

TWIN DISC



BUILDING ON
STRENGTH

2020 ANNUAL REPORT

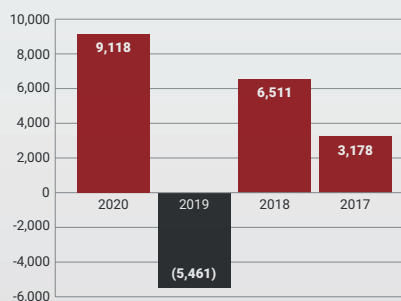


BUILDING ON STRATEGY

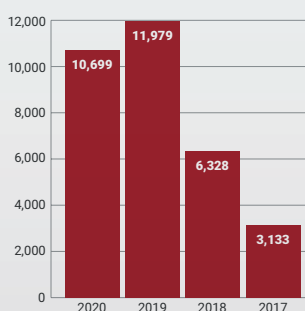
Twin Disc invents, engineers and produces the products, controls and systems that put horsepower to work. Throughout the year we have aggressively eliminated expenses, reduced working capital and improved our balance sheet. Our strategy positions Twin Disc to deliver the quality, craftsmanship and innovation essential to our worldwide customers, building on strength for today and tomorrow.

OPERATING RESULTS BY QUARTER	1ST QTR	2ND QTR	3RD QTR	4TH QTR	YEAR
2020					
Net sales	\$ 59,290	\$ 59,536	\$ 68,636	\$ 59,376	\$ 246,838
Gross profit	9,636	15,711	16,549	13,812	55,708
Net loss	(6,311)	(6,516)	(25,230)	(1,760)	(39,817)
Basic loss per share	(0.48)	(0.49)	(1.92)	(0.13)	(3.03)
Diluted loss per share	(0.48)	(0.49)	(1.92)	(0.13)	(3.03)
Dividends per share	–	–	–	–	–
Stock price range (high-low)	15.18 - 9.60	12.59 - 9.50	11.61 - 6.06	8.35 - 4.84	15.18 - 4.84
2019					
Net sales	\$ 74,689	\$ 78,107	\$ 77,420	\$ 72,447	\$ 302,663
Gross profit	23,985	26,088	23,117	16,451	89,641
Net (income) loss	2,862	4,073	4,560	(822)	10,673
Basic (income) loss per share	0.24	0.31	0.35	(0.06)	0.84
Diluted income (loss) per share	0.24	0.31	0.34	(0.06)	0.83
Dividends per share	–	–	–	–	–
Stock price range (high-low)	27.97 - 22.31	23.65 - 13.40	19.11 - 13.93	19.15 - 13.33	27.97 - 13.33

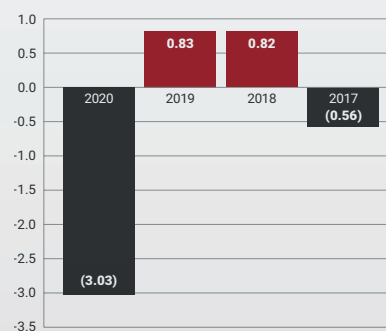
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES (in thousands)



CAPITAL EXPENDITURES (in thousands)



DILUTED (LOSS) INCOME PER SHARE



FINANCIAL HIGHLIGHTS (in thousands)

	2020	2019	2018
Net sales	\$ 246,838	\$ 302,663	\$ 240,733
Net (loss) income	(39,817)	10,673	9,528
Basic (loss) income per share	(3.03)	0.84	0.82
Diluted (loss) income per share	(3.03)	0.83	0.82
Dividends per share	–	–	–
Average basic shares outstanding	13,153	12,571	11,295
Average diluted shares outstanding	13,153	12,682	11,395



TO OUR SHAREHOLDERS



“Twin Disc has persevered for more than a century thanks to a solid foundation of resilience and adaptability. Drawing on that same grit, determination and experience, we will prevail over today’s challenges.” **JOHN BATTEN** CHIEF EXECUTIVE OFFICER

More than five years ago we launched ongoing strategies to manage capital spending, improve manufacturing efficiency, reduce costs and diversify our markets and geographic footprint. These strategies have been crucial as we seek to navigate current challenges while protecting the health and safety of our employees, customers and communities.

During the fiscal year, Twin Disc faced three strong headwinds. The U.S – China trade war and the Russia – OPEC oil war had already reduced demand for oil and gas. And then came COVID-19. While none of these headwinds are fully behind us, we should begin to see improvement in the months ahead.

Sales for the fiscal 2020 fourth quarter were \$59.4 million, compared to \$72.4 million for the same period last year. The 18% decrease was primarily due to continued softness in oil and gas markets, along with weaker demand for industrial and marine products. For the fiscal 2020 full year, sales were \$246.8 million, compared to \$302.7 million for fiscal 2019.

Despite a difficult global economy, Veth Propulsion reported a 6.2% increase in sales for fiscal 2020 and a 26% increase over the prior fiscal year fourth quarter. This growth reflects our synergies in market penetration, including moving Veth products into Asia and North America.

Gross profit percent for the fiscal 2020 fourth quarter was 23.3%, compared to 22.7% in the fiscal 2019 fourth

quarter. The increase resulted primarily from cost reduction initiatives and a global focus on cost containment. For the fiscal 2020 full year, gross profit was 22.6%, compared to 29.6% for fiscal 2019. This year-over-year decline was a function of a less profitable product mix and an isolated product performance issue totaling \$6.1 million, recorded during the year. We made significant progress on our cost reduction programs, as evidenced by the fourth quarter margin performance. These efforts will remain a focus as we enter fiscal 2021.

By many measures, fiscal 2020 has been one of the most challenging years in Twin Disc’s history. Our response is to manage what we can control. We reduced expenses through prudent, aggressive payroll actions, initially saving an estimated \$4.1 million. All of our global operations deferred unnecessary spending, reduced costs and sought to take full advantage of available government assistance. In April we secured an \$8.2 million loan under the U.S. Small Business Administration Paycheck Protection Program. With this funding, we were able to bring our North American operations employees back full-time, with full pay.

By the end of July, we had consumed our PPP funds, primarily for payroll costs. With no meaningful recovery in our markets, we again were challenged with reducing our cost structure. We expanded our earlier reductions to achieve \$7.2 million in annualized savings.



Given the unprecedented pace and scope of the pandemic, our focus continues to be on immediate support for our global customers, associates and distribution partners. Yet even in this difficult time, I believe Twin Disc has reason for optimism, building on strength:

LEADERSHIP. You can find Twin Disc products in the drivelines and powertrains of a huge array of equipment—from chippers, trucks and turbines to work boats and pleasure craft. Our solutions continue to be at the industry forefront, and we’re working to stay there with our long-term hybridization and electrification strategy (see page 8).

FOCUS. Our entire organization is united in making Twin Disc ever more agile and efficient. Building on the initiatives of the last five years, we’re introducing a formal sales, inventory and operations planning (SIOP) process. This effort gathers inputs from across Twin Disc to drive more efficient production and inventory planning, improving working capital, margin and on-time delivery performance. Although work-from-home temporarily halted training in Racine, we’ve already seen improvements in inventory management. SIOP principles were also key as we designed our Lufkin facility (see page 6). We plan to roll out SIOP training to all locations in the years ahead.





EXPERIENCE. Throughout our history, Twin Disc has navigated through numerous market cycles; we have more than a century of experience in managing the ups and downs. The steps we've taken in recent years to prepare for and, where possible, smooth those ups and downs have served us well in these extraordinary times.

STRATEGY. Our strategy remains sound and consistent. Our goal to diversify away from the hyper-cyclical energy market led to the successful acquisition of Veth Propulsion in fiscal 2019. Veth continues to perform beyond expectations, as noted above, reporting annual growth of 9.8% in fiscal 2020 despite market challenges. The new Lufkin facility is complete and ready to begin manufacturing by the end of calendar 2020. This will drive focus on our industrial business, connect us to a strong labor market and provide an easily accessible location for many of our key customers and markets.

RELATIONSHIPS. The way we operate as a company—emphasizing excellence at every step—affects the way we're seen by customers, investors and communities. Customers know we're here to collaborate with them on achieving their goals. Investors and creditors know we will act in good faith, and the communities where we operate know our history of corporate citizenship. The relationships we've built over many years give us a valuable advantage today.

PEOPLE. Simply put, our people hit a home run this spring. Our IT department started planning early in 2020 for a large part of our workforce to work remotely. With the framework in place, everyone who could work from home did so, staying safe and productive. The associates who kept production going were equally fantastic, muscling through every obstacle. Our teams have remained dedicated to delivering quality, craftsmanship and innovation to our worldwide customers. At Twin Disc, our people truly are the reason we win.



I'm confident we will come out of this year's challenges as a stronger and leaner company, better positioned to compete in our markets. Thank you for your continuing support, and for joining Twin Disc as we put horsepower to work.

John H. Batten

JOHN H. BATTEN
Chief Executive Officer



BUILDING ON CONNECTIONS



“This facility is an investment in Twin Disc as well as in Lufkin. It’s designed for efficient operation to help us keep pace with our customers’ needs, providing exceptional value and superior service at every step.”

TIM STACY BUSINESS UNIT MANAGER FOR INDUSTRIAL PRODUCTS

Our new home for industrial/land-based products is built to connect Twin Disc with global customers, capable workers and clear opportunity.

THE 55,000-SQUARE-FOOT FACILITY IN LUFKIN, TEXAS, offers the space to assemble our complete industrial/land-based product line. We’re set to launch mechanical power take-off production later this year, adding hydraulic power take-offs in mid-2021.

Tim Stacy, business unit manager for industrial products, says the facility’s location offers key advantages. “We’re close to the Gulf of Mexico, so we can serve as a global distribution center, handling products coming from our European operations,” Stacy says. “And we’re closer to a lot of our end users in this region, so we can increase responsiveness.”

RESPONSIVENESS IS ALSO KEY TO THE FACILITY’S BUSINESS MODEL. The emphasis will be on make-to-order, building what customers want when they want it, Stacy says. “That will lower inventory costs and help us drastically cut lead times.”

The facility itself is like “walking into a showroom, and we’re going to keep it that way,” Stacy says. The main conference room has a window overlooking the shop floor, where high windows, inspired by Twin Disc European facilities, let in natural light. Ergonomic material handling and assembly systems are designed for efficient flow. The entire facility is air-conditioned, preventing humidity from corroding products.

LUFKIN OFFERS A CAPABLE WORKFORCE, and Twin Disc is working with the local technical college, a nearby university and a regional manufacturing alliance to keep the talent pipeline full. “We want to generate interest in the trades,” Stacy says.

Stacy says the Lufkin team is excited to focus on heavy-duty industrial equipment. “Because it’s independent of oil and gas, it’s less cyclical,” he says. “We’re well-positioned to build transmissions for road pavers, agricultural machinery, cranes...there’s a lot of opportunity here.”



BUILDING ON COMMITMENT

The people of Twin Disc are at the heart of carrying out our strategy. Day after day, our outstanding employees demonstrate their commitment to coworkers and customers alike.

KEEPING EACH OTHER SAFE. When COVID-19 began moving through Italy, the Twin Disc facilities in San Matteo della Decima (Bologna) and Limite sull'Arno (Florence) moved into action. Led by Luca Stefani, operations director for both plants, the teams instituted heightened safety protocols and controls, the use of personal protective equipment, stepped-up cleaning protocols and limits on site visitors. "It was important to keep safe and to guarantee business continuity; our customers and shareholders were counting on us," Stefani says. "At the same time, it was important to protect our employees, because that also meant we were protecting our families and our community." As a result of the team's commitment, the plants saw no outbreak or major illnesses and managed smoothly throughout the lockdown.



IMPROVING PERFORMANCE TOGETHER. Every key performance indicator has improved this fiscal year at our Racine, Wisconsin, manufacturing facility, driven by fresh perspectives from the top down. In November 2019, Darryl Babu, a 23-year Twin Disc veteran, moved from managing the global distribution network and overseas sales and service subsidiaries to managing operations. "I've sold all the products and know the business cycles and customer expectations," he says. "That helps us all know what's important to Twin Disc and what to prioritize."

As 2020 brought collapsing oil and gas prices as well as COVID-19 challenges, Babu says the priority became clear: "Fight for every order, save every dollar." Daily team meetings continue to emphasize streamlining processes, increasing flexibility and improving cash flow. "We have to balance quick victories with long-term strategies," Babu says.

The positive results are clear in all metrics, including communications. Babu, who now serves as vice president and general manager, says the facility team makes the difference. "It's a good mix of homegrown Twin Disc experience and external hires—a good team of people, working hard to succeed."



BUILDING ON CAPABILITIES

Even as our 2020 strategies have focused on managing the challenges of COVID-19, Twin Disc continues to look to the future, positioning ourselves for propulsion technology leadership. Our solutions must give customers the flexibility to drive everything from wheels to propellers with diesel power, full electric, or a hybrid combination that readily toggles between electric and diesel.

WHY IT MATTERS. Equipment suppliers and operators continually seek better ways to meet emissions standards, reduce noise, save on fuel and increase efficiency. They're exploring battery and motor technologies that can pack more energy in a smaller system and release power more efficiently.

These advances make powertrains in all types of vehicles and equipment, marine and land-based, fair game for hybridization and electrification. While motors still need to be mechanically connected, systems are getting simpler. To remain relevant, Twin Disc is making the evolution simpler for our customers.

WHAT WE'RE DOING. Over the last two years we've redirected engineering and electronics resources to

expand our hybridization and electrification capabilities and knowledge. We need to be able to talk with providers and customers about motors, drives and energy storage systems that work with our solutions. And we need to thoroughly understand these building blocks so we can marry them with Twin Disc products, creating complete systems that support our customers.

Veth Propulsion gives us an edge in electrification, with industry-leading technology known for innovation and reliability. Our well-known expertise in drive train technology gives us an edge in hybridization. We're refining clutches and developing power take-ins to drive motors with electric as well as diesel power, transmitting mechanical energy to whatever needs to move.



ELECTRIC POWER FOR GREENER DREDGER. The Afonso De Albuquerque is a trailing suction hopper dredger built with a state-of-the-art filter system to meet the latest ultra-low emission vessel (ULEV) standards. The vessel features two electric-driven VZ-1250 rudder propellers (1100 kW) and one 2-K-1300 Veth Jet bow thruster. The dredger, one of more than two dozen Veth projects with the Jan De Nul Group, plays an important role in maintaining navigable waterways, enabling offshore energy production and reclaiming land.



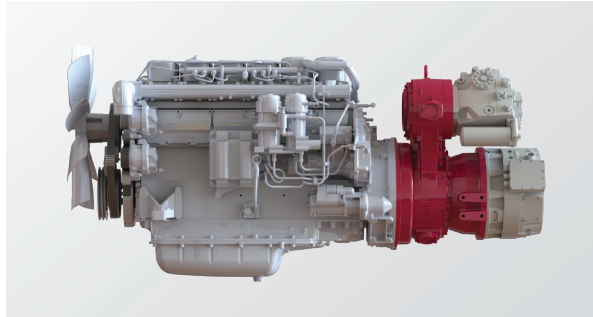
SMOOTHER, EMISSION-FREE SAILING. Three Veth VL-700 L-drives (533 kW) provide the primary propulsion for the Oranje Nassau VI, incorporated in a revolutionary hull design that lets the tanker move smoothly through even shallow waters. A battery charged by the ship's engines can power the L-drives' electric motors when required, enabling the vessel to sail through harbors emission-free. Veth Propulsion provided an additional three L-drives for the Oranje Nassau V.

We also see expanded opportunity in system controls. Twin Disc has long offered transmission control for marine vessels and land-based vehicles. Now we're tying in the ability to run not only gearboxes and clutches, but also motors and batteries—managing the whole system for maximum efficiency.

WHAT CUSTOMERS WANT. We're collaborating with our top customers to ensure the technology we offer is what the market wants. Our sales teams in Asia, Europe

and the United States have been gathering and providing feedback. For instance, it's clear some customers want a complete solution, while others prefer products that work with their controls.

Our hybridization and electrification strategy is already getting results. We have projects underway in North America, Europe, Asia and Australia, with more on the horizon—shaping our offering as well as our future.



RePTO DRIVE IS A MODEL FOR SUCCESS. Industrial solutions in development include this rear-engine power take-off drive with true hybrid functionality. Designed to deliver the optimum balance between electric and hydraulic power transmission, it's suitable for driving a motor/generator and hydraulics, and can also be used for power regeneration. This solution is ideal for off-highway hybrid machines and can be customized for specific applications.



AMSTERDAM FERRIES GO ELECTRIC. Amsterdam's ferries carry pedestrians, cyclists and mopeds across the increasingly busy River IJ. For two new ferries, the IJveer 64 and 65, powered in part by lithium ion batteries, Veth Propulsion is supplying two electric-driven VZ-200E main propulsion thrusters (250 kW) with electric steering. The onboard batteries and exhaust filtering system reduce emissions to a level even lower than the EU's Stage V guidelines.



CORPORATE DATA

ANNUAL MEETING

Virtual meeting via webcast
2:00 P.M., October 29, 2020

SHARES TRADED

NASDAQ: Symbol TWIN

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K

Single copies of the Company's 2020 Annual Report on Securities and Exchange Commission Form 10-K, including exhibits, will be provided without charge to shareholders after September 10, 2020, upon written request directed to Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

TRANSFER AGENT AND REGISTRAR

Computershare
462 S. 4th Street, Suite 100
Louisville, KY 40202
Toll-free: 877-498-8861
www.computershare.com/investor

INDEPENDENT ACCOUNTANTS

RSM US LLP, Milwaukee, Wisconsin

CORPORATE OFFICES

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

TWIN DISC BOARD OF DIRECTORS

DAVID B. RAYBURN Chairman

Retired President and
Chief Executive Officer,
Modine Manufacturing Company
Racine, Wisconsin
A manufacturer of heat exchange equipment

JOHN H. BATTEN

Chief Executive Officer
Twin Disc, Inc.
Racine, Wisconsin

MICHAEL DOAR

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

JANET P. GIESSELMAN

Retired President and General Manager
Dow Oil & Gas Company
Midland, Michigan
A business unit of Dow Chemical Company

WHOLLY OWNED SUBSIDIARIES

- ▶ Twin Disc International S.P.R.L., 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
- ▶ Twin Disc (Far East) Pte. Ltd., Singapore
- ▶ Twin Disc Japan, Saitama, Japan
- ▶ Twin Disc Power Transmission Private, Ltd., Chennai, India
- ▶ Twin Disc (Far East) Pte. Ltd., India Branch
- ▶ Twin Disc Power Transmission (Shanghai) Co. Ltd., Shanghai, China
- ▶ Twin Disc NL Holding B.V., Papendrecht, Netherlands
- ▶ Veth Propulsion Holding B.V., Papendrecht, Netherlands
- ▶ Veth Propulsion B.V., Papendrecht, Netherlands
- ▶ Twin Disc European Distribution S.P.R.L., Nivelles, Belgium

PARTIALLY OWNED SUBSIDIARIES

Twin Disc Nico Co. Ltd.

MANUFACTURING FACILITIES

Racine, Wisconsin
Sturtevant, Wisconsin
Lufkin, Texas
Nivelles, Belgium
Decima, Italy
Novazzano, Switzerland
Limite sull'Arno, Italy
Papendrecht, Netherlands

SALES OFFICES

Domestic

Racine, Wisconsin

Foreign

Nivelles, Belgium
Brisbane, Australia
Perth, Australia
Gold Coast, Australia
Singapore
Decima, Italy
Limite sull'Arno, Italy
Novazzano, Switzerland
Chennai, India
Coimbatore, India
Saitama, Japan
Shanghai, China
Guangzhou, China

MANUFACTURING LICENSES

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

TWIN DISC OFFICERS

JOHN H. BATTEN

Chief Executive Officer

JAMES E. FEIERTAG

President and Chief Operating Officer

JEFFREY S. KNUTSON

Vice President – Finance, Chief Financial Officer, Treasurer and Secretary

DEAN J. BRATEL

Vice President – Engineering

MICHAEL B. GEE

Vice President – Hybrid Engineering

DEBBIE A. LANGE

Corporate Controller

DENISE L. WILCOX

Vice President – Human Resources



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

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, 2020
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)

Registrant's Telephone Number, including area code: (262) 638-4000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (No Par Value)	TWIN	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 every Interactive Data File required to be submitted 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 such files).

YES [] NO []



Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [] Accelerated Filer []
Non-accelerated Filer [] Smaller reporting company [] Emerging growth company []

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES [] NO []

At December 27, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was \$107,190,561. 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 20, 2020, the registrant had 13,552,104 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 29, 2020, 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.



TABLE OF CONTENTS

TWIN DISC, INC. - FORM 10-K FOR THE YEAR ENDED JUNE 30, 2020

PART I.

Item 1.	Business.	14
Item 1A.	Risk Factors.	15
Item 1B.	Unresolved Staff Comments.	20
Item 2.	Properties.	21
Item 3.	Legal Proceedings.	21
Item 4.	Mine Safety Disclosure.	21
	Information About Our Executive Officers.	21

PART II.

Item 5.	Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.	23
Item 6.	Selected Financial Data.	24
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	24
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk.	35
Item 8.	Financial Statements and Supplementary Data.	35
Item 9.	Change In and Disagreements With Accountants on Accounting and Financial Disclosure.	36
Item 9A.	Controls and Procedures.	36
Item 9B.	Other Information.	37

PART III.

Item 10.	Directors, Executive Officers and Corporate Governance.	37
Item 11.	Executive Compensation.	37
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	38
Item 13.	Certain Relationships and Related Transactions, Director Independence.	38
Item 14.	Principal Accounting Fees and Services.	38

PART IV.

Item 15.	Exhibits, Financial Statement Schedules.	38
	Exhibit Index.	87
	Signatures.	91



PART I

Item 1. Business

Twin Disc, Incorporated (“Twin Disc”, or the “Company”) 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, azimuth drives, 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.

On July 2, 2018, the Company completed the acquisition of 100% of the outstanding common stock of Veth Propulsion Holding B.V. (“Veth Propulsion”). Veth Propulsion is a global manufacturer of highly-engineered primary and auxiliary propulsions and propulsion machinery for maritime vessels, including rudder propellers, bow thrusters, and generator sets, and a provider of engine service and repair, based in the Netherlands. These products are complementary to and expand the Company’s product offerings in the marine and propulsion markets.

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 applied 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 and plant shutdowns, particularly in Europe, occur 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. The primary competitive factors for the Company’s products are design, technology, performance, price, service and availability. The Company’s top ten customers accounted for approximately 51% and 49% of the Company's consolidated net sales during the years ended June 30, 2020 and June 30, 2019, respectively. There was one customer, Sewart Supply Company, an authorized distributor of the Company, that accounted for at least 10% of consolidated net sales in fiscal 2020.

Unfilled open orders for the next six months of \$66.6 million at June 30, 2020 compares to \$99.6 million at June 30, 2019. 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 low due to the relatively low investment within individual countries that have currency movement restrictions. No material portion of the Company’s business is subject to renegotiation of profits or termination of contracts at the election of the U.S. government.

Engineering and development costs include research and development expenses for new product development and major improvements to existing products, and other costs for ongoing efforts to refine existing products. Research and development costs charged to operations totaled \$1.8 million and \$2.4 million in fiscal 2020 and 2019, respectively. Total engineering and development costs were \$11.0 million and \$12.6 million in fiscal 2020 and 2019, 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, 2020 was 806.

A summary of financial data by segment, geographic area, and classes of products that accounted for more than 10% of consolidated sales revenues for the years ended June 30, 2020 and 2019 appears in Note K, Business Segments and Foreign Operations, to the consolidated financial statements.

The Company's internet website address is www.twindisc.com. **The Company makes available free of charge (other than an investor's own internet access charges) through its website 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.** The SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers, such as the Company, that file electronically with the SEC. In addition, the Company makes available, through its website, 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 website 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, deemed immaterial or that could apply to any issuer may also result in adverse results for the Company's business.

As a global company, the Company is subject to currency fluctuations and any significant movement between the U.S. dollar and the euro, in particular, could have an adverse effect on its profitability. Although the Company's financial results are reported in U.S. dollars, a significant portion of its 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 it generates revenues and incurs 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 the Company's profitability and financial condition. While the long-term impacts of the United Kingdom's exit from the European Union (commonly known as "Brexit") remain uncertain, any resulting unfavorable currency impact to the euro could have an adverse effect on the Company's profitability and financial condition.

The Company expects to be adversely affected by the economic disruptions caused by the global coronavirus pandemic. In March 2020, the World Health Organization ("WHO") declared that a new strain of coronavirus that originated in Wuhan, China, and has rapidly spread around the world ("COVID-19 outbreak") is a pandemic that poses significant risk to the international community. This outbreak contributed to shelter-in-place policies, unexpected factory closures, supply chain disruptions, and market volatility causing substantial declines in market capitalization, and occurring in the midst of an already challenging economic environment in some of our markets, most notably the oil and gas market. As a result of the outbreak, starting in March 2020 and intermittently through June 30, 2020, the Company suspended or reduced its operations, in whole or in part, in many of its locations. The Company's businesses operate in market segments impacted by the COVID-19 outbreak. Operating during a global pandemic has exposed the Company to a number of material risks, including diminished demand for our products and our customers' products, suspensions in the operations of our manufacturing facilities, maintenance of appropriate labor levels, our ability to ship products to our customers, interruptions in our supply chains and distribution systems, access to capital and potential increases to the cost of capital, collection of trade receivables in accordance with their terms and potential further impairment of long-lived assets; all of which, in the aggregate, have had an adverse effect on the Company's business, financial condition, results of operations and cash flows. The depth and duration of the pandemic is unknown. Management continues to actively monitor the global situation and its effect on financial condition, liquidity, operations, suppliers, industry and workforce. We are unable to estimate the full extent or nature of the impact of COVID-19 at this time.



Many of the Company's products are directly or indirectly used in oil exploration and oil drilling, and the recent unprecedented drastic drop in oil prices is expected to have an adverse impact to the Company's business. In recent years the Company has seen significant variations in the sales of its products that are used in oil and energy related markets. The variability in these markets has been defined by the change in oil prices and the global demand for oil. Significant decreases in oil prices and reduced demand for oil and capital investment in the oil and energy markets adversely affect the sales of these products and the Company's profitability. The recent unprecedented drop in oil prices, as well as the cyclical nature of the global oil and gas market, presents the high probability of a severe cutback in demand for our products, which would create a severe 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 could 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 developing 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 the Company expects that they will be able to support its 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 its sales, profitability and relationships with its customers.

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. In addition, recent developments in tariff regulations in the U.S. and foreign jurisdictions have resulted in uncertainty regarding international trade policies and future commodity prices, contributing to an increased risk of higher commodity costs that could have an adverse impact on the Company's profitability, financial condition and results of operations. The Company's profitability is dependent, in part, on commodity costs. 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 the Company's future profitability.

The current United States administration has signaled support for implementing, and in some instances, has already proposed or taken action with respect to, major changes to certain trade policies, such as the imposition of additional tariffs on imported products and the withdrawal from or renegotiation of certain trade agreements. In response to such actions, certain countries have imposed retaliatory actions against the United States. The Company anticipates that additional tariffs or trade restrictions resulting from "trade wars" could result in an increase in its cost of sales and there can be no assurance that the Company will be able to pass any of the increases in raw material costs directly resulting from the tariff to its customers. Given that it procures many of the raw materials that it uses to create its products directly or indirectly from outside of the United States, the imposition of tariffs and other potential changes in U.S. trade policy could increase the cost or limit the availability of such raw materials, which could hurt its competitive position and adversely impact its business, financial condition and results of operations. In addition, the Company sells a significant proportion of its products to customers outside of the United States. Retaliatory actions by other countries could result in increases in the price of its products, which could limit demand for such products, hurt its global competitive position and have a material adverse effect on the Company's business, financial condition and results of operations.



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 2020, 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 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 are some 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 returned products, the deterioration in a customer relationship, 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 66% of the Company's consolidated net sales for fiscal 2020. The Company has international manufacturing operations in Belgium, Italy, the Netherlands and Switzerland. In addition, the Company has international distribution operations in Singapore, China, Australia, Japan, Italy, Belgium, and India. The Company's 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, including dividends
- problems with the transportation or delivery of its products
- issues arising from cultural or language differences
- potential social and labor unrest as well as public health and political crises
- longer payment cycles and greater difficulty in collecting accounts receivables
- compliance with trade and other laws in a variety of jurisdictions
- changes in tax law
- compliance with the Foreign Corrupt Practices Act

These factors could adversely affect the Company's 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 2020 sales, came from its 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, labor force disruptions 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.



A relocation of part of the Company's manufacturing facilities from Racine, WI to Lufkin, TX could adversely affect its business, financial condition and results of operations. Effective with the execution of a lease agreement with the city of Lufkin, Texas on July 31, 2020, the Company will begin the transfer of inventories and certain manufacturing assets and its manufacturing process for its Industrial products line to Lufkin, Texas. The costs of building out and relocating a production facility could be significant. This relocation may pose significant risks, which could include the risks that:

- we may be unable to integrate successfully the relocated manufacturing operations;
- we may be unable to coordinate management and integrate and retain employees of the relocated manufacturing operations;
- we may face difficulties in implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- we may fail to realize anticipated synergies, economies of scale or other anticipated benefits, or to maintain operating margins;
- potential strains on our personnel, systems and resources, and diversion of attention from other priorities; and
- any unforeseen or contingent liabilities of the relocated manufacturing operations.

The Company entered into a new credit agreement in June 2018 and significantly increased its indebtedness. The ability to service the requirements of the new debt depends on the ability to generate cash and/or refinance its indebtedness as it becomes due, and depends on many factors, some of which are beyond the Company's control. The Company entered into a new credit agreement on June 29, 2018. The Company's ability to make payments on its indebtedness, including those under the new credit agreement, and to fund planned capital expenditures, research and development efforts and other corporate expenses depends on the Company's future operating performance and on economic, financial, competitive, legislative, regulatory and other factors. Many of these factors are beyond its control. The Company cannot assure that its business will generate sufficient cash flow from operations, or operating improvements will be realized or that future borrowings will be available to it in an amount sufficient to enable it to repay its indebtedness or to fund its other operating requirements. Significant delays in its planned capital expenditures may materially and adversely affect the Company's future revenue prospects.

Any failure to meet debt obligations and financial covenants, and maintain adequate asset-based borrowing capacity could adversely affect the Company's business and financial condition. The Company's five-year revolving credit facility entered into on June 29, 2018 is secured by certain personal property assets such as accounts receivable, inventory, and machinery and equipment. Under this agreement, the Company's borrowing capacity is based on the eligible balances of these assets and it is required to maintain sufficient borrowing base at all times to secure its outstanding borrowings. The Company is also required to comply with a minimum Debt to EBITDA ratio and/ or a minimum EBITDA. As of June 30, 2020, the Company had a borrowing capacity that exceeded its outstanding loan balance (see Note H, Debt, of the notes to the consolidated financial statements). It has also complied with financial covenants, after successfully negotiating and amending portions of the credit agreement with the bank. Based on its annual financial plan, the Company believes that it will generate sufficient cash flow levels throughout fiscal 2021 in order to maintain compliance with this borrowing base. 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.

The Company may not be entitled to forgiveness of its recently received Paycheck Protection Program Loan ("PPP loan"), and its application for the PPP loan could in the future be determined to have been impermissible. On April 17, 2020 the Company received proceeds of \$8,200 from a loan under the PPP of the CARES Act, which it has used to retain current employees, maintain payroll and make lease and utility payments. The PPP loan matures on April 17, 2022 if not forgiven and bears annual interest at a rate of 1.0%. The Company has accounted for the full proceeds as a loan, and has not given accounting consideration of the potential forgiveness in its June 30, 2020 financial statements.



Under the terms of the CARES Act, PPP loan recipients must meet certain eligibility criteria. Due to the size of the PPP loan, it is subject to review by regulators. The Company can be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined by the bank, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. The Company has considered the requirements of the PPP Loan and believes it is within the eligibility threshold. It has used the loan proceeds in accordance with PPP loan forgiveness requirements. However, no assurance is provided that the Company will obtain forgiveness for any portion of the PPP Loan.

Further, if despite the Company's actions and certification that it satisfied all eligibility requirements for the PPP loan, it is later determined that it violated applicable laws or was otherwise ineligible to receive the PPP loan, it may be required to repay the PPP loan in its entirety in a lump sum or be subject to additional penalties, which could result in adverse publicity and damage to the Company's reputation. If these events were to transpire, they could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has made certain assumptions relating to the acquisition of Veth Propulsion in its forecasts that may prove to be materially inaccurate. The integration of Veth Propulsion into the Company's business processes continues. While the integration is currently proceeding as planned, the Company has made certain longer term assumptions relating to the forecast level of synergies and associated costs of the acquisition of Veth Propulsion that may be inaccurate based on the information that was available to the Company or as a result of the failure to realize the expected benefits of the acquisition, higher than expected integration costs, unknown liabilities and global economic and business conditions that may adversely affect the combined company following the completion of the acquisition. The combination of the businesses will require significant management attention, and the Company may incur significant additional integration costs because of integration difficulties and other challenges.

The Company carries a significant amount of intangible assets, but it may never fully realize the full value of these assets. The Company recorded significant non-cash goodwill impairment charges in the third quarter of fiscal 2020, as well as in prior fiscal years. As part of the acquisition of Veth Propulsion in July 2018, the Company recorded goodwill of about \$24.0 million and intangible assets in the amount of \$26.5 million. In the third quarter of fiscal 2020, due to its assessment of the adverse economic consequences of the COVID-19 outbreak and the negative trends in its markets as explained in Note E, Goodwill and Other Intangibles, the Company recorded significant impairment charges in the amount of \$27.6 million, writing off all the goodwill in its books, as well as writing down some intangibles and other assets. In fiscal 2017 and 2016, when the Company's markets were significantly adversely affected by the global oil and gas decline, it recorded significant impairment charges related to two of its prior acquisitions. Any deterioration in the industries or businesses of the Company may trigger future impairment charges, which may have a material adverse effect to the Company's financial results.

The Company may experience negative or unforeseen tax consequences. The Company reviews the probability of the realization of its net deferred tax assets each period based on forecasts of taxable income in both the U.S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in the U.S. or foreign jurisdictions may require the creation of a valuation allowance to reduce the Company's net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made and could have a material adverse impact on the Company's results of operations and financial condition.

Taxing authority challenges and changes to tax laws may lead to tax payments exceeding current reserves. The Company is subject to ongoing tax examinations in various jurisdictions. As a result, the Company may record incremental tax expense based on expected outcomes of such matters. In addition, the Company may adjust previously reported tax reserves based on expected results of these examinations. Such adjustments could result in an increase or decrease to the Company's effective tax rate.

The Tax Cuts and Jobs Act (the "Tax Act") was signed into law in December 2017. The new law made numerous changes to U.S. federal corporate tax law that the Company expects will impact its effective tax rate in future periods. The changes included in the Tax Act are broad and complex. The final impact of the Tax Act may differ from the Company's current estimates, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting



standards for U.S. federal income taxes or related interpretations in response to the Tax Act or any updates or changes to estimates the Company has utilized to calculate the impact. Future changes in tax law in the United States or the various jurisdictions in which the Company operates and income tax holidays could have a material impact on the Company's effective tax rate, foreign rate differential, future income tax expense and cash flows.

Security breaches and other disruptions could compromise the Company's information and expose it to liability, which would cause its business and reputation to suffer. In the ordinary course of its business, the Company collects and stores sensitive data, including its proprietary business information and that of its customers, suppliers and business partners, as well as personally identifiable information of its customers and employees, in its internal and external data centers, cloud services and on its networks. The secure processing, maintenance and transmission of this information is critical to the Company's operations and business strategy. Despite the Company's security measures, its information technology and infrastructure, and that of its partners, may be vulnerable to malicious attacks or breaches due to employee error, malfeasance or other disruptions, including as a result of rollouts of new systems. Any such breach or operational failure would compromise the Company's networks and/or that of its partners and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings and/or regulatory fines or penalties, including, among others, under the European Union's newly enacted General Data Privacy Regulation, disrupt the Company's operations, damage its reputation and/or cause a loss of confidence in the Company's products and services, which could adversely affect its business, financial condition and results of operations.

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 763,000 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, Sturtevant, Wisconsin, Lufkin, Texas, Limite sull'Arno, Italy and Papendrecht, Netherlands.

Distribution Segment

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

Brisbane, Queensland, Australia	Guangzhou, China
Perth, Western Australia, Australia	Chennai, India
Gold Coast, Queensland, Australia	Coimbatore, India
Singapore	Saitama City, Japan
Shanghai, China	

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 certain product liability or related claims of which the ultimate outcome and liability to the Company, if any, are 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, financial position or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

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 29, 2020.

<u>Name</u>	<u>Age</u>	<u>Position</u>
John H. Batten	55	Chief Executive Officer
James E. Feiertag	63	President, Chief Operating Officer
Jeffrey S. Knutson	55	Vice President – Finance, Chief Financial Officer, Treasurer and Secretary
Dean J. Bratel	56	Vice President – Engineering
Michael B. Gee	53	Vice President – Hybrid Engineering
Debbie A. Lange	62	Corporate Controller
Denise L. Wilcox	63	Vice President – Human Resources



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.

John H. Batten, Chief Executive Officer. Effective May 2019, Mr. Batten was named Chief Executive Officer. Prior to that, Mr. Batten served as President and Chief Executive Officer since July 2013, President and Chief Operations Officer since July 2008, Executive Vice President since October 2004, Vice President and General Manager – Marine Products since October 2001 and Commercial Manager – Marine since 1998. Mr. Batten joined Twin Disc in 1996 as an Application Engineer.

James E. Feiertag, President, Chief Operating Officer. Mr. Feiertag joined the company as President and Chief Operating Officer effective May 1, 2019. Prior to his joining the company, Mr. Feiertag served as President and CEO of Bemis Manufacturing Company beginning in 2014. Before his role at Bemis, Mr. Feiertag was employed at Twin Disc from 2000 to 2014 in various roles, including Executive Vice President and Vice President, Manufacturing. Prior to these roles at Twin Disc, Mr. Feiertag was the Vice President of Manufacturing for the Drives and System Group of Rockwell Automation.

Jeffrey S. Knutson, Vice President – Finance, Chief Financial Officer, Treasurer and Secretary. Mr. Knutson was named Chief Financial Officer and Treasurer in June 2015. Mr. Knutson was named Vice President – Finance, Interim Chief Financial Officer and Interim Treasurer in February 2015. Mr. Knutson was appointed Corporate Secretary in June 2013, and was Corporate Controller from his appointment in October 2005 until August 2015. Mr. Knutson joined 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).

Dean J. Bratel, Vice President – Engineering. Mr. Bratel assumed his current role on July 13, 2020, after serving as Vice President, Sales and Applied Technology since August 2016. He served as Vice President, Sales and Marketing (since 2015), Vice President, Americas (since June 2013), Vice President, Engineering (since November 2004), 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.

Michael B. Gee, Vice President – Hybrid Engineering. Mr. Gee assumed his current role on July 13, 2020, after serving as Vice President, Engineering since January 2015. Prior to that, he was Director of Engineering (since July 2013), Chief Engineer (since September 2004) and has held several other positions in the Company, including Engineering Manager, Project Engineer, Design Engineer, and Experimental Engineer.

Debbie A. Lange, Corporate Controller. Ms. Lange was hired as Corporate Controller effective August 4, 2015. Prior to joining the Company, Ms. Lange was the Director of Accounting Research & Special Projects at Sealed Air Corporation (since 2011), a global manufacturer and provider of food packaging solutions, product packaging and cleaning and hygiene solutions. Prior to her role at Sealed Air, Ms. Lange held the position of Director of Global Accounting and Reporting at Diversey, Inc.

Denise L. Wilcox, Vice President - Human Resources. Ms. Wilcox was promoted to her current role in November 2004, after serving in the role of Director, Corporate Human Resources since 2002. Prior to that, she held the role of Manager, Compensation and Benefits since her hire in 1998. Before joining the Company, Ms. Wilcox held positions at Johnson International and Runzheimer International.



PART II

Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol TWIN.

<u>Quarter</u>	<u>Fiscal Year Ended</u> June 30, 2020		<u>Fiscal Year Ended</u> June 30, 2019	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	First Quarter	\$ 15.18	\$ 9.60	\$ 27.97
Second Quarter	12.59	9.50	23.65	13.40
Third Quarter	11.61	6.06	19.11	13.93
Fourth Quarter	8.35	4.84	19.15	13.33

There were no dividend payments made in the fiscal years ended June 30, 2020 and 2019.

For information regarding the Company's equity-based compensation plans, see the discussion under Item 12 of this report. As of August 20, 2020, shareholders of record numbered 405.

Recent Sales of Unregistered Securities

On May 13, 2019, the Company issued 139,347 shares of its common stock, valued at \$1,991 (\$14.29 per share), to settle its earn-out obligation under the June 13, 2018 Share Purchase Agreement entered into by Twin Disc NL Holding B.V., a wholly-owned subsidiary of the Company, with Het Komt Vast Goed B.V., the prior parent of Veth Propulsion Holding B.V. The shares were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, as the Share Purchase Agreement was a privately negotiated transaction that involved substantial due diligence on the part of all parties, and the shares were issued to three entities related to Het Komt Vast Goed B.V.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
March 28, 2020 – April 24, 2020	0	NA	0	315,000
April 25, 2020 – May 29, 2020	0	NA	0	315,000
May 30, 2020 – June 30, 2020	0	NA	0	315,000
Total	0	NA	0	315,000

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 were purchased during fiscal 2009 and 125,000 shares were purchased during fiscal 2012. On July 27, 2012, the Board of Directors authorized the purchase of an additional 375,000 shares of Common Stock at market values. This authorization has no expiration. During the second quarter of fiscal 2013, the Company purchased 185,000 shares under this authorization. The Company did not make any purchases during fiscal 2019 and 2020. As of June 30, 2020, 315,000 shares remain authorized for purchase.



Item 6. Selected Financial Data

Financial Highlights

(in thousands, except per share amounts)

Fiscal Years Ended June 30,					
Statement of Operations Data:	2020	2019	2018	2017	2016
Net sales	\$ 246,838	\$ 302,663	\$ 240,733	\$ 168,182	\$ 166,282
Net (loss) income	(39,571)	10,796	9,647	(6,115)	(13,013)
Net (loss) income attributable to Twin Disc	(39,817)	10,673	9,528	(6,294)	(13,104)
Basic (loss) income per share attributable to Twin Disc common shareholders	(3.03)	0.84	0.82	(0.56)	(1.17)
Diluted (loss) income per share attributable to Twin Disc common shareholders	(3.03)	0.83	0.82	(0.56)	(1.17)
Dividends per share	-	-	-	-	0.18

June 30,					
Balance Sheet Data	2020	2019	2018	2017	2016
Total assets	\$ 294,127	\$ 346,870	\$ 241,240	\$ 210,898	\$ 213,922
Total long-term debt	42,587	42,491	4,824	6,323	8,501

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Smaller Reporting Company Status

Under SEC Release 33-10513; 34-83550, Amendments to Smaller Reporting Company Definition, the Company qualifies as a smaller reporting company based on its public float as of the last business day of the second quarter of fiscal 2020. Accordingly, it has scaled some of its disclosures of financial and non-financial information in this annual report. The Company will continue to determine whether to provide additional scaled disclosures of financial or non-financial information in future quarterly reports, annual reports and/or proxy statements if it remains a smaller reporting company under SEC rules.

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.



As discussed in Item 1A, Risk Factors, and Note A, Basis of Presentation and Significant Accounting Policies of the notes to the consolidated financial statements, as a result of the COVID-19 outbreak, the Company's operations have decreased, starting on or around mid-March 2020, on a staggered basis, to curtail the spread of the virus and in compliance with regulatory authorities. The Company's plants and offices around the world have been subject to intermittent shutdowns, impacting the timeliness of supply chain arrangements and product shipments.

The COVID-19 outbreak exacerbates an already depressed global oil and gas market, which has recently been severely damaged by unprecedented drastic declines in the price of oil. The consensus of experts is that the price of oil was driven down by an oversupply in the global market, and aggravated by the price war among members of OPEC and non-OPEC producer nations. The COVID-19 outbreak, and its impact on consumption behaviors and expected general market contraction, impacts the future demand for oil, and exacerbates the already challenging market conditions.

The Company has already seen the impact of the depressed global energy market on its operations. Its North American incoming orders for the fiscal 2020 fourth quarter were down approximately 50% from the fiscal year-to-date run rate through the third fiscal quarter.

As described further in Note E, Goodwill and Other Intangibles, the Company recorded significant non-cash impairment charges during the year. While the Company continues to have a positive outlook of its operations in Europe, both in the European Propulsion and European Industrial reporting units, and remains committed to supporting those operations, the adverse economic effects of the COVID-19 outbreak are not fully known. However, there is consensus that the impact will be adverse. Hence, management has modeled those expectations from industry and subject matter experts and determined that prudence in the face of uncertainty warrants a robust scenario modeling approach. This approach was deployed in the Company's goodwill and long-lived asset impairment analyses. In assessing the current environment, management expects that a contraction of the global economy, as is predicted by many experts, would reduce or shift the demand for its products in the near term. For example, the Company expects that the demand for certain of the reporting units' end-market products, such as passenger leisure cruise vessels, passenger ferries, and other commercial vessels that operate based on general economic activities, will likely be adversely impacted as social restrictions are put in place by governments to curb the outbreak. As a consequence of these macroeconomic developments, market insights and expectations, the Company recorded asset impairment charges in the third fiscal quarter, primarily consisting of goodwill and other intangibles, in the amount of \$27,603.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. The depth and duration of the economic effects caused by the outbreak are unknown. Management is actively monitoring the global situation and its effect on its financial condition, liquidity, operations, suppliers, industry, and workforce. Some of the initiatives undertaken so far include:

- Protecting the welfare of our employees worldwide by implementing remote work arrangements, temporarily closing or suspending plants and offices, enhancing safety protocols to those employees who cannot work from home;
- Availing of programs made available by the various countries through government-sponsored programs, such as emergency liquidity credit facilities, enhanced unemployment compensation benefits and furlough arrangements;
- Working with customers to address the timing of customer orders and payment needs during the crisis;
- Implementing wage reduction actions, curtailing non-critical capital expenditures, and other cost reduction and cash preservation actions;
- Maintaining effective governance and internal controls in a remote environment.

The Company continues to evaluate all possible avenues to reduce costs and improve liquidity in light of the unprecedented uncertainty in the global economy.



The following discussion of results of operations reflects actual Company performance through June 30, 2020. They do not include management's view of future performance as the COVID-19 impacts, as severe as they are expected to be, are difficult to predict with specificity.

Results of Operations

(In thousands)	<u>2020</u>	% of <u>Sales</u>	<u>2019</u>	% of <u>Sales</u>
Net sales	\$ 246,838		\$ 302,663	
Cost of goods sold	<u>191,130</u>		<u>213,022</u>	
Gross profit	55,708	22.6	89,641	29.6
Marketing, engineering and administrative expenses	63,218	25.6	71,541	23.6
Restructuring expenses	5,138	2.1	1,179	0.4
Goodwill and other asset impairment charge	27,603	11.2	-	-
Other operating income	-	-	(1,577)	(0.5)
(Loss) income from operations	<u>\$ (40,251)</u>	(16.3)	<u>\$ 18,498</u>	6.1

Fiscal 2020 Compared to Fiscal 2019

Net Sales

Net sales for fiscal 2020 decreased 18.4%, or \$55.8 million, to \$246.8 million from \$302.7 million in fiscal 2019. The Company experienced weakness in North American demand for the Company's oil and gas related products, with a decline of approximately \$49.7 million compared to the prior year. This weakness was a function of a cyclical downturn that began at the end of fiscal 2019, exacerbated by an oil price war between Russia and Saudi Arabi in the third quarter of fiscal 2020, and the significant decline in global demand for oil as a result of the COVID-19 pandemic. Similarly, the remaining decline in the Company's global industrial markets can be attributed primarily to global economic weakness during the second half of the fiscal year, brought on by the COVID-19 pandemic. Currency translation had a \$4.8 million unfavorable impact on fiscal 2020 sales.

Sales at our manufacturing segment decreased 18.9%, or \$52.9 million, versus the same period last year. The largest decline was seen at the Company's North American manufacturing operation, the largest, which experienced a 27.4% decline in sales compared to fiscal 2019. The primary driver for this decrease was reduced demand for the Company's oil and gas related products, primarily new and replacement units, throughout the fiscal year. This operation also experienced a general decline across its product lines as a result of the global economic impact of the COVID-19 pandemic. The Company's Veth Propulsion operation in the Netherlands generated a 6.2% increase in sales in fiscal 2020, offsetting the impact of the weakening global economy with improved market penetration and acceptance in their non-traditional markets (Asia and North America). The Company's Italian manufacturing operations were essentially flat for the year, as a weaker fourth quarter offset some improvement through the first three fiscal quarters. The Company's Belgian manufacturing operation saw a 27.8% decrease in sales in fiscal 2020 on weaker demand in the marine markets served by this operation resulting from the COVID-19 impact, along with a currency impact. The Company's Swiss manufacturing operation, which supplies customized propellers for the global mega yacht and patrol boat markets, experienced a 25.9% decrease in sales, also due to generally weaker economic conditions.

Sales at our distribution segment were down 10.0%, or \$10.7 million, compared to fiscal 2019. The Company's Asian distribution operation in Singapore, China and Japan experienced a 2.6% increase in sales due to a strong demand for the Company's oil and gas transmissions, partially offset by a weakening Asian economy primarily in the fourth fiscal quarter. The Company's distribution operation in the Northwest of the United States and Southwest of Canada experienced a decrease in sales of \$13.2 million as this business was sold in early March 2019. The Company's European distribution operation saw an increase of \$2.5 million as this is a new entity established in fiscal 2019 to distribute the Company's products in the European market. The Company's North American distribution operation saw a decline of 4.3% on the reduced activity in the North American oil and gas market and a weaker North American



economy in the fourth fiscal quarter. The Company's distribution operation in Australia, which provides boat accessories, propulsion and marine transmission systems primarily for the pleasure craft market, saw sales decline slightly (1.2%), driven by a significant unfavorable currency impact (7.7%).

Net sales for the Company's marine transmission, propulsion and boat management systems were up 1.5% compared to the prior fiscal year. This increase primarily reflects a strong performance from the Veth Propulsion acquisition, which saw sales increase by \$3.4 million (6.2%) compared to fiscal 2019. In the off-highway transmission market, the year-over-year decrease of 44.4% can be attributed primarily to decreased shipments of the Company's pressure pumping transmission systems and components to the North American market driven by the significant decline in global oil prices. The decrease experienced in the Company's industrial products of 22.3% was seen primarily in the second half of the fiscal year, brought on by a weakening global economy and the impacts of the COVID-19 pandemic.

Geographically, sales to the U.S. and Canada declined 38% in fiscal 2020 compared to fiscal 2019, representing 36% of consolidated sales for fiscal 2020 compared to 47% in fiscal 2019. The reduction is primarily due to the reduced shipments of oil and gas related products into North America during the fiscal 2020. Sales into the Asia Pacific market declined 9% compared to fiscal 2019 and represented approximately 21% of sales in fiscal 2020, compared to 18% in fiscal 2019. Sales into the European market improved approximately 8% from fiscal 2019 levels while accounting for 37% of consolidated net sales compared to 28% in fiscal 2019. The increase is primarily the result of the strong performance by the Veth Propulsion acquisition, which has a high percentage of sales into the European market. See Note K, Business Segments and Foreign Operations, of the notes to the consolidated financial statements for more information on the Company's business segments and foreign operations.

Gross Profit

In fiscal 2020, gross profit decreased \$33.9 million, or 37.9%, to \$55.7 million on a sales decrease of \$55.8 million. Gross profit as a percentage of sales decreased 700 basis points in fiscal 2020 to 22.6%, compared to 29.6% in fiscal 2019. The table below summarizes the gross profit trend by quarter for fiscal years 2020 and 2019:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year</u>
<u>Gross Profit:</u>					
<i>(\$ millions)</i>					
2020	\$9.6	\$15.7	\$16.5	\$13.9	\$55.7
2019	\$24.0	\$26.1	\$23.1	\$16.4	\$89.6
2020	16.3%	26.4%	24.1%	23.3%	22.6%
2019	32.1%	33.4%	29.9%	22.7%	29.6%

There were a number of factors that impacted the Company's overall gross profit rate in fiscal 2020. Gross profit for the year was primarily impacted by reduced volumes and an unfavorable product mix. This was driven by reduced sales of high-margin oil and gas transmissions and parts. Margin was also negatively impacted by a \$6.2 million charge for a product performance issue related to one of the Company's oil and gas transmission models. The Company estimates the net unfavorable impact of reduced volumes on gross profit in fiscal 2020 was approximately \$16.5 million. The unfavorable shift in product mix, primarily related to the reduced shipments of the Company's high margin oil and gas transmission units and aftermarket products, had an estimated unfavorable impact of \$15.3 million.

Marketing, Engineering and Administrative (ME&A) Expenses

Marketing, engineering, and administrative (ME&A) expenses of \$63.2 million were down \$8.3 million, or 11.6%, compared to the prior fiscal year. As a percentage of sales, ME&A expenses increased to 25.6% of sales versus 23.6% of sales in fiscal 2019. The decrease in spending in fiscal 2020 compared to the prior year was driven by reduced spending on professional fees (\$1.9 million), the elimination of the global bonus program for fiscal 2020 (\$1.7 million), the impact of the sale of Mill Log in the fiscal 2019 third quarter (\$1.8 million), reduced stock based



compensation (\$0.7 million), lower marketing spending (\$0.8 million), reduced corporate travel expense (\$0.7 million), a favorable foreign currency impact (\$0.9 million) and general cost containment measures (\$1.7 million). These decreases were partially offset by an increase to intangible amortization expense (\$1.9 million).

Restructuring of Operations

During the course of fiscal 2020, the Company incurred \$5.1 million in restructuring charges. Included in this amount is \$3.2 million related to the termination of a marine propulsion program, for which the Company had provided development and production services. The \$3.2 million included a \$2.2 million non-cash write-off of assets and liabilities associated with the program and \$1.0 million of cash payments to satisfy supplier commitments related to the program. The remaining \$1.9 million of restructuring charges relates to productivity and cost reduction actions at the Company's domestic and European operations. The Company continues to focus on actively managing its cost structure and reducing fixed costs in light of the ongoing market challenges.

Impairment Charges

As described in Note E, Goodwill and Other Intangibles, due to the occurrence of a triggering event in the third fiscal quarter, the Company performed an assessment of its goodwill, intangibles and other long-lived assets as of March 27, 2020. As a result, the Company recorded an impairment charge of \$27.6 million during the third quarter of fiscal 2020. This non-cash impairment charge does not result in any future cash expenditures, impact liquidity, affect ongoing business or financial performance of the Company, impact compliance with our lending arrangements or reduce borrowing capacity.

Interest Expense

Interest expense of \$1.9 million for fiscal 2020 was essentially unchanged from the prior fiscal year.

Other Income (Expense), Net and Interest Income

In fiscal 2020, other expense, net, decreased \$0.4 million primarily due to the impact of currency movements related to the euro and Asian currencies.

Income Taxes

The effective tax rate for the twelve months of fiscal 2020 was 9.5%, which was significantly lower than the prior year rate of 25.6%. Under the Tax Cuts and Jobs Act, a company is prohibited from recognizing certain foreign global intangible low taxed income ("GILTI") deductions and credits when in a domestic loss position, but is required to include the foreign GILTI income inclusions. In the current year, the benefit generated from domestic losses was reduced by the required GILTI foreign income inclusions and no GILTI deductions. The \$5.8 million GILTI inclusion and deemed taxes decreased the rate by 2.8%. Management determined that the carrying value of certain goodwill and intangibles exceeded the fair value and a \$27.6 million impairment loss was calculated which resulted in a decrease to the effective tax rate of 10.9%. Income generated in foreign jurisdictions and other tax preference items also impacted the rate.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. 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 all of the deferred tax assets.



Order Rates

As of June 30, 2020, the Company's backlog of orders scheduled for shipment during the next six months (six-month backlog) was \$66.6 million or approximately 33% lower than the six-month backlog of \$99.8 million as of June 30, 2019. The reduced backlog is primarily attributable to a lower level of North American oil and gas transmission units on order, along with the global economic weakness resulting from the COVID-19 pandemic and its impact across the Company's products.

Liquidity and Capital Resources

Fiscal Years 2020 and 2019

The net cash provided by operating activities in fiscal 2020 totaled \$9.1 million, an increase of \$14.6 million from the prior fiscal year. While net earnings decreased by \$50.4 million from the prior year, a significant portion of this decline related to a \$27.6 million non-cash impairment charge. In addition, working capital improved by \$20.0 million during the year, with the largest contributions coming from trade receivables (\$13.1 million) and inventory (\$6.8 million), as the Company focused on working capital management in light of difficult market conditions.

The net cash used by investing activities for fiscal 2020 primarily represents capital spending activity totaling \$10.7 million. This represents a \$1.3 million (10.7%) decrease in spending on capital projects compared to fiscal 2019. The Company continued to invest in critical machine tools with improved technology to increase productivity and quality performance.

The net cash used by financing activities relates to payments of withholding taxes on stock compensation (\$0.9 million) and dividends paid to a noncontrolling interest (\$0.3 million). Total debt remained relatively unchanged compared to the prior year-end. During fiscal 2020, the Company did not purchase any shares as part of its Board-authorized stock repurchase program. The Company has 315,000 shares remaining under its authorized stock repurchase plan.

Future Liquidity and Capital Resources

On June 29, 2018, the Company entered into the Credit Agreement (the "Credit Agreement") with BMO Harris Bank N.A. ("BMO") that provided for the assignment and assumption of the previously existing loans between the Company and Bank of Montreal (the "2016 Credit Agreement") and subsequent amendments into a term loan (the "Term Loan") and revolving credit loans (each a "Revolving Loan" and, collectively, the "Revolving Loans," and, together with the Term Loan, the "Loans"). Pursuant to the Credit Agreement, BMO agreed to make the Term Loan to the Company in a principal amount not to exceed \$35.0 million and the Company may, from time to time prior to the maturity date, enter into Revolving Loans in amounts not to exceed, in the aggregate, \$50.0 million (the "Revolving Credit Commitment"). The Credit Agreement also allows the Company to obtain Letters of Credit from BMO, which if drawn upon by the beneficiary thereof and paid by BMO, would become Revolving Loans. Under the Credit Agreement, the Company may not pay cash dividends on its common stock in excess of \$3.0 million in any fiscal year.

On March 4, 2019, the Company entered into a second amendment (the "Second Amendment") to the Credit Agreement. The Second Amendment reduced the principal amount of the term loan commitment under the Credit Agreement from \$35.0 million to \$20.0 million. In connection with the Second Amendment, the Company issued an amended and restated term note in the amount of \$20.0 million to the Bank, which amended the original \$35.0 million note provided under the Credit Agreement.

Prior to entering into the Second Amendment, the outstanding principal amount of the term loan (the "Term Loan") under the Credit Agreement was \$10.8 million. On the date of the Second Amendment, the Bank made an additional advance on the Term Loan to the Company in the amount of \$9.2 million. The Second Amendment also extended the maturity date of the Term Loan from January 2, 2020 to March 4, 2026, and added a requirement that the Company make principal installments of \$0.5 million per quarter starting with the quarter ending June 30, 2019.



The Second Amendment also reduced the applicable margin for purposes of determining the interest rate applicable to the Term Loan. Previously, the applicable margin was 3.00%, which was added to the Monthly Reset LIBOR Rate or the Adjusted LIBOR, as applicable. Under the Second Amendment, the applicable margin was between 1.375% and 2.375%, depending on the Company's total funded debt to EBITDA ratio.

The Second Amendment also adjusted certain financial covenants made by the Company under the Credit Agreement. Specifically, the Company covenanted (i) not to allow its total funded debt to EBITDA ratio to be greater than 3.00 to 1.00 (the cap had previously been 3.50 to 1.00 for quarters ending on or before September 30, 2019 and 3.25 to 1.00 for quarters ending on or about December 31, 2019 through September 30, 2020), and (ii) that its tangible net worth will not be less than \$100.0 million plus 50% of net income for each fiscal year ending on and after June 30, 2019 for which net income is a positive number (the \$100.0 million figure had previously been \$70.0 million).

On January 28, 2020, the Company entered into a third amendment (the "Third Amendment") to the Credit Agreement. The Third Amendment restated the financial covenant provisions related to the maximum allowable ratio of total funded debt to EBITDA from 3.00 to 1.00 to 4.00 to 1.00 for the quarter ended December 27, 2019, 5.00 to 1.00 for the quarter ending March 27, 2020, 4.00 to 1.00 for the quarter ending June 30, 2020, 3.50 to 1.00 for the quarter ending September 25, 2020 and 3.00 to 1.00 for quarters ending on or after December 25, 2020. For purposes of determining EBITDA, the Third Amendment added back extraordinary expenses (not to exceed \$3.9 million) related to the previously reported isolated product performance issue on one of the Company's oil and gas transmission models at certain installations. Under the Third Amendment, the applicable margin for revolving loans, letters of credit, and term loans was between 1.25% and 3.375%, depending on the Company's total funded debt to EBITDA ratio.

On July 22 2020, the Company entered into a fifth amendment to the Credit Agreement (the "Fifth Amendment") that amends the Credit Agreement dated as of June 29, 2018, as amended between the Company and BMO. The Fifth Amendment reduced BMO's Revolving Credit Commitment from \$50.0 million to \$45.0 million. The Fifth Amendment also gives the Company the option to make interest-only payments on the Term Loan for quarterly payments occurring on September 30, 2020 and December 31, 2020, and limits the Company's Capital Expenditures for the fiscal year ending June 30, 2021 to \$10.0 million.

The Fifth Amendment provides the Company with relief from its Total Funded Debt to EBITDA ratio financial covenant under the Credit Agreement through (and including) the earlier of June 30, 2021 or a date selected by the Company. During the financial covenant relief period:

- The "Applicable Margin" to be applied to Revolving Loans, the Term Loan, and the Commitment/Facility Fee will be increased to 3.25%, 3.875%, and 0.20%, respectively.
- The Company may not make certain restricted payments (specifically, cash dividends, distributions, purchases, redemptions or other acquisitions of or with respect to shares of its common stock or other common equity interests).
- The Company must maintain liquidity (as defined in the Fifth Amendment) of at least \$15.0 million.
- The Company must maintain minimum EBITDA of at least (1) \$1.0 million for the fiscal quarter ending June 30, 2020 and the two fiscal quarters ending on or about September 30, 2020; (2) \$2.5 million for the three fiscal quarters ending on or about December 31, 2020; (3) \$6.0 million for the four fiscal quarters ending on or about March 31, 2021; and (4) \$10.0 million for the four fiscal quarters ending June 30, 2021.

For purposes of the minimum EBITDA covenant and the Total Funded Debt to EBITDA ratio, the Fifth Amendment clarified that EBITDA shall exclude any gain that is realized on the forgiveness of the Small Business Administration Paycheck Protection Program loan that the Company previously received.

The Fifth Amendment also changed the definition of "LIBOR" (used in calculating interest on Eurodollar Loans), "Monthly Reset LIBOR Rate" (used in calculating interest on LIBOR Loans), and "LIBOR Quoted Rate" (used in the definition of "Base Rate," which is used in calculating interest on Letters of Credit that are drawn upon and not timely reimbursed).



The Company also entered into a Deposit Account Control Agreement with the Bank, reflecting the Bank's security interest in deposit accounts the Company maintains with the Bank. Under the Fifth Amendment, the Bank may not provide a notice of exclusive control of a deposit account (thereby obtaining exclusive control of the account) prior to the occurrence or existence of a Default or an Event of Default under the Credit Agreement or otherwise upon the occurrence or existence of an event or condition that would, but for the passage of time or the giving of notice, constitute a Default or an Event of Default under the Credit Agreement.

