

ANNUAL REPORT 2009

TWIN DISC, INCORPORATED



Twin Disc, Incorporated is an international manufacturer and distributor of heavy-duty off-highway power transmission equipment. Company engineers work hand-in-hand with customers and engine manufacturers to design products with characteristics unique to their specific applications. Twin Disc supplies the commercial, pleasure craft and military segments of the marine market with transmissions, surface and waterjet drives, electronic controls, propellers and boat management systems. Its off-highway transmission products are used in agricultural, all-terrain specialty vehicle and military applications. Twin Disc also sells industrial products such as power take-offs, mechanical, hydraulic, and modulating clutches and control systems to the agricultural, environmental and energy and natural resources markets. The Corporation, which is a multinational organization headquartered in Racine, Wisconsin, currently has a diverse shareholder base with approximately one-third of the outstanding shares held by management, active and retired employees and other long-term investors.

Below: Weir Minerals Multiflo mine dewatering pumps, featuring Twin Disc PTOs, offer robust construction and superior hydraulic designs to provide customers with operational longevity, capacity, efficiency and low maintenance.



Brandt Road Rail Corporation's Model 5500 Mobile Railcar Mover deftly converts shipping productivity between road and rail, with its Twin Disc TD61-1179 transmission system comprised of transmission, 8-FLW-1754-1 torque converter, cooling system group and TDEC-400 electronic control system.



SALES AND EARNINGS BY QUARTER

2009	1ST QTR	2ND QTR	3RD QTR	4TH QTR	YEAR
Net Sales	\$72,671	\$81,598	\$69,292	\$72,057	\$295,618
Gross Profit	20,072	22,953	19,151	19,267	81,443
Net Earnings	2,465	3,433	2,850	2,754	11,502
Basic Earnings Per Share	0.22	0.31	0.26	0.25	1.04
Diluted Earnings Per Share	0.22	0.31	0.26	0.25	1.03
Dividends Per Share	0.0700	0.0700	0.0700	0.0700	0.2800
Stock Price Range (High - Low)	22.94 - 12.92	15.38 - 4.02	8.12 - 4.54	9.72 - 6.06	22.94 - 4.02

2008	1ST QTR	2ND QTR	3RD QTR	4TH QTR	YEAR
Net Sales	\$73,613	\$81,894	\$85,838	\$90,349	\$331,694
Gross Profit	23,851	25,346	26,627	29,044	104,868
Net Earnings	5,106	4,209	7,929	7,008	24,252
Basic Earnings Per Share	0.44	0.37	0.71	0.63	2.15
Diluted Earnings Per Share	0.44	0.37	0.70	0.62	2.13
Dividends Per Share	0.0550	0.0700	0.0700	0.0700	0.2650
Stock Price Range (High - Low)	41.99 - 23.51	37.47 - 25.51	36.35 - 12.07	23.34 - 13.38	41.99 - 12.07

In thousands of dollars except per share and stock price range statistics.

Cover: Based on the coast of North Wales, UK, Offshore Wind Power Marine Services provides vessel and logistical support for client Thanet Offshore Wind Ltd., with custom-designed, South Boats-built, multi-purpose crew transfer vessel *Offshore Performer (OP3)*, powered by twin Scania 750-horsepower (559-kW) engines coupled to Twin Disc MGX-5135 QuickShift® marine transmissions driving waterjets.

Cover, inset: The Pershing 62 achieves beautiful performance via twin 1550-horsepower (1156-kW) MAN engines powering Twin Disc Arneson ASD14 Surface Drives.

Cover, inset and right: Newcastle International Airport, Newcastle Upon Tyne, UK, relies on Rosenbauer *Panther 6x6* airport rescue and fire fighting (ARFF) vehicles equipped with Twin Disc automatic transmission systems featuring proprietary "pump and roll" capability, for the quickest response and fastest fire extinguishment.

FINANCIAL HIGHLIGHTS

	2009	2008	2007
Net Sales	\$295,618	\$331,694	\$317,200
Net Earnings	11,502	24,252	21,852
Basic Earnings Per Share	1.04	2.15	1.88
Diluted Earnings Per Share	1.03	2.13	1.84
Dividends Per Share	0.280	0.265	0.205
Average Shares Outstanding For The Year	11,096,750	11,278,885	11,622,620
Diluted Shares Outstanding For The Year	11,194,170	11,411,927	11,880,432





TO OUR SHAREHOLDERS

Fiscal year 2009 was a year of transition. Sales and earnings moderated off a record year in 2008. Revenues to certain markets softened, notably oil and gas, pleasure craft marine and industrial, while sales to commercial marine, airport rescue and fire fighting (ARFF) and military applications held or increased.

Our North American and European markets experienced revenue declines, yet sales to the Pacific Basin and Asia increased significantly. More than 60 percent of our sales are now generated outside the United States.

For the first time in several years, we earned a negative economic profit in fiscal 2009. Accordingly, we instituted an aggressive \$25-million cost reduction/avoidance program for fiscal 2010, to maintain profitability during the downturn.



World-renowned for fast response and powerful fire suppression, Rosenbauer's *Panther 6x6* ARFF vehicles utilize Twin Disc power-shift transmission systems for fast acceleration and "pump and roll" capability.



Turbine Transfers Limited, a wholly-owned subsidiary of Holyhead Towing Company, operates South Boats-built fast catamarans equipped with Twin Disc MGX-5135 SC QuickShift[®] marine transmissions with EC300 electronic controls driving waterjets, to transfer personnel and equipment between the shore and RWE npower renewables' Rhyl Flats Offshore Wind Farm, located off the North Wales coast.

FINANCIAL RESULTS

Net sales for fiscal 2009 were \$295.6 million, compared to \$331.7 million for fiscal 2008. Net income for the current fiscal year was \$11.5 million, or \$1.03 per diluted share, compared to \$24.3 million, or \$2.13 per diluted share, for the fiscal 2008 year.

Revenues in the first half of the current fiscal year maintained the record pace set the previous year but softened in the second half, as demand from megayacht marine and industrial customers fell off appreciably due to the widening global recession. The slowdown that began in the oil and gas markets during fiscal 2008 continued during fiscal 2009, expanding into the pleasure craft marine and industrial markets. However, sales to the commercial marine, ARFF and land-based and marine military markets held steady or increased during the year. Foreign currency translation had a negative impact of \$4.8 million for fiscal 2009.

Gross profit, as a percentage of fiscal 2009 sales, was 27.6 percent, compared to 31.6 percent for the prior year. The lower margins reflected the absence of higher margin oil and gas transmissions, lower volumes and increased warranty expenses. The net impact of the change in foreign currency exchange rates for fiscal 2009 decreased gross profit by \$1.9 million. In addition, during the year, the Company had a number of one-time items that impacted both gross margins and operating profitability. These items are discussed in detail in the 2009 10-K.

As a percentage of sales, marketing, engineering and administrative (ME&A) expenses for fiscal 2009 were 20.5 percent of sales compared to 20.0 percent for fiscal 2008. ME&A expenses decreased \$5.9 million versus the prior year, primarily due to reduced bonus and stock-based compensation.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for fiscal 2009 were \$30.0 million, compared to \$46.1 million in fiscal 2008.

The Company continues to maintain a strong financial condition and generated solid operating cash flows of \$11.5 million for fiscal 2009, compared to \$19.7 million in the prior fiscal year. Total debt stood at \$50.8 million, or 32.2 percent of capitalization, compared to total debt of \$50.0 million a year ago.

During the fourth quarter, we renewed our \$35 million revolving credit facility and extended its maturity from October 2010 to May 2012.

In fiscal 2009, the Company invested \$8.9 million in capital expenditures to improve manufacturing, operating and accounting systems, compared to \$15.0 million the previous year.

During the year, we spent \$1.8 million to repurchase 250,000 shares of our outstanding common stock at an average price of \$7.25 per share. Currently, we have 250,000 shares remaining under our Board-authorized stock repurchase program.

Built by Barthel Shipyard and commissioned in 2009, survey boat *St. Goar* navigates the Rhine River in St. Goar, Germany, using twin Iveco 471-horsepower (351-kW) engines controlled by Twin Disc MG-5082 SC transmissions with EC300 electronic controls.





OPERATIONS REVIEW

As indicated previously, fiscal 2009 started on a pace to match fiscal 2008, despite the absence of demand from the land-based oil and gas sector. However, by mid-fiscal year, the impact of the global financial turmoil hit the megayacht market and demand for our pleasure craft propulsion and boat management products softened significantly. In addition, while at times showing some positive signs, our industrial markets also ended the year at levels below the previous year. Yet, partially offsetting these sales declines, demand for our commercial marine, airport rescue and fire fighting and land-based and marine military products held steady or increased from previous year performances.

While sales to North America and Europe fell off during the year, revenues from the Pacific Rim increased significantly.

To deal with the weakening demand, we announced a restructuring plan that would reduce or avoid \$25 million in costs during fiscal 2010. The actions included reductions in operating expenses, suspension of the Corporate Incentive Plan for fiscal 2010, salary and wage reductions, selective layoffs, voluntary retirement packages, changes in our domestic pension plan as well as the implementation of government-sponsored layoff programs in Europe.

Aside from these one-time actions, we continue to emphasize lean concepts in our operations as well as focus on expanding our global sourcing capabilities.

In addition, we continue to develop new products and technologies that will differentiate us in the marketplace. During the year we announced three new products that we believe will have a positive impact on our revenues. A new 7500 Series transmission, designed especially for the fracturing/pressure-pumping market, is due to enter production in the second half of fiscal 2010. It is targeted at the larger volume 1500–2250 horsepower market. This transmission will complement the successful 8500 Series that has a proven track record in the oil and gas markets.

Further, we have introduced a new joystick control system, which is integrated with our QuickShift® transmission technology. This control provides very precise and smooth control of the vessel in docking operations. Finally, we have introduced a hybrid-ready marine transmission that helps lower the environmental and noise pollution boats emit when operating at low RPM as they enter or leave a port.

Above: Designed and built in Turkey, the ONUK MRT15 Kaan Class Fast Intervention Craft, equipped with twin 1135-horsepower (846-kW) MTU diesels, Twin Disc ASD12 Arneson Surface Drives and Rolla surface-piercing propellers, carries out a wide range of near-offshore and coastal water law enforcement and naval duties for the Turkish Coast Guard.

Below: Worldwide oil and gas well servicing company BJ Services uses Twin Disc 8500 Series transmissions on their proprietary-design, 2700-hydraulic-horsepower (2013-kW) Gorilla fracturing units.



We would like to thank all of our associates around the world for their support and understanding during this transition year. Their dedication to the design, development, manufacture and sales of quality products and the delivery of outstanding services to our customers is appreciated greatly.



Above: Thames Clippers in London, England, operates a fleet of twelve luxury high-speed catamarans equipped with Twin Disc MGX-6599 SC QuickShift® transmissions and EC300 electronic controls, to provide passengers with the ultimate in operating comfort, safety and on-time delivery.

Below: Werner Chip Company, a division of Werner Saw Mill, Inc., uses a Morbark Model 23 CL Chiparvestor with a CAT 875-horsepower (652-kW) engine driving an 83" chipper through a Twin Disc wet clutch to reduce timbering scrap in southern Indiana.



OUTLOOK

Our six-month backlog at June 30, 2009, was \$60.6 million, compared to \$120.8 million at June 30, 2008. The continued decline in our backlog has been disappointing and while we are hopeful we are near or at the bottom of the cycle, at this point we cannot be certain. At or above year-ago levels, backlogs for the Company's commercial marine and ARFF transmission systems remain strong as we enter the new fiscal year. In the fourth fiscal quarter, the Company experienced an increase in order inquiries for its oil and gas products.

While the first half of the new fiscal year will be soft, we are cautiously optimistic that corporate initiatives and business opportunities will begin to increase our backlog during the second half of the fiscal year. Therefore, throughout the upcoming fiscal year, we will be working hard to manage costs and working capital, to develop new products and markets and to offer our customers outstanding levels of service.

In closing, we would like to thank all of our associates around the world for their support and understanding during this transition year. Their dedication to the design, development, manufacture and sales of quality products and the delivery of outstanding services to our customers is appreciated greatly.

Above: Safehaven Marine's *Pilotos*, a 55' all-weather pilot boat equipped with Twin Disc MGX-5114 QuickShift[®] marine transmissions and EC300 electronic controls, undergoes grueling sea trials under hurricane force conditions in the North Sea out of Cork Harbor, Ireland. Upon completion of sea trials the all-weather pilot boat will be commissioned to the Port of Sines in Portugal.

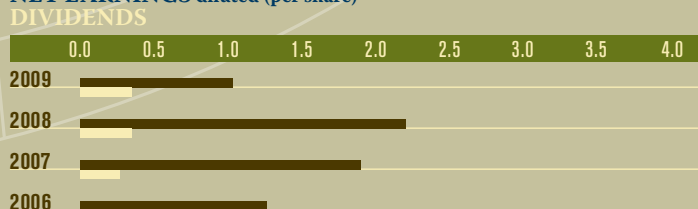
Below: Brisbane, Australia's fleet of 13 CityCat catamaran water-taxis features 409-horsepower (305-kW) Scania engines driving through Twin Disc MGX-5114A QuickShift[®] marine transmissions with EC300 electronic controls.



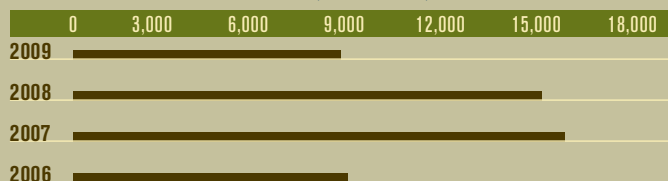
NET SALES (\$ millions)



NET EARNINGS diluted (per share)



CAPITAL EXPENDITURES (\$ thousands)



NET CASH PROVIDED by operating activities (\$ thousands)



John H. Batten

JOHN H. BATTEN
President, Chief Operating Officer

Michael E. Batten

MICHAEL E. BATTEN
Chairman, Chief Executive Officer





Above, left: On natural gas well sites where explosion is an issue and higher MPA (PSI) pressure is not a requirement, Trican uses Surefire's Flameless Non-Fired Nitrogen Pumping Unit working off a Twin Disc pump drive powered by a Cummins 500-horsepower (373-kW) engine.

Above, right: Martin Tec's 6x6 ARFF vehicle gets its life-saving performance – including the unique Twin Disc “pump and roll” capability – from a Caterpillar C-18 EURO III 700-horsepower (522-kW) turbo-charged diesel engine working through a Twin Disc TD61-1179 transmission system with TDEC electronic controls, torque converter and PTO.

The market dynamics of 2009 were an extension of the previous year. The North American oil field demand for high-horsepower, pressure-pumping rigs continued to slide due to ample equipment inventories from years past and a declining demand for oil and natural gas. This curtailed sales of our 8500 Series transmission, the largest transmission in the oil and gas field and renowned for its high-volume pumping in well fracturing and cementing operations. This product has become a staple for large-scale applications where, because of its productivity, it can reduce the number of pumping trucks required.

However, for smaller applications there is an increasing demand for more compact, lighter, yet still relatively high-horsepower pumping equipment that is easier to transport to and from the well site without having to obtain special permits for the pressure-pumping rigs. To this end, Twin Disc has developed a new 7500 Series oil field transmission. It is the first transmission truly designed for stationary pressure-pumping applications.

Unlike vehicular transmissions that have been converted to fracturing applications, the 7500 has even ratio steps which allow the engine to operate in more efficient rpm ranges while maintaining higher pressures at the well head. To reduce overall weight, the 7500 comes in an aluminum housing and the torque converter has been replaced by a single master clutch that both disengages the 7500 from the engine and smoothes out the shifting between gear ranges. Compared to the 8500, it has 88% of the rated horsepower capacity yet only 66% of its weight. Plus its smaller size makes it more adaptable to conventional truck platforms. Twin Disc has been working with customers to develop this new product and it's receiving very positive industry interest. The 7500 Series transmission is undergoing field testing and is scheduled for release early in 2010.

Global demand for airport rescue and fire fighting (ARFF) vehicles increased throughout 2009, resulting in healthy orders for Twin Disc ARFF “pump and roll” transmission systems. Twin Disc enjoyed improved sales and market share gains with its existing OEM customers, led by Rosenbauer, as well as through acquisition of new customers. Much of this business is stimulated by airport construction – new and updates – in developing markets such as India and China. These countries must meet International Air Transportation Association (IATA) standards, which means they must have proper airport safety support, including ARFF vehicles.

Military vehicle transmission business continued its strong performance, with the M88 Hercules Tank Retriever program underway to restore or replace vehicles that had reached their active duty limits. Twin Disc continues to participate with several prime contractors to develop vehicles with increased armor and improved mobility to better aid and protect our troops in combat zones around the world.

On balance, the loss of oil field transmission business in 2009 was offset by military and ARFF orders. For 2010, we expect global market conditions for industrial transmissions to remain about the same as this past year.



There is an increasing demand for more compact, lighter, yet still relatively high-horsepower pumping equipment that is easier to transport to and from the well site. To this end, Twin Disc has developed the new 7500 Series oil field transmission, the first transmission truly designed for stationary pressure-pumping applications.



Above: Calfrac Well Services Ltd., a leading service provider of specialized oil field services and hydraulic fracturing to oil and natural gas exploration and production companies, uses Twin Disc 8500 Series transmission systems in its fracturing rigs to obtain maximum productivity and reliability for its customers.

Below: Howard's Transport utilizes a giant Western Star semi tractor rig equipped with a Twin Disc TD61-1179 transmission and 8-FLW-1754 torque converter to move large and heavy oil and gas field equipment over treacherous "roads" from one well site to another throughout western Canada.



Global outsourcing of high-volume, low-complexity components of our industrial products helps us be more competitive on the global stage. Our industrial products are manufactured in the U.S., Belgium and Italy.



New Holland D75, D85 and D95 crawler dozers produced by CNH in Calhoun, Illinois, are shipped all over the world equipped with Twin Disc torque converters.

The first half of fiscal 2009 started out very well for our industrial markets. But the deteriorating global economy eroded sales of our industrial products significantly over the second half of the year.

The North American irrigation market, including the drought-ridden southeastern United States, created little demand for power take-offs (PTOs) and pump drives. With the lack of land development and reduced municipal budgets resulting from the stifled North American and European economies, we saw a continued reduction in waste recycling, construction and forestry equipment orders. One exception was OEM and long-time Twin Disc customer Morbark. That company's increased business success with export- and biomass-driven sales garnered orders for Twin Disc clutches for its chippers, shredders and tub grinders.

Middle East irrigation and oil field customers maintained a respectable level of orders for PTOs, air clutches and pump drives.

In 2009, we continued the previous year's initiative to improve our worldwide distribution and pricing of industrial products to OEMs and engine packagers. We are continuing the effort to improve the support of our products on export equipment to emerging markets, but we are also executing our plan to expand the sales, distribution and service activities in the growing markets of China, India, Brazil and Eastern Europe.



Irving Materials Corp. dredges an upscale residential community reservoir in Indianapolis, Indiana, with a team of equipment: a 14" Hydraulic Dredge manufactured by DMC (Dredge & Marine Corporation) uses a Twin Disc PO318SBO self-adjusting straddle bearing PTO to actuate the dredging pump; a tender boat with a 36-year old Twin Disc MG-509 marine transmission controlling a Model 671 Detroit Diesel 230-horsepower (172-kW) engine; and a floating in-line booster pump powered by a CAT3508 engine driving through a MG-6690 transmission.

Global outsourcing of high-volume, low-complexity components of our industrial products helps us be more competitive on the global stage. Our industrial products are manufactured in the U.S., Belgium and Italy. Included in this product family are mechanical and hydraulic PTOs, pump drives, reduction

gearboxes, universal control drives (UCDs) and torque converters.

Industrial product development is centered on the upgrading of the control features of the product line and the continued development and expansion of the pump drive line built in Italy.



Industrial Irrigation Services in Hastings, Nebraska, connects Twin Disc SP111 HP3 clutches to John Deere PowerTech 6.8 liter diesel engines for typical power packages used for various types of irrigation applications around Nebraska.



The global work boat market remained very strong through most of FY2009. However, the global recession did affect the work boat market toward the very end of 2009, with a softening of sales and new orders. As in previous years, the key markets driving the success of the work boat segment are the global offshore oil and gas industry, inland waterway cargo vessels in Europe and North America and mining and transportation in Southeast Asia and South America.

Nearly the entire range of Twin Disc marine transmissions has the QuickShift® clutch technology. This superior technology is allowing Twin Disc to increase market shares throughout the world. The interfacing between dynamic positioning (DP) systems and QuickShift® technology is allowing deepwater crew and supply boats to keep station with more accuracy and less fuel consumption than vessels equipped with standard clutch technology. This benefit creates a demand for repowering an existing vessel to QuickShift®, even if new construction slows.

MILITARY PATROL CRAFT

A positive spot in the marine industry is the military patrol craft segment. Twin Disc is actively pursuing and participating in numerous tenders for high speed patrol craft equipped with Arneson Surface Drives, Rolla propellers and QuickShift® transmissions. New orders for this market segment did increase in the second half of fiscal 2009. With the current geopolitical situations, Twin Disc will continue to invest in this market.

Above left: Ingram Barge Company pushboat *Ann Peters*, powered by two Cummins 1600-horsepower (1193-kW) engines driving through Twin Disc MGX-5600 QuickShift® transmissions controlled by EC300 electronic controls, maneuvers aggregate-laden barges along the Tennessee River.

Above right: Pilot boat *La Couronnée IV*, powered by two CAT3508B engines working through Twin Disc MGX-6650 SC QuickShift® transmissions with EC300 controls, serves as a pilot boat station outside the Atlantic port of Saint-Nazaire, France.



Left: Reyser tug *Salvador Dali* in Barcelona, Spain, along with its sister tug *Roman Casas* utilize the proven power and precise maneuvering of a Twin Disc 3000-7-HD Marine Control Drive (MCD) matched with a CAT3516 2239-horsepower (1670-kW) engine.

Right: The Israeli Navy deploys IAI Ramta-built, 27.4 meter, high-speed patrol boats equipped with twin MTU engines driving Twin Disc Arneson ASD16M1 Surface Drives with Rolla propellers, to bring arms to bear at 45 to 50 knots.

As in previous years, the key markets driving the success of the work boat segment are the global offshore oil and gas industry, inland waterway cargo vessels in Europe and North America and mining and transportation in Southeast Asia and South America.



Above: Angus Cambell's Interceptor 55 Orca II, built by Safehaven Marine, County Cork, Ireland, and equipped with twin Scania 650-horsepower (485-kW) engines working through Twin Disc MGX-5114 QuickShift® marine transmissions and EC300 electronic controls, transports passengers and light cargo from home port on The Isle of Harris, 50 nautical miles offshore, to St. Kilda, a wildlife and marine life habitat 45 miles further straight out into the North Atlantic.



PLEASURE CRAFT MARKET

FY2009 saw a dramatic decline in the pleasure craft industry across all segments. Previously, the lower horsepower range had already experienced significant reductions in volume. However, after five years of double-digit growth, the megayacht segment began to slow dramatically as the economic recession took its full effect in the fall of 2008. This affected all Twin Disc marine products – transmissions, controls, propellers, Arneson Surface Drives and boat management systems.

While the near-term outlook for the pleasure craft industry remains quite soft, Twin Disc is still developing technologies to provide users with more features and control of their yachts. This is exemplified by the Express Joystick System currently under development and scheduled to be released in FY2010. Furthermore, we expect to release to production in 2010 our first hybrid-ready marine transmission to allow greener operation of vessels.



The Pershing 90's avante garde design and megayacht statistics dramatically move the imagination with twin 2435-horsepower (1816-kW) MTUs driving Twin Disc Arneson ASD16Ls to achieve a top speed of 44 knots.

Left: The Baia Atlantica 78' utilizes Twin Disc Arneson ASD15 Surface Drives matched with twin MTU 16V 2000 M91 or M93 Marine Engines to get optimum top-end performance and fuel economy.



Right: Twin Disc's latest iteration of its popular Power Commander® EC300 electronic controls offers improved helm aesthetics and more ergonomic design.

Below: Baia Yacht's 54' *Aqua* cruises at 44 knots off of Naples, Italy, with its twin Caterpillar 1014-horsepower (756-kW) engines driving Arneson ASD12B1LU Surface Drives equipped with Rolla propellers.



FORM 10-K

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

For the Fiscal Year Ended June 30, 2009

Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Wisconsin(State or Other Jurisdiction of
Incorporation or Organization)**39-0667110**(I.R.S. Employer
Identification Number)**1328 Racine Street, Racine, Wisconsin**
(Address of Principal Executive Office)**53403**
(Zip Code)**(262) 638-4000**

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, no par	The NASDAQ Stock Market, LLC
Preferred stock purchase rights	The NASDAQ Stock Market, LLC

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

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 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

At December 26, 2008, the last business day of the registrant's second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was \$58,579,283. Determination of stock ownership by affiliates was made solely for the purpose of responding to this requirement and registrant is not bound by this determination for any other purpose.

At August 21, 2009, the registrant had 11,184,626 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

Twin Disc was incorporated under the laws of the state of Wisconsin in 1918. Twin Disc designs, manufactures and sells marine and heavy duty off-highway power transmission equipment. Products offered include: marine transmissions, surface drives, propellers and boat management systems as well as power-shift transmissions, hydraulic torque converters, power take-offs, industrial clutches and controls systems. The Company sells its products to customers primarily in the pleasure craft, commercial and military marine markets as well as in the energy and natural resources, government and industrial markets. The Company's worldwide sales to both domestic and foreign customers are transacted through a direct sales force and a distributor network. The products described above have accounted for more than 90% of revenues in each of the last three fiscal years.

Most of the Company's products are machined from cast iron, forgings, cast aluminum and bar steel which generally are available from multiple sources and which are believed to be in adequate supply.

The Company has pursued a policy of applying for patents in both the United States and certain foreign countries on inventions made in the course of its development work for which commercial applications are considered probable. The Company regards its patents collectively as important but does not consider its business dependent upon any one of such patents.

The business is not considered to be seasonal except to the extent that employee vacations are taken mainly in the months of July and August, curtailing production during that period.

The Company's products receive direct widespread competition, including from divisions of other larger independent manufacturers. The Company also competes for business with parts manufacturing divisions of some of its major customers. Primary competitive factors for the Company's products are performance, price, service and availability. The Company's top ten customers accounted for approximately 39% of the Company's consolidated net sales during the year ended June 30, 2009. There was one customer, Sewart Supply, Inc., that accounted for approximately 10% of consolidated net sales in fiscal 2009.

Unfilled open orders for the next six months of \$60,583,000 at June 30, 2009, compares to \$120,774,000 at June 30, 2008. The Company's domestic manufacturing operation saw an increase in backlog for airport rescue and fire fighting and military vehicular transmissions. This was more than offset by decreases in the six-month backlogs for marine and oil and gas transmissions, industrial products and propulsion systems, due to continued softening in the end markets for these products. The Company's European manufacturing operations saw a net decrease in their six-month backlogs, primarily for products serving the Italian and global megayacht markets. Since orders are subject to cancellation and rescheduling by the customer, the six-month order backlog is considered more representative of operating conditions than total backlog. However, as procurement and manufacturing "lead times" change, the backlog will increase or decrease; and thus it does not necessarily provide a valid indicator of the shipping rate. Cancellations are generally the result of rescheduling activity and do not represent a material change in backlog.

Management recognizes that there are attendant risks that foreign governments may place restrictions on dividend payments and other movements of money, but these risks are considered minimal due to the political relations the United States maintains with the countries in which the Company operates or the relatively low investment within individual countries. No material portion of the Company's business is subject to renegotiation of profits or termination of contracts at the election of the Government.

Engineering and development costs include research and development expenses for new product development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled \$2,636,000, \$2,788,000 and \$3,329,000 in fiscal 2009, 2008 and 2007, respectively. Total engineering and development costs were \$9,142,000, \$9,025,000 and \$9,327,000 in fiscal 2009, 2008 and 2007, respectively.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, is not anticipated to have a material effect on capital expenditures, earnings or the competitive position of the Company.

The number of persons employed by the Company at June 30, 2009, was 959.

A summary of financial data by segment and geographic area for the years ended June 30, 2009, 2008 and 2007 appears in Note J to the consolidated financial statements.

The Company's internet Web site address is www.twindisc.com. The Company makes available free of charge (other than an investor's own internet access charges) through its Web site the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the United States Securities and Exchange Commission. In addition, the Company makes available, through its Web site, important corporate governance materials. This information is also available from the Company upon request. The Company is not including the information contained on or available through its Web site as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

The Company's business involves risk. The following information about these risks should be considered carefully together with other information contained in this report. The risks described below are not the only risks the Company faces. Additional risks not currently known or deemed immaterial may also result in adverse results for the Company's business.

As a global company, we are subject to currency fluctuations and any significant movement between the U.S. Dollar and the Euro, in particular, could have an adverse effect on our profitability. Although the Company's financial results are reported in U.S. Dollars, a significant portion of our sales and operating costs are realized in Euros and other foreign currencies. The Company's profitability is affected by movements of the U.S. Dollar against the Euro and the other currencies in which we generate revenues and incur expenses. Significant long-term fluctuations in relative currency values, in particular a significant change in the relative values of the U.S. Dollar or Euro, could have an adverse effect on our profitability and financial condition.

Certain of the Company's products are directly or indirectly used in oil exploration and oil drilling, and are thus dependent upon the strength of those markets and oil prices. In recent years, the Company has seen a significant growth in the sales of its products that are used in oil and energy-related markets. The growth in these markets has been spurred by the rise in oil prices and the global demand for oil. In addition, there has been a substantial increase in capital investment by companies in these markets. In the most recent fiscal year, a significant decrease in oil prices, the demand for oil and capital investment in the oil and energy markets had an adverse effect on the sales of these products and ultimately the Company's profitability. A continued softening or further deterioration in global oil and gas markets could have a further adverse effect on the sales of these products and ultimately on the Company's profitability.

Many of the Company's product markets are cyclical in nature or are otherwise sensitive to volatile or variable factors. A downturn or weakness in overall economic activity or fluctuations in those other factors can have a material adverse effect on the Company's overall financial performance. Historically, sales of many of the products that the Company manufactures and sells have been subject to cyclical variations caused by changes in general economic conditions and other factors. In particular, the Company sells its products to customers primarily in the pleasure craft, commercial and military marine markets, as well as in the energy and natural resources, government and industrial markets. The demand for the products may be impacted by the strength of the economy, generally, governmental spending and appropriations, including security and defense outlays, fuel prices, interest rates, as well as many other factors. Adverse economic and other conditions may cause the Company's customers to forego or otherwise postpone purchases in favor of repairing existing equipment.

In the event of an increase in the global demand for steel, the Company could be adversely affected if it experiences shortages of raw castings and forgings used in the manufacturing of its products. With the continued development of certain third world economies, in particular China and India, the global demand for steel has risen significantly in recent years. The Company selects its suppliers based on a number of criteria, and we expect that they will be able to support our growing needs. However, there can be no assurance that a significant increase in demand, capacity constraints or other issues experienced by the Company's suppliers will not result in shortages or delays in their supply of raw materials to the Company. If the Company were to experience a significant or prolonged shortage of critical components from any of its suppliers, particularly those who are sole sources, and could not procure the components from other sources, the Company would be unable to meet its production schedules for some of its key products and would miss product delivery dates which would adversely affect our sales, profitability and relationships with our customers.

If the Company were to lose business with any key customers, the Company's business would be adversely affected. Although there was only one customer that accounted for 10% or more of consolidated net sales in fiscal 2009, deterioration of a business relationship with one or more of the Company's significant customers would cause its sales and profitability to be adversely affected.

The Company continues to face the prospect of increasing commodity costs, including steel, other raw materials and energy that could have an adverse effect on future profitability. To date, the Company has been successful with offsetting the effects of increased commodity costs through cost reduction programs and pricing actions. However, if material prices were to continue to increase at a rate that could not be recouped through product pricing, it could potentially have an adverse effect on our future profitability.

The termination of relationships with the Company's suppliers, or the inability of such suppliers to perform, could disrupt its business and have an adverse effect on its ability to manufacture and deliver products. The Company relies on raw materials, component parts, and services supplied by outside third parties. If a supplier of significant raw materials, component parts or services were to terminate its relationship with the Company, or otherwise cease supplying raw materials, component parts, or services consistent with past practice, the Company's ability to meet its obligations to its customers may be affected. Such a disruption with respect to numerous products, or with respect to a few significant products, could have an adverse effect on the Company's profitability and financial condition.

A significant design, manufacturing or supplier quality issue could result in recalls or other actions by the Company that could adversely affect profitability. As a manufacturer of highly engineered products, the performance, reliability and productivity of the Company's products is one of its competitive advantages. While the Company prides itself on putting in place procedures to ensure the quality and performance of its products and suppliers, a significant quality or product issue, whether due to design, performance, manufacturing or supplier quality issue, could lead to warranty actions, scrapping of raw materials, finished goods or sold products, the deterioration in a customer relation, or other action that could adversely affect warranty and quality costs, future sales and profitability.

The Company faces risks associated with its international sales and operations that could adversely affect its business, results of operations or financial condition. Sales to customers outside the United States approximated 61% of our consolidated net sales for fiscal 2009. We have international manufacturing operations in Belgium, Italy and Switzerland. In addition, we have international distribution operations in Singapore, China, Australia, Japan, Italy and Canada. Our international sales and operations are subject to a number of risks, including:

- currency exchange rate fluctuations
- export and import duties, changes to import and export regulations, and restrictions on the transfer of funds
- problems with the transportation or delivery of our products
- issues arising from cultural or language differences and labor unrest
- longer payment cycles and greater difficulty in collecting accounts receivables
- compliance with trade and other laws in a variety of jurisdictions

These factors could adversely affect our business, results of operations or financial condition.

A material disruption at the Company's manufacturing facilities in Racine, Wisconsin, could adversely affect its ability to generate sales and meet customer demand. The majority of the Company's manufacturing, based on fiscal 2009's sales, came from its two facilities in Racine, Wisconsin. If operations at these facilities were to be disrupted as a result of significant equipment failures, natural disasters, power outages, fires, explosions, adverse weather conditions or other reasons, the Company's business and results of operations could be adversely affected. Interruptions in production would increase costs and reduce sales. Any interruption in production capability could require the Company to make substantial capital expenditures to remedy the situation, which could negatively affect its profitability and financial condition. The Company maintains property damage insurance which it believes to be adequate to provide for reconstruction of its facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under this insurance policy may not offset the lost sales or increased costs that may be experienced during the disruption of operations. Lost sales may not be recoverable under the policy and long-term business disruptions could result in a loss of customers. If this were to occur, future sales levels and costs of doing business, and therefore profitability, could be adversely affected.

Any failure to meet our debt obligations and satisfy financial covenants could adversely affect our business and financial condition.

Throughout 2008 and continuing into 2009, general worldwide economic conditions have experienced a downturn due to the combined effects of the subprime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. These conditions make it difficult for customers, vendors and the Company to accurately forecast and plan future business activities, and cause U.S. and foreign businesses to slow spending on products, which delay and lengthen sales cycles. These conditions led to declining revenues in several of the Company's divisions in fiscal 2009. The Company's amended revolving credit facility and senior notes agreements require it to maintain specified quarterly financial covenants such as a minimum consolidated net worth, minimum EBITDA for the most recent four fiscal quarters of \$11,000,000 and a funded debt to EBITDA ratio of 3.0 or less. At June 30, 2009, the Company was in compliance with these financial covenants with a four-quarter EBITDA total of \$30,020,000 and a funded debt to EBITDA ratio of 1.69. The minimum net worth covenant fluctuates based upon actual earnings and is subject to adjustment for certain pension accounting adjustments to equity. As of June 30, 2009, the minimum net worth requirement was \$100,614,000 compared to an actual result of \$140,988,000 after all required adjustments. In the fourth fiscal quarter of 2009, the Company announced \$25 million of cost avoidance and savings actions in light of softening that was anticipated in many of its key markets. Based on its annual financial plan, which reflects these actions and the softening forecast, the Company believes that it will generate sufficient EBITDA levels throughout fiscal 2010 in order to maintain compliance with its financial covenants. However, as with all forward-looking information, there can be no assurance that the Company will achieve the planned results in future periods especially due to the significant uncertainties flowing from the current economic environment. If the Company is not able to achieve these objectives and to meet the required covenants under the agreements, the Company may require forbearance from its existing lenders in the form of waivers and/or amendments of its credit facilities or be required to arrange alternative financing. Failure to obtain relief from covenant violations or to obtain alternative financing, if necessary, would have a material adverse impact on the Company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Manufacturing Segment

The Company owns two manufacturing, assembly and office facilities in Racine, Wisconsin, U.S.A., one in Nivelles, Belgium, two in Decima, Italy, and one in Novazzano, Switzerland. The aggregate floor space of these six plants approximates 724,000 square feet. One of the Racine facilities includes office space, which includes the Company's corporate headquarters. The Company leases additional manufacturing, assembly and office facilities in Italy (Limite sull'Arno) and India (outsourcing office in Chennai).

Distribution Segment

The Company also has operations in the following locations, all of which are used for sales offices, warehousing and light assembly or product service. The following properties are leased:

Jacksonville, Florida, U.S.A.	Edmonton, Alberta, Canada	Singapore
Medley, Florida, U.S.A.	Burnaby, British Columbia, Canada	Shanghai, China
Coburg, Oregon, U.S.A.	Brisbane, Queensland, Australia	Guangzhou, China
Kent, Washington, U.S.A.	Perth, Western Australia, Australia	Limite sull'Arno, Italy

The Company believes its properties are well maintained and adequate for its present and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

Twin Disc is a defendant in several product liability or related claims of which the ultimate outcome and liability to the Company, if any, is not presently determinable. Management believes that the final disposition of such litigation will not have a material impact on the Company's results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended June 30, 2009.

Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 16, 2009.

Name	Position	Age
Michael E. Batten	Chairman and Chief Executive Officer	69
John H. Batten	President and Chief Operating Officer	44
Christopher J. Eperjesy	Vice President – Finance, Chief Financial Officer and Treasurer	41
James E. Feiertag	Executive Vice President	52
Henri-Claude Fabry	Vice President - International Distribution and Managing Director, Twin Disc International S.A.	63
Dean J. Bratel	Vice President – Engineering	45
Denise L. Wilcox	Vice President – Human Resources	52
Jeffrey S. Knutson	Corporate Controller	44
Thomas E. Valentyn	General Counsel and Secretary	50

Officers are elected annually by the Board of Directors at the Board meeting held in conjunction with each Annual Meeting of the Shareholders. Each officer holds office until a successor is duly elected, or until he/she resigns or is removed from office.

Michael E. Batten, Chairman and Chief Executive Officer. Mr. Batten has been employed with the Company since 1970, and was named Chairman and Chief Executive Officer in 1991. Mr. Batten was named President in 2006, upon the retirement of Michael Joyce and relinquished this role effective July 1, 2008, with the appointment of John Batten as President and Chief Operating Officer.

John H. Batten, President and Chief Operating Officer. Effective July 1, 2008, Mr. Batten has been named President and Chief Operating Officer. Prior to the July 2008 promotion, Mr. Batten served as Executive Vice President since November 2004, Vice President and General Manager – Marine and Propulsion since October 2001 and Commercial Manager – Marine and Propulsion since 1998. Mr. Batten joined Twin Disc in 1996 as an Application Engineer. Mr. Batten is the son of Mr. Michael Batten.

Christopher J. Eperjesy, Vice President – Finance, Chief Financial Officer and Treasurer. Mr. Eperjesy joined the Company in his current role in November 2002. Prior to joining Twin Disc, Mr. Eperjesy was Divisional Vice President – Financial Planning & Analysis for Kmart Corporation since 2001, and Senior Manager – Corporate Finance with DaimlerChrysler AG since 1999.

James E. Feiertag, Executive Vice President. Mr. Feiertag was appointed to his present position in October 2001. Prior to being promoted, he served as Vice President – Manufacturing since joining the Company in November 2000. Prior to joining Twin Disc, Mr. Feiertag was the Vice President of Manufacturing for the Drives and Systems Group of Rockwell Automation since 1999.

Henri-Claude Fabry, Vice President – International Distribution and Managing Director, Twin Disc International S.A. Mr. Fabry was appointed to his current position in January 2009, after serving as Vice President – Global Distribution since 2001. Mr. Fabry joined Twin Disc in 1997 as Director, Marketing and Sales of the Belgian subsidiary.

Dean J. Bratel, Vice President - Engineering. Mr. Bratel was promoted to his current role in November 2004 after serving as Director of Corporate Engineering (since January 2003), Chief Engineer (since October 2001) and Engineering Manager (since December 1999). Mr. Bratel joined Twin Disc in 1987.

Denise L. Wilcox, Vice President - Human Resources. After joining the Company as Manager Compensation & Benefits in September 1998, Ms. Wilcox was promoted to Director Corporate Human Resources in March 2002 and to her current role in November 2004. Prior to joining Twin Disc, Ms. Wilcox held positions with Johnson International and Runzheimer International.

Jeffrey S. Knutson, Corporate Controller. Mr. Knutson was appointed to his current role in October 2005 after joining the Company in February 2005 as Controller of North American Operations. Prior to joining Twin Disc, Mr. Knutson held Operational Controller positions with Tower Automotive (since August 2002) and Rexnord Corporation (since November 1998).

Thomas E. Valentyn, General Counsel and Secretary. Mr. Valentyn joined the Company in his current role in September 2007. Prior to joining Twin Disc, Mr. Valentyn served as Vice President and General Counsel at Norlight Telecommunications, Inc. since July 2000.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol TWIN. The price information below, which reflects the impact of the December 31, 2007, stock split, represents the high and low sales prices from July 1, 2007, through June 30, 2009:

Fiscal Year Ended June 30, 2009				Fiscal Year Ended June 30, 2008			
	High	Low	Dividend		High	Low	Dividend
First Quarter	\$22.94	\$12.92	\$0.0700	First Quarter	\$41.99	\$23.51	\$0.0550
Second Quarter	15.38	4.02	0.0700	Second Quarter	37.47	25.51	0.0700
Third Quarter	8.12	4.54	0.0700	Third Quarter	36.35	12.07	0.0700
Fourth Quarter	9.72	6.06	0.0700	Fourth Quarter	23.34	13.38	0.0700

For information regarding the Company's equity-based compensation plans, see the discussion under Item 12 of this report. As of August 21, 2009, shareholders of record numbered 761. The closing price of Twin Disc common stock as of August 21, 2009, was \$12.36.

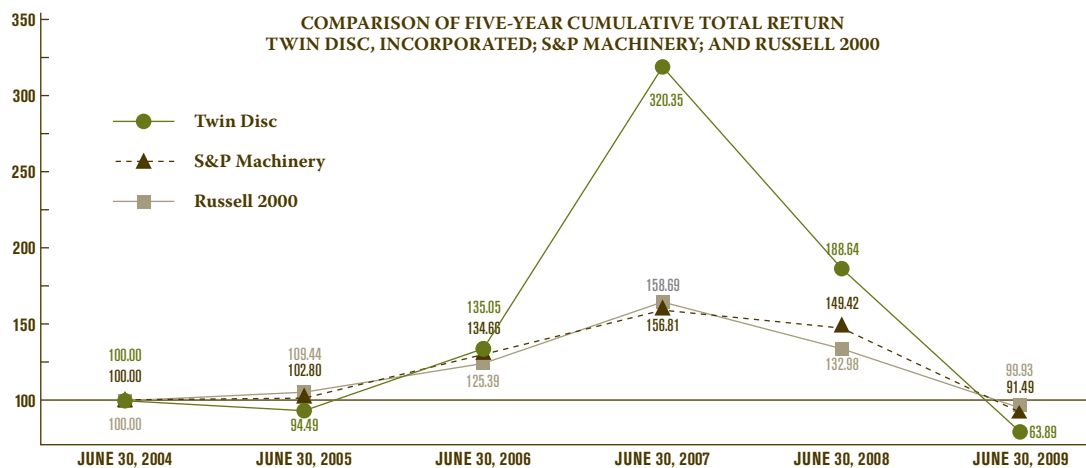
Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
March 28, 2009–April 24, 2009	0	N/A	0	250,000
April 25, 2009–May 29, 2009	0	N/A	0	250,000
May 30, 2009–June 30, 2009	0	N/A	0	250,000
Total	0			

On February 1, 2008, the Board of Directors authorized the purchase of up to 500,000 shares of Common Stock at market values, of which 250,000 shares have already been purchased during the second quarter of fiscal 2009.

Performance Graph

The following table compares total shareholder return over the last 5 fiscal years to the Standard & Poor's 500 Machinery (Industrial) Index and the Russell 2000 index. The S&P 500 Machinery (Industrial) Index consists of a broad range of manufacturers. The Russell 2000 Index consists of a broad range of 2,000 companies. The Company believes, because of the similarity of its business with those companies contained in the S&P 500 Machinery (Industrial) Index, that comparison of shareholder return with this index is appropriate. Total return values for the Corporation's common stock, the S&P 500 Machinery (Industrial) Index and the Russell 2000 Index were calculated based upon an assumption of a \$100 investment on June 30, 2004, and based upon cumulative total return values assuming reinvestment of dividends on a quarterly basis.



ITEM 6. SELECTED FINANCIAL DATA**Financial Highlights**

(in thousands, except per share amounts)

Statement of Operations Data:	For the years ended June 30,				
	2009	2008	2007	2006	2005
Net sales	\$295,618	\$331,694	\$317,200	\$243,287	\$218,472
Net earnings	11,502	24,252	21,852	14,453	6,910
Basic earnings per share	1.04	2.15	1.88	1.26	0.60
Diluted earnings per share	1.03	2.13	1.84	1.22	0.59
Dividends per share	0.28	0.265	0.205	0.1825	0.175
Balance Sheet Data (at end of period):					
Total assets	\$285,565	\$304,628	\$267,184	\$236,172	\$188,037
Total long-term debt	46,348	48,227	42,152	38,369	14,958

Effective May 31, 2006, the Company acquired four related foreign entities: B.C.S. S.r.l., an Italian limited liability company; B.C.S. Service S.r.l., an Italian limited liability company; Boat Equipment Limited, a Maltese limited liability company; and Vetus Italia S.r.l., an Italian limited liability company. All four entities have a fiscal year ending May 31. Since the acquisition was also effective May 31, no results of operations for these four acquired entities are included in the consolidated results for the year ended June 30, 2006. A full year's results are included in the consolidated results for the years ended June 30, 2007, 2008 and 2009.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Note on Forward-Looking Statements**

Statements in this report (including but not limited to certain statements in Items 1, 3 and 7) and in other Company communications that are not historical facts are forward-looking statements, which are based on management's current expectations. These statements involve risks and uncertainties that could cause actual results to differ materially from what appears here.

Forward-looking statements include the Company's description of plans and objectives for future operations and assumptions behind those plans. The words "anticipates," "believes," "intends," "estimates," and "expects," or similar anticipatory expressions, usually identify forward-looking statements. In addition, goals established by the Company should not be viewed as guarantees or promises of future performance. There can be no assurance the Company will be successful in achieving its goals.

In addition to the assumptions and information referred to specifically in the forward-looking statements, other factors, including, but not limited to those factors discussed under Item 1A, Risk Factors, could cause actual results to be materially different from what is presented in any forward-looking statements.

Results of Operations*(In thousands)*

	2009	%	2008	%	2007	%
Net sales	\$295,618		\$331,694		\$317,200	
Cost of goods sold	214,175		226,826		214,291	
Gross profit	81,443	27.6%	104,868	31.6%	102,909	32.4%
Marketing, engineering and administrative expenses	60,470	20.5%	66,349	20.0%	63,267	19.9%
Restructuring of operations	1,188	0.4%	(373)	(0.1%)	2,652	0.8%
Earnings from operations	\$ 19,785	6.7%	\$ 38,892	11.7%	\$ 36,990	11.7%

Fiscal 2009 Compared to Fiscal 2008**Net Sales**

Net sales decreased \$36.1 million, or 10.9%, in fiscal 2009. The year-over-year movement in foreign exchange rates resulted in a net unfavorable translation effect on sales of \$4.8 million in fiscal 2009, compared to fiscal 2008.

In fiscal 2009, sales for our worldwide manufacturing operations, before eliminating intra-segment and inter-segment sales, were \$33.1 million, or 11.1%, lower than in the prior fiscal year. Year-over-year changes in foreign exchange rates had a net unfavorable impact on sales of \$5.9 million. Sales at the Company's domestic manufacturing location were down \$19.8 million, primarily driven by lower sales of land-based oil and gas transmissions, and surface drives for the global megayacht market. The net remaining decrease came at the Company's European manufacturing operations and was primarily due to the impact of the softening experienced in the second half of the fiscal year in the megayacht market. Softening demand as a result of the global economic slowdown unfavorably impacted shipments and order rates in the third and fourth fiscal quarters.

Net sales for distribution operations were down \$3.3 million, or 2.9%, in fiscal 2009. Year-over-year changes in foreign exchange rates had a net unfavorable impact on sales of \$2.2 million. The Company's distribution operation in Singapore, which serves the Asian market, saw a 35% year-over-year increase in sales. This increase was primarily driven by increased shipments of commercial marine transmissions for Asian markets. Offsetting the increase experienced in Asia, the Company's distribution operations in Europe, Australia and the Southeastern United States experienced declines versus the prior fiscal year due to the continued softening of the global megayacht market. The Company provides marine transmissions, and propulsion and boat management systems to serve this market.

Net sales for the Company's largest product market, marine transmission and propulsion systems, were roughly flat compared to the prior fiscal year. Sales of the Company's boat management systems manufactured at our Italian operation and servicing the global megayacht market, were off approximately 30% versus the prior fiscal year. This was primarily driven by second half fall-off in sales to builders of megayachts. In the off-highway transmission market, the year-over-year decrease of nearly 19% can be attributed primarily to decreased transmission sales in land-based oil field markets, only partially offset by increased sales of the Company's transmissions for the agricultural tractor market. Sales of the Company's vehicular transmissions for the airport rescue and fire fighting and military markets remained at or slightly above year ago levels. The decrease experienced in the Company's industrial products of roughly 10% was also due in part to the decreased activity related to oil field markets as well as decreased sales into the agriculture, mining and general industrial markets, primarily in the North American and Italian markets.

The elimination for net intra-segment and inter-segment sales decreased \$0.4 million, or 0.4%, from \$82.9 million in fiscal 2008 to \$82.5 million in fiscal 2009. Year-over-year changes in foreign exchange rates had a favorable net impact of \$3.2 million on net intra-segment and inter-segment sales.

Gross Profit

In fiscal 2009, gross profit decreased \$23.4 million, or 22.3%, to \$81.4 million. Gross profit as a percentage of sales decreased 400 basis points in fiscal 2009 to 27.6%, compared to 31.6% in fiscal 2008. There were a number of factors that impacted the Company's overall gross margin rate in fiscal 2009. Gross margin for the year was unfavorably impacted by lower volumes, an unfavorable shift in product mix, and an increase in warranty expenses. In addition, the year-over-year movement in foreign exchange rates, primarily driven by movements in the Euro, resulted in a net unfavorable translation effect on gross profit of \$3.3 million in fiscal 2009, compared to fiscal 2008. These adverse effects were partially offset by selective pricing actions, improvements achieved through the Company's outsourcing and cost reduction programs and lower domestic bonus expense. On June 3, 2009, the Company announced it would freeze future accruals under the domestic defined benefit pension plans effective August 1, 2009. This resulted in a curtailment gain of \$1.7 million recorded in the fourth quarter of fiscal 2009. Of this amount, \$1.2 million was recorded as income in cost of goods sold, with the remainder recorded in ME&A expenses. In addition, the Company's Belgian operation's gross margin was favorably affected by the continued relative strength of the Euro versus the U.S. Dollar, when compared to the average rate in fiscal 2008. This operation manufactures with Euro-based costs and sells more than a third of its production into the U.S. market at U.S. Dollar prices. The average Euro to U.S. Dollar exchange rate, computed monthly, in fiscal 2009 was \$1.37, which was 7.3% lower than in fiscal 2008. It is estimated that the year-over-year effect of a weaker Euro, on average, was to improve margins at our Belgian subsidiary by nearly \$1.4 million.

Marketing, Engineering and Administrative (ME&A) Expenses

Marketing, engineering, and administrative (ME&A) expenses decreased \$5.9 million, or 8.9%, in fiscal 2009 versus fiscal 2008. As a percentage of sales, ME&A expenses increased by 50 basis points to 20.5% in fiscal 2009, compared to 20.0% in fiscal 2008. The table below summarizes significant changes in certain ME&A expenses for the fiscal year:

<i>\$ thousands – (Income)/Expense</i>	Fiscal Year Ended		Increase/ (Decrease)
	June 30, 2009	June 30, 2008	
Domestic Bonus	\$ —	\$3,100	\$(3,100)
Stock Based Compensation	(581)	1,879	(2,460)
Pension	(88)	261	(349)
Severance	1,308	—	1,308
Domestic/Corporate IT Expenses	5,740	4,419	1,321
			(3,280)
		Foreign Currency Translation	(1,544)
			(4,824)
		All Other, Net	(1,055)
			<u>\$(5,879)</u>

The decrease in domestic bonus compensation is due to the fact that the annual incentive targets for fiscal year 2009 were not achieved and as a result no bonuses were accrued or paid. The decrease in stock-based compensation expense for executive officers is primarily driven by the reversal of accruals for long-term incentive compensation awards for fiscal years 2010 and 2011, due to the low probability of achieving the threshold performance levels (see Note K of the Notes to the Consolidated Financial Statements). The severance charge related to actions announced in the second quarter of fiscal 2009 at the Company's Belgian operation. The increase in domestic and corporate IT expenses primarily represents increased depreciation expense related to the implementation of the Company's new global ERP system. The net remaining decrease in ME&A expenses primarily relates to global cost reduction initiatives implemented by the Company in the second half of fiscal 2009.

Restructuring of Operations

During the fourth quarter of fiscal 2009, the Company recorded a pre-tax restructuring charge of \$948,000 related to a workforce reduction at its Racine, Canadian and Australian operations. The charge consisted of severance costs for 22 salaried employees and voluntary early retirement charges for an additional 16 manufacturing employees. During fiscal 2009, the Company made cash payments of \$180,000, resulting in an accrual balance at June 30, 2009, of \$767,000.

During the fourth quarter of fiscal 2007, the Company recorded a pre-tax restructuring charge of \$2,652,000 related to a workforce reduction at its Belgian operation that will allow for improved profitability through targeted outsourcing savings and additional focus on core manufacturing processes. The charge consists of prepension costs for 32 employees: 29 manufacturing employees and 3 salaried employees. This charge was adjusted in the fourth quarter of fiscal 2008, resulting in a pre-tax benefit of \$373,000, due to final negotiations primarily related to notice period pay. A further adjustment was made in the fourth quarter of fiscal 2009, resulting in a pre-tax expense of \$240,000 related to legally required inflationary adjustments to benefits. During fiscal 2009 and 2008, the Company made cash payments of \$120,000 and \$103,000, respectively. The exchange impact in fiscal 2009 was to reduce the accrual by \$296,000. Accrued restructuring costs were \$2,417,000 and \$2,603,000 at June 30, 2009 and 2008, respectively.

The Company recorded a restructuring charge of \$2,076,000 in the fourth quarter of fiscal 2005 as the Company restructured its Belgian operation to improve future profitability. The charge consists of prepension costs for 37 employees: 33 manufacturing employees and 4 salaried employees. During fiscal 2009 and 2008, the Company made cash payments of \$200,000 and \$262,000, respectively. The exchange impact in fiscal 2009 was to reduce the accrual by \$137,000. Accrued restructuring costs were \$1,121,000 and \$1,465,000 at June 30, 2009 and 2008, respectively.

Interest Expense

Interest expense decreased by \$0.6 million, or 18.1%, in fiscal 2009. Total interest on the Company's \$35 million revolving credit facility ("revolver") decreased \$0.6 million from \$1.3 million in fiscal 2008 to \$0.7 million in fiscal 2009. This decrease can be attributed to a decrease in the interest rate on the revolver year-over-year which more than offset an overall increase in the average borrowings year-over-year. The average borrowing on the revolver, computed monthly, increased to \$24.0 million in fiscal 2009, compared to \$22.8 million in fiscal 2008. More than offsetting the average increased borrowing, the interest rate on the revolver decreased from a range of 3.71% to 6.97% in fiscal 2008 to a range of 1.69% to 4.00% in fiscal 2009. Interest expense for the Company's \$25 million Senior Notes, which carry a fixed interest rate of 6.05%, remained flat at \$1.5 million. The net remaining interest expense of \$0.2 million was from various borrowings at the Company's foreign subsidiaries.

Income Taxes

In fiscal 2009 and 2008, the Company's effective tax rate approximated 34.7% and 30.9%, respectively. The primary cause for the increase is the one-time benefit recorded in fiscal 2008 related to adjusting the Italian deferred tax balance for the new reduced Italian tax rate (see Note N of the Notes to the Consolidated Financial Statements).

Order Rates

As of June 30, 2009, the Company's backlog of orders scheduled for shipment during the next six months (six-month backlog) was \$60.6 million, or approximately 50% lower than the six-month backlog of \$120.8 million as of June 30, 2008. The Company's domestic manufacturing operation saw an increase in backlog for airport rescue and fire fighting and military vehicular transmissions. This was more than offset by decreases in the six-month backlogs for marine and oil and gas transmissions, industrial products and propulsion systems, due to continued softening in the end markets for these products. The Company's European manufacturing operations saw a net decrease in their six-month backlogs, primarily for products serving the Italian and global megayacht markets.

Fiscal 2008 Compared to Fiscal 2007

Net Sales

Net sales increased \$14.5 million, or 4.6%, in fiscal 2008. The year-over-year movement in foreign exchange rates resulted in a net favorable translation effect on sales of \$16.6 million in fiscal 2008, compared to fiscal 2007.

In fiscal 2008, sales for our worldwide manufacturing operations, before eliminating intra-segment and inter-segment sales, were \$10.6 million, or 3.7%, higher than in the prior fiscal year. Year-over-year changes in foreign exchange rates had a net favorable impact on sales of \$13.2 million. A slight decrease in sales at the Company's domestic manufacturing operation, primarily driven by a decrease in sales of oil field-related transmissions partially offset by increased sales of marine and propulsion products, was offset by increases at the Company's Italian and Swiss manufacturing operations, which focus on the Italian and global megayacht markets. Overall, demand from the Company's customers in the commercial marine and megayacht markets remained high, which continued to be offset by softness in oil and gas transmission sales.

Net sales for distribution operations were up \$17.0 million, or 17.3%, in fiscal 2008. Year-over-year changes in foreign exchange rates had a net favorable impact on sales of \$8.7 million. Of the remaining net increase of \$8.3 million, the majority of the net increase came from the Company's distribution operations in Asia, where the company continued to see strong demand for its commercial marine transmission products, and Australia, driven by improved pleasure craft transmission sales.

Net sales for the Company's largest product market, marine and propulsion systems, were up nearly 16%. This was partially offset by an approximately 13% decline in transmission product sales, primarily due to softening in the markets for oil and gas transmissions, and a 4% decline in industrial product markets, primarily in North America. This net year-over-year increase is before considering the net favorable foreign currency translation effect noted above. Growth in the marine and propulsion market was driven primarily by increased commercial and megayacht marine transmission sales, as well as increased sales of Arneson Surface Drives and custom Rolla propellers. In the off-highway transmission market, the year-over-year decrease can be attributed primarily to decreased sales in land-based oil field markets, only partially offset by increased sales of the Company's transmissions for the airport rescue and fire fighting market. The decrease experienced in the Company's industrial

products was also due in part to the decreased activity related to oil field markets as well as decreased sales into the agriculture, mining and general industrial markets, primarily in the North American and Italian markets.

The elimination for net intra-segment and inter-segment sales increased \$13.1 million, or 18.7%, from \$69.9 million in fiscal 2007 to \$82.9 million in fiscal 2008. Year-over-year changes in foreign exchange rates had a net impact of \$5.3 million on net intra-segment and inter-segment sales.

Gross Profit

In fiscal 2008, gross profit increased \$2.0 million, or 1.9%, to \$104.9 million. Gross profit as a percentage of sales decreased 80 basis points in fiscal 2008 to 31.6%, compared to 32.4% in fiscal 2007. There were a number of factors that impacted the Company's overall gross margin rate in fiscal 2008. For the year, profitability continued to improve from the implementation of cost reduction and outsourcing programs, manufacturing efficiencies, and selective price increases. The Company's margins continued to be unfavorably impacted by rising steel, energy and medical costs. In addition, the Company's Belgian operation's gross margin was unfavorably affected by the continued relative strength of the Euro versus the U.S. Dollar, when compared to the average rate in fiscal 2007. This operation manufactures with Euro-based costs and sells more than a third of its production into the U.S. market at U.S. Dollar prices. The average Euro to U.S. Dollar exchange rate, computed monthly, in fiscal 2008 was \$1.48, which was 13.0% higher than in fiscal 2007. It is estimated that the year-over-year effect of a stronger Euro, on average, was to deteriorate margins at our Belgian subsidiary by nearly \$1.8 million. Fiscal 2007's gross profit included unfavorable non-cash, non-recurring purchase accounting adjustments to inventory at the BCS Group companies of \$1.2 million, pre-tax, which did not occur in fiscal year 2008. The adjustment reduced gross profit by nearly 40 basis points in fiscal 2007. These adverse effects were partially offset by (1) selective pricing actions, (2) improvements achieved through the Company's outsourcing and cost reduction programs, (3) lower domestic pension and postretirement health care costs of approximately \$1.3 million and (4) lower domestic bonus expense of roughly \$0.5 million. The year-over-year movement in foreign exchange rates, primarily driven by movements in the Euro, resulted in a net favorable translation effect on gross profit of \$6.7 million in fiscal 2008, compared to fiscal 2007.

Marketing, Engineering and Administrative (ME&A) Expenses

Marketing, engineering, and administrative (ME&A) expenses increased \$3.1 million, or 4.9%, in fiscal 2008 versus fiscal 2007. As a percentage of sales, ME&A expenses increased by 10 basis points to 20.0% in fiscal 2008, compared to 19.9% in fiscal 2007. The year-over-year increase in domestic and corporate IT costs, primarily related to the implementation of a global ERP system, was \$1.5 million compared to fiscal 2007. In addition, year-over-year changes in foreign exchange rates had a net translation effect of increasing ME&A expenses by \$3.0 million. These increases were partially offset by a \$1.5 million reduction in the Company's stock based compensation expense as a result of a decline in the price of the Company's stock during the fiscal year as well as lower domestic pension and bonus expenses of \$0.4 million and \$0.5 million, respectively.

Restructuring of Operations

During the fourth quarter of 2007, the Company recorded a pre-tax restructuring charge of \$2.7 million related to a workforce reduction at its Belgian operation that will allow for improved profitability through targeted outsourcing savings and additional focus on core manufacturing processes. The charge consisted of prepension costs for 32 employees: 29 manufacturing employees and 3 salaried employees. This charge was adjusted in the fourth quarter of 2008, resulting in a pre-tax benefit of \$373,000, due to final negotiations primarily related to notice period pay. During fiscal 2008 and 2007, the Company made cash payments of \$103,000 and \$0, respectively. Accrued restructuring costs were \$2,603,000 and \$2,652,000 at June 30, 2008 and 2007, respectively.

Interest Expense

Interest expense decreased by \$0.1 million, or 3.7%, in fiscal 2008. Total interest on the Company's \$35 million revolving credit facility decreased less than \$0.1 million to \$1.3 million. This decrease can be attributed to a decrease in the interest rate on the revolver year-over-year which more than offset an overall increase in the average borrowings year-over-year. The average borrowing on the revolver, computed monthly, increased to \$22.8 million in fiscal 2008, compared to \$18.9 million in fiscal 2007. More than offsetting the average increased borrowing, the interest rate on the revolver decreased from a range of 6.13% to 6.60% in fiscal 2007 to a range of 3.71% to 6.97% in fiscal 2008. Interest expense for the Company's \$25 million Senior Notes, which carry a fixed interest rate of 6.05%, remained flat at \$1.5 million. The net remaining interest expense of \$0.2 million was from various borrowings at the Company's foreign subsidiaries.

Income Taxes

In fiscal 2008 and 2007, the Company's effective tax rate approximated 30.9% and 35.8%, respectively. The improvement is the result of a reduction in the Italian corporate tax rate announced in December 2007 from 37.3% to 31.4%, resulting in a favorable adjustment to deferred taxes of approximately \$1.2 million, and favorable tax adjustments of approximately \$1.3 million primarily related to foreign and state tax provision adjustments. The decrease in the effective tax rate in fiscal 2007 was primarily due to \$1.5 million of favorable tax adjustments primarily related to research and development ("R&D") tax credits recorded primarily in the fourth quarter. This tax benefit was recorded upon the completion of a study the Company conducted on its R&D expenditures from 2003 to 2007.

Order Rates

As of June 30, 2008, the Company's backlog of orders scheduled for shipment during the next six months (six-month backlog) was \$120.8 million, or 9.4% higher than the six-month backlog of \$110.4 million as of June 30, 2007. The Company estimates that roughly two-thirds of the year-over-year increase can be attributed to favorable foreign currency translation as a result of the relative strengthening of the Euro and Swiss Franc compared to the U.S. Dollar. The Company's domestic manufacturing operation saw an increase in its marine and propulsion, and industrial product backlog which was more than offset by softening in its land-based transmission product backlog. The Company's European manufacturing operations saw a net increase, after adjusting for the effect of foreign currency translation, in their six-month backlogs, primarily for products serving the Italian and global megayacht markets.

Liquidity and Capital Resources

Fiscal Years 2009, 2008 and 2007

The net cash provided by operating activities in fiscal 2009 totaled \$11.5 million, a decrease of \$8.2 million, or 42%, versus fiscal 2008. The net decrease was driven primarily by a net decrease in earnings of \$12.8 million partially offset by decreases in working capital, primarily accounts payable and accrued liabilities. The decrease in accounts payable can primarily be attributed to the general volume decline in the fourth fiscal quarter as well as reduced inventories at the Company's manufacturing locations. The decrease in accrued liabilities primarily relates to the reduction in bonus and stock-based compensation accruals versus the end of the prior fiscal year. The net increase in inventory came primarily at the Company's distribution operation in Singapore, which saw double-digit sales growth throughout fiscal 2009 when compared to the same period in fiscal 2008.

The net cash provided by operating activities in fiscal 2008 totaled \$19.7 million, an increase of \$2.2 million, or 13%, versus fiscal 2007. The net increase was driven primarily by a net increase in earnings of \$2.4 million partially offset by increases in working capital, primarily inventories, and a decrease in accrued retirement benefits. The increase in inventory came primarily at the Company's European manufacturing operations and distribution operations in the Pacific Basin.

The net cash provided by operating activities in fiscal 2007 totaled \$17.5 million, a decrease of \$0.8 million, or 4%, versus fiscal 2006. The net decrease was primarily driven by a net increase in earnings of \$7.4 million offset by increases in working capital, primarily accounts receivable and inventories, and a reduction in accrued retirement benefits as a result of nearly \$8 million in domestic pension contributions that were made in the first half of fiscal 2007. The increases in inventories and accounts receivable were consistent with the increased sales growth and order activity experienced by the Company in its fourth fiscal quarter. Fourth quarter sales increased over 25% while the six-month backlog increased over 21% as of June 30, 2007, versus the end of the prior fiscal year. This compares to increases in accounts receivable and inventories of 13% and 17%, respectively, before the effect of foreign currency translation.

The net cash used for investing activities in fiscal 2009 consisted primarily of capital expenditures for machinery and equipment at our domestic and Belgian manufacturing operations, and the continuation of the global implementation of a new ERP system started in fiscal 2007. In fiscal 2010, the Company expects to complete the majority of the remaining ERP implementation work for its foreign manufacturing and distribution operations. The software costs associated with the new ERP have been substantially paid for and capitalized as appropriate in fiscal years 2007 and 2008.

The net cash used for investing activities in fiscal 2008 consisted primarily of capital expenditures for machinery and equipment at our domestic and Belgian manufacturing operations, and the continuation of the implementation of a new ERP system started in fiscal 2007 at our domestic manufacturing location in Racine. The software costs associated with the new ERP have been substantially paid for and capitalized as appropriate in fiscal years 2007 and 2008.

The net cash used for investing activities in fiscal 2007 consisted primarily of capital expenditures for machinery and equipment, facilities renovations and the implementation of a new ERP system at our domestic manufacturing location in Racine as well as machinery and equipment purchases at our European manufacturing operations.

In fiscal 2009, the net cash used by financing activities consisted primarily of dividends paid to shareholders of the Company and the purchase of shares of the Company's outstanding common stock under a Board authorized stock repurchase program, offset by net borrowings on the Company's revolving credit facility. In the second fiscal quarter of 2009, the Company repurchased a total of 250,000 shares of its outstanding common stock at an average price of \$7.25 per share, for a total of \$1.8 million. In addition, the Company paid \$3.1 million in dividends to its shareholders, a 3.5% increase over fiscal 2008. These were offset by over \$2.8 million in additional borrowings under the Company's revolving credit facility.

In fiscal 2008, the net cash used by financing activities consisted primarily of the purchase of shares of the Company's outstanding common stock under a Board authorized stock repurchase program. In the first and third fiscal quarters of 2008, the Company repurchased a total of 660,000 shares of its outstanding common stock at an average price of \$23.70 per share, for a total of \$15.6 million. In addition, the Company paid \$3.0 million in dividends to its shareholders, a 25% increase over fiscal 2007. These were offset by over \$5 million in additional borrowings under the Company's revolving credit facility.

In fiscal 2007, the net cash used by financing activities consisted primarily of an increase of \$5.5 million in the year-end borrowings under the Company's revolving credit facility offset by a reduction in the prior fiscal year's \$3.2 million bank overdraft and the payment of dividends of nearly \$2.4 million.

Future Liquidity and Capital Resources

In December 2002, the Company entered into a \$20,000,000 revolving loan agreement with M&I Marshall & Ilsley Bank ("M&I"), which had an original expiration date of October 31, 2005. In September 2004, the revolving loan agreement was amended to increase the commitment to \$35,000,000 and the termination date of the agreement was extended to October 31, 2007. During the first quarter of fiscal 2007, the term was extended by an additional two years to October 31, 2009. An additional amendment was agreed to in the first quarter of fiscal 2008 to extend the term by an additional year to October 31, 2010, and eliminate the covenants limiting capital expenditures and restricted payments (dividend payments and stock repurchases). During the fourth quarter of fiscal 2009, the term was further extended to May 31, 2012, and the funded debt to EBITDA maximum was increased from 2.5 to 3.0. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. Financial covenants include a minimum consolidated net worth, minimum EBITDA for the most recent four fiscal quarters of \$11,000,000 at June 30, 2009, and a maximum total funded debt to EBITDA ratio of 3.0 at

June 30, 2009. As of June 30, 2009, the Company was in compliance with these covenants with a four quarter EBITDA total of \$30,020,000 and a funded debt to EBITDA ratio of 1.69. The minimum net worth covenant fluctuates based upon actual earnings and is subject to adjustment for certain pension accounting adjustments to equity. As of June 30, 2009, the minimum equity requirement was \$100,614,000 compared to an actual result of \$140,988,000 after all required adjustments. The outstanding balance of \$22,450,000 and \$19,700,000 at June 30, 2009 and 2008, respectively, is classified as long-term debt. In accordance with the loan agreement as amended, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On," between 2% and 3.5%, depending on the Company's Total Funded Debt to EBITDA ratio, subject to a minimum interest rate of 4%. The rate was 4.0% and 3.708% at June 30, 2009 and 2008, respectively.

On April 10, 2006, the Company entered into a Note Agreement (the "Note Agreement") with The Prudential Insurance Company of America and certain other entities (collectively, "Purchasers"). Pursuant to the Note Agreement, Purchasers acquired, in the aggregate, \$25,000,000 in 6.05% Senior Notes due April 10, 2016 (the "Notes"). The Notes mature and become due and payable in full on April 10, 2016 (the "Payment Date"). Prior to the Payment Date, the Company is obligated to make quarterly payments of interest during the term of the Notes, plus prepayments of principal of \$3,571,429 on April 10 of each year from 2010 to 2015, inclusive. The Company also has the option of making additional prepayments subject to certain limitations, including the payment of a Yield-Maintenance Amount as defined in the Note Agreement. In addition, the Company will be required to make an offer to purchase the Notes upon a Change of Control, and any such offer must include the payment of a Yield-Maintenance Amount. The Note Agreement includes certain financial covenants which are identical to those associated with the revolving loan agreement discussed above. The Note Agreement also includes certain restrictive covenants that limit, among other things, the incurrence of additional indebtedness and the disposition of assets outside the ordinary course of business. The Note Agreement provides that it shall automatically include any covenants or events of default not previously included in the Note Agreement to the extent such covenants or events of default are granted to any other lender of an amount in excess of \$1,000,000. Following an Event of Default, each Purchaser may accelerate all amounts outstanding under the Notes held by such party. As of June 30, 2009, the Company was in compliance with these covenants.

The overall liquidity of the Company remains strong. The Company had \$12.6 million of available borrowings on our \$35 million revolving loan agreement as of June 30, 2009, and continues to generate enough cash from operations to meet our operating and investing needs. As of June 30, 2009, the Company also had cash of \$13.3 million, primarily at its overseas operations. These funds, with limited restrictions, are available for repatriation as deemed necessary by the Company. In fiscal 2010, the Company expects to contribute \$455,000 to its defined benefit plans, the minimum contributions required. However, if the Company elects to make voluntary contributions, it intends to do so using cash from operations and, if necessary, from available borrowings under existing credit facilities. In the fourth fiscal quarter of 2009, the Company announced \$25 million of cost avoidance and savings actions in light of softening that was anticipated in many of its key markets. Based on its annual financial plan, which reflects these actions and the softening forecast, the Company does not expect to violate any of its financial covenants in fiscal 2010.

Net working capital decreased approximately \$2.4 million in fiscal 2009, and the current ratio increased to 2.5 at June 30, 2009, from 2.2 at June 30, 2008. The decrease in net working capital was primarily driven by a decrease in accounts receivable and inventories offset by a decrease in accounts payable and accrued liabilities. The Company's balance sheet is strong, there are no off-balance sheet arrangements, and we continue to have sufficient liquidity for near-term needs. As part of its financial plan for fiscal 2010, the Company anticipates further working capital improvements as it actively manages and controls inventory, receivables and payables levels.

Twin Disc expects capital expenditures to be between \$7 and \$10 million in fiscal 2010. These anticipated expenditures reflect the Company's plans to continue investing in modern equipment and facilities, its global ERP system and new products.

Management believes that available cash, the credit facility, cash generated from future operations, existing lines of credit and potential access to debt markets will be adequate to fund Twin Disc's capital requirements for the foreseeable future.

Off Balance Sheet Arrangements and Contractual Obligations

The Company had no off-balance sheet arrangements as of June 30, 2009 and 2008.

The Company has obligations under non-cancelable operating lease contracts and loan and senior note agreements for certain future payments. A summary of those commitments follows (in thousands):

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Revolving loan borrowing	\$ 22,450	—	\$22,450	—	—
Long-term debt	\$ 28,319	\$4,421	\$ 8,174	\$8,551	\$7,173
Operating leases	\$ 9,847	\$3,501	\$ 4,314	\$1,822	\$ 210

The table above does not include FIN 48 tax liabilities totaling \$797,000, excluding related interest and penalties, as the timing of their resolution cannot be estimated. See Note N of the Consolidated Financial Statements for disclosures surrounding uncertain income tax positions under FIN 48.

The Company maintains defined benefit pension plans for some of its operations in the United States and Europe. The Company has established the Pension Committee to manage the operations and administration of the defined benefit plans. The Company estimates that fiscal 2010 contributions to all defined benefit plans will total \$455,000.

The Company believes the capital resources available in the form of existing cash, lines of credit (see Note G of the Notes to the Consolidated Financial Statements), and funds provided by operations will be adequate to meet anticipated capital expenditures and other foreseeable future business requirements, including pension funding requirements. As noted above, the Company's revolving loan agreement was amended during the first quarter of fiscal 2005, increasing the limit from \$20 million to \$35 million and extending the term by two years to October 31, 2007. During the first quarter of fiscal 2007, the term was extended by an additional two years to October 31, 2009. The term was then extended an additional year to October 31, 2010, in the first quarter of fiscal 2008. During the fourth quarter of fiscal 2009, the term was further extended to May 31, 2012, and the funded debt to EBITDA maximum was increased from 2.5 to 3.0. As of June 30, 2009, there was \$12.6 million of available borrowings under the revolver. In addition, the Company entered into a \$25 million Senior Note in April 2006. The acquisition of the BCS Group companies in May 2006 was financed with \$22.7 million of the proceeds from this private debt placement. In addition, the Company has \$13.3 million of cash on hand as of June 30, 2009.

Other Matters

Critical Accounting Policies

The preparation of this Annual Report requires management's judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

The Company's significant accounting policies are described in Note A to the consolidated financial statements. Not all of these significant accounting policies require management to make difficult, subjective, or complex judgments or estimates. However, the policies management considers most critical to understanding and evaluating our reported financial results are the following:

Revenue Recognition

Twin Disc recognizes revenue from product sales at the time of shipment and passage of title. While we respect the customer's right to return products that were shipped in error, historical experience shows those types of adjustments have been immaterial and thus no provision is made. With respect to other revenue recognition issues, management has concluded that its policies are appropriate and in accordance with the guidance provided by the Securities and Exchange Commissions' Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition."

Accounts Receivable

Twin Disc performs ongoing credit evaluations of our customers and adjusts credit limits based on payment history and the customer's credit-worthiness as determined by review of current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer-collection issues. In addition, senior management reviews the accounts receivable aging on a monthly basis to determine if any receivable balances may be uncollectible. Although our accounts receivable are dispersed among a large customer base, a significant change in the liquidity or financial position of any one of our largest customers could have a material adverse impact on the collectibility of our accounts receivable and future operating results.

Inventory

Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for the majority of the inventories located in the United States, and by the first-in, first-out (FIFO) method for all other inventories. Management specifically identifies obsolete products and analyzes historical usage, forecasted production based on future orders, demand forecasts, and economic trends when evaluating the adequacy of the reserve for excess and obsolete inventory. The adjustments to the reserve are estimates that could vary significantly, either favorably or unfavorably, from the actual requirements if future economic conditions, customer demand or competitive conditions differ from expectations.

Goodwill

In conformity with U.S. GAAP, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that an impairment might exist. The Company performs impairment reviews for its reporting units using a fair-value method based on management's judgments and assumptions or third-party valuations. The Company is subject to financial statement risk to the extent the carrying amount of a reporting unit exceeds its fair value. The impairment testing performed by the Company at June 30, 2009, indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying value, including goodwill, and, as such, no impairment existed at that time. While the Company believes its judgments and assumptions were reasonable, different assumptions, economic factors and/or market indicators could change the estimated fair values of the Company's reporting units and, therefore, impairment charges could be required in the future.

Warranty

Twin Disc engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on our 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. While we believe the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires.

Pension and Other Postretirement Benefit Plans

The Company provides a wide range of benefits to employees and retired employees, including pensions and postretirement health care coverage. Plan assets and obligations are recorded annually based on the Company's measurement date utilizing various actuarial assumptions such as discount rates, expected return on plan assets, compensation increases, retirement and mortality tables, and health care cost trend rates as of that date. The approach used to determine the annual assumptions are as follows:

Discount rate – based on the Hewitt Top Quartile Yield Curve at June 30, 2009, as applied to expected payouts from the pension plans. This yield curve is made up of Corporate Bonds rated AA or better.

Expected Return on Plan Assets – based on the expected long-term average rate of return on assets in the pension funds, which is reflective of the current and projected asset mix of the funds and considers historical returns earned on the funds.

Compensation Increase – reflect the long-term actual experience, the near-term outlook and assumed inflation.

Retirement and Mortality Rates – based upon the Generational Mortality Table for fiscal 2008 and 2009 and the UP 1994 Mortality Table for any prior years presented.

Health Care Cost Trend Rates – developed based upon historical cost data, near-term outlook and an assessment of likely long-term trends.

Measurements of net periodic benefit cost are based on the assumptions used for the previous year-end measurements of assets and obligations. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions when appropriate. As required by U.S. GAAP, the effects of the modifications are recorded currently or amortized over future periods. Based on information provided by its independent actuaries and other relevant sources, the Company believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Company's financial position, results of operations or cash flows.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company's policy is to remit earnings from foreign subsidiaries only to the extent any resultant foreign taxes are creditable in the United States. Accordingly, the Company does not currently provide for additional United States and foreign income taxes which would become payable upon repatriation of undistributed earnings of certain foreign subsidiaries.

Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162." This SFAS establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. generally accepted accounting principles. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company anticipates minor changes to accounting standard references beginning with its first quarterly report for fiscal 2010 to be issued in November 2010.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." This statement changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. New disclosures will be required regarding involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS No. 167 will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010, for the Company). This SFAS is not expected to have a material impact on the Company's financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets." This is a revision to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," and changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010, for the Company). This SFAS is not expected to have a material impact on the Company's financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 is effective for interim and annual financial periods ending after June 15, 2009, and shall be applied prospectively.

In April 2009, the FASB issued FASB Staff Position (“FSP”) FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” This FSP provides additional clarification on the determination of fair value, including illustrative examples. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This FSP did not have a material impact on the Company’s financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This FSP provides guidance on determining whether an impairment is other than temporary, provides examples to be considered and identifies reporting requirements related to such impairments. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This FSP did not have a material impact on the Company’s financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” This FSP requires disclosure about the fair value of financial instruments whenever summarized financial information for interim periods is issued, and requires disclosure of the fair value of all financial instruments (where practicable) in the body or accompanying notes of interim and annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

In April 2009, the FASB issued FSP FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.” This FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated, and eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, the Company will be subject to FSP FAS 141(R)-1 beginning on July 1, 2009.

In December 2008, the FASB issued FSP 132(R)-1, “Employers’ Disclosure about Postretirement Benefit Plan Assets.” This FSP provides guidance on an employer’s disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this FSP are to provide users of financial statements with an understanding of:

- a) How investment allocation decisions are made;
- b) The major categories of plan assets;
- c) The inputs and valuation techniques used to measure the fair value of plan assets;
- d) The effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and
- e) Significant concentrations of risk within plan assets.

The disclosures about plan assets required by this FSP are required for fiscal years ending after December 15, 2009, and earlier application is permitted.

In April 2008, the FASB issued FSP 142-3, “Determination of the Useful Life of Intangible Assets.” This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), “Business Combinations,” and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This FSP is not expected to have a material impact on the Company’s financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133.” This statement enhances the disclosures regarding derivatives and hedging activities by requiring:

- Disclosure of the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation;
- Disclosure of the fair values of derivative instruments and their gains and losses in a tabular format;
- Disclosure of information about credit-risk-related contingent features; and
- Cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed.

SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company has adopted SFAS No. 161 in its fiscal 2009 third quarter; however, these disclosures are considered immaterial due to the nature and fair value of the derivatives held by the Company during fiscal 2009.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations.” This statement will significantly change the accounting for business combinations, requiring the acquiring entity to recognize the acquired assets and liabilities at the acquisition date fair value with limited exceptions. The statement also includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual report period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, the Company will be subject to SFAS No. 141(R) beginning on July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary, and includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Adoption of SFAS No. 160 is not expected to have a material impact on the financial statements of the Company.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 in the first quarter of fiscal 2009 with no material impact to the financial statements. The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. On February 12, 2008, the FASB issued FSP 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 in the first quarter of fiscal 2009 for those assets and liabilities not subject to the one year deferral granted in FSP 157-2, with no material impact to the financial statements. The Company is currently evaluating the impact of adopting FSP 157-2 which will become effective for fiscal years beginning after November 15, 2008.

In September 2006 and March 2007, respectively, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" and Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." These EITFs address the possible recognition of a liability and related compensation costs for split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. EITF 06-4 and 06-10 are effective for fiscal years beginning after December 15, 2007, including interim periods within those years. The Company adopted these EITF's in the first quarter of fiscal 2009 with no material impact to the financial statements.

During June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements by standardizing the level of confidence needed to recognize uncertain tax benefits and the process for measuring the amount of benefit to recognize. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 as of July 1, 2007, with no material impact to the Company's financial statements.

ITEM 7(a). QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risks from changes in interest rates, commodities and foreign exchange. To reduce such risks, the Company selectively uses financial instruments and other proactive management techniques. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for trading or speculative purposes. Discussion of the Company's accounting policies and further disclosure relating to financial instruments is included in Note A to the consolidated financial statements.

Interest rate risk – The Company's earnings exposure related to adverse movements of interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to the prime and LIBOR interest rates. During fiscal 2003, the Company entered into a \$20 million revolving loan agreement, which was due to expire on October 31, 2005. During fiscal 2005, the revolving credit commitment of the agreement was increased to \$35 million and the termination date of the agreement was extended to October 31, 2007. During the first quarter of fiscal 2007, the term was extended by an additional two years to October 31, 2009. During the first quarter of fiscal 2008, the term was extended an additional year to October 31, 2010. During the fourth quarter of fiscal 2009, the term was further extended to May 31, 2012. In accordance with the loan agreement as amended, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On," between 2% and 3.5%, depending on the Company's Total Funded Debt to EBITDA ratio, subject to a minimum interest rate of 4%. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at June 30, 2009, to manage interest rate risk exposure. A 10 percent increase or decrease in the applicable interest rate would result in a change in pretax interest expense of approximately \$90,000.

Commodity price risk – The Company is exposed to fluctuation in market prices for such commodities as steel and aluminum. The Company does not utilize commodity price hedges to manage commodity price risk exposure. Direct material cost as a percent of total cost of goods sold was 59.3% for fiscal 2009.

Stock market risk – The Company's earnings are exposed to stock market risk relative to the Performance Stock Unit Awards. These are cash-based awards which are revalued at the end of each reporting period based upon the Company's closing stock price as of the end of the period. A one dollar increase or decrease in the Company's stock price would result in a decrease or increase, respectively, in earnings from operations of approximately \$73,000. These awards were valued at the Company's June 30, 2009, closing stock price of \$6.81.

Currency risk – The Company has exposure to foreign currency exchange fluctuations. Approximately thirty-three percent of the Company's revenues in the year ended June 30, 2009, were denominated in currencies other than the U.S. Dollar. Of that total, approximately eighty-seven percent was denominated in Euros with the balance comprised of Japanese Yen, Swiss Franc and the Australian and Singapore Dollars. The Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Forward foreign exchange contracts are used to hedge the currency fluctuations on significant transactions denominated in foreign currencies.

Derivative Financial Instruments – The Company has written policies and procedures that place all financial instruments under the direction of the Company corporate treasury department and restrict derivative transactions to those intended for hedging purposes. The use of financial instruments for trading purposes is prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other Income (Expense), net in the Consolidated Statement of Operations and Comprehensive (Loss) Income as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in fiscal 2009 and 2008 was the Euro. At June 30, 2009, the Company had net outstanding forward exchange contracts to purchase U.S. Dollars in the value of \$156,000 with a weighted average maturity of 74 days. The fair value of the Company's contracts was a gain of \$3,000 at June 30, 2009. At June 30, 2008, the Company had net outstanding forward exchange contracts to purchase U.S. Dollars in the value of \$752,000 with a weighted average maturity of 34 days. The fair value of the Company's contracts was a gain of \$8,000 at June 30, 2008.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements and Financial Statement Schedule.

Sales and Earnings by Quarter – Unaudited (in thousands, except per share amounts)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
2009					
Net sales	\$72,671	\$81,598	\$69,292	\$72,057	\$295,618
Gross profit	20,072	22,953	19,151	19,267	81,443
Net earnings	2,465	3,433	2,850	2,754	11,502
Basic earnings per share	0.22	0.31	0.26	0.25	1.04
Diluted earnings per share	0.22	0.31	0.26	0.25	1.03
Dividends per share	0.070	0.070	0.070	0.070	0.280
2008					
Net sales	\$73,613	\$81,894	\$85,838	\$90,349	\$331,694
Gross profit	23,851	25,346	26,627	29,044	104,868
Net earnings	5,106	4,209	7,929	7,008	24,252
Basic earnings per share	0.44	0.37	0.71	0.63	2.15
Diluted earnings per share	0.44	0.37	0.70	0.62	2.13
Dividends per share	0.055	0.070	0.070	0.070	0.265

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9(a). CONTROLS AND PROCEDURES

Conclusion Regarding Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as of the end of the period covered by this report and under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company,
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures included in such controls may deteriorate.

The Company conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon such evaluation, our management concluded that our internal control over financial reporting was effective as of June 30, 2009.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements and the effectiveness of internal control over financial reporting as of June 30, 2009, as stated in their report which is included herein.

Changes in Internal Controls Over Financial Reporting

During the fourth quarter of fiscal 2009, there have not been any 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.

ITEM 9(b). OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information with respect to the executive officers of the Registrant, see "Executive Officers of the Registrant" at the end of Part I of this report.

For information with respect to the Directors of the Registrant, see "Election of Directors" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

For information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, see "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

For information with respect to the Company's Code of Ethics, see "Guidelines for Business Conduct and Ethics" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference. The Company's Code of Ethics, entitled, "Guidelines for Business Conduct and Ethics," is included on the Company's website, www.twindisc.com.

For information with respect to procedures by which shareholders may recommend nominees to the Company's Board of Directors, see "Selection of Nominees for the Board" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference. There were no changes to these procedures since the Company's last disclosure relating to these procedures.

For information with respect to the Audit Committee Financial Expert, see "Director Committee Functions: Audit Committee" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

For information with respect to the Audit Committee Disclosure, see "Director Committee Functions: Audit Committee" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

For information with respect to the Audit Committee Membership, see "Director Committee Functions: Committee Membership" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Executive Compensation," "Director Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report," in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 16, 2009, is incorporated into this report by reference. Discussion in the Proxy Statement under the captions "Compensation Committee Report" is incorporated by reference but shall not be deemed "soliciting material" or to be "filed" as part of this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security ownership of certain beneficial owners and management is set forth in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 16, 2009, under the caption “Principal Shareholders, Directors and Executive Officers” and incorporated into this report by reference.

There are no arrangements known to the Registrant, the operation of which may at a subsequent date result in a change in control of the Registrant.

The following table summarizes certain information regarding the Company’s equity-based compensation plans as of the end of the most recently completed fiscal year:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans Approved by Shareholders.	175,600	\$6.09	376,008
Equity Compensation Plans Not Approved by Shareholders.	0	N/A	0
Total	<u>175,600</u>	<u>\$6.09</u>	<u>376,008</u>

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE

For information with respect to transactions with related persons and policies for the review, approval or ratification of such transactions, see “Corporate Governance – Review, Approval or Ratification of Transactions with Related Persons” in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

For information with respect to director independence, see “Corporate Governance – Board Independence” in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, which is incorporated into this report by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Company incorporates by reference the information contained in the Proxy Statement for the Annual Meeting of Shareholders to be held October 16, 2009, under the heading “Fees to Independent Registered Public Accounting Firm.”

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a)(1) Consolidated Financial Statements

See “Index to Consolidated Financial Statements and Financial Statement Schedule,” the Report of Independent Registered Public Accounting Firm and the Consolidated Financial Statements, all of which are incorporated by reference.

(a)(2) Consolidated Financial Statement Schedule

See “Index to Consolidated Financial Statements and Financial Statement Schedule,” and the Consolidated Financial Statement Schedule, all of which are incorporated by reference.

(a)(3) Exhibits. See Exhibit Index included as the last page of this form, which is incorporated by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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Schedules, other than those listed, are omitted for the reason that they are inapplicable, are not required, or the information required is shown in the financial statements or the related notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Twin Disc, Incorporated:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Twin Disc, Incorporated and its subsidiaries at June 30, 2009 and June 30, 2008, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under item 9(a). Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

September 11, 2009

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

June 30, 2009 and 2008

(In thousands, except share amounts)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash	\$ 13,266	\$ 14,447
Trade accounts receivable, net	53,367	67,611
Inventories, net	92,331	97,691
Deferred income taxes	6,280	6,297
Other	8,677	9,649
Total current assets	<u>173,921</u>	<u>195,695</u>
Property, plant and equipment, net	65,799	67,855
Goodwill, net	17,509	18,479
Deferred income taxes	14,386	5,733
Intangible assets, net	7,855	9,589
Other assets	6,095	7,277
	<u>\$285,565</u>	<u>\$304,628</u>
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 4,421	\$ 1,730
Accounts payable	24,864	37,919
Accrued liabilities	40,967	49,939
Total current liabilities	<u>70,252</u>	<u>89,588</u>
Long-term debt	46,348	48,227
Accrued retirement benefits	60,241	34,325
Other long-term liabilities	899	2,163
	<u>177,740</u>	<u>174,303</u>
Minority interest	837	679
Shareholders' equity:		
Preferred shares authorized: 200,000; issued: none; no par value	—	—
Common shares authorized: 30,000,000; issued: 13,099,468; no par value	13,205	14,693
Retained earnings	150,257	142,361
Accumulated other comprehensive (loss) income	(26,218)	2,446
	<u>137,244</u>	<u>159,500</u>
Less treasury stock, at cost	30,256	29,854
(2,070,124 and 1,929,354 shares, respectively)		
Total shareholders' equity	<u>106,988</u>	<u>129,646</u>
	<u>\$285,565</u>	<u>\$304,628</u>

The notes to consolidated financial statements are an integral part of these statements.

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

for the years ended June 30, 2009, 2008 and 2007

(In thousands, except per share data)	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net sales	\$295,618	\$331,694	\$317,200
Cost of goods sold	214,175	226,826	214,291
Gross profit	81,443	104,868	102,909
Marketing, engineering and administrative expenses	60,470	66,349	63,267
Restructuring of operations	1,188	(373)	2,652
Earnings from operations	19,785	38,892	36,990
Other income (expense):			
Interest income	207	501	443
Interest expense	(2,487)	(3,038)	(3,154)
Other, net	540	(1,107)	50
	<u>(1,740)</u>	<u>(3,644)</u>	<u>(2,661)</u>
Earnings before income taxes and minority interest	18,045	35,248	34,329
Income taxes	6,257	10,904	12,273
Earnings before minority interest	11,788	24,344	22,056
Minority interest	(286)	(92)	(204)
Net earnings	<u>\$ 11,502</u>	<u>\$ 24,252</u>	<u>\$ 21,852</u>
Earnings per share data:			
Basic earnings per share	\$ 1.04	\$ 2.15	\$ 1.88
Diluted earnings per share	1.03	2.13	1.84
Weighted average shares outstanding data:			
Basic shares outstanding	11,097	11,279	11,622
Dilutive stock awards	97	133	258
Diluted shares outstanding	<u>11,194</u>	<u>11,412</u>	<u>11,880</u>
Comprehensive (loss) income:			
Net earnings	\$ 11,502	\$ 24,252	\$ 21,852
Foreign currency translation adjustment	(10,473)	14,400	4,714
Benefit plan adjustments, net	(18,191)	(7,461)	19,752
	<u>\$ (17,162)</u>	<u>\$ 31,191</u>	<u>\$ 46,318</u>

The notes to consolidated financial statements are an integral part of these statements.

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended June 30, 2009, 2008 and 2007 (in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Net earnings	\$11,502	\$24,252	\$21,852
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	9,774	7,881	7,252
Write-off of impaired intangible asset	—	—	600
Loss on sale of plant assets	17	468	71
Minority interest	143	(72)	73
Restructuring of operations	1,188	(373)	2,652
Stock compensation (benefit) expense	(2,481)	1,301	1,074
Provision (benefit) for deferred income taxes	730	2,243	(41)
Changes in operating assets and liabilities:			
Trade accounts receivable, net	9,568	1,795	(5,325)
Inventories, net	(1,282)	(12,949)	(8,501)
Other assets	1,200	(1,127)	142
Accounts payable	(10,890)	5,491	216
Accrued liabilities	(6,314)	(4,870)	7,814
Accrued/prepaid retirement benefits	(1,692)	(4,332)	(10,393)
Net cash provided by operating activities	<u>11,463</u>	<u>19,708</u>	<u>17,486</u>
Cash flows from investing activities:			
Proceeds from sale of plant assets	20	256	114
Acquisitions of plant assets	(8,895)	(14,999)	(15,681)
Other, net	1,111	—	—
Net cash used by investing activities	<u>(7,764)</u>	<u>(14,743)</u>	<u>(15,567)</u>
Cash flows from financing activities:			
Bank overdraft	—	—	(3,194)
(Decrease) increase in notes payable, net	(1,653)	226	(701)
Proceeds from long-term debt	2,787	5,055	5,525
Proceeds from exercise of stock options	110	246	273
Acquisition of treasury stock	(1,813)	(15,644)	(51)
Dividends paid	(3,105)	(3,000)	(2,395)
Other	(428)	691	396
Net cash used by financing activities	<u>(4,102)</u>	<u>(12,426)</u>	<u>(147)</u>
Effect of exchange rate changes on cash	(778)	2,400	1,309
Net change in cash	<u>(1,181)</u>	<u>(5,061)</u>	<u>3,081</u>
Cash:			
Beginning of year	<u>14,447</u>	<u>19,508</u>	<u>16,427</u>
End of year	<u>\$13,266</u>	<u>\$ 14,447</u>	<u>\$19,508</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 2,699	\$ 3,626	\$ 3,048
Income taxes	7,009	7,875	9,361

The notes to consolidated financial statements are an integral part of these statements.

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended June 30, 2009, 2008 and 2007 (in thousands)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at June 30, 2006	\$11,777	\$101,652	\$(9,166)	\$(15,030)	\$ 89,233
Net earnings	—	21,852	—	—	21,852
Cash dividends	—	(2,395)	—	—	(2,395)
Translation adjustments	—	—	4,714	—	4,714
Minimum pension liability adjustment, net of tax ..	—	—	19,752	—	19,752
Adoption of SFAS No. 158	—	—	(19,793)	—	(19,793)
Compensation expense and windfall tax benefits. .	1,852	—	—	—	1,852
Shares (acquired) issued, net	(325)	—	—	547	222
Balance at June 30, 2007	13,304	121,109	(4,493)	(14,483)	115,437
Net earnings	—	24,252	—	—	24,252
Cash dividends	—	(3,000)	—	—	(3,000)
Translation adjustments	—	—	14,400	—	14,400
Benefit plan adjustments, net of tax	—	—	(7,461)	—	(7,461)
Compensation expense and windfall tax benefits. .	3,126	—	—	—	3,126
Shares (acquired) issued, net	(1,737)	—	—	(15,371)	(17,108)
Balance at June 30, 2008	14,693	142,361	2,446	(29,854)	129,646
Net earnings	—	11,502	—	—	11,502
Cash dividends	—	(3,105)	—	—	(3,105)
Translation adjustments	—	—	(10,473)	—	(10,473)
Benefit plan adjustments, net of tax	—	—	(18,191)	—	(18,191)
Adjustment for the change in measurement date due to the adoption of SFAS No. 158, net of tax. .	—	(501)	—	—	(501)
Compensation expense and windfall tax benefits. .	840	—	—	—	840
Shares (acquired) issued, net	(2,328)	—	—	(402)	(2,730)
Balance at June 30, 2009	\$13,205	\$150,257	\$(26,218)	\$(30,256)	\$106,988

The notes to consolidated financial statements are an integral part of these statements.

TWIN DISC, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

Consolidation Principles – The consolidated financial statements include the accounts of Twin Disc, Incorporated and its wholly and partially owned domestic and foreign subsidiaries. Certain foreign subsidiaries are included based on fiscal years ending March 31 or May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

Translation of Foreign Currencies – The financial statements of the Company's non-U.S. subsidiaries are translated using the current exchange rate for assets and liabilities and the weighted average exchange rate for the year for revenues and expenses. The resulting translation adjustments are recorded as a component of accumulated other comprehensive (loss) income, which is included in shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) are foreign currency transaction (gains) losses of (\$328,000), \$1,208,000 and \$113,000 in fiscal 2009, 2008 and 2007, respectively.

Receivables – Trade accounts receivable are stated net of an allowance for doubtful accounts of \$1,623,000 and \$1,219,000 at June 30, 2009 and 2008, respectively. The Company records an allowance for doubtful accounts provision for certain customers where a risk of default has been specifically identified as well as provisions determined on a general basis when it is believed that some default is probable and estimable but not yet clearly associated with a specific customer. The assessment of likelihood of customer default is based on a variety of factors, including the length of time the receivables are past due, the historical collection experience and existing economic conditions. The current conditions in the global credit markets may reduce a customer's ability to access sufficient liquidity and capital to fund their operations and render the Company's estimation of customer defaults inherently uncertain. While the Company believes current allowances for doubtful accounts are adequate, it is possible that the adverse impact of the global credit crisis may cause higher levels of customer defaults and bad debt expense in future periods.

Fair Value of Financial Instruments – The carrying amount reported in the consolidated balance sheets for cash, trade accounts receivable, accounts payable and notes payable approximate fair value because of the immediate short-term maturity of these financial instruments. The fair value of the Company's 6.05% Senior Notes due April 10, 2016 was approximately \$23,250,000 and \$23,358,000 at June 30, 2009 and 2008, respectively. See Note G, "Debt" for the related book value of this debt instrument. The Company's revolving loan agreement approximates fair value at June 30, 2009.

Derivative Financial Instruments – The Company has written policies and procedures that place all financial instruments under the direction of the Company's corporate treasury and restricts all derivative transactions to those intended for hedging purposes. The use of financial instruments for trading purposes is prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in other income (expense), net as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in fiscal 2009 and 2008 was the Euro. At June 30, 2009, the Company had net outstanding forward exchange contracts to purchase U.S. Dollars in the value of \$156,000 with a weighted average maturity of 74 days. The fair value of the Company's contracts was a gain of \$3,000 at June 30, 2009. At June 30, 2008, the Company had net outstanding forward exchange contracts to purchase U.S. Dollars in the value of \$752,000 with a weighted average maturity of 34 days. The fair value of the Company's contracts was a gain of \$8,000 at June 30, 2008.

Inventories – Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for the majority of inventories located in the United States, and by the first-in, first-out (FIFO) method for all other inventories. Management specifically identifies obsolete products and analyzes historical usage, forecasted production based on future orders, demand forecasts, and economic trends 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 for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physically disposed.

Impairment of Long-lived Assets – The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment of Long-lived Assets." For property, plant and equipment and other long-lived assets, excluding indefinite lived intangible assets, the Company performs undiscounted operating cash flow analyses to determine if an impairment exists. If an impairment is determined to exist, any related impairment loss is calculated based on fair value.

Revenue Recognition – Revenue is recognized by the Company 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 collectability is reasonably assured. Revenue is recognized at the time product is shipped to the customer, except for certain domestic shipments to overseas customers where revenue is recognized upon receipt by the customer.

Goodwill and Other Intangibles – Goodwill and other indefinite-lived intangible assets, primarily trademarks, are tested for impairment at least annually on the last day of the Company's fiscal year and more frequently if an event occurs which indicates the asset may be impaired in accordance with the SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill and other indefinite-lived intangible assets not subject to amortization have been assigned to reporting units for purposes of impairment testing based upon the relative fair value of the asset to each reporting unit.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on the Company's consolidated financial statements.

Impairment of goodwill is measured according to a two-step approach. In the first step, the fair value of a reporting unit, as defined by the statement, is compared to the carrying value of the reporting unit, including goodwill. The fair value is primarily determined using discounted cash flow analyses; however, other methods may be used to substantiate the discounted cash flow analyses, including third-party valuations when necessary. For purposes of the June 30, 2009, impairment analysis, the Company utilized discounted cash flow analyses. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. In the second step, the implied value of the goodwill is estimated as the fair value of the reporting unit less the fair value of all other tangible and identifiable intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill.

Based on the goodwill impairment review completed at the end of fiscal 2009, which incorporates management's best estimates of economic and market conditions over the projected period and a weighted-average cost of capital that reflects current market conditions, the fair value of goodwill in each reporting unit exceeded the carrying value and therefore goodwill was not impaired.

The Company's other intangible assets with indefinite lives, including trademarks and tradenames, are not amortized, but are reviewed annually for possible impairment. The fair value of these assets is estimated using the relief-from-royalty method, which requires assumptions related to projected revenues; assumed royalty rates that could be payable if the Company did not own the asset; and a discount rate. The Company completed the impairment testing of indefinite lived intangibles as of June 30, 2009, and concluded there were no impairments.

Changes in circumstances, existing at the measurement date or at other times in the future, or in the numerous estimates associated with management's judgments, assumptions and estimates made in assessing the fair value of goodwill and other intangibles, could result in an impairment charge in the future. The Company will continue to monitor all significant estimates and impairment indicators, and will perform interim impairment reviews as necessary.

Warranty – The Company warrants all assembled products and parts (except component products or parts on which written warranties are issued by the respective manufacturers thereof and are furnished to the original customer, as to which the Company makes no warranty and assumes no liability) against defective materials or workmanship. Such warranty generally extends from periods ranging from 12 months to 24 months. See Note F for activity in the warranty reserve for fiscal 2009 and 2008.

The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on the Company'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. While the Company believes the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires.

Deferred Taxes – The Company recognizes deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax liabilities and assets 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 Company will not realize the benefit of such assets. Interest and penalties are not included in the Company's valuation allowances.

Stock-Based Compensation – At June 30, 2009, the Company has two stock-based compensation plans, which are described more fully in Note K, "Stock-Based Compensation." The Company accounts for these plans under the recognition and measurement provisions of SFAS No. 123(R), "Accounting for Stock-Based Compensation."

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. Actual amounts could differ from those estimates.

Shipping and Handling Fees and Costs – The Company records revenue from shipping and handling costs in net sales. The cost associated with shipping and handling of products is reflected in cost of goods sold.

Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162.” This SFAS establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. generally accepted accounting principles. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company anticipates minor changes to accounting standard references beginning with its first quarterly report for fiscal 2010 to be issued in November 2010.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R).” This statement changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. New disclosures will be required regarding involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS No. 167 will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010, for the Company). This SFAS is not expected to have a material impact on the Company’s financial statements.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets.” This is a revision to SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” and changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010, for the Company). This SFAS is not expected to have a material impact on the Company’s financial statements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events.” This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 is effective for interim and annual financial periods ending after June 15, 2009, and shall be applied prospectively.

In April 2009, the FASB issued FASB Staff Position (“FSP”) FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” This FSP provides additional clarification on the determination of fair value, including illustrative examples. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This FSP did not have a material impact on the Company’s financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This FSP provides guidance on determining whether an impairment is other than temporary, provides examples to be considered and identifies reporting requirements related to such impairments. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This FSP did not have a material impact on the Company’s financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” This FSP requires disclosure about the fair value of financial instruments whenever summarized financial information for interim periods is issued, and requires disclosure of the fair value of all financial instruments (where practicable) in the body or accompanying notes of interim and annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

In April 2009, the FASB issued FSP FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.” This FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated, and eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, the Company will be subject to FSP FAS 141(R)-1 beginning July 1, 2009.

In December 2008, the FASB issued FSP 132(R)-1, "Employers' Disclosure about Postretirement Benefit Plan Assets." This FSP provides guidance on an employer's disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this FSP are to provide users of financial statements with an understanding of:

- a) How investment allocation decisions are made;
- b) The major categories of plan assets;
- c) The inputs and valuation techniques used to measure the fair value of plan assets;
- d) The effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and
- e) Significant concentrations of risk within plan assets.

The disclosures about plan assets required by this FSP are required for fiscal years ending after December 15, 2009, and earlier application is permitted.

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This FSP is not expected to have a material impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133." This statement enhances the disclosures regarding derivatives and hedging activities by requiring:

- Disclosure of the objectives for using derivative instruments in terms of underlying risk and accounting designation;
- Disclosure of the fair values of derivative instruments and their gains and losses in a tabular format;
- Disclosure of information about credit-risk-related contingent features; and
- Cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed.

SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company has adopted SFAS No. 161 in its fiscal 2009 third quarter, however these disclosures are considered immaterial due to the nature and fair value of the derivatives held by the Company during fiscal 2009.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This statement will significantly change the accounting for business combinations, requiring the acquiring entity to recognize the acquired assets and liabilities at the acquisition date fair value with limited exceptions. The statement also includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual report period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, the Company will be subject to SFAS No. 141(R) beginning on July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary, and includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Adoption of SFAS No. 160 is not expected to have a material impact on the financial statements of the Company.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 in the first quarter of fiscal 2009 with no material impact to the financial statements. The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. On February 12, 2008, the FASB issued FSP 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 in the first quarter of fiscal 2009 for those assets and liabilities not subject to the one year deferral granted in FSP 157-2, with no material impact to the financial statements. The Company is currently evaluating the impact of adopting FSP 157-2 which will become effective for fiscal years beginning after November 15, 2008.

In September 2006 and March 2007, respectively, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" and Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." These EITF's address the possible recognition of a liability and related compensation costs for split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. EITF 06-4 and 06-10 are effective for fiscal years beginning after December 15, 2007, including interim periods within those years. The Company adopted these EITF's in the first quarter of fiscal 2009 with no material impact to the financial statements.

During June 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.” FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements by standardizing the level of confidence needed to recognize uncertain tax benefits and the process for measuring the amount of benefit to recognize. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 as of July 1, 2007, with no material impact to the Company’s financial statements.

B. INVENTORIES

The major classes of inventories at June 30 were as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Finished parts	\$62,498	\$53,697
Work-in-process	8,726	20,725
Raw materials	21,107	23,269
	<u>\$92,331</u>	<u>\$97,691</u>

Inventories stated on a LIFO basis represent approximately 19% and 20% of total inventories at June 30, 2009 and 2008, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by \$23,164,000 and \$23,457,000 at June 30, 2009 and 2008, respectively. The year-end fiscal 2008 figures were revised to reflect subcomponents in raw materials rather than finished parts. Finished parts now more properly reflect goods in a saleable state.

C. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30 were as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Land	\$ 3,665	\$ 4,136
Buildings	39,290	38,554
Machinery and equipment	130,938	134,552
	<u>173,893</u>	<u>177,242</u>
Less accumulated depreciation	108,094	109,387
	<u>\$65,799</u>	<u>\$67,855</u>

Depreciation expense for the years ended June 30, 2009, 2008 and 2007 was \$8,766,000, \$6,921,000 and \$6,331,000, respectively.

D. GOODWILL AND OTHER INTANGIBLES

The Company performed impairment tests of its goodwill at June 30, 2009 and 2008, and determined that no impairment of goodwill existed.

The changes in the carrying amount of goodwill, substantially all of which is allocated to the manufacturing segment, for the years ended June 30, 2009 and 2008, were as follows (in thousands):

Balance at June 30, 2007	\$17,171
Translation adjustment	<u>1,308</u>
Balance at June 30, 2008	18,479
Translation adjustment	<u>(970)</u>
Balance at June 30, 2009	<u>\$17,509</u>

At June 30, the following acquired intangible assets have defined useful lives and are subject to amortization (in thousands):

	<u>2009</u>	<u>2008</u>
Licensing agreements	\$3,015	\$ 3,015
Non-compete agreements	2,050	2,050
Other	5,991	5,991
	<u>11,056</u>	<u>11,056</u>
Accumulated amortization	(6,184)	(5,176)
Translation adjustment	<u>711</u>	<u>1,235</u>
Total	<u>\$5,583</u>	<u>\$7,115</u>

The weighted average remaining useful life of the intangible assets included in the table above is approximately 8 years.

Intangible amortization expense for the years ended June 30, 2009, 2008 and 2007, was \$1,008,000, \$960,000 and \$921,000, respectively. Estimated intangible amortization expense for each of the next five fiscal years is as follows (in thousands):

Fiscal Year	
2010	\$ 801
2011	801
2012	801
2013	755
2014	755
Thereafter	1,670
	<u>\$5,583</u>

The gross carrying amount of the Company's intangible assets that have indefinite lives and are not subject to amortization as of June 30, 2009 and 2008, are \$2,272,000 and \$2,474,000, respectively. These assets are comprised of acquired tradenames.

E. ACCRUED LIABILITIES

Accrued liabilities at June 30 were as follows (in thousands):

	2009	2008
Salaries and wages	\$ 7,086	\$ 12,377
Retirement benefits	6,633	7,287
Warranty	8,028	8,125
Customer advances	5,551	6,134
Accrued income tax	443	1,911
Other	13,226	14,105
	<u>\$40,967</u>	<u>\$49,939</u>

F. WARRANTY

The following is a listing of the activity in the warranty reserve during the years ended June 30 (in thousands):

	2009	2008
Reserve balance, July 1	\$8,125	\$7,266
Current period expense	6,420	4,759
Payments or credits to customers	(6,089)	(4,502)
Translation	(428)	602
Reserve balance, June 30	<u>\$8,028</u>	<u>\$8,125</u>

G. DEBT

Notes Payable

Notes payable consist of amounts borrowed under unsecured line of credit agreements. These lines of credit may be withdrawn at the option of the banks. The following is aggregate borrowing information at June 30 (in thousands):

	2009	2008
Available credit lines	\$7,473	\$11,810
Unused credit lines	7,473	10,800
Outstanding credit lines	—	1,010
Notes payable – other	—	—
Total notes payable	<u>\$ 0</u>	<u>\$ 1,010</u>
Weighted-average interest rates on credit lines	4.3%	5.8%

Long-Term Debt

Long-term debt consisted of the following at June 30 (in thousands):

	<u>2009</u>	<u>2008</u>
Revolving loan agreement	\$ 22,450	\$ 19,700
10-year unsecured senior notes	25,000	25,000
Secured long-term debt	1,348	1,343
Capital lease obligations	162	212
Other long-term debt	1,809	2,692
Subtotal	<u>50,769</u>	<u>48,947</u>
Less: current maturities	<u>(4,421)</u>	<u>(720)</u>
Total long-term debt	<u>\$46,348</u>	<u>\$48,227</u>

In December 2002, the Company entered into a \$20,000,000 revolving loan agreement with M&I Marshall & Ilsley Bank (“M&I”), which had an original expiration date of October 31, 2005. In September 2004, the revolving loan agreement was amended to increase the commitment to \$35,000,000 and the termination date of the agreement was extended to October 31, 2007. During the first quarter of fiscal 2007, the term was extended by an additional two years to October 31, 2009. An additional amendment was agreed to in the first quarter of fiscal 2008 to extend the term by an additional year to October 31, 2010, and eliminate the covenants limiting capital expenditures and restricted payments (dividend payments and stock repurchases). During the fourth quarter of fiscal 2009, the term was further extended to May 31, 2012, the total funded debt to EBITDA ratio was increased from 2.5 to 3.0 and interest rates were adjusted as noted below. The outstanding balance of \$22,450,000 and \$19,700,000 at June 30, 2009 and 2008, respectively, is classified as long-term debt. In accordance with the loan agreement as amended, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional “Add-On,” between 2% and 3.5%, depending on the Company’s total funded debt to EBITDA ratio, subject to a minimum interest rate of 4%. The rate was 4.0% and 3.708% at June 30, 2009 and 2008, respectively.

This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. Financial covenants include a minimum consolidated net worth, as defined, minimum EBITDA for the most recent four fiscal quarters of \$11,000,000 at June 30, 2009, and a maximum total funded debt to EBITDA ratio of 3.0 at June 30, 2009. As of June 30, 2009, the Company was in compliance with these covenants with a four quarter EBITDA total of \$30,020,000 and a total funded debt to EBITDA ratio of 1.69. The minimum net worth covenant fluctuates based upon actual earnings and is subject to adjustment for certain pension accounting adjustments to equity. As of June 30, 2009, the minimum consolidated net worth requirement was \$100,614,000 compared to an actual result of \$140,988,000 after all required adjustments. In the fourth fiscal quarter of 2009, the Company announced \$25 million of cost avoidance and savings actions in light of the softening that was anticipated in many of its key markets. Based on its annual financial plan, which reflects these actions and the softening forecast, the Company believes it is well positioned to generate sufficient EBITDA levels throughout fiscal 2010 in order to maintain compliance with the above covenants. However, as with all forward-looking information, there can be no assurance that the Company will achieve the planned results in future periods due to the uncertainties in certain of its markets.

On April 10, 2006, the Company entered into a Note Agreement (the “Note Agreement”) with The Prudential Insurance Company of America and certain other entities (collectively, “Purchasers”). Pursuant to the Note Agreement, Purchasers acquired, in the aggregate, \$25,000,000 in 6.05% Senior Notes due April 10, 2016 (the “Notes”). The Notes mature and become due and payable in full on April 10, 2016 (the “Payment Date”). Prior to the Payment Date, the Company is obligated to make quarterly payments of interest during the term of the Notes, plus prepayments of principal of \$3,571,429 on April 10 of each year from 2010 to 2015, inclusive. The Company also has the option of making additional prepayments subject to certain limitations, including the payment of a Yield-Maintenance Amount as defined in the Note Agreement. In addition, the Company will be required to make an offer to purchase the Notes upon a Change of Control, and any such offer must include the payment of a Yield-Maintenance Amount. The Note Agreement includes certain financial covenants which are identical to those associated with the revolving loan agreement discussed above. The Note Agreement also includes certain restrictive covenants that limit, among other things, the incurrence of additional indebtedness and the disposition of assets outside the ordinary course of business. The Note Agreement provides that it shall automatically include any covenants or events of default not previously included in the Note Agreement to the extent such covenants or events of default are granted to any other lender of an amount in excess of \$1,000,000. Following an Event of Default, each Purchaser may accelerate all amounts outstanding under the Notes held by such party. As of June 30, 2009, the Company was in compliance with these covenants.

As a condition to the issuance of the Notes, the Company entered into an amendment to its revolving loan agreement with M&I in which M&I consented to the Company entering into the Note Agreement.

The secured long-term debt of \$1,348,000 at June 30, 2009, represents a mortgage loan held at a foreign subsidiary maturing in May 2013, carrying an interest rate of 4.00%.

The aggregate scheduled maturities of outstanding long-term debt obligations in subsequent years are as follows (in thousands):

Fiscal Year	
2010	\$ 4,421
2011	4,335
2012	26,829
2013	4,980
2014	3,571
Thereafter	7,173
	<u>\$50,769</u>

H. LEASE COMMITMENTS

Approximate future minimum rental commitments under noncancellable operating leases are as follows (in thousands):

Fiscal Year	
2010	\$ 3,501
2011	2,414
2012	1,900
2013	1,224
2014	598
Thereafter	210
	<u>\$9,847</u>

Total rent expense for operating leases approximated \$4,136,000, \$4,259,000 and \$3,513,000 in fiscal 2009, 2008 and 2007, respectively.

I. SHAREHOLDERS' EQUITY

At June 30, 2009 and 2008, treasury stock consisted of 2,070,124 and 1,929,354 shares of common stock, respectively. The Company issued 109,230 shares of treasury stock in fiscal 2009, to fulfill its obligations under the stock option plans and restricted stock grants. The difference between the cost of treasury shares and the option price is recorded in common shares.

In October 2007, the Board of Directors approved a two-for-one stock split of the Company's outstanding common stock. The split was issued on December 31, 2007, to shareholders of record at the close of business on December 10, 2007. The split increased the number of shares outstanding to approximately 11.4 million from approximately 5.7 million. The Consolidated Financial Statements and Notes thereto, including all share and per share data, have been restated as if the stock split had occurred as of the earliest period presented.

On July 27, 2007, the Board of Directors authorized the purchase of up to 200,000 shares of Common Stock at market values. This resolution superseded the resolution previously adopted by the Board in January 2002. On August 14, 2007, the Board of Directors authorized the purchase of an additional 200,000 shares of Common Stock at market values. On February 1, 2008, the Board of Directors authorized the purchase of an additional 500,000 shares of Common Stock at market values. In fiscal 2009, the Company purchased 250,000 shares of its outstanding common stock at an average price of \$7.25 per share for a total cost of \$1,812,500. In fiscal 2008, the Company purchased 660,000 shares of its outstanding common stock at an average price of \$23.70 per share for a total cost of \$15,644,000.

Cash dividends per share were \$0.28, \$0.265 and \$0.205 in fiscal 2009, 2008 and 2007, respectively (on a post-split basis).

In 1998, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders one preferred stock purchase right for each outstanding share of common stock. Under certain circumstances, a right could be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of \$160, subject to certain anti-dilution adjustments. The rights would become exercisable ten (10) days after a public announcement that a party or group has either acquired at least 15% (or at least 25% in the case of existing holders who currently own 15% or more of the common stock), or commenced a tender offer for at least 25% of the Company's common stock. Generally, after the rights would become exercisable, if the Company were a party to certain merger or business combination transactions, or were to transfer 50% or more of its assets or earnings power, or certain other events were to occur, each right would entitle its holders, other than the acquiring person, to buy a number of shares of common stock of the Company, or of the other party to the transaction, having a value of twice the exercise price of the right. The rights expired June 30, 2008.

Effective June 30, 2008, the Company's Board of Directors established a new Shareholder Rights Plan ("Rights Agreement") and distributed to shareholders one preferred stock purchase right (a "Right") for each outstanding share of common stock. Under certain circumstances, a Right can be exercised to purchase one four-hundredth of a share of Series A Junior Preferred Stock at an exercise price of \$125, subject to certain anti-dilution adjustments. The Rights will become exercisable on the earlier of: (i) ten business days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire from shareholders, beneficial ownership of 15% or more of the outstanding Company's common stock (or 30% or more in the case of any person or group which currently owns 15% or more of the shares or who shall become the beneficial owner of 15% or more of the shares as a result of any transfer by reason of the death of or by

gift from any other person who is an affiliate or an associate of such existing holder or by succeeding such a person as trustee of a trust existing on the Record Date (“Existing Holder”) or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of such outstanding Common Stock (or 30% or more for an Existing Holder), as such periods may be extended pursuant to the Rights Agreement. In the event that any person or group becomes an Acquiring Person, each holder of a Right shall thereafter have the right to receive, upon exercise, in lieu of Preferred Stock, common stock of the Company having a value equal to two times the exercise price of the Right. However, Rights are not exercisable as described in this paragraph until such time as the Rights are no longer redeemable by the Company as set forth below. Notwithstanding any of the foregoing, if any person becomes an Acquiring Person all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by an Acquiring Person will become null and void.

The Rights will expire at the close of business on June 30, 2018, unless earlier redeemed or exchanged by the Company. At any time before a person becomes an Acquiring Person, the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof. Immediately upon the action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the \$.01 redemption price.

The Company is authorized to issue 200,000 shares of preferred stock, none of which have been issued. The Company has designated 150,000 shares of the preferred stock for the purpose of the Shareholder Rights Plan.

The components of accumulated other comprehensive (loss) income included in shareholder’s equity as of June 30, 2009 and 2008, are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Translation adjustments	\$ 18,637	\$29,110
Benefit plan adjustments, net of income taxes of \$25,213 and \$16,343, respectively	<u>(44,855)</u>	<u>(26,664)</u>
Accumulated other comprehensive (loss) income	<u>\$(26,218)</u>	<u>\$ 2,446</u>

J. BUSINESS SEGMENTS AND FOREIGN OPERATIONS

The Company and its subsidiaries are engaged in the manufacture and sale of marine and heavy duty off-highway power transmission equipment. Principal products include marine transmissions, surface drives, propellers and boat management systems, as well as power-shift transmissions, hydraulic torque converters, power take-offs, industrial clutches and controls systems. The Company sells to both domestic and foreign customers in a variety of market areas, principally pleasure craft, commercial and military marine markets, as well as in the energy and natural resources, government and industrial markets.

The Company has two reportable segments: manufacturing and distribution. These segments are managed separately because each provides different services and requires different technology and marketing strategies. The accounting practices of the segments are the same as those described in the summary of significant accounting policies. Transfers among segments are at established inter-company selling prices. Management evaluates the performance of its segments based on net earnings.

Information about the Company's segments is summarized as follows (in thousands):

2009	Manufacturing	Distribution	Total
Net sales	\$265,852	\$112,323	\$378,175
Intra-segment sales	27,001	15,906	42,907
Inter-segment sales	34,003	5,647	39,650
Interest income	1,113	94	1,207
Interest expense	5,669	90	5,759
Income taxes	5,920	3,595	9,515
Depreciation and amortization	7,531	899	8,430
Net earnings	16,602	6,438	23,040
Assets	355,672	67,856	423,528
Expenditures for segment assets	8,267	606	8,873
2008			
Net sales	\$298,978	\$115,645	\$414,623
Intra-segment sales	29,701	9,651	39,352
Inter-segment sales	35,521	8,056	43,577
Interest income	1,547	235	1,782
Interest expense	6,807	90	6,897
Income taxes	13,293	3,318	16,611
Depreciation and amortization	7,431	444	7,875
Net earnings	39,591	6,435	46,026
Assets	369,842	67,223	437,065
Expenditures for segment assets	13,878	1,121	14,999
2007			
Net sales	\$288,428	\$98,619	\$387,047
Intra-segment sales	15,564	6,682	22,246
Inter-segment sales	42,649	4,952	47,601
Interest income	643	205	848
Interest expense	5,082	89	5,171
Income taxes	15,067	3,220	18,287
Depreciation and amortization	6,831	414	7,245
Net earnings	31,630	5,776	37,406
Assets	318,983	58,501	377,484
Expenditures for segment assets	15,331	350	15,681

The following is a reconciliation of reportable segment net sales, earnings and assets to the Company's consolidated totals (in thousands):

	2009	2008	2007
Net sales			
Total net sales from reportable segments	\$378,175	\$414,623	\$387,047
Elimination of intercompany sales	(82,557)	(82,929)	(69,847)
Total consolidated net sales	<u>\$295,618</u>	<u>\$331,694</u>	<u>\$317,200</u>
Net earnings			
Total earnings from reportable segments	\$ 23,040	\$ 46,026	\$ 37,406
Other corporate expenses	(11,538)	(21,774)	(15,554)
Total consolidated net earnings	<u>\$ 11,502</u>	<u>\$ 24,252</u>	<u>\$ 21,852</u>
Assets			
Total assets for reportable segments	\$423,528	\$437,065	
Elimination of intercompany assets	(98,343)	(114,664)	
Corporate assets	(39,620)	(17,773)	
Total consolidated assets	<u>\$285,565</u>	<u>\$304,628</u>	

Other significant items:	Segment Totals	Adjustments	Consolidated Totals
2009			
Interest income	\$1,207	\$(1,000)	\$ 207
Interest expense	5,759	(3,272)	2,487
Income taxes	9,515	(3,258)	6,257
Depreciation and amortization	8,430	1,344	9,774
Expenditures for segment assets	8,873	22	8,895
2008			
Interest income	\$1,782	\$(1,281)	\$ 501
Interest expense	6,897	(3,859)	3,038
Income taxes	16,611	(5,707)	10,904
Depreciation and amortization	7,875	6	7,881
Expenditures for segment assets	14,999	—	14,999
2007			
Interest income	\$ 848	\$ (405)	\$ 443
Interest expense	5,171	(2,017)	3,154
Income taxes	18,287	(6,014)	12,273
Depreciation and amortization	7,245	7	7,252
Expenditures for segment assets	15,681	—	15,681

All adjustments represent intercompany eliminations and corporate amounts.

Geographic information about the Company is summarized as follows (in thousands):

	2009	2008	2007
Net sales			
United States	\$114,540	\$131,650	\$147,751
Italy	47,676	71,979	60,300
Other countries	133,402	128,065	109,149
Total	<u>\$295,618</u>	<u>\$331,694</u>	<u>\$317,200</u>

Net sales by geographic region are based on product shipment destination. Prior year figures have been reclassified to conform to current year presentation.

	2009	2008
Long-lived assets (in thousands)		
United States	\$ 52,776	\$ 52,873
Belgium	76,742	77,331
Italy	52,208	56,890
Other countries	10,929	11,461
Elimination of intercompany assets	(81,011)	(89,622)
Total	<u>\$111,644</u>	<u>\$108,933</u>

One customer, Sewart Supply, Inc. (a distributor of Twin Disc), accounted for approximately 10% of consolidated net sales in fiscal 2009. There were no customers that accounted for 10% or more of consolidated net sales in fiscal 2008. One customer, Sewart Supply, Inc. accounted for approximately 10% of consolidated net sales in fiscal 2007.

K. STOCK-BASED COMPENSATION

During fiscal 2005, the Company adopted the Twin Disc, Incorporated 2004 Stock Incentive Plan for Non-Employee Directors (the "Directors' Plan"), a plan to grant non-employee directors options to purchase up to 144,000 shares of common stock, and the Twin Disc, Incorporated 2004 Stock Incentive Plan (the "Stock Incentive Plan"), a plan under which officers and key employees may be granted options to purchase up to 656,000 shares of common stock as well as other equity-based awards. The Directors' Plan grants non-employee directors who are elected or reelected to the board, or who continue to serve on the board, options to purchase 1,200 shares of common stock as of each annual meeting of shareholders. Such options carry an exercise price equal to the fair market value of the Company's common stock as of the date of grant, vest immediately, and expire ten years after the date of grant. Options granted under the Stock Incentive Plan are determined to be non-qualified or incentive stock options as of the date of grant, and may carry a vesting schedule. For options under the Stock Incentive Plan that are intended to qualify as incentive stock options, if the optionee owns more than 10% of the total combined voting power of the Company's stock, the price will not be less than 110% of the grant date fair market value and the options expire five years after the date of grant. There were no incentive options granted to a greater than 10% shareholder during the years presented.

The Company has 33,600 non-qualified stock options outstanding as of June 30, 2009, under the Directors' Plan.

The Company has 19,400 incentive stock options and 122,600 non-qualified stock options outstanding at June 30, 2009, under the Twin Disc, Incorporated 1998 Incentive Compensation plan and the 1998 Stock Option Plan for Non-employee Directors. The 1998 plans were terminated during 2004, except that options then outstanding will remain so until exercised or until they expire. There were no options outstanding under the Stock Incentive Plan as of June 30, 2009.

Shares available for future options as of June 30 were as follows:	<u>2009</u>	<u>2008</u>
2004 Stock Incentive Plan	304,008	381,008
2004 Stock Incentive Plan for Non-Employee Directors	72,000	86,400

Stock option transactions under the plans during 2009 were as follows:

	<u>2009</u>	<u>Weighted Average Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value</u>
Non-qualified stock options:				
Options outstanding at beginning of year . . .	170,400	\$ 6.02		
Granted	7,200	10.01		
Canceled/Expired	(3,000)	3.61		
Exercised	(18,400)	5.39		
Options outstanding at June 30	<u>156,200</u>	<u>\$ 6.32</u>	<u>4.14</u>	<u>\$349,068</u>
Options exercisable at June 30	<u>156,200</u>	<u>\$ 6.32</u>	<u>4.14</u>	<u>\$349,068</u>
Options price range (\$3.25 – \$4.98)				
Number of shares	120,200			
Weighted average price	\$ 3.95			
Weighted average remaining life	3.00 years			
Options price range (\$5.73 – \$7.19)				
Number of shares	8,400			
Weighted average price	\$ 6.23			
Weighted average remaining life	6.00 years			
Options price range (\$10.01 – \$27.55)				
Number of shares	27,600			
Weighted average price	\$ 16.69			
Weighted average remaining life	8.57 years			
Incentive stock options:				
Options outstanding at beginning of year . . .	35,800	\$ 4.57		
Granted	—	—		
Canceled/Expired	(14,800)	4.80		
Exercised	(1,600)	6.50		
Options outstanding at June 30	<u>19,400</u>	<u>\$ 4.23</u>	<u>2.28</u>	<u>\$50,026</u>
Options exercisable at June 30	<u>19,400</u>	<u>\$ 4.23</u>	<u>2.28</u>	<u>\$50,026</u>
Options price range (\$3.76 – \$4.98)				
Number of shares	19,400			
Weighted average price	\$ 4.23			
Weighted average remaining life	2.28 years			

In July 2005, the Company adopted SFAS No. 123(R), "Share Based Payment" (FAS 123R), using the modified prospective approach. In addition, the Company computed its windfall tax pool using the shortcut method. This statement requires the Company to expense the cost of employee services received in exchange for an award of equity instruments using the fair-value-based method. All options were 100% vested at the adoption of this statement.

During fiscal 2009, 2008 and 2007, 7,200, 7,200 and 7,200 non-qualified stock options were granted, respectively. As a result, compensation cost of \$31,000, \$74,000 and \$40,000 has been recognized in the Consolidated Statements of Operations and Comprehensive (Loss) Income for fiscal 2009, 2008 and 2007, respectively.

The total intrinsic value of options exercised during the years ended June 30, 2009, 2008 and 2007, was approximately \$155,000, \$811,000 and \$890,000, respectively.

In fiscal 2009, 2008 and 2007, the Company granted a target number of 88,500, 52,758 and 60,868 performance stock unit award grants, respectively, to various employees of the Company, including executive officers. The performance stock unit awards granted in fiscal 2009 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Unit Award Grant Agreement) in the cumulative three-fiscal-year period ending June 30, 2011. The performance stock unit awards granted in fiscal 2009 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance stock units that can be awarded if the target objective is exceeded is 106,200. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock unit awards granted in fiscal 2009. The performance stock unit awards granted in fiscal 2008 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Unit Award Grant Agreement) in the cumulative three-fiscal-year period ending June 30, 2010. The performance stock unit awards granted in fiscal 2008 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance stock units that can be awarded if the target objective is exceeded is 63,310. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock unit awards granted in fiscal 2008. The performance stock unit awards granted in fiscal 2007 will vest if the Company achieves a specified target objective relating to consolidated net operating profit after tax ("NOPAT") in the cumulative three-fiscal-year period ending June 30, 2009. The performance stock unit awards granted in fiscal 2007 are subject to adjustment if the Company's NOPAT for the period falls below or exceeds the specified target objective, and the maximum number of performance stock units that can be awarded if the target objective is exceeded is 73,042. Based upon actual results to date, the Company is accruing the performance stock unit awards granted in fiscal 2007 at the maximum payout level. There were 141,258, 125,800 and 149,420 unvested performance stock unit awards outstanding at June 30, 2009, 2008 and 2007, respectively. The weighted average grant date fair value of the unvested awards at June 30, 2009, was \$22.03. The performance stock unit awards are remeasured at fair-value based upon the Company's stock price at the end of each reporting period. The fair-value of the stock unit awards are expensed over the performance period for the shares that are expected to ultimately vest. The compensation (income) expense for the year ended June 30, 2009, 2008 and 2007, related to the performance stock unit award grants, approximated \$(852,000), \$579,000 and \$2,328,000, respectively. At June 30, 2009, there was no unrecognized compensation cost related to the unvested shares that are ultimately expected to vest based upon the probability of achieving threshold performance levels. The total fair value of performance stock unit awards vested in fiscal 2009, 2008 and 2007 was \$1,868,000, \$0 and \$0, respectively.

In fiscal 2009, 2008 and 2007, the Company granted a target number of 66,500, 37,310 and 60,882 performance stock awards, respectively, to various employees of the Company, including executive officers. The performance stock awards granted in fiscal 2009 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Award Grant Agreement) in the cumulative three-fiscal-year period ending June 30, 2011. The performance stock awards granted in fiscal 2009 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 79,800. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock unit awards granted in fiscal 2009. The performance stock awards granted in fiscal 2008 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Award Grant Agreement) in the cumulative three-fiscal-year period ending June 30, 2010. The performance stock awards granted in fiscal 2008 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 44,772. Based upon actual results to date and the low probability of achieving threshold performance levels, the Company is not accruing the performance stock unit awards granted in fiscal 2008. The performance stock awards granted in fiscal 2007 will vest if the Company achieves a specified target objective relating to consolidated NOPAT in the cumulative three-fiscal-year period ending June 30, 2009. The performance stock awards granted in fiscal 2007 are subject to adjustment if the Company's NOPAT for the period falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 73,058. Based upon actual results to date, the Company is accruing the performance stock awards granted in fiscal 2007 at the maximum payout level. There were 103,810, 110,368 and 181,248 unvested performance stock awards outstanding at June 30, 2009, 2008 and 2007, respectively. The fair value of the stock awards (on the date of grant) is expensed over the performance period for the shares that are expected to ultimately vest. The compensation expense for the year ended June 30, 2009, 2008 and 2007, related to performance stock awards, approximated \$31,000, \$1,005,000 and \$897,000, respectively. The weighted average grant date fair value of the unvested awards at June 30, 2009, was \$21.28. At June 30, 2009, there was no unrecognized compensation cost related to the unvested shares that are ultimately expected to vest based upon the probability of achieving threshold performance levels. The total fair value of performance stock awards vested in fiscal 2009, 2008 and 2007 was \$2,613,000, \$3,646,000 and \$0, respectively.

In addition to the performance shares mentioned above, the Company has unvested restricted stock outstanding that will vest if certain service conditions are fulfilled. The fair value of the restricted stock grants is recorded as compensation over the vesting period, which is generally 1 to 4 years. During fiscal 2009, 2008 and 2007, the Company granted 17,700, 7,200 and 7,200 service-based restricted shares, respectively, to employees and non-employee directors in each year. There were 23,700, 20,000 and 63,200 unvested shares outstanding at June 30, 2009, 2008 and 2007, respectively. Compensation expense of \$208,000, \$154,000 and \$156,000 was recognized during the year ended June 30, 2009, 2008 and 2007, respectively, related to these service-based awards. The total fair value of restricted stock grants vested in fiscal 2009, 2008 and 2007 was \$138,000, \$1,560,000 and \$416,000, respectively.

L. ENGINEERING AND DEVELOPMENT COSTS

Engineering and development costs include research and development expenses for new products, development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled \$2,636,000, \$2,788,000 and \$3,329,000 in fiscal 2009, 2008 and 2007, respectively. Total engineering and development costs were \$9,142,000, \$9,025,000 and \$9,327,000 in fiscal 2009, 2008 and 2007, respectively.

M. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has non-contributory, qualified defined benefit pension plans covering substantially all domestic employees hired prior to October 1, 2003, and certain foreign employees. Domestic plan benefits are based on years of service, and, for salaried employees, on average compensation for benefits earned prior to January 1, 1997, and on a cash balance plan for benefits earned after January 1, 1997. The Company's funding policy for the plans covering domestic employees is to contribute an actuarially determined amount which falls between the minimum and maximum amount that can be deducted for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

On June 3, 2009, the Company announced it would freeze future accruals under the domestic defined benefit pension plans effective August 1, 2009. This resulted in a curtailment gain of \$1,700,000 recorded in the fourth quarter of fiscal 2009.

In addition, the Company has unfunded, non-qualified retirement plans for certain management employees and directors. Benefits are based on final average compensation and vest upon retirement from the Company.

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain domestic retirees. All employees retiring after December 31, 1992, and electing to continue coverage through the Company's group plan, are required to pay 100% of the premium cost.

On September 29, 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans" ("SFAS No. 158"). SFAS No. 158 requires, among other things, the recognition of the funded status of each defined pension benefit plan, retiree health care and other postretirement benefit plans on the balance sheet. Each over-funded plan is recognized as an asset and each underfunded plan is recognized as a liability. The initial impact of the standard due to unrecognized prior service costs or credits and net actuarial gains or losses, as well as subsequent changes in the funded status, is recognized as a component of accumulated comprehensive (loss) income in shareholders' equity. Additional minimum pension liabilities and related intangible assets are also derecognized upon adoption of the new standard. SFAS No. 158 requires initial application for fiscal years ending after December 15, 2006, with earlier application encouraged. The Company adopted SFAS No. 158 as of June 30, 2007, and adopted the change in measurement date requirement as of June 30, 2009. The adoption of the change in measurement date requirement in fiscal 2009 resulted in a \$501,000 charge to retained earnings, net of tax.

Obligations and Funded Status

The following table sets forth the Company's defined benefit pension plans' and other postretirement benefit plans' funded status and the amounts recognized in the Company's balance sheets and statement of operations as of June 30 (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation, beginning of year	\$122,534	\$119,544	\$23,239	\$24,460
Service cost	1,266	1,244	38	38
Interest cost	7,082	6,943	1,297	1,367
Adjustment for change in measurement date	(179)	—	333	—
Actuarial (gain) loss	(6,219)	4,105	(312)	—
Benefits paid	(8,912)	(9,302)	(2,610)	(2,626)
Benefit obligation, end of year	<u>\$115,572</u>	<u>\$122,534</u>	<u>\$21,985</u>	<u>\$23,239</u>
Change in plan assets:				
Fair value of assets, beginning of year	\$111,891	\$117,732	\$ —	\$ —
Actual return on plan assets	(24,202)	776	—	—
Employer contribution	801	2,685	2,610	2,626
Adjustment for change in measurement date	(2,061)	—	—	—
Benefits paid	(8,912)	(9,302)	(2,610)	(2,626)
Fair value of assets, end of year	<u>\$ 77,517</u>	<u>\$111,891</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	<u>\$ (38,055)</u>	<u>\$ (10,643)</u>	<u>\$ (21,985)</u>	<u>\$ (23,239)</u>

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	\$ 110	\$ —	\$ —	\$ —
Pension obligation	(38,165)	(10,643)	—	—
Postretirement health and other obligations	—	—	(21,985)	(23,239)
Net amount recognized	<u>\$(38,055)</u>	<u>\$(10,643)</u>	<u>\$(21,985)</u>	<u>\$(23,239)</u>
Amounts recognized in accumulated other comprehensive (loss) income consist of (net of tax):				
Net transition obligation	\$ 46	\$ (96)	\$ —	\$ —
Prior service cost	—	(1,610)	(1,194)	(1,682)
Actuarial net loss	40,196	22,997	5,807	6,771
Net amount recognized	<u>\$40,242</u>	<u>\$21,291</u>	<u>\$ 4,613</u>	<u>\$5,089</u>

The amounts in accumulated other comprehensive (loss) income that are expected to be recognized as components of net periodic benefit cost during the next fiscal year for the qualified domestic defined benefit plans are as follows (in thousands):

	Pension Benefits	Other Postretirement Benefits
Actuarial net loss	\$2,634	\$859
Net transition obligation	45	—
Prior service cost	—	(678)
Net amount to be recognized	<u>\$2,679</u>	<u>\$181</u>

The accumulated benefit obligation for all defined benefit pension plans was \$115,572,000 and \$122,534,000 at June 30, 2009 and 2008, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets (in thousands):

	June 30, 2009	June 30, 2008
Projected and accumulated benefit obligation	\$111,448	\$122,534
Fair value of plan assets	73,283	111,891

Components of Net Periodic Benefit Cost
(in thousands)

	Pension Benefits		
	2009	2008	2007
Service cost	\$1,266	\$1,244	\$1,278
Interest cost	7,082	6,943	7,029
Expected return on plan assets	(8,947)	(9,628)	(8,730)
Curtailement benefit	(1,700)	—	—
Amortization of prior service cost	(718)	(729)	(766)
Amortization of transition obligation	69	77	66
Amortization of actuarial net loss	3,205	1,720	2,752
Net periodic benefit cost	<u>\$ 257</u>	<u>\$ (373)</u>	<u>\$1,629</u>

In the fourth quarter of fiscal 2009, the Company discovered that the net periodic pension benefit cost related to its foreign pension plan has been overstated in prior years and during the first three quarters of fiscal 2009. To correct for this error, the Company recorded \$626,000 of net periodic pension benefit income in the fourth quarter of fiscal 2009. Of this amount, \$345,000 related to previous fiscal years. The Company believes that the error was not material to any previously issued financial statements.

	Other Postretirement Benefits		
	2009	2008	2007
Service cost	\$ 38	\$ 38	\$ 75
Interest cost	1,297	1,367	1,335
Amortization of prior service cost	(679)	(678)	(678)
Amortization of actuarial net loss	1,228	1,210	889
Net periodic benefit cost	<u>\$1,884</u>	<u>\$1,937</u>	<u>\$1,621</u>

Additional Information

Assumptions (as of June 30, 2009 and March 31, 2008)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	6.60%	6.00%	6.60%	6.00%
Expected return on plan assets	8.50%	8.50%	—	—

	2009	Pension Benefits		Other Postretirement Benefits	
		2008	2007	2009	2008
Weighted average assumptions used to determine net periodic benefit cost for years ended June 30:					
Discount rate	6.00%	6.00%	6.00%	6.00%	6.00%
Expected return on plan assets	8.50%	8.50%	8.50%		
Rate of compensation increase	5.00%	5.00%	5.00%		

The assumed weighted-average health care cost trend rate was 9% in 2009, grading down to 6% in 2015. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately \$379,000 and the service and interest cost by approximately \$24,000. A 1% decrease in the assumed health care cost trend would decrease the accumulated postretirement benefit obligation by approximately \$341,000 and the service and interest cost by approximately \$21,000.

Plan Assets

The Company's pension plan weighted-average asset allocations at June 30, 2009 and 2008, by asset category are as follows:

Asset Category	Target Allocation	June 30	
		2009	2008
Equity securities	70%	69%	68%
Debt securities	20%	19%	21%
Real estate	10%	12%	11%
	100%	100%	100%

Due to market conditions and other factors, actual asset allocation may vary from the target allocation outlined above. The pension plans held 168,211 and 249,608 shares of Company stock with a fair market value of \$1,145,517 (1.6 percent of total plan assets) and \$5,224,295 (5.0 percent of total plan assets) at June 30, 2009 and 2008, respectively.

Twin Disc employs a total return on investment approach whereby a mix of equities and fixed income investments are used to maximize long-term return of plan assets while avoiding excessive risk. Pension plan guidelines have been established based upon an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, and annual liability measurements.

The plans have a long-term return assumption of 8.50%. This rate was derived based upon historical experience and forward-looking return expectations for major asset class categories.

Cash Flows

Contributions

The Company expects to contribute \$455,000 to its pension plans in fiscal 2010.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension Benefits	Other Postretirement Benefits		Net Benefit Payments
		Gross Benefits	Part D Reimbursement	
2010	\$ 8,884	\$3,126	\$ —	\$3,126
2011	10,792	2,605	—	2,605
2012	9,654	2,446	—	2,446
2013	9,742	2,318	—	2,318
2014	9,556	2,186	—	2,186
Years 2015–2019	48,517	8,629	—	8,629

The Company sponsors defined contribution plans covering substantially all domestic employees and certain foreign employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was \$1,829,000, \$2,482,000 and \$1,896,000 in fiscal 2009, 2008 and 2007, respectively.

N. INCOME TAXES

United States and foreign earnings before income taxes and minority interest were as follows (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
United States	\$ 8,747	\$18,099	\$23,144
Foreign	9,298	17,149	11,185
	<u>\$18,045</u>	<u>\$35,248</u>	<u>\$34,329</u>

The provision (credit) for income taxes is comprised of the following (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Currently payable:			
Federal	\$ 120	\$ 3,660	\$ 3,747
State	(6)	(333)	1,080
Foreign	5,413	5,334	7,487
	<u>5,527</u>	<u>8,661</u>	<u>12,314</u>
Deferred:			
Federal	1,725	2,233	1,808
State	1	106	100
Foreign	(996)	(96)	(1,949)
	<u>730</u>	<u>2,243</u>	<u>(41)</u>
	<u>\$6,257</u>	<u>\$10,904</u>	<u>\$12,273</u>

The components of the net deferred tax asset as of June 30 are summarized in the table below (in thousands):

Deferred tax assets:	<u>2009</u>	<u>2008</u>
Retirement plans and employee benefits	\$23,193	\$16,010
Foreign tax credit carryforwards	915	—
Federal tax credits	300	—
State net operating loss and other state credit carryforwards	351	—
Inventory	2,682	2,482
Reserves	2,118	1,972
Research and development capitalization	510	782
Foreign NOL carryforwards	1,279	919
Accruals	527	1,148
	<u>31,875</u>	<u>23,313</u>
Deferred tax liabilities:		
Property, plant and equipment	5,731	5,389
Intangibles	4,929	5,494
Other foreign liabilities	337	400
	<u>10,997</u>	<u>11,283</u>
Valuation allowance	(212)	—
Total net deferred tax assets	<u>\$20,666</u>	<u>\$12,030</u>

A valuation allowance of \$212,000 has been recorded as of June 30, 2009, as management believes that realization of all state tax credits before they expire is unlikely. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income and foreign source income to realize the remaining deferred tax assets.

Following is a reconciliation of the applicable U.S. federal income taxes to the actual income taxes reflected in the statements of operations (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
U.S. federal income tax at 34%	\$6,135	\$12,304	\$11,944
Increases (reductions) in tax resulting from:			
Foreign tax items	219	(200)	672
Italian tax rate change	—	(1,040)	—
State taxes	(267)	(147)	767
Valuation allowance	212	—	—
Change in prior year estimate	(52)	(164)	102
Research and development tax credits	(300)	(150)	(1,235)
Section 199 deduction	(34)	(175)	(73)
ETI exclusion	—	—	(149)
Other, net	344	476	245
	<u>\$6,257</u>	<u>\$10,904</u>	<u>\$12,273</u>

The Company has not provided additional U.S. income taxes on cumulative earnings of consolidated foreign subsidiaries that are considered to be reinvested indefinitely. These earnings relate to ongoing operations and were approximately \$9.7 million at June 30, 2009. Such earnings could become taxable upon the sale or liquidation of these foreign subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits.

The Italian Finance Bill of 2008 was enacted on December 24, 2007, and resulted in a decrease to the combined State Tax and Regional Tax rates. The new tax rates are effective for the first fiscal year that begins after December 31, 2007. Deferred taxes were adjusted to reflect the impact of the tax rate changes, resulting in an approximately \$1 million dollar reduction to the Company's tax provision in fiscal 2008.

Annually, we file income tax returns in various taxing jurisdictions inside and outside the United States. In general, the tax years that remain subject to examination are 2006 through 2008 for our major operations in the U.S., Italy, Belgium and Japan. The U.S. Internal Revenue Service is currently auditing our consolidated income tax return for fiscal 2003 through fiscal 2006. Other audits currently underway include those in Italy. It is reasonably possible that at least one of these audit cycles will be completed during fiscal 2010.

The Company has approximately \$0.8 million of unrecognized tax benefits as of June 30, 2009, which, if recognized would impact the effective tax rate. The Company does not anticipate that the net amount of unrecognized tax benefits will change significantly during the next twelve months. The Company's policy is to accrue interest and penalties related to unrecognized tax benefits in income tax expense.

Below is a reconciliation of beginning and ending amount of unrecognized tax benefits (in thousands):

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Unrecognized tax benefits, beginning of year	\$693	\$325
Additions based on tax positions related to the prior year	66	434
Additions based on tax positions related to the current year	135	—
Reductions based on tax positions related to the prior year	(97)	(66)
Unrecognized tax benefits, end of year	<u>\$797</u>	<u>\$693</u>

The amounts reflected in this reconciliation do not include interest and penalties totaling \$102,000.

O. CONTINGENCIES

The Company is involved in litigation of which the ultimate outcome and liability to the Company, if any, is not presently determinable. Management believes that final disposition of such litigation will not have a material impact on the Company's results of operations or financial position.

P. RESTRUCTURING OF OPERATIONS

During the fourth quarter of fiscal 2009, the Company recorded a pre-tax restructuring charge of \$948,000 related to a workforce reduction at its Racine, Canadian and Australian operations. The charge consisted of severance costs for 22 salaried employees and voluntary early retirement charges for an additional 16 manufacturing employees. During fiscal 2009, the Company made cash payments of \$180,000, resulting in an accrual balance at June 30, 2009, of \$767,000.

During the fourth quarter of fiscal 2007, the Company recorded a pre-tax restructuring charge of \$2,652,000 related to a workforce reduction at its Belgian operation that will allow for improved profitability through targeted outsourcing savings and additional focus on core manufacturing processes. The charge consists of prepension costs for 32 employees: 29 manufacturing employees and 3 salaried employees. This charge was adjusted in the fourth quarter of fiscal 2008, resulting in a pre-tax benefit of \$373,000, due to final negotiations primarily related to notice period pay. A further adjustment was made in the fourth quarter of fiscal 2009, resulting in a pre-tax expense of \$240,000 related to legally required inflationary adjustments to benefits. During fiscal 2009 and 2008, the Company made cash payments of \$120,000 and \$103,000, respectively. The exchange impact in fiscal 2009 was to reduce the accrual by \$296,000. Accrued restructuring costs were \$2,417,000 and \$2,603,000 at June 30, 2009 and 2008, respectively.

The Company recorded a restructuring charge of \$2,076,000 in the fourth quarter of fiscal 2005 as the Company restructured its Belgian operation to improve future profitability. The charge consists of prepension costs for 37 employees: 33 manufacturing employees and 4 salaried employees. During fiscal 2009 and 2008, the Company made cash payments of \$200,000 and \$262,000, respectively. The exchange impact in fiscal 2009 was to reduce the accrual by \$137,000. Accrued restructuring costs were \$1,121,000 and \$1,465,000 at June 30, 2009 and 2008, respectively.

Q. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 11, 2009, the date these financial statements were issued. There were no events that required disclosure.

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

for the years ended June 30, 2009, 2008 and 2007 (in thousands)

Description	Balance at Beginning of Period	— Additions —		Deductions ¹	Balance at End of of Period
		Charged to Costs and Expenses	Net Acquired		
2009:					
Allowance for losses on accounts receivable	\$1,219	\$ 524	\$ —	\$ 120	\$1,623
Reserve for inventory obsolescence	\$4,311	\$2,627	\$ —	\$1,532	\$5,406
2008:					
Allowance for losses on accounts receivable	\$ 922	\$ 391	\$ —	\$ 94	\$1,219
Reserve for inventory obsolescence	\$4,560	\$1,147	\$ —	\$1,396	\$4,311
2007:					
Allowance for losses on accounts receivable	\$1,023	\$ 123	\$ —	\$ 224	\$ 922
Reserve for inventory obsolescence	\$5,953	\$2,342	\$ —	\$3,735	\$4,560

¹ Accounts receivable written-off and inventory disposed of during the year and other adjustments (primarily foreign currency translation adjustments).

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.

TWIN DISC, INCORPORATED

September 11, 2009

By /s/ **MICHAEL E. BATTEN**
Michael E. Batten
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

September 11, 2009

By /s/ **MICHAEL E. BATTEN**
Michael E. Batten, Chairman,
Chief Executive Officer and Director

September 11, 2009

By /s/ **JOHN H. BATTEN**
John H. Batten,
President, Chief Operating Officer and Director

September 11, 2009

By /s/ **CHRISTOPHER J. EPERJESY**
Christopher J. Eperjesy, Vice President – Finance,
Chief Financial Officer and Treasurer

September 11, 2009

By /s/ **JEFFREY S. KNUTSON**
Jeffrey S. Knutson, Corporate Controller
(Chief Accounting Officer)

September 11, 2009

Michael Doar, Director
John A. Mellowes, Director
Malcolm F. Moore, Director
David B. Rayburn, Director
Harold M. Stratton II, Director
David R. Zimmer, Director

By /s/ **THOMAS E. VALENTYN**
Thomas E. Valentyn,
General Counsel and Secretary
(Attorney In Fact)

EXHIBIT INDEX
TWIN DISC, INCORPORATED

10-K for Year Ended June 30, 2009

Exhibit	Description	Included Herewith
3a)	Articles of Incorporation, as restated December 10, 2007, (Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K dated December 6, 2007). File No. 001-07635.	
b)	Corporate Bylaws, as amended through September 6, 2006, (Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K dated September 11, 2006). File No. 001-07635.	
4)	Description of Shareholder Rights Plan and Form of Rights Agreement dated as of December 20, 2007, by and between the Company and Mellon Investor Services, LLC, as Rights Agent, with Form of Rights Certificate (Incorporated by reference to Item 3.03 and Exhibit 4 of the Company's Form 8-K dated December 20, 2007). File No. 001-07635.	
Material Contracts		
a)	Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10(g) of the Company's Form 10-K for the year ended June 30, 2004). File No. 001-07635.	
b)	The 1998 Incentive Compensation Plan (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998). File No. 001-07635.	
c)	The 1998 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998). File No. 001-07635.	
d)	The 2004 Stock Incentive Plan as amended (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 20, 2006). File No. 001-07635.	
e)	The 2004 Stock Incentive Plan for Non-Employee Directors as amended (Incorporated by reference to Exhibit 99 of the Company's Form 10-K for the year ended June 30, 2007). File No. 001-07635.	
f)	Form of Performance Stock Award Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 2, 2005). File No. 001-07635.	
g)	Form of Performance Stock Award Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated July 31, 2006). File No. 001-07635.	
h)	Form of Performance Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated July 31, 2006). File No. 001-07635.	
i)	Form of Performance Stock Award Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 2, 2007). File No. 001-07635.	
j)	Form of Performance Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 2, 2007). File No. 001-07635.	
k)	Form of Performance Stock Award Grant Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated July 30, 2008). File No. 001-07635.	
l)	Form of Performance Stock Unit Award Grant Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated July 30, 2008). File No. 001-07635.	

EXHIBIT INDEX
TWIN DISC, INCORPORATED

10-K for Year Ended June 30, 2009

Exhibit	Description	Included Herewith
m)	Form of Restricted Stock Grant Agreement (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated July 30, 2008). File No. 001-07635.	
n)	Form of Performance Stock Award Grant Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 5, 2009). File No. 001-07635.	
o)	Form of Performance Stock Unit Award Grant Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 5, 2009). File No. 001-07635.	
p)	Form of Restricted Stock Grant Agreement (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated August 5, 2009). File No. 001-07635.	
q)	Supplemental Retirement Plan (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K dated July 30, 2008). File No. 001-07635.	
r)	Forms of Change in Control Severance Agreements (Incorporated by reference to Exhibits 10.3, 10.4 and 10.5 of the Company's Form 8-K dated August 2, 2007). File No. 001-07635.	
s)	Form of Indemnity Agreement (Incorporated by reference to Exhibit 10.5 of the Company's Form 8-K dated August 2, 2005). File No. 001-07635.	
t)	Note Agreement for \$25 million of 6.05% Senior Notes (Incorporated by reference to Exhibit 4.1 of the Company's Form 8-K dated April 12, 2006). File No. 001-07635.	
u)	Amendment 1 to Note Agreement for 6.05% Senior Notes (Incorporated by reference to Exhibit 10(p) of the Company's Form 10-K for the year ended June 30, 2007). File No. 001-07635.	
v)	Amendment 2 to Note Agreement for 6.05% Senior Notes (Incorporated by reference to Exhibit 10(q) of the Company's Form 10-K for the year ended June 30, 2007). File No. 001-07635.	
w)	Amendment 3 to Note Agreement for 6.05% Senior Notes.	X
x)	Amendment 4 to Note Agreement for 6.05% Senior Notes.	X
21	Subsidiaries of the Registrant	X
23	Consent of Independent Registered Public Accounting Firm	X
24	Power of Attorney	X
31a	Certification	X
31b	Certification	X
32a	Certification pursuant to 18 U.S.C. Section 1350	X
32b	Certification pursuant to 18 U.S.C. Section 1350	X

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Twin Disc, Incorporated, the registrant (a Wisconsin Corporation) owns directly or indirectly 100% of the following subsidiaries:

1. Twin Disc International, S.A. (a Belgian corporation)
2. Twin Disc Srl (an Italian corporation)
3. Rolla SP Propellers SA (a Swiss corporation)
4. Twin Disc (Pacific) Pty. Ltd. (an Australian corporation)
5. Twin Disc (Far East) Ltd. (a Delaware corporation operating in Singapore and Hong Kong)
6. Mill Log Equipment Co., Inc. (an Oregon corporation)
7. Mill Log Marine, Inc. (an Oregon corporation)
8. Mill Log Wilson Equipment Ltd. (a Canadian corporation)
9. Twin Disc Southeast, Inc. (a Florida corporation)
10. Vetus Italia Srl (an Italian corporation)
11. Technodrive SARL (a French corporation)
12. Boat Equipment Limited (a Maltese limited liability corporation)
13. Twin Disc Japan (a Japanese corporation)
14. Twin Disc Power Transmission Private, Ltd. (an Indian limited liability corporation)

Twin Disc, Incorporated also owns 66% of Twin Disc Nico Co. LTD. (a Japanese corporation).

The registrant has no parent nor any other subsidiaries. All of the above subsidiaries are included in the consolidated financial statements.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-99229, 333-119770, 333-119771, 333-69361 and 333-69015) of Twin Disc, Incorporated of our report dated September 11, 2009 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
September 11, 2009

EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute Michael E. Batten and Thomas E. Valentyn, and each of them singly, true and lawful attorneys with full power to them, and each of them, singly, to sign for us and in our names as directors the Form 10-K Annual Report for the fiscal year ended June 30, 2009, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, and generally do all such things in our names and behalf as directors to enable Twin Disc, Incorporated to comply with the provisions of the Securities and Exchange Act of 1934 and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures so they may be signed by our attorneys, or either of them, as set forth below.

/s/ **MICHAEL DOAR**
Michael Doar, Director

/s/ **DAVID B. RAYBURN**
David B. Rayburn, Director

July 31, 2009

/s/ **JOHN A. MELLOWES**
John A. Mellowes, Director

/s/ **HAROLD M. STRATTON II**
Harold M. Stratton II, Director

/s/ **MALCOLM F. MOORE**
Malcolm F. Moore, Director

/s/ **DAVID R. ZIMMER**
David R. Zimmer, Director

EXHIBIT 31a

CERTIFICATIONS

I, Michael E. Batten, certify that:

1. I have reviewed this annual report on Form 10-K of Twin Disc, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 11, 2009

/s/ **MICHAEL E. BATTEN**
Michael E. Batten
Chairman and Chief Executive Officer

EXHIBIT 31b

CERTIFICATIONS

I, Christopher J. Eperjesy, certify that:

1. I have reviewed this annual report on Form 10-K of Twin Disc, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 11, 2009

/s/ **CHRISTOPHER J. EPERJESY**
Christopher J. Eperjesy
Vice President – Finance,
Chief Financial Officer and Treasurer

EXHIBIT 32a

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Twin Disc, Incorporated (the “Company”) on Form 10-K for the fiscal year ending June 30, 2009, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, Michael E. Batten, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) the Report fully complies with Section 13(a) of the Securities Exchange Act of 1934, and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 11, 2009

/s/ **MICHAEL E. BATTEN**
Michael E. Batten
Chairman and Chief Executive Officer

EXHIBIT 32b

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Twin Disc, Incorporated (the “Company”) on Form 10-K for the fiscal year ending June 30, 2009, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, Christopher J. Eperjesy, Vice President – Finance, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) the Report fully complies with Section 13(a) of the Securities Exchange Act of 1934, and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 11, 2009

/s/ **CHRISTOPHER J. EPERJESY**
Christopher J. Eperjesy
Vice President – Finance,
Chief Financial Officer and Treasurer

DIRECTORS

MICHAEL E. BATTEN

Chairman and Chief Executive Officer

JOHN H. BATTEN

President and Chief Operating Officer

MICHAEL DOAR

Chairman and Chief Executive Officer
Hurco Companies, Inc.
(A global manufacturer of machine tools)
Indianapolis, IN

JOHN A. MELLOWES

Chairman and Chief Executive Officer
Charter Manufacturing Co.
(A privately held producer of bar, rod wire
and wire parts)
Mequon, Wisconsin

MALCOLM F. MOORE

President and Chief Operating Officer
Gehl Company
(Manufacturer and distributor of compact equipment
for construction and agricultural markets)
West Bend, Wisconsin

DAVID B. RAYBURN

Retired President and Chief Executive Officer
Modine Manufacturing Company
(Manufacturer of Heat Exchange Equipment)
Racine, Wisconsin

HAROLD M. STRATTON II

Chairman and Chief Executive Officer,
Strattec Security Corporation
(A manufacturer of mechanical locks,
electromechanical locks and related security
access control products)
Milwaukee, Wisconsin

DAVID R. ZIMMER

Managing Partner
Stonebridge Equity, LLC
(A merger, acquisition and finance
value consulting firm)
Troy, Michigan

OFFICERS

MICHAEL E. BATTEN

Chairman and Chief Executive Officer

JOHN H. BATTEN

President and Chief Operating Officer

CHRISTOPHER J. EPERJESY

Vice President – Finance, Chief Financial Officer
and Treasurer

JAMES E. FEIERTAG

Executive Vice President

DEAN J. BRATEL

Vice President – Engineering

HENRI-CLAUDE FABRY

Vice President – International Distribution and
Managing Director, Twin Disc International S.A.

DENISE L. WILCOX

Vice President – Human Resources

THOMAS E. VALENTYN

General Counsel and Secretary

JEFFREY S. KNUTSON

Corporate Controller

CORPORATE DATA

ANNUAL MEETING

Twin Disc Corporate Offices
Racine, Wisconsin
2:00 P.M.
October 16, 2009

SHARES TRADED

NASDAQ: Symbol TWIN

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K

Single copies of the Company's 2009 Annual Report on Securities and Exchange Commission Form 10-K, including exhibits, will be provided without charge to shareholders after September 11, 2009, upon written request directed to Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

TRANSFER AGENT & REGISTRAR

BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, New Jersey 07310
Toll Free: 800-839-2614
Web: www.bnymellon.com/shareowner/isd

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin

CORPORATE OFFICES

Twin Disc, Incorporated
Racine, Wisconsin 53403
Telephone: (262) 638-4000

WHOLLY-OWNED SUBSIDIARIES

Twin Disc International S.A.
Nivelles, Belgium
Twin Disc Srl
Decima, Italy
Rolla SP Propellers SA
Novazzano, Switzerland
Twin Disc (Pacific) Pty. Ltd.
Brisbane, Queensland, Australia
Twin Disc (Far East) Ltd.
Singapore
Mill Log Equipment Co., Inc.
Coburg, Oregon
Mill Log Marine, Inc.
Coburg, Oregon
Mill Log Wilson Equipment Ltd.
Burnaby, British Columbia

Twin Disc Southeast, Inc.
Jacksonville, Florida
Technodrive SARL
Chambery, France
Boat Equipment Limited
Valletta, Malta
Vetus Italia Srl
Limite sull'Arno, Italy
Twin Disc Japan
Saitama, Japan
Twin Disc Power Transmission Private, Ltd.
Chennai, India

PARTIALLY OWNED SUBSIDIARIES

Twin Disc Nico Co. Ltd.

MANUFACTURING FACILITIES

Racine, Wisconsin
Nivelles, Belgium
Decima, Italy
Novazzano, Switzerland
Limite sull'Arno, Italy

SALES OFFICES

Domestic
Racine, Wisconsin
Coburg, Oregon
Kent, Washington
Medley, Florida
Jacksonville, Florida
Foreign
Nivelles, Belgium
Brisbane and Perth, Australia
Singapore
Decima, Italy
Limite sull'Arno, Italy
Novazzano, Switzerland
Chambery, France
Edmonton, Canada
Burnaby, Canada
Saitama, Japan
Shanghai, China
Guangzhou, China

MANUFACTURING LICENSES

Hitachi-Nico Transmission Co., Ltd.
Tokyo, Japan

5-YEAR FINANCIAL SUMMARY

(In thousands of dollars, except where noted)	2009	2008	2007	2006	2005
STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME					
Net sales	\$295,618	\$331,694	\$317,200	\$243,287	\$218,472
Costs and expenses, including marketing, engineering and administrative	275,833	292,802	280,210	218,503	207,794
Earnings from operations	19,785	38,892	36,990	24,784	10,678
Other expense	(1,740)	(3,644)	(2,661)	(1,732)	(1,186)
Earnings before income taxes and minority interest	18,045	35,248	34,329	23,052	9,492
Income taxes	6,257	10,904	12,273	8,470	2,485
Minority interest	(286)	(92)	(204)	(129)	(97)
Net earnings	11,502	24,252	21,852	14,453	6,910
BALANCE SHEET					
<i>Assets</i>					
Cash	13,266	14,447	19,508	16,427	11,614
Receivables, net	53,367	67,611	63,277	55,963	37,751
Inventories, net	92,331	97,691	76,253	65,081	48,481
Other current assets	14,957	15,946	14,202	13,660	11,679
Total current assets	173,921	195,695	173,240	151,131	109,525
Investments and other assets	45,845	41,078	37,134	38,083	38,181
Fixed assets less accumulated depreciation	65,799	67,855	56,810	46,958	40,331
Total assets	285,565	304,628	267,184	236,172	188,037
<i>Liabilities and Shareholders' Equity</i>					
Current liabilities	70,252	89,588	79,918	79,621	65,909
Long-term debt	46,348	48,227	42,152	38,369	14,958
Deferred liabilities	61,140	36,488	29,032	28,377	39,680
Minority interest	837	679	645	572	591
Shareholders' equity	106,988	129,646	115,437	89,233	66,899
Total liabilities and shareholders' equity	285,565	304,628	267,184	236,172	188,037
<i>Comparative Financial Information</i>					
Per share statistics:					
Basic earnings	1.04	2.15	1.88	1.26	0.60
Diluted earnings	1.03	2.13	1.84	1.22	0.59
Dividends	0.280	0.2650	0.205	0.1825	0.175
Shareholders' equity	9.64	11.49	9.93	7.74	5.85
Return on equity	10.8%	18.7%	18.9%	16.2%	10.3%
Return on assets	4.0%	8.0%	8.2%	6.1%	3.7%
Return on sales	3.9%	7.3%	6.9%	5.9%	3.2%
Average shares outstanding	11,096,750	11,278,885	11,622,620	11,533,276	11,442,168
Diluted shares outstanding	11,194,170	11,411,927	11,880,432	11,881,208	11,631,592
Number of shareholder accounts	761	756	778	804	888
Number of employees	959	1,019	1,011	962	901
Additions to plant and equipment	8,895	14,999	15,681	8,385	12,009
Depreciation	8,766	6,921	6,331	5,529	5,108
Net working capital	103,669	106,107	93,322	71,510	43,616

