, incurred to date. If accumulated costs exceed the revenue expected to be collected, an allowance for losses is accrued.

Veth Propulsion's policy is to collect customer deposits upon acceptance of custom projects. These deposits are included in accounts payable and customer deposits in the accompanying balance sheet.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows:

Machinery and equipment	€	2,030
Vehicles		1,092
Computer equipment, furniture and fixtures		891
Other		302
Total	€	4,315
Accumulated depreciation		(3,100)
	€	1,215

Depreciation expense for the year was €473 and is included in marketing, engineering, and administrative expense.

E. OTHER ASSETS

This pertains to interest-bearing notes receivable from certain customers, some of which are covered by guarantees from a bank, with maturities ranging from 1 to 4 years, and interest rates ranging from 2% to 4%.

F. WARRANTY

Veth Propulsion products generally carry a one-year warranty against defective materials and/or workmanship. The warranty reserve is established based on management's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends.

Warranty account movements are as follows:

Accrued warranty, beginning of the period	€	417
Provisions during the year		344
Claims		(333)
Accrued warranty, end of the period	€	428

G. PENSION AND BENEFIT PLANS

Multi-employer plan

Veth Propulsion employees in the Netherlands (approximately 150) participate in a multi-employer union plan, "Pensioenfonds Metaal & Techniek", ("PMT") determined in accordance with the collective bargaining agreements effective for the industry in which Veth Propulsion operates. This collective bargaining agreement expires on May 31, 2019 subject to modifications and automatic renewal provisions. This multi-employer union plan covers approximately 33,500 employers and approximately 378,000 contributing members. Veth Propulsion's contribution to the multi-employer union plan is less than 5% of the total contribution to the plan as per the annual report for the year ended December 31, 2017. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Dutch governmental authorities. By law (the Dutch Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan assets to its obligations. This coverage ratio must exceed 104.3% for the total plan. Every company participating in a Dutch multi-employer union plan contributes a premium calculated as a percentage of its total pensionable salaries, with each company subject to the same percentage contribution rate. The premium can fluctuate yearly based on the coverage ratio of the multi-employer union plan. The pension rights of each employee are based upon the employee's average salary during employment.

The coverage ratio of the multi-employer union plan increased to 102.2% as of December 31, 2017 (compared to 97.2% as of December 31, 2016). Because of the low coverage ratio PMT prepared and executed a "Recovery Plan" which was approved by De Nederlandsche Bank, the Dutch central bank, which is the supervisor of all pension companies in the Netherlands. The pension premium percentage is 23.0% in 2017 (23.5% in 2016). The coverage ratio is calculated by dividing the plan assets by the total sum of pension liabilities and is based on actual market interest.

Veth Propulsion accounts for the multi-employer plan as if it were a defined contribution plan. As the manager of the plan, PMT stated that its internal administrative systems do not enable PMT to provide its members with the required company-specific information in order to account for the plan as a defined benefit plan. Veth Propulsion's net periodic pension cost for the multi-employer plan for any period is equal to the required contribution for that period. The amount contributed in 2017 was €1,405.

A contingent liability may arise from, for example, possible actuarial losses relating to other participating companies because each company that participates in a multi-employer plan shares in the actuarial risks of other participating companies or any responsibility under the terms of a plan to finance any shortfall in the plan if other companies cease to participate. If Veth Propulsion chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability.

Jubilee fund

Veth Propulsion maintains a jubilee fund, which is a fund established to pay benefits when employees reach applicable jubilee or service milestones. The fund is determined based on a probability of qualified employees reaching anniversary milestones. The fund balance as of December 31, 2017 was €247.

H. LINES OF CREDIT

The Veth Subsidiaries, as part of a group of companies under its predecessor Dutch parent, have unused credit facilities, including letters of credit guarantees to its suppliers, of approximately €1,733 at December 31, 2017, at interest rates determined by the three-month Euribor rate plus 130 basis points. These facilities expired at the date of the acquisition.

I. LEASE COMMITMENTS

Veth Propulsion leased its office and warehouse space from an affiliate related through prior ownership. During the 2017 calendar year, rent expense was €1,584. On July 1, 2018, as part of the acquisition by Twin Disc, it entered into a new lease agreement, covering the same premises with the same party, for a period of 15 years. Under this agreement, the initial annual lease payment is for 1 million euros, and subsequently adjusted annually for potential increases based on the published consumer price index. Excluding the impact of this potential inflation-indexed rent increase, Veth Propulsion's lease commitments are as follows:

2018	€	1,000
2019		1,000
2020		1,000
2021		1,000
2022		1,000
Thereafter		10,000
Total	€	15,000

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousand euros)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	€ 925	€ 308
Accounts receivable, net	10,278	8,357
Inventories	19,623	16,476
Total current assets	30,826	25,141
Property, plant and equipment, net	1,316	1,215
Other assets	221	863
Total assets	€ 32,363	€ 27,219
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and customer deposits	€ 16,562	€ 13,228
Accrued liabilities	737	675
Total current liabilities	17,299	13,903
Business equity	15,064	13,316
Total liabilities and equity	€ 32,363	€ 27,219

See accompanying notes to unaudited condensed consolidated financial information.