Borrowings under the Credit Agreement are secured by substantially all of the Company's personal property, including accounts receivable, inventory, machinery and equipment, and intellectual property. The Company has also pledged 100% of its equity interests in certain domestic subsidiaries and 65% of its equity interests in certain foreign subsidiaries. The Company also entered into a Collateral Assignment of Rights under Purchase Agreement for its acquisition of Veth Propulsion. To effect these security interests, the Company entered into various amendment and assignment agreements that consent to the assignment of certain agreements previously entered into between the Company and the Bank of Montreal in connection with the 2016 Credit Agreement. The Company also amended and assigned to BMO a Negative Pledge Agreement that it has previously entered into with Bank of Montreal, pursuant to which it agreed not to sell, lease or otherwise encumber real estate that it owns except as permitted by the Credit Agreement and the Negative Pledge Agreement.

Upon the occurrence of an Event of Default, BMO may take the following actions upon written notice to the Company: (1) terminate its remaining obligations under the Credit Agreement; (2) declare all amounts outstanding under the Credit Agreement to be immediately due and payable; and (3) demand the Company to immediately Cash Collateralize L/C Obligations in an amount equal to 105% of the aggregate L/C Obligations or a greater amount if BMO determines a greater amount is necessary. If such Event of Default is due to the Company's bankruptcy, BMO may take the three actions listed above without notice to the Company.

On April 17, 2020, the Company entered into a promissory note (the "PPP Note") evidencing an unsecured loan in the amount of \$8.2 million (the "PPP Loan") made to the Company under the Paycheck Protection Program ("PPP"). The PPP was established under the CARES Act and is a program under the U.S. Small Business Administration (the "SBA"). The PPP Loan to the Company is administered by BMO. The PPP Loan has a two-year term and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments are deferred for six months. Beginning November 17, 2020, seven months from the date of the PPP Note, the Company is required to make monthly payments of principal and interest to BMO.

Under the terms of the CARES Act, PPP loan recipients can be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. The Company intends to use the Loan proceeds in accordance with PPP loan forgiveness requirements. However, no assurance is provided that the Company will obtain forgiveness for any portion of the PPP Loan.

In connection with the PPP Loan, the Company entered into a fourth amendment to the Credit Agreement (the "Fourth Amendment") on April 17, 2020. The Fourth Amendment: (1) permits the Company to incur indebtedness in the form of the PPP Loan notwithstanding the Credit Agreement's restrictions limiting the Company's ability to incur indebtedness, and (2) provides that the PPP Loan (to the extent that the PPP Loan is forgiven) shall be disregarded for purposes of calculating financial covenants in the Credit Agreement. Any unforgiven portion of the PPP Loan and the interest thereon will not be disregarded for purposes of calculating the covenants.

The Company is closely tracking qualified expenses to ensure its compliance to the PPP program and to support its application for forgiveness. As of June 30, 2020, the Company estimates that the amount of forgivable expenses it has incurred to date is approximately \$6.0 million. These expenses are included in cost of goods sold and marketing, engineering and administrative expenses in the accompanying statement of operations and comprehensive (loss) income. While the forgiveness of the loan is not taxable, the expenses that were used by the funds are not deductible for tax purposes. Although the rules are still fluid and subject to revisions, currently the Company expects that at the end of the measurement period, it would be able to provide support and qualify for loan forgiveness in the amount of approximately \$7.0 million to \$7.6 million. If, and when, forgiveness of this amount is assured, the Company would record this as a gain on debt extinguishment in fiscal 2021. This is described further in Note H, Debt, of the notes to the consolidated financial statements.



The Company has no material off-balance-sheet arrangements, and it continues to have sufficient liquidity for near-term needs. The Company had approximately \$27.0 million of available borrowings under the Credit Agreement as of June 30, 2020. The Company expects to continue to generate enough cash from operations, as well as its credit facilities, to meet its operating and investing needs. As of June 30, 2020, the Company also had cash of \$10.7 million, primarily at its overseas operations. These funds, with some restrictions and tax implications, are available for repatriation as deemed necessary by the Company. In fiscal 2021, the Company expects to contribute \$2.3 million to its defined benefit pension plans, the minimum contribution required.

Net working capital decreased \$20.0 million, or 15.7%, during fiscal 2020 and the current ratio (calculated as total current assets divided by total current liabilities) decreased from 2.7 at June 30, 2019 to 2.6 at June 30, 2020. The decrease in net working capital was primarily driven by volume driven reductions in trade accounts receivable and inventory, along with aggressive management of working capital in light of difficult economic conditions.

The Company expects capital expenditures to be approximately \$7 million - \$9 million in fiscal 2021. These anticipated expenditures reflect the Company's plans to moderate investment in maintenance capital and modern equipment to address the liquidity demands of an anticipated challenging global economy.

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

Off Balance Sheet Arrangements and Contractual Obligations

The Company had no material off-balance sheet arrangements as of June 30, 2020 and 2019. On July 31, 2020, the Company finalized an agreement to lease a manufacturing, assembly and office facility in Lufkin, Texas, with an initial term of 15 years and minimum annual lease payments of \$0.4 million.

Other Matters

Critical Accounting Policies and Estimates

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, Basis of Presentation and Significant Accounting Policies, of the notes 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 its reported financial results are the following:

Accounts Receivable

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's credit-worthiness as determined by review of current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its 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 the Company's accounts receivable are dispersed among a large customer base, a significant change in the liquidity or financial position of any one of its largest customers could have a material adverse impact on the collectability of its accounts receivable and future operating results.



Inventory

Inventories are valued at the lower of cost or net realizable value. 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

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.

In determining the fair value of the Company's reporting units, management is required to make estimates of future operating results, including growth rates, and a weighted-average cost of capital that reflects current market conditions, among others. The development of future operating results incorporates management's best estimates of current and future economic and market conditions which are derived from a review of past results, current results and approved business plans. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods. While the Company believes its judgments and assumptions were reasonable, different assumptions, economic factors and/or market indicators could materially change the estimated fair values of the Company's reporting units.

The following are key assumptions to the Company's discounted cash flow model:

Business Projections – The Company makes assumptions about the level of sales for each fiscal year including expected growth, if any. This assumption drives its planning for volumes, mix, and pricing. The Company also makes assumptions about its cost levels (e.g., capacity utilization, cost performance, etc.). These assumptions are key inputs for developing its cash flow projections. These projections are derived using the Company's internal business plans that are reviewed during the annual budget process.

Discount Rates – When measuring a possible impairment, future cash flows are discounted at a rate that is consistent with a weighted average cost of capital for a potential market participant. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise. There are a number of assumptions that management makes when calculating the appropriate discount rate, including the targeted leverage ratio.

The Company is subject to financial statement risk to the extent the carrying amount of a reporting unit exceeds its fair value. The Company believes that the economic disruptions and unprecedented market volatilities and uncertainties resulting from the COVID-19 outbreak was a triggering event in the third quarter of fiscal 2020. Consequently, it performed an interim goodwill impairment test as of the quarter ended March 27, 2020, and recorded a goodwill impairment charge of \$25.4 million, that completely wrote-off goodwill from its financial statements. See discussion in Note E, Goodwill and Other Intangibles, of the notes to the consolidated financial statements.

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. 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. 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.



Warranty

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 that 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 Willis Towers Watson BOND:Link model at June 30, 2020 as applied to the 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 Society of Actuaries PRI-2012 base tables for annuitants and non-annuitants, adjusted for generational mortality improvement based on the Society of Actuaries MP-2019 projection scale.
- *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. 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

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 maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

Recently Issued Accounting Standards

See Note A, Basis of Presentation and Significant Accounting Policies, of the notes to the consolidated financial statements for a discussion of recently issued accounting standards.



Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company is electing not to provide this disclosure due to its status as a Smaller Reporting Company.

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)

2020	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>	<u>Year</u>
Net sales	\$ 59,290	\$ 59,536	\$ 68,636	\$ 59,376	\$ 246,838
Gross profit	9,636	15,711	16,549	13,812	55,708
Restructuring expenses	121	4,248	532	237	5,138
Goodwill and other asset impairment charge	-	-	27,603	-	27,603
Net loss	(6,293)	(6,466)	(25,176)	(1,636)	(39,571)
Net loss attributable to Twin Disc	(6,311)	(6,516)	(25,230)	(1,760)	(39,817)
Basic loss per share					
attributable to Twin Disc common shareholders	(0.48)	(0.49)	(1.92)	(0.13)	(3.03)
Diluted loss per share					
attributable to Twin Disc common shareholders	(0.48)	(0.49)	(1.92)	(0.13)	(3.03)
Dividends per share	-	-	-	-	-
2019					
Net sales	\$ 74,689	\$ 78,107	\$ 77,420	\$ 72,447	\$ 302,663
Gross profit	23,985	26,088	23,117	16,451	89,641
Restructuring expenses	173	434	131	441	1,179
Net income (loss)	2,903	4,079	4,587	(773)	10,796
Net income (loss) attributable to Twin Disc	2,862	4,073	4,560	(822)	10,673
Basic income (loss) per share					
attributable to Twin Disc common shareholders	0.24	0.31	0.35	(0.06)	0.84
Diluted income (loss) per share					
attributable to Twin Disc common shareholders	0.24	0.31	0.34	(0.06)	0.83
Dividends per share	-	-	-	-	-



Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusion Regarding Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) 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:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company,
2. 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
3. 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 its internal control over financial reporting based upon the framework (2013 edition) in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon such evaluation, the Company's management concluded that its internal control over financial reporting was effective as of June 30, 2020.

RSM US LLP, an independent registered public accounting firm, has audited the Company's internal control over financial reporting as of June 30, 2020, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of fiscal 2020, 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 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to the executive officers of the Registrant, see "Information About Our Executive Officers" 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 29, 2020, 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 29, 2020, 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. If the Company makes any substantive amendment to the Code of Ethics, or grants a waiver from a provision of the Code of Ethics for its Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer (or any person performing similar functions), it intends to disclose the nature of such amendment on its website within four business days of the amendment or waiver in lieu of filing a Form 8-K with the SEC.

For information with respect to procedures by which shareholders may recommend nominees to the Company's Board of Directors, see "Director Committee Functions: Nominating and Governance Committee" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 29, 2020, 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 29, 2020, 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 29, 2020, 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 29, 2020, which is incorporated into this report by reference.

Item 11. Executive Compensation

The information set forth under the captions "Executive Compensation" and "Director Compensation" in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 29, 2020, is incorporated into this report by reference.



Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information regarding security ownership of certain beneficial owners and management, see the Proxy Statement for the Annual Meeting of Shareholders to be held on October 29, 2020 under the captions "Principal Shareholders" and "Directors and Executive Officers" and incorporated into this report by reference.

For information regarding securities authorized for issuance under equity compensation plans of the Company, see "Equity Compensation Plan Information" in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 29, 2020, which is 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.

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 29, 2020, 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 29, 2020, 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 29, 2020 under the headings "Fees to Independent Registered Public Accounting Firm" and "Pre-approval Policies and Procedures."

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

	<u>Page</u>
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Registered Public Accounting Firm	40
Consolidated Balance Sheets as of June 30, 2020 and 2019	42
Consolidated Statements of Operations and Comprehensive Income for the years ended June 30, 2020 and 2019	43
Consolidated Statements of Cash Flows for the years ended June 30, 2020 and 2019	44
Consolidated Statements of Changes in Equity for the years ended June 30, 2020 and 2019	45
Notes to Consolidated Financial Statements	46
INDEX TO FINANCIAL STATEMENT SCHEDULE	
Schedule II - Valuation and Qualifying Accounts	86

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

Opinion on the Internal Control Over Financial Reporting

We have audited Twin Disc, Incorporated's (the Company) internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated August 26, 2020 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Report on Internal Control over Financial Reporting* in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

/s/ RSM US LLP

Milwaukee, Wisconsin
August 26, 2020



Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Twin Disc, Incorporated (the Company) as of June 30, 2020 and 2019, the related consolidated statements of operations and comprehensive (loss) income, changes in equity and cash flows for each of the two years in the period ended June 30, 2020, and the related notes to the consolidated financial statements and schedule (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated August 26, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2018.

Milwaukee, Wisconsin
August 26, 2020



TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

June 30, 2020 and 2019

(In thousands, except share amounts)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash	\$ 10,688	\$ 12,362
Accounts receivable, net	30,682	44,013
Inventories	120,607	125,893
Prepaid expenses	5,269	11,681
Other	6,739	8,420
Total current assets	173,985	202,369
Property, plant and equipment, net	72,732	71,258
Goodwill, net	-	25,954
Deferred income taxes	24,445	18,178
Intangible assets, net	18,973	25,353
Other assets	3,992	3,758
Total assets	\$ 294,127	\$ 346,870
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 4,691	\$ 2,000
Accounts payable	25,663	31,468
Accrued liabilities	36,380	41,646
Total current liabilities	66,734	75,114
Long-term debt	37,896	40,491
Lease obligations	13,495	12,646
Accrued retirement benefits	27,938	25,878
Deferred income taxes	5,501	7,429
Other long-term liabilities	2,605	2,494
Total liabilities	154,169	164,052
Commitments and contingencies (Note P)		
Twin Disc shareholders' equity:		
Preferred shares authorized: 200,000; issued: none; no par value	-	-
Common shares authorized: 30,000,000; issued: 14,632,802; no par value	42,756	45,047
Retained earnings	156,655	196,472
Accumulated other comprehensive loss	(41,226)	(37,971)
Total Twin Disc shareholders' equity	158,185	203,548
Less treasury stock, at cost (1,226,809 and 1,392,524 shares, respectively)	18,796	21,332
Total Twin Disc shareholders' equity	139,389	182,216
Noncontrolling interest	569	602
Total equity	139,958	182,818
Total liabilities and equity	\$ 294,127	\$ 346,870

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, 2020 and 2019
(In thousands, except per share amounts)

	<u>2020</u>	<u>2019</u>
Net sales	\$ 246,838	\$ 302,663
Cost of goods sold	<u>191,130</u>	<u>213,022</u>
Gross profit	55,708	89,641
Marketing, engineering and administrative expenses	63,218	71,541
Restructuring expenses	5,138	1,179
Goodwill and other asset impairment charge	27,603	-
Other operating income	<u>-</u>	<u>(1,577)</u>
(Loss) income from operations	(40,251)	18,498
Other income (expense):		
Interest income	78	43
Interest expense	(1,860)	(1,927)
Other income (expense), net	<u>(1,707)</u>	<u>(2,107)</u>
	<u>(3,489)</u>	<u>(3,991)</u>
(Loss) income before income taxes and noncontrolling interest	(43,740)	14,507
Income tax (benefit) expense	<u>(4,169)</u>	<u>3,711</u>
Net (loss) income	(39,571)	10,796
Less: Net earnings attributable to noncontrolling interest, net of tax	<u>(246)</u>	<u>(123)</u>
Net (loss) income attributable to Twin Disc	<u>\$ (39,817)</u>	<u>\$ 10,673</u>
(Loss) income per share data:		
Basic (loss) income per share attributable to Twin Disc common shareholders	\$ (3.03)	\$ 0.84
Diluted (loss) income per share attributable to Twin Disc common shareholders	\$ (3.03)	\$ 0.83
Weighted average shares outstanding data:		
Basic shares outstanding	13,153	12,571
Dilutive stock awards	<u>-</u>	<u>111</u>
Diluted shares outstanding	<u>13,153</u>	<u>12,682</u>
Comprehensive (loss) income:		
Net (loss) income	\$ (39,571)	\$ 10,796
Foreign currency translation adjustment	(966)	(2,671)
Benefit plan adjustments, net of income taxes of (\$530) and (\$1,242), respectively	(1,675)	(4,121)
Unrealized loss on cash flow hedge, net of income taxes of \$185 and \$156	<u>(595)</u>	<u>(509)</u>
Comprehensive (loss) income	(42,807)	3,495
Less: Comprehensive income attributable to noncontrolling interest	<u>(266)</u>	<u>(98)</u>
Comprehensive (loss) income attributable to Twin Disc	<u>\$ (43,073)</u>	<u>\$ 3,397</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, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net (loss) income	\$ (39,571)	\$ 10,796
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:		
Depreciation and amortization	11,925	9,335
Goodwill and other asset impairment charge	27,603	-
Restructuring of operations	2,269	-
Stock compensation expense	1,158	2,591
Provision for deferred income taxes	(8,072)	6,846
Amortization of inventory fair value step-up	-	4,277
Gain on contingent consideration of Veth Propulsion acquisition	-	(809)
Gain on sale of Mill Log Business	-	(768)
Other, net	258	84
Changes in operating assets and liabilities		
Trade accounts receivable	13,132	11,177
Inventories	6,775	(27,671)
Other assets	2,246	(10,159)
Accounts payable	(3,342)	(1,013)
Accrued liabilities	(5,807)	(9,896)
Accrued/prepaid retirement benefits	544	(251)
Net cash provided (used) by operating activities	<u>9,118</u>	<u>(5,461)</u>
Cash flows from investing activities, net of acquired business:		
Capital expenditures	(10,699)	(11,979)
Proceeds from sale of Mill Log business	500	5,158
Proceeds from sale of plant assets	137	239
Proceeds from life insurance policy	102	101
Acquisition of Veth Propulsion, less cash acquired	-	(60,195)
Other, net	(159)	(233)
Net cash used by investing activities	<u>(10,119)</u>	<u>(66,909)</u>
Cash flows from financing activities:		
Borrowings under long-term debt agreement	8,200	44,480
Borrowings under revolving loan agreement	99,262	147,854
Repayments under revolving loan agreement	(105,065)	(129,548)
Repayments of long-term borrowings	(2,241)	(24,752)
Payments of withholding taxes on stock compensation	(913)	(1,005)
Dividends paid to noncontrolling interest	(298)	(115)
Proceeds from issuance of common stock, net	-	32,210
Proceeds from exercise of stock options	-	36
Net cash (used) provided by financing activities	<u>(1,055)</u>	<u>69,160</u>
Effect of exchange rate changes on cash	<u>382</u>	<u>401</u>
Net change in cash	(1,674)	(2,809)
Cash:		
Beginning of year	<u>12,362</u>	<u>15,171</u>
End of year	<u>\$ 10,688</u>	<u>\$ 12,362</u>
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	\$ 1,861	\$ 1,906
Income taxes	3,481	1,927

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



TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended June 30, 2020 and 2019
(In thousands)

	Twin Disc, Inc. Shareholders' Equity					
	<u>Common</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Non-</u>	<u>Total</u>
	<u>Stock</u>	<u>Earnings</u>	<u>Other</u>	<u>Stock</u>	<u>Controlling</u>	<u>Equity</u>
			<u>Comprehensive</u>		<u>Interest</u>	
			<u>Income (Loss)</u>			
Balance at June 30, 2018	\$ 11,570	\$ 178,896	\$ (23,792)	\$ (23,677)	\$ 619	\$ 143,616
Net income		10,673			123	10,796
Translation adjustments			(2,646)		(25)	(2,671)
Benefit plan adjustments, net of tax			(4,121)			(4,121)
Unrealized loss on cash flow hedge, net of tax			(509)			(509)
Release stranded tax effects		6,903	(6,903)			
Cash dividends					(115)	(115)
Compensation expense	2,591					2,591
Shares issued, net	30,886			2,345		33,231
Balance at June 30, 2019	45,047	196,472	(37,971)	(21,332)	602	182,818
Net (loss) income		(39,817)			246	(39,571)
Translation adjustments			(985)		19	(966)
Benefit plan adjustments, net of tax			(1,675)			(1,675)
Unrealized loss on cash flow hedge, net of tax			(595)			(595)
Cash dividends					(298)	(298)
Compensation expense	1,158					1,158
Shares (acquired) issued, net	(3,449)			2,536		(913)
Balance at June 30, 2020	\$ 42,756	\$ 156,655	\$ (41,226)	\$ (18,796)	\$ 569	\$ 139,958

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



TWIN DISC, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS AND PER SHARE DATA)

A. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements and information presented herein include the financial results of Veth Propulsion Holding B.V. (“Veth Propulsion”), the acquisition of which was completed on July 2, 2018. The financial results included in this Form 10-K related to the acquisition method of accounting for the Veth Propulsion acquisition have been finalized and completed.

Recent Events

In March 2020, the World Health Organization (“WHO”) declared that a new strain of coronavirus that originated in Wuhan, China, and has rapidly spread around the world (“COVID-19 outbreak”) is a pandemic that poses significant risk to the international community. This outbreak contributed to shelter-in-place policies, unexpected factory closures, supply chain disruptions, and market volatility causing substantial declines in market capitalization, and occurring in the midst of an already challenging economic environment in some of our markets, most notably the oil and gas market.

As a result of the COVID-19 outbreak, the Company’s operations have decreased, starting on or around mid-March 2020 to curtail the spread of the virus and in compliance with regulatory authorities. The Company’s plants and offices around the world have been subject to intermittent shutdowns throughout the fourth quarter of fiscal 2020, impacting the timeliness of supply chain arrangements and the Company’s ability to deliver products to its customers.

The COVID-19 outbreak exacerbates an already depressed global oil and gas market, which has recently been severely damaged by unprecedented drastic declines in the price of oil. The consensus of experts is that the price of oil was driven down by an oversupply in the global market, and aggravated by the price war among members of OPEC and non-OPEC producer nations.

Aside from operational impacts and its results on our operations during the quarter, the occurrence of the COVID-19 outbreak also necessitated a rigorous assessment of the Company’s entire balance sheet. The accounting policies described below were applied in the context of these recent events.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. The depth and duration of the pandemic is unknown. Management is actively monitoring the global situation and its effect on its financial condition, liquidity, operations, suppliers, industry, and workforce.

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-owned domestic and foreign subsidiaries. In fiscal 2020, certain subsidiaries changed their reporting periods to conform to the Company’s fiscal year end. The impact of aligning to the corporate reporting period is not material to the consolidated results. All significant intercompany transactions have been eliminated.

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.



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, which is included in equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) are foreign currency transaction losses of (\$570) and (\$681) in fiscal 2020 and 2019, respectively.

Cash--The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalent. Under the Company's cash management system, cash balances at certain banks are funded when checks are presented for payment. To the extent that checks issued, but not yet presented for payment, exceed the balance on hand at the specific bank against which they were written, the amount of those un-presented checks is included in accounts payable.

Accounts Receivable--These represent trade accounts receivable and are stated net of an allowance for doubtful accounts of \$1,740 and \$1,582 at June 30, 2020 and 2019, respectively. The Company records an allowance for doubtful accounts 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. 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. Various factors may adversely impact its 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 these factors 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 and accounts payable approximate fair value because of the immediate short-term maturity of these financial instruments. If measured at fair value, cash would be classified as Level 1 and all other items listed above would be classified as Level 2 in the fair value hierarchy, as defined in Note N, Pension and Other Postretirement Benefit Plans. The Company's borrowings under the revolving loan agreement, which is classified as long-term debt and consists of loans that are routinely borrowed and repaid throughout the year, approximate fair value at June 30, 2020. The Company's term loan borrowing, which is LIBOR-based, approximates fair value at June 30, 2020. If measured at fair value in the financial statements, long-term debt (including any current portion) would be classified as Level 2 in the fair value hierarchy.

Derivative Financial Instruments--The Company has written policies and procedures that place all financial instruments under the direction of the Company's corporate treasury department and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for trading purposes is prohibited. The Company uses derivative financial instruments to manage certain financial risks. The Company enters into forward contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. The Company uses interest rate swap contracts to reduce the exposure to variability in interest rates on floating debt borrowings. The Company designates certain financial instruments as cash flow hedges for accounting purposes. See Note S, Derivative Financial Instruments, for additional information.

Inventories--Inventories are valued at the lower of cost or net realizable value. 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, among others, when evaluating the adequacy of the reserve for excess and obsolete inventory.

Property, Plant and Equipment and Depreciation--Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and depreciated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. 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. 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. Fair value is primarily determined using discounted cash flow analyses; however, other methods may be used to determine the fair value, including third party valuations when necessary.

Goodwill and Other Intangibles--Goodwill and other indefinite-lived intangible assets, primarily tradenames, are tested for impairment at least annually during the Company's fourth fiscal quarter and more frequently if an event occurs which indicates the asset may be impaired. If applicable, 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.

Goodwill impairment charges are recorded using a simplified one-step approach. The fair value of a reporting unit, as defined, is compared to the carrying value of the reporting unit, including goodwill. The fair value is primarily determined using discounted cash flow analyses which is driven by projected growth rates, and which applies an appropriate market-participant discount rate; the fair value determined is also compared to the value obtained using a market approach from guideline public company multiples. If the carrying amount exceeds the fair value, that difference is recognized as an impairment loss.

The Company reviews goodwill for impairment on a reporting unit basis annually as of the first day of the Company's fourth fiscal quarter, and whenever events or changes in circumstances ("triggering events") indicate that the carrying value of goodwill may not be recoverable.

The Company conducted interim qualitative assessments throughout the year. In the third quarter of fiscal 2020, the Company believed that the economic disruptions and unprecedented market volatilities and uncertainties resulting from the COVID-19 outbreak was a triggering event for the reporting units which contained goodwill. Consequently, it performed an interim goodwill impairment test as of March 27, 2020 using updated inputs, including appropriate risk-based, country and company specific weighted average discount rates for the Company's reporting units. As a result of that test, the Company recorded a goodwill impairment charge of \$25,380, which fully removed goodwill from its balance sheet. See Note E, Goodwill and Other Intangibles, for additional information.

The fair value of the Company's other intangible assets with indefinite lives, primarily tradenames, 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. Long-lived assets, including intangible assets, are assessed for impairment qualitatively on a quarterly basis. In the third quarter of fiscal 2020, upon management's determination that adverse macroeconomic developments as a result of the COVID-19 outbreak has given rise to a triggering event for all of the Company's assets groups, the Company performed a Step 1 assessment, or a recoverability test of its intangibles and other long-lived assets using an undiscounted operating cash flow analysis as of March 27, 2020, as well as the review of other assets in service and their remaining useful lives. As a result of that assessment, the Company recorded an impairment charge of \$2,223. See Note E, Goodwill and Other Intangibles, for more information. For the fourth quarter of fiscal 2020, the Company performed a qualitative assessment and concluded that an impairment test was not necessary.



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 indefinite-lived 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.

Any cost incurred to extend or renew the term of an indefinite lived intangible asset are expensed as incurred.

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

Revenue Recognition--Revenue from contracts with customers is recognized using a five-step model consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Performance obligations are satisfied when the Company transfers control of a good or service to a customer, which can occur over time or at a point in time. The amount of revenue recognized is based on the consideration to which the Company expects to be entitled in exchange for those goods or services, including the expected value of variable consideration. The customer's ability and intent to pay the transaction price is assessed in determining whether a contract exists with the customer. If collectability of substantially all of the consideration in a contract is not probable, consideration received is not recognized as revenue unless the consideration is nonrefundable and the Company no longer has an obligation to transfer additional goods or services to the customer or collectability becomes probable.

Goods sold to third party distributors are subject to an annual return policy, for which a provision is made at the time of shipment based upon historical experience.

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 Adopted Accounting Standards

- a. In June 2018, the FASB issued guidance (ASU 2018-07) intended to simplify the accounting for share based payments granted to nonemployees. Under the amendments in this guidance, payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The Company adopted this guidance effective July 1, 2019. The adoption of this guidance did not have a material impact on the Company's financial statements and disclosures.

New Accounting Releases

- a. In June 2016, the FASB issued updated guidance (ASU 2016-13) and also issued subsequent amendments to the initial guidance under ASU 2018-19, ASU 2019-04 and ASU 2019-05 (collectively Topic 326). Topic 326 requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. This replaces the existing incurred loss model with an expected loss model and requires the use of forward-looking information to calculate credit loss estimates. The amendments in this guidance are effective for fiscal years beginning after December 15, 2019 (the Company's fiscal 2021), with early adoption permitted for certain amendments. Topic 326 must be adopted by applying a cumulative effect adjustment to retained earnings. The Company does not expect adoption of the new guidance to have a significant impact on its financial statements.



- b. In August 2018, the FASB issued updated guidance (ASU 2018-13) as part of the disclosure framework project, which focuses on improving the effectiveness of disclosures in the notes to the financial statements. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (the Company's fiscal 2021), with early adoption permitted. The Company is currently evaluating the potential impact of this guidance on the Company's disclosures.
- c. In August 2018, the FASB issued updated guidance (ASU 2018-14) intended to modify the disclosure requirements for employers that sponsor defined benefit pension or postretirement plans. The amendments in this guidance are effective for fiscal years ending after December 15, 2020 (the Company's fiscal 2021), with early adoption permitted. The Company is currently evaluating the potential impact of this guidance on the Company's disclosures.
- d. In December 2019, the FASB issued guidance (ASU 2019-12) intended to simplify the accounting for income taxes. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 (the Company's fiscal 2022), with early adoption permitted. The Company is currently evaluating the potential impact of this guidance on the Company's disclosures.
- e. In March 2020, the FASB issued guidance (ASU 2020-04), intended to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. The amendments in this guidance are effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the potential impact of this guidance on the Company's financial statements and disclosures.

Special Note Regarding Smaller Reporting Company Status

Under SEC Release 33-10513; 34-83550, Amendments to Smaller Reporting Company Definition, the Company qualifies as a smaller reporting company based on its public float as of the last business day of the second quarter of fiscal 2020. Accordingly, it has scaled some of its disclosures of financial and non-financial information in this annual report. The Company will continue to determine whether to provide additional scaled disclosures of financial or non-financial information in future quarterly reports, annual reports and/or proxy statements if it remains a smaller reporting company under SEC rules.



B. ACQUISITION OF VETH PROPULSION HOLDING B.V.

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

Under the terms of the Purchase Agreement, the Company paid an aggregate of approximately \$59,407 in cash, and \$1,991 in shares of common stock on May 13, 2019, which represents the fair value of 139,347 shares. The shares of stock were issued in settlement of the earn-out, a contingent consideration, after Veth Propulsion demonstrated that it achieved the profitability target (earnings before interest, tax, depreciation and amortization or "EBITDA") under the terms of the Purchase Agreement. The difference between the fair value at settlement date of \$1,991, and the initial fair value assigned to the earn-out at acquisition date of \$2,921 was recognized in the income statement. See Note Q, Restructuring of Operations and Other Operating Income. The maximum earn-out at acquisition was \$3,300. The fair value at acquisition was determined by using a discounted probability weighted approach.

The total consideration transferred at acquisition date was:

Cash, paid at closing and after agreed-upon working capital adjustments	\$ 59,407
Fair value of contingent consideration at acquisition date	2,921
Total	<u>\$ 62,328</u>

Fair value of assets acquired and liabilities assumed at acquisition date:

Cash, including restricted cash	\$ 1,078
Accounts receivable and other current assets	10,437
Inventories	26,862
Property, plant and equipment	2,661
Intangibles (a)	26,500
Accounts payable and accrued liabilities	(21,208)
Deferred tax liability	<u>(8,001)</u>
Total net assets acquired	38,329
Goodwill (b)	<u>23,999</u>
Total consideration	<u>\$ 62,328</u>

(a) Intangibles consist of customer relationships, technology and know-how and tradenames, with estimated useful lives 12 years, 7 years, and 10 years, respectively, and weighted average remaining useful life of approximately 9 years. The amounts acquired are presented in Note E, Goodwill and Other Intangibles.

(b) The Company is not able to deduct any of the goodwill for tax purposes.

The Company financed the payment of the cash consideration through borrowings under a new credit agreement entered into on June 29, 2018 with BMO Harris Bank N.A. (the "Credit Agreement"). The Credit Agreement is further discussed in Note H, Debt.



C. INVENTORIES

The major classes of inventories at June 30 were as follows:

	<u>2020</u>	<u>2019</u>
Finished parts	\$ 62,394	\$ 57,682
Work in process	17,844	23,812
Raw materials	<u>40,369</u>	<u>44,399</u>
	<u>\$ 120,607</u>	<u>\$ 125,893</u>

Inventories stated on a LIFO basis represent approximately 50% and 52% of total inventories at June 30, 2020 and 2019, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by \$27,225 and \$25,709 at June 30, 2020 and 2019, respectively. The Company had reserves for inventory obsolescence of \$9,863 and \$10,463 at June 30, 2020 and 2019, respectively.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30 were as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 6,589	\$ 6,479
Buildings	48,168	47,627
Machinery and equipment	<u>164,039</u>	<u>158,183</u>
	218,796	212,289
Less: accumulated depreciation	<u>(146,064)</u>	<u>(141,031)</u>
	<u>\$ 72,732</u>	<u>\$ 71,258</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$7,394 and \$6,682, respectively.



E. GOODWILL AND OTHER INTANGIBLES

Goodwill

The Company reviews goodwill for impairment on a reporting unit basis annually as of the first day of the Company's fourth fiscal quarter, and whenever events or changes in circumstances ("triggering events") indicate that the carrying value of goodwill may not be recoverable.

The fair value of reporting units is primarily driven by projected growth rates and operating results under the income approach using a discounted cash flow model, which applies an appropriate market-participant discount rate, and consideration of other market approach data from guideline public companies. If declining actual operating results or future operating results become indicative that the fair value of the Company's reporting units has declined below their carrying values, an interim goodwill impairment test may need to be performed and may result in a non-cash goodwill impairment charge. If the Company's market capitalization falls below the Company's carrying value for a sustained period of time or if such a decline becomes indicative that the fair value of the Company's reporting units has declined to below their carrying values, an interim goodwill impairment test may need to be performed and may result in a non-cash goodwill impairment charge.

On July 2, 2018, as described in Note B, Acquisition of Veth Propulsion Holding B.V., the Company acquired goodwill in the amount of \$23,999 and intangible assets in the amount of \$26,500 consisting of customer relationships, technology and know-how, and trade names as part of the acquisition of Veth Propulsion. As of June 30, 2019, these amounts were final. Veth Propulsion is reported as part of the Company's manufacturing segment and European Propulsion reporting unit.

A significant amount of judgment is involved in determining if a triggering event 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.

The Company believes that the economic disruptions and unprecedented market volatilities and uncertainties resulting from the COVID-19 outbreak was a triggering event in the third quarter of fiscal 2020. Consequently, it performed an interim goodwill impairment test as of the quarter ended March 27, 2020.

Subsequent to the adoption of ASU 2017-04, goodwill impairment charges are recorded using a simplified one-step approach. The fair value of a reporting unit, as defined, is compared to the carrying value of the reporting unit, including goodwill. The fair value is primarily determined using discounted cash flow analyses which is driven by projected growth rates, and which applies an appropriate market-participant discount rate; the fair value determined is also compared to the value obtained using a market approach from guideline public company multiples. If the carrying amount exceeds the fair value, that difference is recognized as an impairment loss.

The European Propulsion reporting unit, which carried goodwill in the amount of \$22,822, had heretofore been experiencing positive operating results. The Company continues to have a positive outlook of its operations and remains committed to supporting it. However, the onset of the COVID-19 outbreak and its uncertainties, as described in Note A, Basis of Presentation and Significant Accounting Policies, required the Company to approach the goodwill impairment analysis differently this year; that past performance is no longer necessarily a good predictor of the future in a COVID-19 environment. To incorporate uncertainties in its analysis, the Company applied a scenario modeling analysis for its goodwill impairment test this year. It is deemed to be the most prudent and a more robust approach in the face of uncertainty. Each scenario was then weighted with management's expectations of potential outcomes, to arrive at a reasonable conclusion of the fair value of the reporting unit. This was the approach deployed by the Company in this year's goodwill and long-lived asset impairment analyses.



In assessing the current environment, management is informed that there is consensus among industry experts that the impacts from the outbreak will be severe and adverse, and that a general contraction in the macroeconomic environment is expected. The magnitude and duration is unknown. Management expects that a contraction of the global economy would reduce or shift the demand for its products in the near term. For example, the reporting unit expects that the demand for certain of its end-market products, such as passenger leisure cruise vessels, passenger ferries, and other commercial vessels that operate based on general economic activities, will likely be adversely impacted as social restrictions by governments remain in place or tighten to curb the outbreak. Based on additional market insights and expectations of industry and subject matter experts, which also includes the negative impacts of the historic and unprecedented free fall drop in the global price of oil, the Company believes that future cash flow projections of this reporting unit will fall short of its previous projections, which included synergies that are now less likely to be realized in the face of a COVID-19 environment.

The European Industrial reporting unit which carried goodwill in the amount of \$2,558 is also challenged with the same macroeconomic conditions and market contraction.

The Company completed its interim assessment for goodwill impairment as of March 27, 2020 with the assistance of a third party expert, using updated inputs, including an appropriate risk-based, company specific weighted average discount rate of 13.0%. The assessment resulted in the full impairment of the European Propulsion and European Industrial reporting units, in the amount of \$25,380.

As a result of the full impairment of goodwill, the balance of goodwill at June 30, 2020 is zero. There will no longer be a need for future goodwill impairment tests.

As a consequence of these macroeconomic developments, market insights and expectations, and the occurrence of a triggering event in the quarter, the Company also performed an assessment of its intangibles and other long-lived assets. The Company performed an undiscounted operating cash flow analysis as of March 27, 2020, as well as the review of other assets in service and their remaining useful lives. It was determined that an impairment charge pertaining to certain tradenames, licenses and other assets was required, in the amount of \$2,223.

The total non-cash impairment charge of \$27,603, as described above, is a non-cash charge and is reported on the goodwill and other impairment charge line in the consolidated statement of operations within the manufacturing segment. The tax impact of this charge is to increase the income tax (benefit) by \$1,199.

The changes in the carrying amount of goodwill are summarized as follows:

	Net Book Value Rollforward			Net Book Value By Reporting Unit	
	Gross Carrying Amount	Accumulated Impairment	Net Book Value	European Propulsion	European Industrial
Balance at June 30, 2018	\$ 16,514	\$ (13,822)	\$ 2,692	\$ -	\$ 2,692
Acquisition	23,999	-	23,999	23,999	-
Translation adjustment	(737)	-	(737)	(628)	(109)
Balance at June 30, 2019	39,776	(13,822)	25,954	23,371	2,583
Impairment	-	(25,380)	(25,380)	(22,822)	(2,558)
Translation adjustment	(574)	-	(574)	(549)	(25)
Balance at June 30, 2020	\$ 39,202	\$ (39,202)	\$ -	\$ -	\$ -



Other Intangibles

At June 30, the following acquired intangible assets have definite useful lives and are subject to amortization:

	Net Book Value Rollforward			Net Book Value By Asset Type			
	Gross Carrying Amount	Accumulated Amortization / Impairment	Net Book Value	Customer Relationships	Technology Know-how	Trade Name	Other
Balance at June 30, 2018	\$ 13,485	\$ (11,781)	\$ 1,704	\$ -	\$ -	\$ 1,288	\$ 416
Addition	236	-	236	-	-	-	236
Acquisition	26,500	-	26,500	16,300	8,400	1,800	-
Amortization	-	(2,653)	(2,653)	(1,123)	(1,172)	(261)	(97)
Translation adjustment	(634)	-	(634)	(334)	(203)	(94)	(3)
Balance at June 30, 2019	39,587	(14,434)	25,153	14,843	7,025	2,733	552
Addition	92	-	92	-	-	-	92
Amortization	-	(4,532)	(4,532)	(3,003)	(1,139)	(232)	(158)
Impairment	-	(1,306)	(1,306)	-	-	(1,080)	(226)
Translation adjustment	(434)	-	(434)	(286)	(102)	(33)	(13)
Balance at June 30, 2020	\$ 39,245	\$ (20,272)	\$ 18,973	\$ 11,554	\$ 5,784	\$ 1,388	\$ 247

Other intangibles consist mainly of computer software. Amortization is recorded on the basis of straight-line or accelerated, as appropriate, over the estimated useful lives of the assets.

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, 2020 and 2019 was \$4,532 and \$2,653, respectively. Estimated intangible amortization expense for each of the next five fiscal years is as follows:

<u>Fiscal Year</u>	
2021	\$ 3,173
2022	2,989
2023	2,827
2024	2,679
2025	2,495
Thereafter	4,810



F. ACCRUED LIABILITIES

Accrued liabilities at June 30 were as follows:

	<u>2020</u>	<u>2019</u>
Customer deposits	\$ 11,541	\$ 14,924
Salaries and wages	5,116	6,982
Distributor rebates	3,769	2,943
Retirement benefits	3,559	2,730
Warranty	3,520	3,034
Other	<u>8,875</u>	<u>11,033</u>
	<u>\$ 36,380</u>	<u>\$ 41,646</u>

G. WARRANTY

The Company warrants all assembled products, 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) and service against defective materials or workmanship. Such warranty generally extends from periods ranging from 12 months to 24 months. 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 number of units 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 that 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. The following is a listing of the activity in the warranty reserve during the years ended June 30:

	<u>2020</u>	<u>2019</u>
Reserve balance, July 1	\$ 3,736	\$ 4,407
Current period expense and adjustments	10,369	3,323
Payments or credits to customers	(9,629)	(3,953)
Translation adjustment	<u>(16)</u>	<u>(41)</u>
Reserve balance, June 30	<u>\$ 4,460</u>	<u>\$ 3,736</u>

Included in expense in the year ending June 30, 2020 is a non-recurring warranty charge in the amount of \$6,233, to accrue for estimated costs to resolve a unique product performance issue at certain installations.

The current portion of the warranty accrual (\$3,520 and \$3,034 for fiscal 2020 and 2019, respectively) is reflected in accrued liabilities, while the long-term portion (\$940 and \$702 for fiscal 2020 and 2019, respectively) is included in other long-term liabilities on the consolidated balance sheets.



H. DEBT

Long-term debt consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Credit Agreement Debt		
Revolving loans (expire June 2023)	\$ 16,641	\$ 22,666
Term loan (due March 2026)	17,500	19,500
PPP loan	8,200	-
Other	<u>246</u>	<u>325</u>
Subtotal	42,587	42,491
Less: current maturities	<u>(4,691)</u>	<u>(2,000)</u>
Total long-term debt	<u>\$ 37,896</u>	<u>\$ 40,491</u>

Credit Agreement Debt:

On June 29, 2018, the Company entered into a new credit agreement (the “Credit Agreement”) with BMO Harris Bank N.A. (“BMO”) that provided for the assignment and assumption of the previously existing loans between the Company and Bank of Montreal and subsequent amendments into a term loan (the “Term Loan”) and revolving credit loans (each a “Revolving Loan” and, collectively, the “Revolving Loans,” and, together with the Term Loan, the “Loans”). Pursuant to the Credit Agreement, BMO agreed to make the Term Loan to the Company in a principal amount not to exceed \$35,000 and the Company may, from time to time prior to the maturity date, enter into Revolving Loans in amounts not to exceed, in the aggregate, \$50,000 (the “Revolving Credit Commitment”). The Credit Agreement also allows the Company to obtain Letters of Credit from BMO, which if drawn upon by the beneficiary thereof and paid by BMO, would become Revolving Loans.

On July 2, 2018, in connection with the acquisition of Veth Propulsion, as described in Note B, Acquisition of Veth Propulsion Holding B.V., the Company drew a total of \$60,729 of additional borrowings on the Credit Agreement, consisting of a \$35,000 Term Loan payable and revolver borrowings of \$25,729. The new borrowing was used to pay the cash consideration at closing of \$58,862, and to pay off the loan owed to the prior parent of Veth Propulsion in the amount of \$1,865.

On September 25, 2018, the Company used the proceeds of a stock offering (see Note J, Shareholders’ Equity) of \$32,210 to partially pay down the Term Loan and Revolving Loans.

On March 4, 2019, the Company entered into a second amendment (the “Second Amendment”) to the Credit Agreement. The Second Amendment reduced the principal amount of the Term Loan commitment under the Credit Agreement from \$35,000 to \$20,000. In connection with the Second Amendment, the Company issued an amended and restated term note in the amount of \$20,000 to BMO, which amended the original \$35,000 note provided under the Credit Agreement.

Prior to entering into the Second Amendment, the outstanding principal amount of the Term Loan under the Credit Agreement was \$10,849. On the date of the Second Amendment, the BMO made an additional advance on the Term Loan to the Company in the amount of \$9,151. The Second Amendment also extended the maturity date of the Term Loan from January 2, 2020 to March 4, 2026, and added a requirement that the Company make principal installments of \$500 per quarter starting with the quarter ending June 30, 2019.

The Second Amendment also reduced the applicable margin for purposes of determining the interest rate applicable to the Term Loan. Previously, the applicable margin was 3.00%, which was added to the Monthly Reset LIBOR Rate or the Adjusted LIBOR, as applicable. Under the Second Amendment, the applicable margin is between 1.375% and 2.375%, depending on the Company’s total funded debt to EBITDA ratio.



The Second Amendment also adjusts certain financial covenants made by the Company under the Credit Agreement. Specifically, the Company has covenanted (i) not to allow its total funded debt to EBITDA ratio to be greater than 3.00 to 1.00 (the cap had previously been 3.50 to 1.00 for quarters ending on or before September 30, 2019 and 3.25 to 1.00 for quarters ending on or about December 31, 2019 through September 30, 2020), and (ii) that its tangible net worth will not be less than \$100,000 plus 50% of net income for each fiscal year ending on and after June 30, 2019 for which net income is a positive number (the \$100,000 figure had previously been \$70,000).

On January 28, 2020, the Company entered into a third amendment (the "Third Amendment"). The Third Amendment restated the financial covenant provisions related to the maximum allowable ratio of total funded debt to EBITDA from 3.00 to 1.00 to 4.00 to 1.00 for the quarter ended December 27, 2019, 5.00 to 1.00 for the quarter ending March 27, 2020, 4.00 to 1.00 for the quarter ending June 30, 2020, 3.50 to 1.00 for the quarter ending September 25, 2020 and 3.00 to 1.00 for quarters ending on or after December 25, 2020. For purposes of determining EBITDA, the Third Amendment added back extraordinary expenses (not to exceed \$3,900 million) related to the previously reported isolated product performance issue on one of the Company's oil and gas transmission models at certain installations. Under the Third Amendment, the applicable margin for revolving loans, letters of credit, and term loans was between 1.25% and 3.375%, depending on the Company's total funded debt to EBITDA ratio.

On April 17, 2020, in connection with a loan obtained under the Payment Protection Plan (the "PPP Loan") as described below, the Company entered into a fourth amendment (the "Fourth Amendment"). The Fourth Amendment: (1) permitted the Company to incur indebtedness in the form of the PPP Loan notwithstanding the Credit Agreement's restrictions limiting the Company's ability to incur indebtedness, and (2) provides that the PPP Loan (to the extent that the Loan is forgiven) shall be disregarded for purposes of calculating financial covenants in the Credit Agreement (the "Covenants"). Any unforgiven portion of the Loan and the interest thereon will not be disregarded for purposes of calculating the Covenants.

On July 22, 2020, the Company entered into a fifth amendment (the "Fifth Amendment"), which is effective June 30, 2020. Under this amendment, (a) the Revolving Loan availability was reduced from \$50,000 to \$45,000, (b) the quarterly payments occurring on September 30, 2020 and December 31, 2020 are changed to be interest-only payments at the Company's option, and (c) the applicable margin on the Term Loan was increased from 3.375% to 3.875%. As a result of this amendment, \$1,000 of principal payments originally due in fiscal 2021 have been deferred to fiscal 2026.

In addition, the Company was given financial covenant relief for the quarters ended June 30, 2020 through June 30, 2021. During this period, in lieu of the Total Funded Debt to EBITDA ratio financial covenant, the Company is required to maintain a minimum cumulative EBITDA, as follows: (1) \$1,000 for the fiscal quarter ended June 30, 2020 and the two fiscal quarters ending September 25, 2020; (2) \$2,500 for the three fiscal quarters ending December 25, 2020; (3) \$6,000 for the four fiscal quarters ending March 26, 2021; and (4) \$10,000 for the four fiscal quarters ending June 30, 2021.

The Company also entered into a Deposit Account Control Agreement with the Bank, reflecting the Bank's security interest in deposit accounts the Company maintains with the Bank. Under the Fifth Amendment, the Bank may not provide a notice of exclusive control of a deposit account (thereby obtaining exclusive control of the account) prior to the occurrence or existence of a Default or an Event of Default under the Credit Agreement or otherwise upon the occurrence or existence of an event or condition that would, but for the passage of time or the giving of notice, constitute a Default or an Event of Default under the Credit Agreement.

The Company is also required to maintain a minimum liquidity level, and abide by certain cash dividend and capital expenditure restrictions.

Borrowings under the Credit Agreement are secured by substantially all of the Company's personal property, including accounts receivable, inventory, machinery and equipment, and intellectual property. The Company has also pledged 100% of its equity interests in certain domestic subsidiaries and 65% of its equity interests in certain foreign subsidiaries. The Company also entered into a Collateral Assignment of Rights under Purchase Agreement for its acquisition of Veth Propulsion.



Upon the occurrence of an event of default, BMO may take the following actions upon written notice to the Company: (1) terminate its remaining obligations under the Credit Agreement; (2) declare all amounts outstanding under the Credit Agreement to be immediately due and payable; and (3) demand the Company to immediately cash collateralize letter of credit obligations in an amount equal to 105% of the aggregate letter of credit obligations or a greater amount if BMO determines a greater amount is necessary. If such event of default is due to the Company's bankruptcy, BMO may take the three actions listed above without notice to the Company.

In addition to the monthly interest payments and any mandatory principal payments required by the Credit Agreement (if applicable), the Company is responsible for paying a quarterly Revolving Credit Commitment Fee and quarterly Letter of Credit Fees. The Revolving Credit Commitment Fee is paid at an annual rate equal to the Applicable Margin on the average daily unused portion of the Revolving Credit Commitment. The Letter of Credit Fee is paid at the Applicable Margin for Revolving Loans that are Eurodollar Loans on the daily average face amount of Letters of Credit outstanding during the preceding calendar quarter. The Company may prepay the Loans (or any one of the Loans), subject to certain limitations.

The PPP Loan:

On April 17, 2020, the Company entered into a promissory note (the "PPP Note") evidencing an unsecured loan in the amount of \$8,200 made to the Company under the Payment Protection Plan ("PPP"). The PPP is a liquidity facility program established by the U.S. government as part of the CARES Act in response to the negative economic impact of the COVID-19 outbreak. The PPP Loan to the Company is being administered by BMO. The PPP Loan has a two-year term and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments are deferred for six months. Beginning November 17, 2020, seven months from the date of the PPP Note, the Company is required to make monthly payments of principal and interest.

The PPP Loan is a forgivable loan to the extent proceeds are used to cover qualified documented payroll, mortgage interest, rent, and utility costs over a 24-week measurement period (as amended) following loan funding. For the loan to be forgiven, the Company is required to formally apply for forgiveness, and potentially, required to pass an audit that it met the eligibility qualifications of the loan. Within 150 days from the application, the Company will be notified whether or not the loan is forgiven.

In accounting for the terms of the PPP Loan, the Company is guided by ASC 470 *Debt*, and ASC 450-30 *Gain contingency*. Accordingly, it recorded the proceeds of the PPP Loan of \$8,200 as debt and it will derecognize the liability when the loan is paid off or it believes forgiveness is reasonably certain. The Company believes that the possibility of loan forgiveness is to be regarded as a contingent gain and therefore will not recognize the gain (and derecognize the loan) until all uncertainty is removed (i.e. all conditions for forgiveness are met).

Other:

Other long-term debt pertains mainly to a financing arrangement in Europe. During fiscal 2019, the Company entered into sale leaseback agreements with a leasing company covering various Company vehicles. Under the terms of the agreements, the Company received \$329 in cash proceeds and agreed to lease back those same vehicles under various terms, ranging from 3 to 5 years. Under ASC 842, *Leases*, these agreements are required to be accounted for as financing transactions. Consequently, the Company recorded long-term liabilities for the proceeds received, and they are reduced as lease payments are made. These liabilities carry implied interest rates ranging from 7% to 25%. A total amount of \$74 in principal was paid on these liabilities during the current fiscal year.

During fiscal year 2020, the average interest rate was 3.64% on the Term Loan, and 2.72% on the Revolving Loans.

As of June 30, 2020, the Company's borrowing capacity under the terms of the Credit Agreement was approximately \$43,681 and the Company had approximately \$27,040 of available borrowings.

The Company's borrowings described above approximates fair value at June 30, 2020 and June 30, 2019. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy.



The Term Loan is covered by an interest rate swap arrangement with Bank of Montreal, with an outstanding notional amount of \$17,500 and a maturity date of March 4, 2026. This swap has been designated as a cash flow hedge under ASC 815, Derivatives and Hedging. This swap is included in the disclosures in Note S, Derivative Financial Instruments.

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

<u>Fiscal Year</u>		
2021	\$	4,691
2022		6,672
2023		18,684
2024		2,016
2025		2,000
Thereafter		8,524
		<u>\$ 42,587</u>

Other lines of credit:

The Company has established unsecured lines of credit, which may be withdrawn at the option of the banks. Under these arrangements, the Company has unused and available credit lines of \$943 with a weighted average interest rate of 5.6% as of June 30, 2020, and \$952 with a weighted average interest rate of 5.0% as of June 30, 2019.



I. LEASE OBLIGATIONS

In accordance with ASC 842, Leases, the Company's leases with terms longer than twelve months are recorded on the consolidated balance sheets. The Company leases certain office and warehouse space, as well as production and office equipment.

The Company determines if an arrangement is a lease at contract inception. The lease term begins upon lease commencement, which is when the Company takes possession of the asset, and may include options to extend or terminate the lease when it is reasonably certain that such options will be exercised. As its lease agreements typically do not provide an implicit rate, the Company primarily uses an incremental borrowing rate based upon the information available at lease commencement. In determining the incremental borrowing rate, the Company considers its current borrowing rate, the term of the lease, and the economic environments where the lease activity is concentrated.

The components of lease expense for the years ended June 30 were as follows:

	<u>2020</u>	<u>2019</u>
Finance lease cost:		
Amortization of right-of-use assets	\$ 188	\$ 27
Interest on lease liabilities	56	8
Operating lease cost	3,137	3,348
Short-term lease cost	64	40
Variable lease cost	58	37
Total lease cost	3,503	3,460
Less: Sublease income	(212)	(222)
Net lease cost	<u>\$ 3,291</u>	<u>\$ 3,238</u>

Other information related to leases was as follows:

	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 3,141	\$ 3,338
Operating cash flows from finance leases	167	18
Financing cash flows from finance leases	56	9
Right-of-use-assets obtained in exchange for lease obligations:		
Operating leases	2,757	13,875
Finance leases	592	553
Weighted average remaining lease term (years):		
Operating leases	10.7	11.1
Finance lease	4.0	4.8
Weighted average discount rate:		
Operating leases	7.4%	7.7%
Finance leases	6.2%	7.3%



Approximate future minimum rental commitments under non-cancellable leases as of June 30, 2020 were as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>
2021	\$ 2,724	\$ 284
2022	2,233	284
2023	1,988	275
2024	1,793	234
2025	1,567	31
Thereafter	<u>10,930</u>	<u>-</u>
Total future lease payments	21,235	1,108
Less: Amount representing interest	<u>(6,773)</u>	<u>(118)</u>
Present value of future payments	<u>\$ 14,462</u>	<u>\$ 990</u>

The following table provides a summary of leases recorded on the consolidated balance sheet at June 30.

	<u>Balance Sheet Location</u>	<u>2020</u>	<u>2019</u>
<u>Lease Assets</u>			
Operating lease right-of-use assets	Property, plant and equipment, net	\$ 14,448	\$ 14,138
Finance lease right-of-use assets	Property, plant and equipment, net	959	545
<u>Lease Liabilities</u>			
Operating lease liabilities	Accrued liabilities	\$ 1,724	\$ 1,933
Operating lease liabilities	Lease obligations	12,738	12,197
Finance lease liabilities	Accrued liabilities	233	104
Finance lease liabilities	Lease obligations	757	449

Subsequent Event:

On July 31, 2020, the Company finalized an agreement to lease a manufacturing, assembly and office facility in Lufkin, Texas. The lease was entered into with the local government as part of the city's economic development program. The new lease has an initial term of 15 years and a base rent of \$427 per year. The Company will record \$4,500 in finance lease right-of-use assets and \$4,500 in finance lease liabilities. In addition to the lease, the Company has certain leasehold improvements which were made to the facility amounting to \$1,041.



J. SHAREHOLDERS' EQUITY

The Company completed the sale of 1,533,334 shares of its common stock through a registered offering which closed on September 25, 2018, at a price to the public of \$22.50 per share. The net proceeds received by the Company and after underwriting expenses of \$2,070 and offering expenses of \$220, were \$32,210 and were recorded as common shares as of June 30, 2020. The proceeds were used to partially pay down the Term Loan and Revolving Loans (see Note H, Debt).

The total number of shares of common stock outstanding at June 30, 2020 and 2019 was 13,405,993 and 13,240,278, respectively. At June 30, 2020 and 2019, treasury stock consisted of 1,226,809 and 1,392,524 shares of common stock, respectively. The Company issued 186,226 and 157,043 shares of treasury stock in fiscal 2020 and 2019, respectively, to fulfill its obligations under the stock option plans and restricted stock and performance share award grants, as well as the contingent consideration related to the acquisition of Veth Propulsion Holding B.V. The Company also recorded forfeitures of 20,511 and 3,784 shares of previously issued restricted stock in fiscal 2020 and 2019, respectively. The difference between the cost of treasury shares and the option price is recorded in common stock.

Under an authorization given by the Board of Directors on July 27, 2012, the Company is permitted to make open market purchases of its common stock. The Company did not make any open market purchases during the two most recent fiscal years. As of June 30, 2020 and 2019, 315,000 shares remain authorized for purchase.

Cash dividends per share were \$0.00 in both fiscal 2020 and 2019.

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 as Series A Junior Preferred Stock.

The components of accumulated other comprehensive loss included in equity as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Translation adjustments	\$ 3,454	\$ 4,439
Net loss on cash flow hedge derivatives, net of income taxes of \$341 and \$156,	(1,104)	(509)
Benefit plan adjustments, net of income taxes of \$13,316 and \$12,707 respectively	<u>(43,576)</u>	<u>(41,901)</u>
Accumulated other comprehensive loss	<u>\$ (41,226)</u>	<u>\$ (37,971)</u>

A reconciliation for the changes in accumulated other comprehensive income (loss), net of tax, by component for the years ended June 30, 2020 and June 30, 2019 is as follows:

	<u>Translation Adjustment</u>	<u>Benefit Plan Adjustment</u>	<u>Cash Flow Hedges</u>
Balance at June 30, 2019	\$ 4,439	\$ (41,901)	\$ (509)
Other comprehensive loss before reclassifications	(985)	(3,792)	(595)
Amounts reclassified from accumulated other comprehensive loss	-	2,117	-
Net current period other comprehensive loss	<u>(985)</u>	<u>(1,675)</u>	<u>(595)</u>
Balance at June 30, 2020	<u>\$ 3,454</u>	<u>\$ (43,576)</u>	<u>\$ (1,104)</u>

	<u>Translation Adjustment</u>	<u>Benefit Plan Adjustment</u>	<u>Cash Flow Hedges</u>
Balance at June 30, 2018	\$ 7,085	\$ (30,877)	\$ -
Other comprehensive loss before reclassifications	(2,646)	(6,068)	(509)
Release stranded tax effects	-	(6,903)	-
Amounts reclassified from accumulated other comprehensive loss	-	1,947	-
Net current period other comprehensive loss	<u>(2,646)</u>	<u>(11,024)</u>	<u>(509)</u>
Balance at June 30, 2019	<u>\$ 4,439</u>	<u>\$ (41,901)</u>	<u>\$ (509)</u>



A reconciliation for the reclassifications out of accumulated other comprehensive income (loss), net of tax for the year ended June 30, 2020 is as follows:

	Amount <u>Reclassified</u>
Amortization of benefit plan items	
Actuarial losses	\$ (2,982)
Transition asset and prior service benefit	<u>195</u>
Total before tax benefit	(2,787)
Tax benefit	<u>670</u>
Total reclassification net of tax	<u>\$ (2,117)</u>

A reconciliation for the reclassifications out of accumulated other comprehensive income (loss), net of tax for the year ended June 30, 2019 is as follows:

	Amount <u>Reclassified</u>
Amortization of benefit plan items	
Actuarial losses	\$ (2,710)
Transition asset and prior service benefit	<u>176</u>
Total before tax benefit	(2,534)
Tax benefit	<u>587</u>
Total reclassification net of tax	<u>\$ (1,947)</u>



K. 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, azimuth drives, 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, energy and natural resources, government, and industrial markets.

Net sales by product group is summarized as follows:

	<u>2020</u>	<u>2019</u>
Industrial	\$ 26,343	\$ 34,042
Land-based transmissions	62,697	112,793
Marine and propulsion systems	152,501	150,237
Other	<u>5,297</u>	<u>5,591</u>
Total	<u>\$ 246,838</u>	<u>\$ 302,663</u>

Industrial products include clutches, power take-offs and pump drives sold to the agriculture, recycling, construction and oil and gas markets. The land based transmission products include applications for oilfield and natural gas, military and airport rescue and fire fighting. The marine and propulsion systems include marine transmission, azimuth drives, controls, surface drives, propellers and boat management systems for the global commercial marine, pleasure craft and patrol boat markets. Other includes non-Twin Disc manufactured product sold through Company-owned distribution entities.

The Company has two reportable segments: manufacturing and distribution. Its segment structure reflects the way management makes operating decisions and manages the growth and profitability of the business. It also corresponds with management's approach of allocating resources and assessing the performance of its segments. 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, before intercompany eliminations, is summarized as follows:

2020	<u>Manufacturing</u>	<u>Distribution</u>	<u>Total</u>
Net Sales	\$ 227,565	\$ 95,824	\$ 323,389
Intra-segment sales	14,230	12,889	27,119
Inter-segment sales	43,854	5,578	49,432
Interest income	346	22	368
Interest expense	2,128	-	2,128
Income taxes	(2,027)	268	(1,759)
Depreciation and amortization	11,151	379	11,530
Net (loss) income attributable to Twin Disc	(31,603)	553	(31,050)
Assets	365,417	43,118	408,535
Expenditures for segment assets	9,615	734	10,349

2019	<u>Manufacturing</u>	<u>Distribution</u>	<u>Total</u>
Net Sales	\$ 280,428	\$ 106,481	\$ 386,909
Intra-segment sales	20,384	14,026	34,410
Inter-segment sales	46,078	3,758	49,836
Interest income	1,154	26	1,180
Interest expense	3,086	(37)	3,049
Income taxes	7,939	353	8,292
Depreciation and amortization	12,893	402	13,295
Net income attributable to Twin Disc	25,062	248	25,310
Assets	384,612	46,076	430,688
Expenditures for segment assets	10,725	663	11,388

The following is a reconciliation of reportable segment net sales and net (loss) income to the Company's consolidated totals:

	<u>2020</u>	<u>2019</u>
Net sales:		
Total net sales from reportable segments	\$ 323,389	\$ 386,909
Elimination of inter-company sales	<u>(76,551)</u>	<u>(84,246)</u>
Total consolidated net sales	<u>\$ 246,838</u>	<u>\$ 302,663</u>
Net (loss) income attributable to Twin Disc:		
Total net (loss) income from reportable segments	\$ (31,050)	\$ 25,310
Other adjustments and corporate expenses	<u>(8,767)</u>	<u>(14,637)</u>
Total consolidated net (loss) income attributable to Twin Disc	<u>\$ (39,817)</u>	<u>\$ 10,673</u>



Corporate expenses pertain to certain costs that are not allocated to the reportable segments, primarily consisting of unallocated corporate overhead costs, including administrative functions and global functional expenses.

Other significant items:

	Segment		Consolidated
	<u>Totals</u>	<u>Adjustments</u>	<u>Totals</u>
2020			
Interest income	\$ 368	\$ (290)	\$ 78
Interest expense	2,128	(268)	1,860
Income taxes	(1,759)	(2,410)	(4,169)
Depreciation and amortization	11,530	395	11,925
Assets	408,535	(114,408)	294,127
Expenditures for segment assets	10,349	350	10,699
2019			
Interest income	\$ 1,180	\$ (1,137)	\$ 43
Interest expense	3,049	(1,122)	1,927
Income taxes	8,292	(4,581)	3,711
Depreciation and amortization	13,295	317	13,612
Assets	430,688	(83,818)	346,870
Expenditures for segment assets	11,388	591	11,979

All adjustments represent inter-company eliminations and corporate amounts.

Geographic information about the Company is summarized as follows:

	<u>2020</u>	<u>2019</u>
Net sales		
United States	\$ 83,771	\$ 132,467
Netherlands	39,501	31,521
China	26,354	28,772
Austria	12,552	10,464
Australia	12,438	12,463
Italy	11,802	12,755
Canada	5,664	10,875
Other countries	54,756	63,346
Total	<u>\$ 246,838</u>	<u>\$ 302,663</u>

Net sales by geographic region are based on product shipment destination.



Long-lived assets primarily pertain to property, plant and equipment and exclude goodwill, other intangibles, and deferred income taxes. They are summarized as follows:

Long-lived assets	<u>2020</u>	<u>2019</u>
United States	\$ 41,996	\$ 41,233
Netherlands	12,659	13,186
Belgium	8,363	8,595
Switzerland	6,804	6,810
Italy	1,697	1,894
Other countries	<u>5,205</u>	<u>3,298</u>
Total	<u>\$ 76,724</u>	<u>\$ 75,016</u>

The Company has one distributor customer, primarily of its manufacturing segment, that accounted for 10% of total Company sales for fiscal 2020. There were no customers that accounted for 10% of consolidated net sales in fiscal 2019.

Disaggregated revenue:

The following tables present details deemed most relevant to the users of the financial statements for the years ended June 30, 2020 and June 30, 2019.

Net sales by product group for the year ended June 30, 2020 is summarized as follows:

	<u>Manufacturing</u>	<u>Distribution</u>	<u>Elimination of Intercompany Sales</u>	<u>Total</u>
Industrial	\$ 24,143	\$ 5,634	\$ (3,434)	\$ 26,343
Land-based transmissions	63,523	25,699	(26,525)	62,697
Marine and propulsion systems	139,833	59,212	(46,544)	152,501
Other	<u>66</u>	<u>5,279</u>	<u>(48)</u>	<u>5,297</u>
Total	<u>\$ 227,565</u>	<u>\$ 95,824</u>	<u>\$ (76,551)</u>	<u>\$ 246,838</u>

Net sales by product group for the year ended June 30, 2019 is summarized as follows:

	<u>Manufacturing</u>	<u>Distribution</u>	<u>Elimination of Intercompany Sales</u>	<u>Total</u>
Industrial	\$ 30,393	\$ 8,079	\$ (4,430)	\$ 34,042
Land-based transmissions	111,260	30,483	(28,950)	112,793
Marine and propulsion systems	138,704	62,329	(50,796)	150,237
Other	<u>71</u>	<u>5,590</u>	<u>(70)</u>	<u>5,591</u>
Total	<u>\$ 280,428</u>	<u>\$ 106,481</u>	<u>\$ (84,246)</u>	<u>\$ 302,663</u>



L. STOCK-BASED COMPENSATION

In fiscal 2019, the Company adopted the Twin Disc, Incorporated 2018 Long-Term Incentive Plan (the “2018 LTI Plan”). Benefits under the 2018 LTI Plan may be granted, awarded or paid in any one or a combination of stock options, stock appreciation rights, restricted stock awards, restricted stock units, cash-settled restricted stock units, performance stock awards, performance stock unit awards, performance unit awards, and dividend equivalent awards. There is reserved for issuance under the Plan an aggregate of 850,000 shares of the Company’s common stock, which may be authorized and unissued shares or shares reacquired by the Company in the open market or a combination of both. The aggregate amount is subject to proportionate adjustments for stock dividends, stock splits and similar changes.

In fiscal 2011, the Company adopted the Twin Disc, Incorporated 2010 Stock Incentive Plan for Non-Employee Directors (the “2010 Directors’ Plan”), a plan to grant non-employee directors equity-based awards up to 250,000 shares of common stock, and the Twin Disc, Incorporated 2010 Long-Term Incentive Compensation Plan (the “2010 Employee Incentive Plan”), a plan under which officers and key employees may be granted equity-based awards up to 650,000 shares of common stock. Equity-based awards granted under these plans include performance shares and restricted stock.

Shares available for future awards as of June 30 were as follows:

	<u>2020</u>	<u>2019</u>
2018 LTI Plan	492,591	742,325
2010 Directors' Plan	12,865	61,354

Performance Stock Awards (“PSA”)

In fiscal 2020 and 2019, the Company granted a target number of 131,688 and 50,004 PSAs, respectively, to various employees of the Company, including executive officers.

The PSAs granted in fiscal 2020 will vest if the Company achieves performance-based target objectives relating to average return on invested capital, average annual sales and average annual Earnings Per Share (“EPS”) (as defined in the PSA Grant Agreement), in the cumulative three fiscal year period ending June 30, 2022. These PSAs are subject to adjustment if the Company’s return on invested capital, net sales, and EPS 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 184,766. Based upon actual results to date, the Company is not currently accruing compensation expense for these PSAs.

The PSAs granted in fiscal 2019 will vest if the Company achieves performance-based target objectives relating to average return on invested capital, average annual sales and average annual Earnings Per Share (“EPS”) (as defined in the PSA Grant Agreement), in the cumulative three fiscal year period ending June 30, 2021. These PSAs are subject to adjustment if the Company’s return on invested capital, net sales, and EPS 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 67,007. Based upon actual results to date, the Company is not currently accruing compensation expense for these PSAs.

There were 167,848 and 96,124 unvested PSAs outstanding at June 30, 2020 and 2019, respectively. A total of 13,844 and 0 shares of performance stock awards were forfeited during fiscal 2020 and 2019, respectively. The fair value of the PSAs (on the date of grant) is expensed over the performance period for the shares that are expected to ultimately vest. The compensation (benefit) expense for the year ended June 30, 2020 and 2019, related PSAs, was (\$368) and \$1,196, respectively. The tax (expense) benefit from compensation (benefit) expense for the year ended June 30, 2020 and 2019, related PSAs, was (\$87) and \$278, respectively. The weighted average grant date fair value of the unvested awards at June 30, 2020 was \$14.78. At June 30, 2020, the Company had \$2,480 of unrecognized compensation expense related to the unvested shares that would vest if the specified target objective was achieved for the fiscal 2020 and 2019 awards. The total fair value of performance stock awards vested in fiscal 2020 was \$167. The total fair value of performance stock awards vested in fiscal 2019 was \$1,228.



Restricted Stock Awards ("RS")

The Company has unvested RS outstanding that will vest if certain service conditions are fulfilled. The fair value of the RS grants is recorded as compensation over the vesting period, which is generally 1 to 3 years. During fiscal 2020 and 2019, the Company granted 180,379 and 43,305 service based restricted shares, respectively, to employees and non-employee directors in each year. A total of 20,511 and 3,784 shares of restricted stock were forfeited during fiscal 2020 and 2019, respectively. There were 231,379 and 172,637 unvested shares outstanding at June 30, 2020 and 2019, respectively. Compensation expense of \$1,200 and \$1,096 was recognized during the year ended June 30, 2020 and 2019, respectively, related to these service-based awards. The tax benefit from compensation expense for the year ended June 30, 2020 and 2019 related to these service-based awards, was \$283 and \$255, respectively. The total fair value of restricted stock grants vested in fiscal 2020 and 2019 was \$1,241 and \$2,391, respectively. As of June 30, 2020, the Company had \$1,307 of unrecognized compensation expense related to restricted stock which will be recognized over the next three years.

Restricted Stock Unit Awards ("RSU")

Under the 2018 Long Term Incentive Plan, the Company has been authorized to issue RSUs. The RSUs entitle the employee to shares of common stock of the Company if the employee remains employed by the Company through a specified date, generally three years from the date of grant. During fiscal 2019, the Company granted 37,950 RSUs to various employees of the Company, including executive officers. The fair value of the RSUs (on the date of grant) is recorded as compensation expense over the vesting period. There were 37,950 unvested RSUs outstanding at June 30, 2020 and June 30, 2019. Compensation expense of \$326 and \$299 was recognized during the year ended June 30, 2020 and 2019, respectively. The tax benefit from compensation expense for the year ended June 30, 2020 and 2019, related to these service-based awards, was \$77 and \$69, respectively. The weighted average grant date fair value of the unvested awards at June 30, 2020 was \$25.77. As of June 30, 2020, the Company had \$353 of unrecognized compensation expense related to RSUs which will be recognized over the next two years.

Stock Options

The 2010 Directors' Plan may grant options to purchase shares of common stock, at the discretion of the Board of Directors, to non-employee directors who are elected or reelected to the board, or who continue to serve on the board. 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 2018 Employee 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 2018 Employee 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. There were no options outstanding under the 2010 Directors' Plan and the 2018 Employee Incentive Plan as of June 30, 2020 and 2019.



M. 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 costs for ongoing efforts to refine existing products. Research and development costs charged to operations totaled \$1,820 and \$2,385 in fiscal 2020 and 2019, respectively. Total engineering and development costs were \$10,998 and \$12,594 in fiscal 2020 and 2019, respectively.

N. 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 from January 1, 1997 through July 31, 2009, at which time the Company froze future accruals under domestic defined benefit pension plans. The Company's funding policy for the plans covering domestic employees is to contribute an actuarially determined amount which falls between the minimum required contribution and maximum amount that can be deducted for federal income tax purposes.

In addition, the Company has unfunded, non-qualified retirement plans for certain management employees and Directors. In the case of management employees, benefits are based on an annual credit to a bookkeeping account, intended to restore the benefits that would have been earned under the qualified plans, but for the earnings limitations under the Internal Revenue Code. In the case of Directors, benefits are based on years of service on the Board. All benefits vest upon retirement from the Company.

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

The measurement date for the Company's pension and postretirement benefit plans in fiscal 2020 and 2019 was June 30.



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 and comprehensive (loss) income as of June 30:

	Pension Benefits		Other Postretirement Benefits	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 107,322	\$ 105,012	\$ 7,451	\$ 8,077
Service cost	653	795	17	19
Interest cost	3,305	4,020	219	305
Actuarial loss	3,161	6,718	211	18
Contributions by plan participants	93	103	352	389
Benefits paid	(9,014)	(9,326)	(1,191)	(1,357)
Benefit obligation, end of year	<u>\$ 105,520</u>	<u>\$ 107,322</u>	<u>\$ 7,059</u>	<u>\$ 7,451</u>
Change in plan assets:				
Fair value of assets, beginning of year	\$ 87,291	\$ 90,258	\$ -	\$ -
Actual return on plan assets	3,541	4,125	-	-
Employer contribution	1,373	2,131	839	968
Contributions by plan participants	93	103	352	389
Benefits paid	(9,014)	(9,326)	(1,191)	(1,357)
Fair value of assets, end of year	<u>\$ 83,284</u>	<u>\$ 87,291</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$ (22,236)</u>	<u>\$ (20,031)</u>	<u>\$ (7,059)</u>	<u>\$ (7,451)</u>
Amounts recognized in the balance sheet consist of:				
Other assets - noncurrent	\$ -	\$ 3	\$ -	\$ -
Accrued liabilities - current	(276)	(645)	(1,081)	(962)
Accrued retirement benefits - noncurrent	(21,960)	(19,389)	(5,978)	(6,489)
Net amount recognized	<u>\$ (22,236)</u>	<u>\$ (20,031)</u>	<u>\$ (7,059)</u>	<u>\$ (7,451)</u>
Amounts recognized in accumulated other comprehensive loss consist of (net of tax):				
Net transition obligation	\$ 158	\$ 178	\$ -	\$ -
Prior service cost	104	144	(697)	(908)
Actuarial net loss	43,548	42,185	463	302
Net amount recognized	<u>\$ 43,810</u>	<u>\$ 42,507</u>	<u>\$ (234)</u>	<u>\$ (606)</u>



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

	Pension Benefits	Other Postretirement Benefits
Net transition obligation	\$ 35	\$ -
Prior service cost	45	(275)
Actuarial net loss	<u>3,246</u>	<u>-</u>
Net amount to be recognized	<u>\$ 3,326</u>	<u>\$ (275)</u>

The accumulated benefit obligation for all defined benefit pension plans was approximately \$105,520 and \$107,322 at June 30, 2020 and 2019, respectively.

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

	June 30	
	2020	2019
Projected and accumulated benefit obligation	\$ 105,520	\$ 102,879
Fair value of plan assets	83,284	82,845

Components of Net Periodic Benefit Cost:

	Pension Benefits	
	2020	2019
Service cost	\$ 648	\$ 792
Interest cost	3,304	4,019
Expected return on plan assets	(4,894)	(5,238)
Amortization of transition obligation	35	34
Amortization of prior service cost	45	64
Amortization of actuarial net loss	<u>2,982</u>	<u>2,710</u>
Net periodic benefit cost	<u>\$ 2,120</u>	<u>\$ 2,381</u>

	Other Postretirement Benefits	
	2020	2019
Service cost	\$ 17	\$ 18
Interest cost	219	304
Amortization of prior service cost	<u>(274)</u>	<u>(274)</u>
Net periodic benefit cost	<u>\$ (38)</u>	<u>\$ 48</u>



Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income for Fiscal 2020 (Pre-tax):

	<u>Pension</u>	<u>Other Postretirement Benefits</u>
Net loss	\$ 4,770	\$ 211
Amortization of transition asset	(35)	-
Amortization of prior service (cost) benefit	(45)	275
Amortization of net (loss) gain	<u>(2,978)</u>	<u>-</u>
Total recognized in other comprehensive income	1,712	486
Net periodic benefit cost	<u>2,120</u>	<u>(38)</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 3,832</u>	<u>\$ 448</u>

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income for Fiscal 2019 (Pre-tax):

	<u>Pension</u>	<u>Other Postretirement Benefits</u>
Net loss	\$ 8,098	\$ 18
Prior service cost	(211)	-
Amortization of transition asset	(34)	-
Amortization of prior service (cost) benefit	(64)	275
Amortization of net (loss) gain	<u>(2,711)</u>	<u>-</u>
Total recognized in other comprehensive income	5,078	293
Net periodic benefit cost	<u>2,381</u>	<u>48</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 7,459</u>	<u>\$ 341</u>

Additional Information

Assumptions

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Weighted average assumptions used to determine benefit obligations at June 30				
Discount rate	2.49%	3.22%	2.37%	3.15%
Expected return on plan assets	5.89%	6.04%		
	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Weighted average assumptions used to determine net periodic benefit costs for years ended June 30				
Discount rate	3.22%	4.01%	3.15%	4.09%
Expected return on plan assets	6.04%	6.74%		



The assumed weighted-average healthcare cost trend rate was 6.25% in 2020, grading down to 5% in 2025. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately \$84 and the service and interest cost by approximately \$3. A 1% decrease in the assumed health care cost trend would decrease the accumulated postretirement benefit obligation by approximately \$71 and the service and interest cost by approximately \$3.

Plan Assets

The Company's Benefits Committee ("Committee"), a non-board management committee, oversees investment matters related to the Company's funded benefit plans. The Committee works with external actuaries and investment consultants on an ongoing basis to establish and monitor investment strategies and target asset allocations. The overall objective of the Committee's investment strategy is to earn a rate of return over time to satisfy the benefit obligations of the pension plans and to maintain sufficient liquidity to pay benefits and address other cash requirements of the pension plans. The Committee has established an Investment Policy Statement which provides written documentation of the Company's expectations regarding its investment programs for the pension plans, establishes objectives and guidelines for the investment of the plan assets consistent with the Company's financial and benefit-related goals, and outlines criteria and procedures for the ongoing evaluation of the investment program. The Company employs a total return on investment approach whereby a mix of investments among several asset classes are used to maximize long-term return of plan assets while avoiding excessive risk. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, and annual liability measurements.

The Company's pension plan weighted-average asset allocations at June 30, 2020 and 2019 by asset category were as follows:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>June 30</u>	
		<u>2020</u>	<u>2019</u>
Equity securities	51%	47%	49%
Debt securities	40%	44%	42%
Real estate	<u>9%</u>	<u>9%</u>	<u>9%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Due to market conditions and other factors, actual asset allocation may vary from the target allocation outlined above. The U.S. pension plans held 98,211 shares of Company stock with a fair market value of \$544 (0.7% of total plan assets) at June 30, 2020 and 98,211 shares with a fair market value of \$1,483 (1.7% of total plan assets) at June 30, 2019.

The U.S. plans have a long-term return assumption of 6.10%. This rate was derived based upon historical experience and forward-looking return expectations for major asset class categories. The weighted average long-term return across all plans is 5.89%.

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into the following hierarchy:

- Level I Unadjusted quoted prices in active markets for identical instruments
- Level II Unadjusted quoted prices in active markets for similar instruments, or
Unadjusted quoted prices for identical or similar instruments in markets that are not active, or
Other inputs that are observable in the market or can be corroborated by observable market data
- Level III Use of one or more significant unobservable inputs



The following table presents plan assets using the fair value hierarchy as of June 30, 2020:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Cash and cash equivalents	\$ 920	\$ 920	\$ -	\$ -
Equity securities:				
Company common stock (a)	544	544	-	-
Common stock (a)	14,551	14,551	-	-
Mutual funds (b)	7,916	7,916	-	-
Annuity contracts (c)	<u>6,095</u>	<u>-</u>	<u>-</u>	<u>6,095</u>
Total	\$ 30,026	\$ 23,931	\$ -	\$ 6,095
Investments Measured at Net Asset Value (d)	<u>53,258</u>			
Total	<u>\$ 83,284</u>			

The following table presents plan assets using the fair value hierarchy as of June 30, 2019:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Cash and cash equivalents	\$ 971	\$ 971	\$ -	\$ -
Equity securities:				
Company common stock (a)	1,483	1,483	-	-
Common stock (a)	16,713	16,713	-	-
Mutual funds (b)	7,963	7,963	-	-
Annuity contracts (c)	<u>6,171</u>	<u>-</u>	<u>-</u>	<u>6,171</u>
Total	\$ 33,301	\$ 27,130	\$ -	\$ 6,171
Investments Measured at Net Asset Value (d)	<u>53,990</u>			
Total	<u>\$ 87,291</u>			

(a) Common stock is valued at the closing price reported on the active market on which the individual securities are traded. These securities include U.S. equity securities invested in companies that are traded on exchanges inside the U.S. and international equity securities invested in companies that are traded on exchanges outside the U.S.

(b) Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Company's funded benefit plans are open-end mutual funds that are registered with the Securities Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Company's funded benefit plans are deemed to be actively traded.

(c) Annuity contracts represent contractual agreements in which payments are made to an insurance company, which agrees to pay out an income or lump sum amount at a later date. Annuity contracts are valued at the net present value of future cash flows.

(d) In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value of plan assets at the end of the year.



The following table sets forth additional disclosures for the fair value measurement of the fair value of pension plan assets that calculate fair value based on NAV per share practical expedient as of June 30, 2020 and June 30, 2019:

	<u>2020</u>	<u>2019</u>
Fixed income funds	\$ 33,032	\$ 33,568
International equity securities	2,840	3,168
Real estate	7,186	7,069
Hedged equity mutual funds	10,200	10,185
Total	<u>\$ 53,258</u>	<u>\$ 53,990</u>

The following tables present a reconciliation of the fair value measurements using significant unobservable inputs (Level III) as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 6,171	\$ 6,113
Actual return on plan assets:		
Relating to assets still held at reporting date	75	216
Purchases, sales and settlements, net	(151)	(158)
Ending balance	<u>\$ 6,095</u>	<u>\$ 6,171</u>

Cash Flows

Contributions

The Company expects to contribute \$2,346 to its defined benefit pension plans in fiscal 2021.

Estimated Future Benefit Payments

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

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
2021	\$ 8,944	\$ 1,094
2022	8,230	843
2023	7,936	769
2024	7,547	693
2025	7,197	608
Years 2026 - 2030	32,605	2,273

The Company does not expect to make any Part D reimbursements for the periods presented.

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 \$1,949 and \$2,276 in fiscal 2020 and 2019, respectively.



O. INCOME TAXES

United States and foreign (loss) income before income taxes and minority interest were as follows:

	<u>2020</u>	<u>2019</u>
United States	\$ (29,332)	\$ 7,059
Foreign	<u>(14,408)</u>	<u>7,448</u>
	<u>\$ (43,740)</u>	<u>\$ 14,507</u>

The (benefit) provision for income taxes is comprised of the following:

	<u>2020</u>	<u>2019</u>
Currently payable:		
Federal	\$ (149)	\$ 248
State	30	261
Foreign	<u>4,022</u>	<u>(3,644)</u>
	<u>3,903</u>	<u>(3,135)</u>
Deferred:		
Federal	(5,673)	920
State	(860)	(7)
Foreign	<u>(1,539)</u>	<u>5,933</u>
	<u>(8,072)</u>	<u>6,846</u>
	<u>\$ (4,169)</u>	<u>\$ 3,711</u>

The components of the net deferred tax asset as of June 30 are summarized in the table below.

	<u>2020</u>	<u>2019</u>
<i>Deferred tax assets:</i>		
Retirement plans and employee benefits	\$ 7,934	\$ 7,732
Foreign tax credit carryforwards	7,429	6,296
Federal tax credits	1,585	1,057
State net operating loss and other state credit carryforwards	1,696	1,269
Federal net operating loss	1,607	-
Inventory	205	757
Reserves	1,056	765
Foreign NOL carryforwards	555	775
Accruals	823	339
Right of use assets - operating leases	3,920	3,691
Disallowed interest	418	-
Disallowed PPP expenses	1,320	-
Other assets	<u>832</u>	<u>656</u>
	<u>29,380</u>	<u>23,337</u>
<i>Deferred tax liabilities:</i>		
Property, plant and equipment	3,231	3,432
Intangibles	3,306	5,345
Long term operating lease obligations	3,855	3,617
Other liabilities	<u>44</u>	<u>194</u>
	<u>10,436</u>	<u>12,588</u>
Valuation allowance	<u>-</u>	<u>-</u>
Total net deferred tax assets	<u>\$ 18,944</u>	<u>\$ 10,749</u>



At June 30, 2020 the Company has net operating loss carryforwards (“NOLs”) of approximately \$7,655 and \$23,132 for federal and state income tax purposes, respectively, which will expire at various dates from fiscal year 2023 – 2040. Federal NOLs generated in fiscal 2020 of \$7,655 have an indefinite carryover period. The Company has federal and state tax credit carryforwards of approximately \$9,410 and \$975, respectively, which will expire at various dates from fiscal 2026 – 2040.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. The Company has evaluated the likelihood of whether the net deferred tax assets would be realized and concluded that it is more likely than not that all of deferred tax assets would be realized. 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 all the 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:

	<u>2020</u>	<u>2019</u>
U.S. federal income tax at 21%	\$ (9,185)	\$ 3,046
Increases (reductions) in tax resulting from:		
Foreign tax items	236	281
State taxes	(716)	209
Change in prior year estimate	(213)	(50)
Research and development tax credits	(412)	(306)
Goodwill impairment	4,814	-
Unrecognized tax benefits	9	158
Stock compensation	(93)	(153)
Rate changes	237	15
Deferred tax basis adjustments	(138)	(111)
Executive compensation	-	291
GILTI inclusion	1,220	284
FDII deduction	-	(74)
Other, net	72	121
	<u>\$ (4,169)</u>	<u>\$ 3,711</u>

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the Internal Revenue Code. The Tax Act is generally applicable for tax years beginning after December 31, 2017, which is the Company’s fiscal year 2018. However, several provisions of the Tax Act have differing effective dates, meaning these provisions did not impact the Company’s financial statements until fiscal year 2019. The provisions impacting the Company’s fiscal year 2019 financial statements include the global intangible low taxed income (“GILTI”) income and foreign-derived intangible income (“FDII”) deduction and limitations on the deductibility of executive compensation.

Executive Compensation Limitations: The Tax Act substantially modifies the limitation on corporate deductibility of executive compensation under Section 162(m) of the Code. Section 162(m) limits the deduction for compensation paid by a publicly held corporation to certain of its executive employees to \$1,000 per year. The Tax Act has amended the definition of “covered employee” to correspond to the general SEC reporting requirements for named executive officers. These are the corporation’s principal executive officer, principal financial officer, and the next three highest-paid executive officers. Most significantly, the Tax Act has eliminated the exemptions for commissions and performance-based compensation.



Global Intangible Low Taxed Income (“GILTI”): The Tax Act changed the foreign source income calculations and related foreign tax credit amounts. The GILTI require 10% domestic shareholders (US Shareholders) of controlled foreign corporations (CFC’s) to include in gross income annually the U.S. Shareholders’ pro rata share of GILTI for the year.

Foreign Derived Intangible Income (“FDII”): The Tax Act provides companies with a new permanent deduction. An incentive for C corporations to generate revenue from serving foreign markets, the provision applies a preferential tax rate to eligible income. The new tax law assumes a fixed rate of return on a corporation’s tangible assets. Any remaining income is deemed to be generated by intangible assets.

The Company has not provided additional U.S. income taxes on cumulative earnings of consolidated foreign subsidiaries that are considered to be reinvested indefinitely. The Company reaffirms its position that these earnings remain permanently invested, and has no plans to repatriate funds to the U.S. for the foreseeable future. These earnings relate to ongoing operations and were approximately \$1,729 and \$6,208 at June 30, 2020 and June 30, 2019, respectively. 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.

Annually, the company files income tax returns in various taxing jurisdictions inside and outside the United States. In general, the tax years that remain subject to examination are 2016 through 2020 for our major operations in Italy, Belgium and Japan. The tax years open to examination in the U.S. are for years subsequent to fiscal 2016.

The Company has approximately \$918 and \$938 of unrecognized tax benefits as of June 30, 2020 and June 30, 2019, respectively, which, if recognized would impact the effective tax rate. During the fiscal year the amount of unrecognized tax benefits decreased primarily due to statute of limitations that expired. During the next twelve months, the Company anticipates closure of the Wisconsin income tax audit for the periods fiscal year 2010 through fiscal year 2013. This could result in a significant change to the unrecognized tax benefits. 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 as of June 30:

	<u>2020</u>	<u>2019</u>
Unrecognized tax benefits, beginning of year	\$ 938	\$ 816
Additions based on tax positions related to the prior year	17	31
Additions based on tax positions related to the current year	87	91
Reductions based on tax positions related to the prior year	(19)	-
Subtractions due to statutes closing	(105)	-
Unrecognized tax benefits, end of year	<u>\$ 918</u>	<u>\$ 938</u>

Substantially all of the Company’s unrecognized tax benefits as of June 30, 2020, if recognized, would affect the effective tax rate. As of June 30, 2020 and 2019, the amounts accrued for interest and penalties totaled \$185 and \$148, respectively, and are not included in the reconciliation above.

P. CONTINGENCIES

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



Q. RESTRUCTURING OF OPERATIONS AND OTHER OPERATING INCOME

Restructuring expenses

The Company has implemented various restructuring programs in response to unfavorable macroeconomic trends in certain of the Company's markets since the fourth quarter of fiscal 2015. These programs primarily involved the reduction of workforce in several of the Company's manufacturing locations, under a combination of voluntary and involuntary programs. In its European operations, the Company also implemented actions to reorganize for productivity.

These actions resulted in restructuring charges of \$1,953 and \$1,179 in fiscal 2020 and 2019, respectively.

Restructuring activities since June 2015 have resulted in the elimination of 207 full-time employees in the manufacturing segment. Accumulated costs to date under these programs within the manufacturing segment through June 30, 2020 were \$12,405.

During the second quarter of fiscal 2020, a marine propulsion development program, for which the Company had provided development and production services, was terminated. The cost of exiting the contract consisted of a noncash write-off of assets and liabilities relating to the program amounting to \$2,185, and a cash settlement to satisfy supplier commitments associated with the program amounting to \$1,000. The Company has classified the total contract exit cost of \$3,185 as a restructuring charge within the manufacturing segment, in the year ended June 30, 2020.

The following is a roll-forward of restructuring activity:

Accrued restructuring liability, June 30, 2018	\$	90
Additions		1,179
Payments and adjustments		<u>(1,269)</u>
Accrued restructuring liability, June 30, 2019		-
Additions		5,138
Payments and adjustments		<u>(5,054)</u>
Accrued restructuring liability, June 30, 2020	\$	<u>84</u>

Other Operating Income – Sale of Mill Log Business

On February 7, 2019, as part of its ongoing initiative to focus resources on core manufacturing and product development activities, the Company entered into an asset purchase agreement with one of its major distributor customers. Under this agreement, the Company sold substantially all of the assets and intangible rights of Mill-Log Equipment Co., Inc. and Mill-Log Wilson Equipment Ltd. (the "Mill Log Business"), its wholly-owned subsidiaries which distributed Twin Disc products in the northwestern U.S. and western Canada territories. The Mill Log Business reported pre-tax loss of \$1,374 in fiscal 2019. The results of operations from the Mill Log Business were reported as part of the Company's distribution segment. Assets sold consisted primarily of inventories, with a carrying value of \$6,298, and property and equipment including right-of-use leases, with a carrying value of \$592. The sale closed on March 4, 2019 and the Company received a total consideration of \$7,658, consisting of cash proceeds of \$5,158 and a note receivable for \$2,500 due on March 4, 2020. As of June 30, 2020, the Company has agreed to a revised payment schedule after collecting \$500, and is carrying the balance of \$1,200 and \$800 in other current assets and other assets, respectively. The Company recognized a pre-tax gain on sale of the Mill Log Business of \$768, and recorded it as part of other operating income in the statement of operations in fiscal 2019.



Other Operating Income – Fair Value Adjustment of Contingent Consideration

As discussed in Note B, Acquisition of Veth Propulsion Holding B.V., the Company issued a contingent consideration as part of the Veth Propulsion acquisition; the fair value at acquisition date was \$2,921. The contingency was settled after Veth Propulsion demonstrated that it achieved the earnings before interest, tax, depreciation and amortization (“EBITDA”) amount as provided for under the Purchase Agreement.

On May 13, 2019, the Company issued 139,347 shares of the Company’s common stock, with a fair value of \$1,991 in settlement of the contingent consideration. Under ASC 805, Business Combinations, any change in fair value of the contingent consideration is recognized in the current period statement of operations and comprehensive (loss) income and is not an adjustment to the opening balance sheet or the determination of goodwill. Accordingly, the Company recognized a gain of \$809, after foreign exchange impact; this amount is reported as other operating income in fiscal 2019.



R. EARNINGS PER SHARE

The Company calculates basic earnings per share based upon the weighted average number of common shares outstanding during the period, while the calculation of diluted earnings per share includes the dilutive effect of potential common shares outstanding during the period. The calculation of diluted earnings per share excludes all potential common shares if their inclusion would have an anti-dilutive effect. Restricted stock award recipients under the 2010 LTI Plan have a non-forfeitable right to receive dividends declared by the Company, and are therefore included in computing earnings per share pursuant to the two-class method.

The components of basic and diluted earnings per share were as follows:

	<u>2020</u>	<u>2019</u>
Basic:		
Net (loss) income	\$ (39,571)	\$ 10,796
Less: Net earnings attributable to noncontrolling interest	(246)	(123)
Less: Undistributed earnings attributable to unvested shares	<u>-</u>	<u>(148)</u>
Net (loss) income available to Twin Disc shareholders	(39,817)	10,525
Weighted average shares outstanding - basic	<u>13,153</u>	<u>12,571</u>
Basic (Loss) Income Per Share:		
Net (loss) income per share - basic	<u>\$ (3.03)</u>	<u>\$ 0.84</u>
Diluted:		
Net (loss) income	\$ (39,571)	\$ 10,796
Less: Net earnings attributable to noncontrolling interest	(246)	(123)
Less: Undistributed earnings attributable to unvested shares	<u>-</u>	<u>(148)</u>
Net (loss) income available to Twin Disc shareholders	(39,817)	10,525
Weighted average shares outstanding - basic	13,153	12,571
Effect of dilutive stock awards	<u>-</u>	<u>111</u>
Weighted average shares outstanding - diluted	<u>13,153</u>	<u>12,682</u>
Diluted (Loss) Income Per Share:		
Net (loss) income per share - diluted	<u>\$ (3.03)</u>	<u>\$ 0.83</u>

The following potential common shares were excluded from diluted EPS for the year ended June 30, 2020 as the Company reported a net loss: 167,848 related to the Company's unvested PSAs, 231,379 related to the Company's unvested RS awards, and 37,950 related to the Company's unvested RSUs.

The following potential common shares were excluded from diluted EPS for the year ended June 30, 2019 because they were anti-dilutive: 80,164 related to the Company's unvested PSAs, 172,637 related to the Company's unvested RS awards, 13,123 related to the Company's unvested RSUs, and 3,483 related to outstanding stock options.



S. DERIVATIVE FINANCIAL INSTRUMENTS

The Company reports all derivative instruments on its consolidated balance sheets at fair value and establishes criteria for designation and effectiveness of transactions entered into for hedging purposes.

As a global organization, the Company faces exposure to market risks, such as fluctuations in foreign currency exchange rates, interest rates and commodity prices. To manage the volatility relating to these exposures, the Company enters into various derivative instruments from time to time under its risk management policies. The Company designates derivative instruments as hedges on a transaction basis to support hedge accounting. The changes in fair value of these hedging instruments offset in part or in whole corresponding changes in the fair value or cash flows of the underlying exposures being hedged. The Company assesses the initial and ongoing effectiveness of its hedging relationships in accordance with its policy. The Company does not purchase, hold or sell derivative financial instruments for trading purposes. The Company's practice is to terminate derivative transactions if the underlying asset or liability matures or is sold or terminated, or if it determines the underlying forecasted transaction is no longer probable of occurring.

Interest Rate Swaps Designated as Cash Flow Hedges

The primary purpose of the Company's cash flow hedging activities is to manage the potential changes in value associated with interest payments on the Company's LIBOR-based indebtedness. The Company records gains and losses on interest rate swap contracts qualifying as cash flow hedges in accumulated other comprehensive loss to the extent that these hedges are effective and until the Company recognizes the underlying transactions in net earnings, at which time these gains and losses are recognized in interest expense on its consolidated statements of operations and comprehensive (loss) income. Cash flows from derivative financial instruments are classified as cash flows from financing activities on the consolidated statements of cash flows. These contracts generally have original maturities of greater than twelve months.

Net unrealized after-tax losses related to cash flow hedging activities that were included in accumulated other comprehensive loss were \$1,104 and \$509 for the years ended June 30, 2020 and 2019, respectively. The unrealized amounts in accumulated other comprehensive loss will fluctuate based on changes in the fair value of open contracts during each reporting period.

The Company estimates that \$392 of net unrealized losses related to cash flow hedging activities included in accumulated other comprehensive loss will be reclassified into earnings within the next twelve months.

Foreign Currency Forward Contracts Not Designated as Hedges

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 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 2020 and 2019 was the euro. At June 30, 2020, one of the Company's foreign subsidiaries had one outstanding forward exchange contract to purchase U.S. dollars in the notional value of \$1,247 with a weighted average maturity of 7 days. The fair value of the Company's contract was a loss of \$9 at June 30, 2020. The Company had no outstanding forward exchange contracts at June 30, 2019.

Other Derivative Instruments

The Company does not utilize commodity price hedges to manage commodity price risk exposure. Likewise, the Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries.



Fair Value of Derivative Instruments

The Company's interest rate swaps and foreign currency forward contracts are recorded at fair value on the consolidated balance sheets using a discounted cash flow analysis that incorporates observable market inputs. These market inputs include foreign currency spot and forward rates, and various interest rate curves, and are obtained from pricing data quoted by various banks, third-party sources and foreign currency dealers involving identical or comparable instruments (Level 2).

Counterparties to these foreign currency forward contracts have at least an investment grade rating. Credit ratings on some of the Company's counterparties may change during the term of the financial instruments. The Company closely monitors its counterparties' credit ratings and, if necessary, will make any appropriate changes to its financial instruments. The fair value generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date.

The fair value of derivative instruments included in the consolidated balance sheets at June 30 were as follows:

	<u>Balance Sheet Location</u>	<u>2020</u>	<u>2019</u>
<i>Derivatives designated as hedges:</i>			
Interest rate swaps	Accrued liabilities	\$ 392	\$ 122
Interest rate swaps	Other long-term liabilities	1,052	544

The impact of the Company's derivative instruments on the consolidated statement of operations and comprehensive (loss) income for the years ended June 30 was as follows:

	<u>Statement of Comprehensive (Loss) Income Location</u>	<u>2020</u>	<u>2019</u>
<i>Derivatives designated as hedges:</i>			
Interest rate swaps	Interest expense	\$ 171	\$ 1
Interest rate swaps	Unrealized loss on cash flow hedge	(595)	(509)
<i>Derivatives not designated as hedges:</i>			
Foreign currency forward contracts	Other income (expense), net	\$ (9)	\$ 4



TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the years ended June 30, 2020 and 2019
(in thousands)

<u>Description</u>	<u>Balance at</u> <u>Beginning</u> <u>of Period</u>	<u>Charged to</u> <u>Costs and</u> <u>Expenses</u>	<u>Deductions</u> ⁽¹⁾	<u>Balance at</u> <u>End of</u> <u>Period</u>
2020:				
Allowance for losses on accounts receivable	<u>\$ 1,582</u>	<u>\$ 399</u>	<u>\$ 241</u>	<u>\$ 1,740</u>
Reserve for inventory obsolescence	<u>\$ 10,463</u>	<u>\$ 1,532</u>	<u>\$ 2,132</u>	<u>\$ 9,863</u>
2019:				
Allowance for losses on accounts receivable	<u>\$ 1,478</u>	<u>\$ 236</u>	<u>\$ 132</u>	<u>\$ 1,582</u>
Reserve for inventory obsolescence	<u>\$ 8,427</u>	<u>\$ 1,934</u>	<u>\$ (102)</u>	<u>\$ 10,463</u>

(1) Activity primarily represents amounts written-off during the year, along with other adjustments (primarily foreign currency translation adjustments).



EXHIBIT INDEX

TWIN DISC, INCORPORATED 10-K for Year Ended June 30, 2020

Exhibit	Description	Included Herewith
3a)	Restated Articles of Incorporation of Twin Disc, Incorporated (Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K dated December 6, 2007). File No. 001-07635.	
3b)	Restated Bylaws of Twin Disc, Incorporated, as amended through May 1, 2019 (Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K dated May 3, 2019). File No. 001-07635.	
Exhibit 10	Material Contracts	Included Herewith
a)	Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10a) of the Company's June 30, 2016 Form 10-K dated September 13, 2016). File No. 001-07635.	
b)	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.	
c)	The Amended and Restated Twin Disc, Incorporated 2010 Long-Term Incentive Compensation Plan (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 5, 2015). File No. 001-07635.	
d)	The 2010 Stock Incentive Plan for Non-Employee Directors (Incorporated by reference to Appendix B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 2010). File No. 001-07635.	
e)	The Twin Disc, Incorporated 2018 Long-Term Incentive Compensation Plan (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 6, 2018). File No. 001-07635.	
f)	Form of Performance Stock Award Grant Agreement for award of performance shares on August 1, 2018 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 6, 2018). File No. 001-07635.	
g)	Form of Restricted Stock Unit Grant Agreement for restricted stock units granted on August 1, 2018 (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated August 6, 2018). File No. 001-07635.	
h)	Form of Performance Stock Award Grant Agreement for award of performance shares on August 24, 2018 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 28, 2018). File No. 001-07635.	
i)	Form of Restricted Stock Unit Grant Agreement for restricted stock units granted on August 24, 2018 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 28, 2018). File No. 001-07635.	
j)	Form of Restricted Stock Award Grant Agreement for restricted stock grants on May 1, 2019 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated May 3, 2019). File No. 001-07635.	



- k) Form of Performance Stock Award Grant Agreement for award of performance shares on May 1, 2019 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated May 3, 2019). File No. 001-07635.
- l) Form of Performance Stock Award Grant Agreement for award of performance shares on August 1, 2019 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 7, 2019). File No. 001-07635.
- m) Form of Restricted Stock Award Grant Agreement for restricted stock grants on August 1, 2019 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 7, 2019). File No. 001-07635.
- n) Form of Performance Stock Award Grant Agreement for award of performance shares on October 31, 2019 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated November 5, 2019). File No. 001-07635.
- o) Form of Restricted Stock Award Grant Agreement for restricted stock grants on October 31, 2019 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated November 5, 2019). File No. 001-07635.
- p) Form of Performance Stock Award Grant Agreement for award of performance shares on August 6, 2020 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 12, 2020). File No. 001-07635.
- q) Form of Restricted Stock Award Grant Agreement for restricted stock grants on August 6, 2020 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 12, 2020). File No. 001-07635.
- r) Twin Disc, Incorporated Supplemental Executive Retirement Plan, amended and restated as of July 29, 2010 (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K dated August 4, 2010). File No. 001-07635.
- s) Forms of Change in Control Severance Agreements (Incorporated by reference to Exhibits 10.4, 10.5 and 10.6 of the Company's Form 8-K dated August 6, 2018). File No. 001-07635.
- t) 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.
- u) Credit Agreement Between Twin Disc, Incorporated and BMO Harris Bank, dated June 29, 2018 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- v) Amendment and Assignment of Revolving Loan Note between Bank of Montreal and BMO Harris Bank, N.A., dated June 29, 2018. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- w) Assignment of and Amendment to Security Agreement By and Among Bank of Montreal, BMO Harris Bank, N.A., and Twin Disc, Incorporated, dated June 29, 2018. (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.



- x) Assignment of and Amendment to IP Security Agreement By and Among Bank of Montreal, BMO Harris Bank, N.A., and Twin Disc, Incorporated, dated June 29, 2018. (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- y) Assignment of and Amendment to Pledge Agreement By and Among Bank of Montreal, BMO Harris Bank, N.A., Twin Disc, Incorporated, and Mill-Log Equipment Co., Inc., dated June 29, 2018. (Incorporated by reference to Exhibit 10.5 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- z) Assignment of and Amendment to the Guaranty Agreement By and Among Bank of Montreal, BMO Harris Bank, N.A., and Mill-Log Equipment Co., Inc., dated June 29, 2018. (Incorporated by reference to Exhibit 10.6 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- aa) Assignment of and Amendment to Guarantor Security Agreement By and Among Bank of Montreal, BMO Harris Bank, N.A., and Mill-Log Equipment Co., Inc., dated June 29, 2018. (Incorporated by reference to Exhibit 10.7 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- bb) Assignment of and Amendment to Negative Pledge Agreement By and Among Twin Disc, Incorporated, Bank of Montreal, and BMO Harris Bank N.A., dated June 29, 2018. (Incorporated by reference to Exhibit 10.8 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- cc) