Twin Disc, Inc.
2011 First Quarter Financial Results
October 19, 2010

Operator: Good day ladies and gentlemen. Thank you for standing by. Welcome to the Twin Disc, Incorporated 2011 First Quarter Financial Results conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you have a question, please press the star followed by the one on your touchtone phone. Please press star, zero for operator assistance at any time. For participants using speaker equipment, it may be necessary to pick up your handset before making your selection. This conference is being recorded today, October 19, 2010.

I would now like to turn the conference over to Stan Berger. Please go ahead, sir.

Stanley Berger: Thank you, Christina (sp?). On behalf of the management of Twin Disc, we are extremely pleased that you have taken the time to participate in our call, and thank you for joining us to discuss the Company's fiscal 2011 first quarter financial results and business outlook.

Before I introduce management, I would like to remind everyone that certain statements made during the course of this conference call, especially those that state management's intentions, hopes, beliefs, expectations or predictions for the future are forward-looking statements. It is important to remember that the Company's actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the Company's annual report or Form 10-K, copies of which may be obtained by contacting either the Company or the SEC.

By now you should have received a copy of the news release which was issued this morning before the market opened. If you have not received a copy, please call Annette Mainaki at 262-638-4000 and she will send a copy to you.

Hosting the call today are Michael Batten, Twin Disc Chairman and Chief Executive Officer; John Batten, President and Chief Operating Officer; and Chris Eperjesy, the Company's Vice President of Finance, Chief Financial Officer and Treasurer.

At this time, I will turn the call over to Michael Batten. Mike?

Michael Batten: Thank you, Stan, and good morning everyone. Welcome to our first quarter 2011 conference call. As Stan has already indicated, I will start with a brief statement and then John, Chris and I will be available to take your questions.

As you no doubt have already seen, Twin Disc posted strong results for the first fiscal quarter. Our oil and gas markets drove significant growth in sales, profitability and backlog, and we are encouraged with the business outlook for the balance of the fiscal year; and our new product introductions remain on track for implementation during the fiscal year.

Net sales for the first quarter of fiscal 2011 rose to 61 million from 47 million recorded last year. As mentioned, the improvement came primarily from the oil and gas sector where substantial demand for our pressure pumping transmissions accounted for most of the increase in shipments and in new order intake. However, demand for products used in the ARFF, military and commercial marine markets remained stable during the three months. Our mega yacht marine business continues to experience challenging times.

Our gross margin for the current fiscal quarter was 32.6% compared to 20.7% in the same three months last year. The significant improvement reflects the depressed margins of a year ago, improved efficiencies as a result of our $25 million cost reduction and avoidance program instituted during the last year, and a more profitable mix of business.

Marketing, engineering and administrative expenses as a percentage of sales was 24.1% for the current quarter compared to 27.2% for the same three months last year. ME&A expenses increased by $2 million quarter-over-quarter and reflected primarily stock-based compensation and bonus accruals.

Net earnings for the first fiscal quarter improved to 2.6 million or $0.24 per diluted share compared to a net loss of 2.4 million or $0.22 per diluted share for the same period a year ago.

We continue to have a very strong financial balance sheet. We generated 4 million in operating cash flow in the quarter despite a $12 million increase in working capital to support rising sales. Total net debt net of cash was $10 million compared to 12 million at the end of last fiscal year. Shareholder equity approached 100 million compared to 88 million at the end of fiscal 2010.

Our six-month backlog at the end of first fiscal quarter was $00 million compared to 84 million at the end of last June and 62 million at the end of the first quarter last year. Demand for our oil and gas transmission systems continues to have a profound impact on our sales, profitability and backlog. Elsewhere, demand for our industrial defense, ARFF and commercial marine markets remains stable while the pleasure craft market continues to remain depressed.

Our new product development programs remain on schedule for introduction in the third fiscal quarter. Overall, our outlook is for continued improvement during the fiscal year and we remain encouraged about our long-term prospects in all of the markets we serve.

That concludes my prepared remarks, and now John, Chris and I will be happy to take your questions. Christina, you can open it up.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. If you do have a question, please press the star followed by the one on your touchtone phone. To withdraw your question, please press the star followed by the two. If using speaker equipment, please lift the handset before making your selection. Once again, if you do have a question, please press the star followed by the one at this time.

And our first question comes from the line of Peter Lisnic with Robert W. Baird. Please go ahead.

Josh Chan: Good morning. This is Josh Chan filling in for Pete. It looks like sequentially—seasonally in a normal year, you guys record about 55% of your sales in the second half, but given your backlog momentum and shipments of the 7500, do you still expect that 45, 55 seasonal pattern to hold this year?

Michael Batten: Well Josh, this is Mike, and the answer is yes. Traditionally we have more working days in the second half and that—that's accounted for by—you know, typical shutdowns or vacation schedules in the first quarter. So we do see our historical pattern more or less following history.

Josh Chan: Okay. And then how are you looking at mix for the balance of the year relative to this quarter? Is oil and gas growing at a pace where it would continue to be a bigger piece of the pie, or is there some sort of recovery in your other markets that will somewhat offset that?

Michael Batten: Well, the mix is going to continue as we've seen in the first quarter, but the caveat would be that we may see some improvement occurring in our other markets. But there's a strong mix in favor of oil and gas that will continue throughout the balance of the year.

Josh Chan: Okay, great. And then with respect to the 7500, what percent of the backlog is it currently?

Michael Batten: John, do you want to take that?

John Batten: Yes. Currently of the six-month backlog that you see, officially it's just zero, but it'd be about—if we were to have the demand it's in, in the next six months, it would be between 10 and 20%.

Josh Chan: Okay, so no orders received yet in the six-month backlog—

John Batten: No, they're not in the six-month backlog. It's for outside of the six months.

Josh Chan: Okay. Great. How are the 7500 orders been relative to your expectations?

John Batten: The demand is still very good. We're waiting to finish up the field tests, which should happen this quarter, before we put official orders in. But we visited with the major customers and anticipation is still very high for the unit.

Josh Chan: Okay, great. Thank you for your time.

Michael Batten: Okay. Thanks, Josh.

Operator: And our next question comes from the line of Paul Mammola with Sidoti & Company. Please go ahead.

Paul Mammola: Hi, good morning everyone.

Michael Batten: Good morning, Paul.

John Batten: Good morning, Paul.

Paul Mammola: Could you give us a general sense of what marine—the marine half of the business did during the quarter, up or down? Just to get a sense of, I guess, how much oil and gas is up?

Michael Batten: John, do you want—

John Batten: Yes, I would say, Paul, that the marine business actually has been fairly stable for the last five quarters. You know, it's--in calendar 2009 it came down pretty dramatically and then it started to rebound.

We've had a pretty stable—stable few quarters for the marine business as a whole.

Paul Mammola: Okay, that's helpful. We can work with it from there. To go back to the 7500 series and backlog, if I heard you correctly, there's an incremental 10 to 20%--

John Batten: Thank you for asking that, Paul. I need to qualify that. It's 10 to 20% of the 8500 backlog, not total backlog.

Paul Mammola: I see. Okay. How much would you say is 8500 of the total backlog at this point?

John Batten: It's a lot more than it was a year ago.

Paul Mammola: I had to try!

John Batten: Yes.

Paul Mammola: Okay.

John Batten: It also—just, Paul, just as you asked about the marine business, you know, our industrial business has improved significantly over a year ago and there's a lot of aftermarket business in traditional industrial markets as well as oil and gas. So there's been a lot of demand on spare parts for the oil field but also, you know, just the traditional industrial business whether it's wood chippers, rock crushers, et cetera.

Paul Mammola: That's good to hear. Do you have a calendar '11 cap ex budget from EJS or are we too early on that?

John Batten: We have not seen it. It would be coming out sometime this month. I have personally not seen it yet.

Paul Mammola: Okay. And do you have a sense of what the appetite a company like EJS might have for product like the 7500? Is there any indication for them—from them, rather?

John Batten: I—well, being a major rig producer, from what I've seen from the other ones, it looks like it's going to be at this level for, you know, at least another 12 to 18 months that we can see.

Paul Mammola: Okay. And then finally on the marine side, if I could take it back there, is there an update at the builder level on mega yachts? Is anything stirring down there from an inventory perspective?

John Batten: Oh boy, it—yes, it depends upon the geography. I think a lot of the inventory has been moved through, new inventory that's been sitting at some of the major OEM builders, particularly in Europe. The American builders, I think, did a better job of not having inventory in the pipeline this time, but it's still a mixed bag and if there's any movement, it's on the small end and on the very high end, and kind of that range in the middle is still, I would say, fairly weak. Not a lot of movement there.

Paul Mammola: Okay.

John Batten: It might be mid-range, something like—you know, in the neighborhood of 40 to 80 feet (sp?).

John Mammola: Okay, that's helpful. Thanks for your time, guys.

Michael Batten: Thanks, Paul.

Operator: And our next question comes from the line of Jon Braatz with Kansas City Capital. Please go ahead.

Jonathan Braatz: Morning, gentlemen.

Michael Batten: Morning, Jon.

John Batten: Morning, Jon.

Jonathan Braatz: So from a big picture standpoint, how would you characterize or how would you view this run-up in the oil and gas business compared to, you know, 2007, 2008? Obviously you don't have the 7500 but can you talk a little bit about what you're seeing in terms of duration, demand, and maybe the pricing environment relative to, you know, a couple years ago?

Michael Batten: John, do you want to—

John Batten: Yes, just on a—versus a couple years ago, I'd say the big difference was the spigot on rig construction was completely turned off, you know, kind of in the financial crisis.

Jonathan Braatz: Okay.

John Batten: And I would say that, you know, in the last 18 months to 24 months, there have not been a whole lot of rigs produced but there has been a demand for pressure pumping.

Jonathan Braatz: Mm-hmm.

John Batten: So there's kind of been a gap where very few rigs have been built. What we're seeing now is making up for that—there's a demand, there's a need for more rigs, and what's changed from last time to this time is we're seeing more rigs are being used in shale, unconventional gas which tends to be a higher horsepower type of application, a more rigorous application. I think the expected life of every rig is a little bit less because they're operating more hours, so there's—the difference in the run-up this time, you know, is that we think that more of the production in the frac race is tending towards the higher horsepower than the last time. So I think we're—it's a little bit of a double whammy for us this time versus last time. There's been very little construction over the last 24 months, and what's coming back is demand for high horsepower.

Jonathan Braatz: What about pricing in this environment for you?

John Batten: It's still very competitive. You know, there are two competitors out there who are trying to get business as well, but we're being very mindful of, you know, surcharges and what we see in any material inflation. But yes, if there is—if we see an increase in surcharges, we're absolutely going to have to take action.

Jonathan Braatz: Okay. Do you—how about just your base demand for—base price for the product? Can you get pricing in this environment?

John Batten: I think if conditions with, you know, materials were to change, I think the answer is yes. If nothing were to change, it would be difficult because—

Jonathan Braatz: Okay. Okay, fine. Okay.

John Batten: (Cross talking)

Jonathan Braatz: Okay. Turning back to the 7500, you mentioned that there was nothing in the backlog—six-month backlog for the 7500. Would we see any—does that preclude any revenue in the third quarter?

John Batten: Yes. There will be in—for the third quarter, we have customers who have 8500s on order that would, if the field tests are complete, would switch part of that or add to the 7500 for the third quarter.

Jonathan Braatz: Okay. Okay, fine.

John Batten: So there is—if a technicality—I'm trying to be true as what is an official order in the system—

Jonathan Braatz: Right.

John Batten: There is absolute demand in the third quarter if we finish the field tests.

Jonathan Braatz: Okay. Now in the press release, you talked a little bit about the size of the 7500 market versus the 8500 market; and, you know, what type of magnitude are we talking about in relative size, 7500 market opportunity versus 8500?

John Batten: I would—if you go back to two years ago, we would have estimated the size of that market to be ten times that of the 8500.

Jonathan Braatz: Okay.

John Batten: I would say now, maybe that percentage—what we're seeing right now in the demand, it may be closer to 50/50 or 60/40. There has been a lot of people building the higher horsepower rig, at least in the last 12—you know, the last 9 to 12 months.

Jonathan Braatz: Okay. So we're talking about a similar market size, then?

John Batten: It would be closer to that than ten times bigger.

Jonathan Braatz: Okay. Okay. All right. All right. And I think last—the last time—you know, in the last cycle 2006, I think Chris, you had mentioned to me—and you didn't give me a definitive number but sort of a range, that oil and gas sales were maybe 15 to 20% of total revenue back in 2008? Was that an accurate number?

Christopher Eperjesy: I don't think it was too far off the number.

Jonathan Braatz: Okay. Okay. Okay. And I think that's it for now. Thank you.

Michael Batten: Okay. Thank you, Jon.

Operator: Ladies and gentlemen, if there are any additional questions, please press the star followed by the one at this time. And our next question comes from the line of Bo McKenzie with Global Hunter. Please go ahead.

Bo McKenzie: Hey guys. Congratulations

Michael Batten: Good morning, Bo.

Bo McKenzie: How are you doing? Hey, just to put some kind of calibrations on some of this, if I were going to go out and build a 30,000 horsepower spread, which seems to be the kind of common spread that's being used in places like the Bakken and the Haynesville and the Eagle Ford and stuff, how many 8500 transmissions would I need to put in those? That would be a lot of trucks, 30,000 horsepower.

John Batten: 30,000 horsepower would be, you know, 10—if you wanted that—10 online at any given time.

Bo McKenzie: Right.

John Batten: Yes, 10, 11.

Bo McKenzie: Ten, 11. At what kind of cost each on average?

John Batten: For the—for the entire—

Bo McKenzie: For the 8500. You know, just right now for 8500 figuring, you know, he's got a 30,000 horsepower spread, I'm just trying to figure, because—you know, we think there's somewhere between 3 ½ and 4 million horsepower of frac equipment that's on order right now—

John Batten: Yes. For—you know, it's somewhere—185 to 195,000.

Bo McKenzie: Per transmission—

John Batten: Per system, yes.

Bo McKenzie: Yes. Okay. And I don't know how well you guys are able to tell this, but can you get a feel for how big the aftermarket is right now versus history, because I know from listening to the guys out in the frac business, you're tearing this equipment up. And about the only thing that's not being torn up, as far as I can tell, is Caterpillar engines and stuff. But pretty much everything beyond that is getting a lot of wear and tear – the pumps, I would guess the transmissions, the fluid ins. So do you have a feel for what the aftermarket is doing in this kind of environment right now for you?

John Batten: Bo, I've got to—here's the—in our past experience, it seems like there's been a run-up, a lot of demand, and then it shuts down and rigs are idle for a while or they're—you know, they're scavenging off of a rig that they have idle to do repairs. This time, we're seeing an increase in aftermarket spare parts, both the prime, you know, the pumps, so to speak, to have parts available; but then also to rebuild units in the field. So I can't quantify it but it's a better mix of aftermarket this time versus the last couple times.

Bo McKenzie: And the last may be just as hard of a question, but you know, if you go back and look at the—kind of the history of the frac business, the U.S. market and a bit of Russia were huge frac markets whereas, you know, a lot of the rest of the world was predominantly cement, which is not the same kind of horsepower requirements. But there's a lot of shales that look like they're getting attention in the rest of the world. Have you guys seen an ability to track these orders as to whether they're coming from the U.S. side of the pressure pumpers or from the international side?

John Batten: Yes, right now I would say we have some orders for China, and we know that some rigs that we're selling units to for construction in North America are going to Russia. But by and large right now, I would say the majority is for North American consumption. But we are actively looking at, you know, the—Eastern Europe and India as potential markets for the future.

Bo McKenzie: And just to clarify things, you keep saying rigs and I think I'm talking predominantly on the frac side—

John Batten: Yes.

Bo McKenzie: I think you guys have made, like, collections and port convertors and stuff for the rig business, as well. Have you started to see any of that start to come back, because—

John Batten: Yes. Yes. We're seeing orders for those types of products from—and Bo, that is around the world, the demand for those aftermarket parts and rebuilds.

Bo McKenzie: All right, good. Well hey man, we're just hanging on for the ride. It looks like it's going to be fun again.

Michael Batten: Thanks, Bo.

John Batten: Thanks, Bo.

Bo McKenzie: All right, guys. Thanks.

Operator: And our next question comes from the line of Simon Barouch, whom (sp?) is a private investor. Please go ahead.

Simon Barouch: Good morning. I see that your other expense line seems larger than it is normally. Can you give a little color?

Christopher Eperjesy: Yes, the other expense line primarily relates to some foreign exchanges losses at some of our foreign operations. That represents the vast majority of that.

Simon Barouch: Okay, thank you.

Christopher Eperjesy: Yes.

Operator: Thank you. And our next question comes from the line of Jon Braatz with Kansas City Capital. Please go ahead.

Jonathan Braatz: Good morning again. Just a follow-up – talked quite a bit about the oil and gas business, but you talked both in the annual and the press release about the Express Joystick. Can you tell me a little bit about that market opportunity, you know, size of the market and is it an OEM product versus a retrofit, or both?

John Batten: It is—well it's—the Joystick as of right now, what will be released in January will be for any twin engine diesel boat. So it could be anywhere from, again, 40 feet up to 150. So that could be pleasure craft initially but soon after pilot boats, so it's really—it's a very—the potential market of vessels is huge. It is primarily an OEM initial build type activity. You can do a retrofit. It would be expensive if you didn't have all of our components, primarily the transmission and the controls already installed, because you'd be doing a lot of modifications to the boat to get our transmissions and controls into the vessel. So we're focusing primarily on new construction, but there are, you know, some customers that have built a series of boats with our controls and transmissions where this could be—could be added. But primarily we're looking at new construction and it really is, you know, the entire pleasure craft market in that, you know, kind of the 40 feet and above.

Jonathan Braatz: And I don't know anything about boats, but why wouldn't I put one on?

John Batten: That is a—

Jonathan Braatz: Is it a cost—is it a big cost?

John Batten: It's—as a percentage of the cost of the vessel, no; but you really—it's one of those things that until—you are really sold once you get on and try it.

Jonathan Braatz: Yes.

John Batten: And it's really trying to get, you know, a small percentage of pleasure craft owners actually go to the major boat shows and see it in person. So we are actively—you know, probably in the next calendar year, we're going to be more active in getting this boat into different locations so people can get on it and experience it.

Jonathan Braatz: Are you taking orders at this time yet?

John Batten: Yes, we are.

Jonathan Braatz: Okay.

John Batten: We have some customers that are actually installing—what's left to be released is the production software, but we have builders who are installing all of the other equipment, and when the production software is ready, you just have to download it to the system.

Jonathan Braatz: Okay. All right. Thank you.

Michael Batten: Jon, one thing—it's Mike. Given your background, you may want to just go to our website and watch a video that we have. It'll become very clear why you and everyone else would want to have this, is that it's incredibly intuitive control capabilities that would allow even a spouse—not even, but we have found (sp?) that a lot of people are buying it because—want to buy it because of the ease of control. So a family is running a boat, bringing it into the docking system, and it's a very easy and very forgiving control system.

John Batten: Yes. We have—I think this video should be up. There's a—from the Sydney boat show in—it was either July or August. There's a video of a 13-year-old girl maneuvering her father's—I don't even think he's written a check yet, but his 60-foot boat in and out of a harbor slip with the Joystick. And it took her about 10 minutes to get it down. So it was pretty impressive.

Jonathan Braatz: Yes. Well, I wouldn't worry about the girl. I'd worry more about me ruining it.

John Batten: Yes, we are—we are not the video game generation. I think she's got a leg up on us!

Jonathan Braatz: All right. Thank you guys very much.

Michael Batten: Thanks, Jon.

Operator: And our next question comes from the line of Shawn Boyd with Westcliff Capital Management. Please go ahead.

Shawn Boyd: Morning. Congrats on the quarter, gentlemen.

John Batten: Morning.

Michael Batten: Morning. Thank you, Shawn.

Shawn Boyd: Just first question – can you speak to market share for a minute? How much of the market do we represent versus Allison and any other type (inaudible)?

Michael Batten: I'm sorry, Shawn. I didn't hear the question. Could you speak a little louder?

Shawn Boyd: Sure. Looking for market share? Can we talk about what market share is versus Allison and the other competitors?

Michael Batten: We won't talk in terms of specifics there, but—

Shawn Boyd: And I apologize. But I am focused on oil and gas.

Michael Batten: Yes, so I understand. I think probably in the 3,000 horsepower segment, John, we've got a very significant—

John Batten: Yes.

Michael Batten: Market share of that segment. Allison tends to have a higher representation as you get from 15,000—1,500 to 2,250. So we—we are coming down with our 7500 into that 1,500 to 2,250 segment, so that's where our move is.

Shawn Boyd: Okay. And for the most part, the market is split between you two? Would you say 80 to 90% of the market is, you know, using transmissions from Twin Disc or Allison?

Michael Batten: Well, Caterpillar had some representation in there, but we're the major player in the higher horsepower segment, as I indicated. Allison is the major player in the lower horsepower segment, and Caterpillar is represented.

Shawn Boyd: Okay. Okay. Second question is on your manufacturing. Can you just kind of walk us through your manufacturing capacity, and specifically maybe we can kind of think of revenue capacity and how you are able to move, if you are able to move, business around. In other words, can—if a facility, you know, if we're still weak in mega yacht, can we move that facility over towards some of the strength that we're seeing in oil and gas?

Michael Batten: The overall answer is that we're very flexible in our manufacturing operations by and large, especially here in Racine, to be able to move between various market segments such as marine to transmission and so on, because the manufacturing assets that we have—the machine tools that we have don't understand whether a part is a land-based transmission or a marine transmission. So you can use that capacity to serve either area of the business. This is also true of our business in—to a certain extent in Belgium and, but—and in one of our plants in Italy. Another plant in Italy is more dedicated to specific thrusters and control boat management systems, so there isn't that flexibility. And in Switzerland, we do only propellers. So we have flexibility in the U.S. and Belgium and one of our plants in Italy, and not as much flexibility in another plant in Italy and our plant in Switzerland.

Shawn Boyd: Okay.

Michael Batten: The Swiss—now, the plant in Switzerland, for example, makes propellers and they have very nicely moved their capacity from pleasure craft to patrol craft, so the propellers that we were selling into the mega yacht market, we have picked up the slack with a very nice push and run-up in patrol boat business. So we do have—we do have manufacturing capacity flexibility to serve different market areas.

Shawn Boyd: Okay. Very, very helpful. And so when we think about—maybe if we just think about the total business on an overall basis, we peaked out at 85 to 90 million a quarter in revenues in fiscal 2008. Have—and of course we've had to cut back with demand turning down, and now here we are in the upswing again. Has anything structurally changed or do you think that we still have the capacity to do 85 to 90 million a quarter at some point here?

Michael Batten: We still have the capacity to do that. The question would be, is—some of that capacity referenced two years ago included a lot of marine business that was perking along very well. So that business is not, as we reported, not doing as well as it was a couple years ago. When you think about our capacity to serve oil and gas and other industrial markets and so on, our business—military defense business, we have capacity available to get back to that—those same levels and beyond, because some of what we're doing is not internal capacity but supplier, so outsourcing is a strategy that we've pursued over many years and we are able to ramp up our ability to ship certain models of product in that way.

Shawn Boyd: Okay, very good. And just to make sure I understand the—or I'm taking the right interpretation here, there was a question earlier about, I believe it was EJ's cap ex, and if I understood that correctly, you guys are assuming that your—or not assuming. You're seeing no change in the kind of high cap ex budgets from the pressure pumpers right now.

Michael Batten: We are seeing a great deal of demand coming from people involved in building frac—or pressure pumping rigs.

Shawn Boyd: Right. So maybe it's—

Michael Batten: It is a global demand.

Shawn Boyd: Right. So everything's still looking pretty good on that end.

Michael Batten: Yes, it is.

Shawn Boyd: Last question for you is on the margins. We're at a great margin here in this quarter, hitting almost the 33% level, which is getting us back to those old peaks. Given that increasing demand that we're seeing on the oil and gas side, which does have those higher margins, seems like that's a level that we can probably keep running for a while. But any comments that you can give us in terms of sustainability on those gross margins would be helpful.

Michael Batten: We would see our ability to sustain the—the first quarter gross margins as being obtainable through certainly the balance of this year. So, I mean, that's about as far as I'd like to go on it. It's just that we should be able to maintain this rate.

Shawn Boyd: Okay, very good. And I lied – if I were—I just thought of one other thing I wanted to hit. If I were ordering an 8500 series transmission right now, what would be the—what would be the lead time? How long would it take me to get that?

Michael Batten: John?

John Batten: We're—I mean, realistically now we're booking into the first month of our next fiscal year, so we'd be looking at July—July of 2011. We are, you know, actively trying to increase capacity, try to pull that in and not let it slip out any farther. But that's where we'd be looking right now.

Shawn Boyd: Okay, great. And on the 7500, where you're finishing up those field tests, do they—if I'm finishing a field test, would I already have a delivery slot coming to me if—

John Batten: Yes.

Shawn Boyd: If I was just—

John Batten: Yes, the first production deliveries are going to be on the applications that we're doing the field tests, so we'll go from the field tests into production, take a bit of a pause, see how—you know, all the tests correlate to a production-type environment. And then we would expand sales after that.

Shawn Boyd: Got it. That's very helpful. Thanks.

Michael Batten: But to the point, we're—as John mentioned, we're definitely working 24/7 to improve the lead times through additional outsourcing and internal capacity development.

Shawn Boyd: Right, and that's kind of where I started in terms of thinking about the manufacturing footprint and the ability to, you know, move production around at all.

Michael Batten: Right.

Shawn Boyd: Very good. Thanks for the color, and good luck.

Michael Batten: Thank you.

Operator: And we have a follow-up question from the line of Bo McKenzie with Global Hunter. Please go ahead.

Bo McKenzie: Hey guys. I don't know if I heard this or not. I'm kind of a little deaf. But if I were to put in an order right now, how long would I have to wait on an 8500? Are we pushing the kind of nine months or so that you guys peaked out at back in, like, 2007?

John Batten: Yes, we would be putting that order in July, but as I said, you know, we are trying to develop more suppliers for some of the key components to bring that in and, you know, and try to mitigate it from going out any further. But really, the constraint right now is, you know, getting the raw materials to our suppliers and vendors to get the parts machined (sp?). So it's a daily, weekly battle.

Bo McKenzie: So let's assume for a minute that the whole world decides that these shales are worth pursuing, and that there is equally as big a build in the international market coming some day. At one point do you guys look at adding some brick and mortar?

John Batten: Well, we have—we have brick and mortar. We have—our plant in Belgium has more or less the same machine tools that we do here, so some of the parts now, they are dual-sourced. We have on the 8500 at least two sources for all the key components. Around the toughest one to do is find someone who wants to do the housings because you need a pretty big, expensive machine to do that. But we have that capacity in Belgium. We also have the capacity to move a lot of the marine line that is produced here in Racine to Belgium for added capacity here in Racine. But we do have—we do have options if the demand were to increase by, you know, an order of magnitude, not just percent.

Bo McKenzie: Okay. All right. Thanks again.

John Batten: Thanks, Bo.

Michael Batten: Thanks, Bo.

Operator: And we have a follow-up question from the line of Jon Braatz with Kansas City Capital. Please go ahead.

Jonathan Braatz: Just curious – what might be the lead times that you're aware of for Caterpillar and Allison? Are you losing any orders because of the nine-month lead time?

John Batten: No, I don't think so. I think we're all battling kind of the same issue of getting the steel to the mills and then to basically, you know, to the forging houses and bearing houses. So that is—that's the key issue. It's not necessarily the capacity on our machine floor or our suppliers' machine floors. It's the materials.

Jonathan Braatz: Okay, thank you.

John Batten: And I know a lot of the—a lot of the construction builders, some of the ag, they're already on managed distribution so I think we're all facing a level playing field there.

Jonathan Braatz: Okay. Thank you much.

Michael Batten: Yes.

Operator: Ladies and gentlemen, if there are any additional questions, please press the star followed by the one at this time.

And management, I'm showing no further questions at this time. Please continue with any closing remarks you may have.

Michael Batten: Okay, thank you, Christina. Again everyone, thank you all for joining our conference call today. We appreciate your continuing interest in Twin Disc and hope that we've answered all your questions. If you have any follow-on questions, please feel free to call Chris, John or myself. We look forward to speaking with you again in January following the close of the second quarter.

That's it, Christina. Thank you.

Operator: Thank you. Ladies and gentlemen, that does complete our conference for today. Thank you for your participation. You may now disconnect.