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousand euros)

	For the six months ended	
	June 30, 2018	June 30, 2017
Net sales	€ 22,710	€ 18,123
Cost of goods sold	16,307	13,049
Gross profit	6,403	5,074
as a % of net sales	*28.2%*	*28.0%*
Marketing, engineering and administrative expenses	4,569	3,929
Income from operations	1,834	1,145
as a % of net sales	*8.1%*	*6.3%*
Other income (expense):	(2)	22
Income before income taxes	1,832	1,167
Income tax expense	351	231
effective income tax rate	*19.2%*	*19.8%*
Net income	€ 1,481	€ 936

See accompanying notes to unaudited condensed consolidated financial information.

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousand euros)

	For the six months ended	
	June 30, 2018	June 30, 2017
Cash flows from operating activities:		
Net income	€ 1,481	€ 936
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	165	237
Changes in operating assets and liabilities		
Trade accounts receivable	(1,921)	(1,849)
Inventories	(3,146)	(1,808)
Other assets	642	(66)
Accounts payable	3,334	672
Accrued liabilities	62	(145)
Net cash provided (used) by operating activities	617	(2,023)
Cash flows from investing activities:		
Capital expenditures, net	(266)	(113)
Net cash used by investing activities	(266)	(113)
Cash flows from financing activities:		
Long term debt borrowings	-	97
Net transfers from previous parent	266	2,185
Net cash provided by financing activities	266	2,282
Net change in cash	€ 617	€ 146
Cash, beginning of year	308	581
Cash, end of year	€ 925	€ 727

See accompanying note to the unaudited condensed consolidated financial information.

VETH PROPULSION HOLDING B.V. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF BUSINESS EQUITY
June 30, 2018
(In thousand euros)

Balance as of December 31, 2017	€	13,316
Net income		1,481
Net transfers from previous parent		267
Balance as of June 30, 2018	€	15,064

See accompanying notes to the unaudited condensed consolidated financial information.

A. BACKGROUND AND BASIS OF PRESENTATION

On July 2, 2018, Twin Disc, Incorporated (“Twin Disc” or the “Company”) acquired all of the outstanding common stock of Veth Propulsion Holding B.V. and its wholly-owned subsidiaries, Exploitatiemaatschappij Veth B.V., Veth Diesel B.V., Veth Electra B.V., Veth Propulsion B.V. and Veth Thrusters B.V. (“Veth Subsidiaries”, and together with Veth Propulsion Holding B.V., “Veth Propulsion”).

Veth Propulsion Holding B.V. was incorporated on June 12, 2018 to facilitate its acquisition by Twin Disc NL Holding, B.V., a wholly-owned Twin Disc subsidiary. Prior to the creation of Veth Propulsion Holding B.V., the Veth Subsidiaries operated under a privately held Dutch parent company.

Veth Propulsion is a global manufacturer of highly-engineered auxiliary propulsions and propulsion machinery for maritime vessels, including rudder propellers, bow thrusters, and generator sets based in the Netherlands. It primarily sells direct to the shipbuilder through a direct sales force that focuses on custom solutions and applications. It is also engaged in engine service and repair, and is a global supplier of main and auxiliary marine propulsion products.

The accompanying consolidated financial statements pertain to the historical operations and financial condition of the Veth Subsidiaries prior to the Twin Disc acquisition and were prepared in accordance with U.S. GAAP and for the purpose of complying with financial information required by the U.S. SEC. All significant intercompany transactions have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such SEC rules and regulations. It is suggested that these financial information be read in conjunction with the audited consolidated financial informaion as of December 31, 2017 and notes thereto.

Because Veth Propulsion was not a legal entity prior to its incorporation on June 12, 2018, the business equity balances presented herein represent the net assets of the acquired business and are not historical balances of the stockholders’ equity of the Veth Subsidiaries under direct ownership by the previous parent company.

B. SIGNIFICANT ACCOUNTING POLICIES

Management Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Foreign Currency Transactions
The functional currency of Veth Propulsion is the euro. Accordingly, the accompanying financial statements were prepared in euros. Gains and losses from foreign currency transactions are included in net income.

Cash
All highly liquid investments with original maturities of three months or less are considered to be cash equivalent.

Accounts Receivable
These represent trade accounts receivable and are stated net of an allowance for doubtful accounts. An allowance for doubtful accounts for certain customers where a risk of default has been specifically identified is recorded, as well as provisions determined on a general basis when it is believed that some default is probable and estimable.

Inventories
Inventories are valued at the lower of cost or net realizable value. Management specifically identifies obsolete products and analyzes historical usage, forecasted production based on future orders, demand forecasts, and economic trends, among others, when evaluating the adequacy of the reserve for excess and obsolete inventory.

Property, Plant and Equipment and Depreciation
Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and depreciated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Fair Value of Financial Instruments
The carrying amount reported in the consolidated balance sheet for cash, accounts receivable, notes receivable (included in other assets) and accounts payable approximate fair value primarily because of the short-term maturity of these financial instruments**.** If measured at fair value, cash would be classified as Level 1 and all other items listed above would be classified as Level 2 in the fair value hierarchy.

Revenue Recognition
Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred and ownership has transferred to the customer; the price to the customer is fixed or determinable; and collectibility is reasonably assured. Revenue is recognized at the time product is delivered to the customer, net of discounts and indirect taxes such as the VAT. Management has performed an assessment of the impact of ASC 606, Revenue from Contracts with Customers on its financial reporting. It does not anticipate that there will be a significant impact to its financial statements. It plans to adopt the new guidance in July 2018, the first period it is required to be in compliance.

Leases
Management has performed an assessment of the impact of the new leasing guidance under ASU 2016-02 on its financial reporting. It plans to adopt the new guidance in July 2018, and anticipates recording a right of use asset and corresponding liability in the approximate amount of €8,000 – €10,000.

Subsequent Event
Veth Propulsion’s policy is to evaluate subsequent events through the date the financial statements are available to be issued. Accordingly, management has evaluated subsequent events through August 29, 2018. These financial statements include relevant disclosures relating to the acquisition of Veth Propulsion by Twin Disc on July 2, 2018.

C. INVENTORIES

The major classes of inventories were as follows:

	June 30, 2018	December 31, 2017
Raw materials	€ 12,238	€ 12,190
Work in progress projects	9,121	5,979
Reserve for obsolete and slow-moving inventories	(1,736)	(1,693)
	€ 19,623	€ 16,476

Work in progress projects pertain to custom designed projects commissioned by third party customers. They are carried at the accumulated actual costs, including raw materials, labor, and outsourced services, incurred to date. If accumulated costs exceed the revenue expected to be collected, an allowance for losses is accrued.

Veth Propulsion’s policy is to collect customer deposits upon acceptance of custom projects. These deposits are included in accounts payable and customer deposits in the accompanying balance sheet.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows:

		June 30, 2018		December 31, 2017
Machinery and equipment	€	2,093	€	2,030
Vehicles		1,135		1,092
Computer equipment, furniture and fixtures		965		891
Other		307		302
Total	€	4,500	€	4,315
Accumulated depreciation		(3,184)		(3,100)
	€	1,316	€	1,215

Depreciation expense for the six months ended June 30, 2018 and 2017 were €165 and €237, respectively. These amounts are included in marketing, engineering and administrative expenses.

E. OTHER ASSETS

This pertains to interest-bearing notes receivable from certain customers, some of which are covered by guarantees from a bank, with maturities ranging from 1 to 4 years, and interest rates ranging from 2% - 3.5%.

F. WARRANTY

Veth Propulsion products generally carry a one-year warranty against defective materials and/or workmanship. The warranty reserve is established based on management's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends.

Warranty account movements are as follows:

	June 30			
		2018		2017
Accrued warranty, beginning of the period	€	428	€	417
Provisions during the year		218		119
Claims		(167)		(153)
Accrued warranty, end of the period	€	479	€	383

G. PENSION AND BENEFIT PLANS

Multi-employer plan

Veth Propulsion employees in the Netherlands (approximately 150), participate in a multi-employer union plan, "Pensioenfonds Metaal & Techniek", ("PMT") determined in accordance with the collective bargaining agreements effective for the industry in which Veth Propulsion operates. This collective bargaining agreement expires on May 31, 2019 subject to modifications and automatic renewal provisions. This multi-employer union plan covers approximately 33,500 employers and approximately 378,000 contributing members. Veth Propulsion's contribution to the multi-employer union plan is less than 5% of the total contribution to the plan as per the annual report for the year ended December 31, 2017. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Dutch governmental authorities. By law (the Dutch Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan assets to its obligations. This coverage ratio must exceed 104.3% for the total plan. Every company participating in a Dutch multi-employer union plan contributes a premium calculated as a percentage of its total pensionable salaries, with each company subject to the same percentage contribution rate. The premium can fluctuate yearly based on the coverage ratio of the multi-employer union plan. The pension rights of each employee are based upon the employee's average salary during employment.

The coverage ratio of the multi-employer union plan increased to 101.8% as of June 30, 2018 (compared to 101.4% as of June 30, 2017). Because of the low coverage ratio PMT prepared and executed a "Recovery Plan" which was approved by De Nederlandsche Bank, the Dutch central bank, which is the supervisor of all pension companies in the Netherlands. The pension premium percentage is 22.6% in 2018 (23.0% in 2017). The coverage ratio is calculated by dividing the plan assets by the total sum of pension liabilities and is based on actual market interest.

Veth Propulsion accounts for the multi-employer plan as if it were a defined contribution plan. As the manager of the plan, PMT stated that its internal administrative systems do not enable PMT to provide its members with the required company-specific information in order to account for the plan as a defined benefit plan. Veth Propulsion's net periodic pension cost for the multi-employer plan for any period is equal to the required contribution for that period. The amount contributed during the first six months of 2018 and 2017 were €784 and €711, respectively.

A contingent liability may arise from, for example, possible actuarial losses relating to other participating companies because each company that participates in a multi-employer plan shares in the actuarial risks of other participating companies or any responsibility under the terms of a plan to finance any shortfall in the plan if other companies cease to participate. If Veth Propulsion chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability.

Jubilee fund

Veth Propulsion maintains a jubilee fund, which is a fund established to pay benefits when employees reach applicable jubilee or service milestones. The fund is determined based on a probability of qualified employees reaching anniversary milestones. The fund balances as of June 30, 2018 and December 31, 2017 were €258 and €246, respectively.

H. LINES OF CREDIT

The Veth Subsidiaries, as part of a group of companies under its predecessor Dutch parent, have unused credit facilities, including letters of credit guarantees to its suppliers, of approximately €1,667 at June 30, 2018, at interest rates determined by the three-month Euribor rate plus 130 basis points. These facilities expired at the date of the acquisition.

I. LEASE COMMITMENTS

Veth leased its office and warehouse space from an affiliate related through prior ownership. On July 1, 2018, as part of the acquisition by Twin Disc, it entered into a new lease agreement, covering the same premises and with the same party for a period of 15 years. Under this agreement, the initial annual lease payment is for €1 million, and subsequently adjusted annually for potential increases based on the published consumer price index. Excluding the impact of this potential inflation-indexed rent increase, Veth Propulsion's lease commitments are as follows:

		2018
2018	€	500
2019		1,000
2020		1,000
2021		1,000
2022		1,000
Thereafter		10,500
Total	€	15,000

TWIN DISC, INCORPORATED
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AND STATEMENT OF OPERATIONS

On July 2, 2018, Twin Disc, Incorporated (“Twin Disc” or the “Company”) acquired all of outstanding common stock of Veth Propulsion Holding B.V. and its wholly-owned subsidiaries, Exploitatiemaatschappij Veth B.V., Veth Diesel B.V., Veth Electra B.V., Veth Propulsion B.V. and Veth Thrusters B.V. (“Veth Subsidiaries”, and together with Veth Propulsion Holding B.V., “Veth Propulsion”). Veth Propulsion Holding B.V. was incorporated on June 12, 2018 to facilitate its acquisition by Twin Disc NL Holding, B.V., a wholly-owned Twin Disc subsidiary. Prior to the creation of Veth Propulsion Holding B.V., the Veth Subsidiaries operated under a privately held Dutch parent company.

The Company financed the payment of the cash consideration through borrowings of $60,729 under a new credit agreement entered into on June 29, 2018 with BMO Harris Bank N.A. (the “Credit Agreement”). The Credit Agreement consists of a term loan facility of $35 million and a revolving loan facility of $50 million. The Company may elect that the term loan and each revolving loan be either “LIBOR Loans” or Eurodollar Loans”. Under the Credit Agreement, the old loan was assigned to and assumed by BMO Harris Bank, N.A. from the Bank of Montreal, an affiliate. The old revolver loan of about $4.9M was paid off, and a new drawdown was made under the new Credit Agreement.

The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2018 has been prepared by Twin Disc and gives effect to the acquisition of Veth Propulsion as if the acquisition had occurred, and the Credit Agreement had been entered into, on July 1, 2017. The unaudited pro forma condensed combined balance sheet as of June 30, 2018 assumes the acquisition of Veth Propulsion had occurred, and the Credit Agreement had been entered into, on June 30, 2018. Veth Propulsion’s functional currency is the euro and its historical financial statements were prepared on that basis. The accompanying financial statements of Veth Propulsion reflect the translation of those euro balances to US dollars using the current and average exchange rates in effect as of June 30, 2018.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined income statement to give effect to pro forma events that are (1) directly attributable to the acquisition and related transactions, (2) factually supportable and (3) with respect to the statements of operations, expected to have a continuing impact on the combined company’s financial results. Pro forma adjustments in the unaudited pro forma condensed combined balance sheet include adjustments that give effect to events that are directly attributable to the acquisition and related transactions and are factually supportable, regardless of whether they have a continuing impact or are nonrecurring. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial statements were prepared for informational and illustrative purposes in accordance with Article 11 of SEC Regulation S-X. Such information is preliminary and based on currently available information and assumptions that the Company believes are reasonable but may be subject to change.

Below are the following unaudited pro forma condensed combined financial information:

- Unaudited pro forma condensed combined statement of operations for the twelve months ended June 30, 2018
- Unaudited pro forma condensed combined balance sheet as of June 30, 2018
- Notes to unaudited pro forma condensed combined financial information

The unaudited pro forma condensed combined financial information was based on and should be read in conjunction with:

- Separate audited historical consolidated financial statements of the Company as of June 30, 2018 and 2017 and for each of the years in the three-year period ended June 30, 2018 and related notes
- Separate audited historical consolidated financial statements of Veth Propulsion as of and for the year ended December 31, 2017 and related notes
- Separate unaudited historical condensed consolidated financial information of Veth Propulsion as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and 2017 and related notes

TWIN DISC, INCORPORATED
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the twelve months ended June 30, 2018
(All in U.S.Dollars; in thousands, except per share data)

	Historicals		Pro Forma Adjustment Increase (Decrease)	Notes	Pro Forma Combined
	Twin Disc	Veth			
Net sales	$ 240,733	$ 55,823	$ (809)	A	$ 295,747
Cost of goods sold	160,497	39,591	4,045	B	204,133
Gross profit	80,236	16,232	(4,854)		91,614
as a % of net sales	*33.3%*	*29.1%*			*31.0%*
Marketing, engineering and administrative expenses	61,909	10,221	48	C	72,178
Restructuring expenses	3,398	-	-		3,398
Income (loss) from operations	14,929	6,011	(4,902)		16,038
as a % of net sales	*6.2%*	*10.8%*			*5.4%*
Other income (expense):					
Interest expense	(282)	14	(2,813)	D	(3,081)
Other, net	(227)	-	-		(227)
Income before income taxes and noncontrolling interest	14,420	6,025	(7,715)		12,730
					-
Income tax expense	4,773	1,019	(1,772)	E	4,020
effective income tax rate	*33.1%*	*16.9%*			*31.6%*
Net income	9,647	5,006	(5,943)		8,710
Less: Net earnings attributable to noncontrolling interest, net of tax	(119)	-	-		(119)
Net income attributable to Twin Disc	**$ 9,528**	**$ 5,006**	**$ (5,943)**		**$ 8,591**
Income per share data:					
Basic income per share attributable to Twin Disc common shareholders	$ 0.82	$ 0.43			$ 0.74
Diluted income per share attributable to Twin Disc common shareholders	$ 0.82	$ 0.43			$ 0.74
Weighted average shares outstanding data:					
Basic shares outstanding	11,295	11,295			11,295
Diluted shares outstanding	11,395	11,395			11,395

See accompanying notes to unaudited pro forma condensed combined financial information.

TWIN DISC, INCORPORATED
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
June 30, 2018
(In thousand U.S.Dollars)

	Historicals		Pro Forma Adjustment Increase (Decrease)	Notes	Pro Forma Combined
	Twin Disc	Veth Propulsion			
ASSETS					
Current assets:					
Cash	$ 15,171	$ 1,080	$ (195)	F	$ 16,056
Accounts receivable, net	45,422	12,007	(1,527)	G	55,902
Inventories	84,001	22,926	4,715	H	111,642
Prepaid and other	14,675	-	-		14,675
Total current assets	159,269	36,013	2,993		198,275
Property, plant and equipment, net	48,940	1,537	-		50,477
Goodwill, net	2,692	-	24,554	I	27,246
Deferred income taxes	18,056	-	-		18,056
Intangible assets, net	1,906	-	23,700	J	25,606
Other assets	3,850	259	195	K	4,304
Total assets	**$ 234,713**	**$ 37,809**	**$ 51,442**		**$ 323,964**
LIABILITIES AND EQUITY					
Current liabilities:					
Term loan payable to bank	$ -	$ -	$ 35,000	L	$ 35,000
Accounts payable and customer deposits	29,368	19,349	(1,527)	G	47,190
Accrued liabilities	32,976	861	3,304		37,141
Total current liabilities	62,344	20,210	$ 36,777		119,331
Long-term debt	4,824	-	25,729	M	30,553
Accrued retirement benefits	21,068	-	-		21,068
Deferred income taxes	1,203	-	6,535	N	7,738
Other long-term liabilities	1,658	-	-		1,658
Total liabilities	91,097	20,210	$ 69,041		180,348
Business equity	143,616	17,599	(17,599)	O	143,616
Total liabilities and equity	**$ 234,713**	**$ 37,809**	**$ 51,442**		**$ 323,964**

See accompanying notes to unaudited pro forma condensed combined financial information.

(All amounts are approximate and in U.S.Dollars; in thousands, unless indicated otherwise)

1. The Acquisition and Related Transactions, including the New Credit Agreement

On July 2, 2018, the Company completed the acquisition of 100% of the outstanding common stock of Veth Propulsion Holding B.V. and its wholly-owned subsidiaries ("Veth Propulsion"). Veth Propulsion is a global manufacturer of highly-engineered auxiliary propulsions and propulsion machinery for maritime vessels, including rudder propellers, bow thrusters, generator sets and engine service and repair supplier of main and auxiliary marine propulsion products, based in the Netherlands. These products are complementary to and expand the Company's current product offerings in the marine and propulsion markets. Prior to the acquisition, the Company was a distributor of Veth products in North America and Asia. This acquisition was pursuant to a Share Purchase Agreement ("Purchase Agreement") entered into by Twin Disc NL Holding B.V., a wholly-owned subsidiary of the Company, with Het Komt Vast Goed B.V., the parent of Veth Propulsion Holding B.V., on June 13, 2018.

Under the terms of the Purchase Agreement, the Company paid an aggregate of about $60,729 in cash at closing, which included a base payment plus adjustments for net cash and working capital. This amount is subject to a final determination of working capital adjustments, which is expected to settle in September 2018, and an earn-out. The maximum earn-out is about $4 million. The earn-out will be paid if the earnings before interest, tax, depreciation and amortization of Veth Propulsion's fiscal 2018 as defined in the Purchase Agreement ("EBITDA") exceeds the agreed upon threshold amount. The earn-out will be paid in the form of Company stock or cash, and will be determined in April 2019. The pro forma earnings per share calculations in the pro forma condensed combined statement of operations does not include these contingently issuable shares.

The Company financed the payment of the cash consideration through borrowings of $60,729 under a new credit agreement entered into on June 29, 2018 with BMO Harris Bank N.A. (the "Credit Agreement"). The Credit Agreement consists of a term loan facility of $35 million and a revolving loan facility of $50 million. The Company may elect that the term loan and each revolving loan be either "LIBOR Loans" or Eurodollar Loans". In connection with entering into the Credit Agreement, a prior note and related ancillary agreements were assigned to and assumed by BMO Harris Bank, N.A. from the Bank of Montreal, an affiliate. The prior revolver loan of about $4,900 was paid off, and a new drawdown was made under the new Credit Agreement.

At acquisition date, the Company drew on the loans with the respective interest rates, as follows:

	Loans Drawn	Interest rates	One year pro forma interest exp
Term loan	$ 35,000	5.09%	$ 1,782
Euro revolver	$ 17,450	4.34%	$ 757
US$ revolver	8,279	2.25%	186
	$ 25,729		$ 2,725

As part of the acquisition, the Company entered into a fifteen-year lease with the Het Komt Vast Goed B.V., the owner of the real property where Veth Propulsion's operations are located. Under this lease, the Company pays an annual rent of $1,168, with provisions for increasing rent based on the prevailing consumer price index.

One-time transaction costs related to the acquisition were recorded as of June 30, 2018 by the Company and Veth Propulsion and are included in marketing, engineering and administrative expenses in the statement of operations. See Note 5 regarding pro forma adjustments relating to these costs.

As of June 30, 2018, in its role as a Veth distributor, the Company carried inventory in the amount $430 and accounts receivable from Veth in the amount of $733. See Note 5 regarding pro forma adjustments relating to other intercompany relationships that were eliminated as part of these pro forma statements.

Throughout this report, references to “Twin Disc” or the “Company” pertain to Twin Disc, Incorporated and all of its subsidiaries prior to the acquisition, except where the context indicates otherwise.

2. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements are based on the historical financial information of Twin Disc and Veth Propulsion (as further explained below) after giving effect to the acquisition of Veth Propulsion by Twin Disc using the acquisition method of accounting under generally accepted accounting principles in the U.S. (“US GAAP”), which is subject to change and interpretation and applying the assumptions and adjustments described in the accompanying notes. Twin Disc has been treated as the acquirer for accounting purposes. The acquisition accounting related to this unaudited pro forma information is dependent upon certain independent valuations and other studies that are still in process and under review by management and not yet finalized. The pro forma adjustments included herein have been made solely for the purposes of providing unaudited condensed combined financial information. Differences between the estimates reflected in this unaudited pro forma information and the final acquisition accounting will likely occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial information and the combined company’s future consolidated financial condition or results of operations.

The unaudited pro forma condensed combined consolidated statements of operations combine the historical results for Twin Disc and Veth Propulsion for the year ended June 30, 2018 and include pro forma adjustments as if the acquisition and related transactions as described in Note 1, occurred on July 1, 2017. The unaudited pro forma condensed combined balance sheet combines the historical results for Twin Disc and Veth Propulsion as of June 30, 2018 and includes pro forma adjustments as if the acquisition and related transactions occurred on June 30, 2018.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the acquisition and related transactions, (2) factually supportable and (3) with respect to the statements of operations, expected to have a continuing impact on the combined company’s financial results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements.

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of what our combined consolidated financial condition or results of operations actually would have been had we completed the acquisition at the dates indicated above. In addition, the unaudited pro forma combined financial information does not purport to project the future consolidated financial condition or results of operations of the combined company.

Also, the unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the acquisition, the costs to integrate the operations of Twin Disc and Veth Propulsion or the costs necessary to achieve these costs savings, operating synergies or revenue enhancements.

Transactions between Twin Disc and Veth Propulsion during the periods presented in the unaudited pro forma condensed combined financial statements have been eliminated. See Note 5 Pro forma Adjustments.

3. Accounting Policies and US GAAP adjustments

To the best of the Company’s knowledge, the historical financial statements of Veth Propulsion presented herein have been prepared in accordance with US GAAP. The accounting policies under which they were prepared are included in the notes to the stand-alone financial statements included in the attached exhibits. The Company continues to review conformity by Veth Propulsion to US GAAP and to the Company’s accounting policies.

For segment reporting purposes, Veth Propulsion will belong to the Company’s manufacturing segment.

4. Consideration Transferred and Fair Value of Assets Acquired and Liabilities Assumed

The following table summarizes the consideration transferred at the acquisition date:

Consideration Transferred		
Cash	$	60,729
Contingent consideration		3,304
Total	$	64,033

At the effective date of the acquisition, the assets acquired and liabilities assumed are required to be measured at fair value. The following summarizes the preliminary estimate of fair value of the assets acquired and liabilities assumed at the acquisition date:

Fair Value of Net Assets Acquired			
Cash and cash equivalents	$	1,080	
Accounts receivable, net		12,007	
Inventories		27,641	(a)
Property, plant and equipment, net		1,537	(b)
Intangibles, net		23,700	(c)
Other assets, net		259	
Accounts payable and customer deposits		(19,349)	
Other current liabilities		(861)	
Deferred tax liability		(6,535)	(d)
Total net assets acquired		39,479	
Goodwill		24,554	
Total consideration	$	64,033	

The foregoing fair value estimate of assets acquired and liabilities assumed is pending completion of several elements, including the finalization of an independent appraisal and valuations of fair value of the assets acquired and liabilities assumed and final review by the Company's management. Accordingly, there could be material adjustments to depreciation and amortization expense related to the valuation of intangible assets acquired and their respective useful lives among other adjustments. The final determination of the assets acquired and liabilities assumed will be based on the established fair value of the assets acquired and the liabilities assumed as of the acquisition date. The excess of the purchase price over the fair value of net assets acquired is allocated to goodwill. The final determination of the purchase price, fair values and resulting goodwill may differ significantly from what is reflected in these unaudited pro forma condensed combined financial statements.

The following information provides further details about the estimated net step-up in fair value and/or the estimated fair value at the acquisition date for some key balance sheet items.

(a) Inventories

This consists of:

Raw materials	$	13,297
Projects work in progress at fair value		14,344
Inventories at fair value		27,641
Inventories at book value		22,926
Step-up	$	4,715

As of the effective date of the acquisition, inventory is required to be measured at fair value. Raw materials are typically utilized in operations within one year of purchase and therefore book values approximate fair value. Projects work in progress are estimated to be approximately 70% complete, and the step to fair value less estimated costs to complete and sell resulted in a step up value of approximately $4,715.

(b) Property Plant and Equipment net book value approximates fair value.

(c) Intangible assets

This consists of:

	Estimated fair value	Estimated average useful lives	Annual amortization
Customer relationships	$ 13,600	12	$ 1,133
Technology and know-how	8,300	7	1,186
Tradename	1,800	10	180
Total	$ 23,700		$ 2,499

The preliminary fair values were determined primarily using an income method, which utilizes financial forecasts of expected future cash flows. Some of the more significant assumptions used in the development of intangible assets values include: the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in future cash flows, and the assessment of the asset's life cycle and competitive trends impacting the asset, as well as other factors.

(d) Deferred tax liability represents the deferred tax impact of the step up, as follows:

Inventory step-up	$ 4,715
Identifiable intangible assets	23,700
Total step-up	28,415
Esitmated effective tax rate	23%
Deferred tax liability	$ 6,535

The fair values presented above are preliminary until the Company completes its work with the use of a third party valuation firm, and are subject to change. Any changes to the initial estimates of the fair value of assets and liabilities will impact residual goodwill and may affect future earnings.

5. Pro Forma Adjustments

Statement of Operations Adjustments

The unaudited pro forma condensed combined statements of operations include preliminary pro forma adjustments that are expected to have a continuing impact on the combined company's consolidated financial results. Below are the pro forma adjustments on a pre-tax basis. The tax impact of the adjustments identified are described in (D) below.

The most significant area of the condensed combined statement of operations that are not yet finalized include the amortization expense associated with the valuation of intangible assets acquired and their remaining useful lives. Accordingly, there may be material adjustments to amortization expense on the condensed combined statement of operations.

(A) To reflect the following pro forma adjustment to sales, as follows:

	Pre-tax adjustment
Eliminate intercompany Veth sales to Twin Disc entities	$ (809)

(B) To reflect the following pro forma adjustments to cost of sales, as follows:

	Pre-tax adjustment
Eliminate intercompany Veth cost of sales to Twin Disc entities	$ (670)
Amortization of inventory step-up	4,715
Total pro forma adjustment	$ 4,045

(C) To reflect the following pro forma adjustments to marketing, engineering and administrative expenses, as follows:

	Pre-tax adjustment
Amortization of intangible assets (See Note 4)	$ 2,499
Eliminate costs that will not have a continuing impact on the statement of operations:	
- One-time nonrecurring transaction costs related to the acquisition	(1,768)
- Veth rent expense under superseded lease agreements	(1,851)
Rent expense under the new lease agreement (See Note 1)	1,168
Net pro forma adjustment	$ 48

(D) To reflect the following pro forma adjustments to interest expense, as follows:

	Pre-tax adjustment
Interest expense on new debt (See Note 1)	$ 2,725
Amortization of debt issuance costs	88
Total pro forma adjustment	$ 2,813

(E) To reflect the pro forma tax impact of the adjustments identified above, as follows:

		Pre-tax adjustment
Net adjustment to gross profit	$	(4,854)
Net adjustment to marketing, engineering and administrative expenses		48
Adjustment to interest expense		2,813
Total	$	(7,715)
Estimated effective income tax rate		23%
Income tax impact pro forma adjustment	$	(1,772)

Balance Sheet Adjustments

The unaudited pro forma condensed combined balance sheet includes pro forma adjustments as if the acquisition and related transactions occurred on June 30, 2018.

(F) To reflect the following pro forma adjustment to cash:

Cash received from new borrowings	$	60,729
Cash consideration paid for the acquisition		(60,729)
Payment of debt issuance cost to lenders		(195)
Net pro forma adjustment	$	(195)

(G) To reflect the following pro forma adjustment to accounts receivable and customer deposits:

Eliminate intercompany accounts receivable balances between Twin Disc and Veth	$	(1,527)
Eliminate intercompany accounts payable balances between Twin Disc and Veth	$	(1,527)

(H) To reflect the following pro forma adjustment to inventories:

Inventory fair value	$	27,641
Inventory book value		(22,926)
Step-up of inventories as part of purchase price allocation (see Note 4)	$	4,715

(I) To reflect the following pro forma adjustment to goodwill:

Excess of purchase price excess over the fair value of net assets acquired (see Note 4)	$	24,554

(J) To reflect the following pro forma adjustment to intangible assets, net:

Fair value of intangible assets acquired (see Note 4)	$	23,700

(K) To reflect the following pro forma adjustment to other assets:

Debt issuance costs capitalized in connection with the New Credit Agreement	$	195

(L) To reflect the following pro forma adjustment to Term loan payable to bank:

Term loan drawn in connection with the acquisition (see Note 1)	$ 35,000

(M) To reflect the following pro forma adjustment to Long term debt:

Loans drawn under the revolver facility in connection with the acquisition (see Note 1)	$ 25,729

(N) To reflect the following pro forma adjustment to Deferred income tax liability:

Deferred tax impact, estimated at a 23% effective income tax rate, in connection with the purchase price allocations (see Note 4)	$ (6,535)

(O) To reflect the following pro forma adjustment to equity:

Eliminate Veth paid in capital	$ (17,599)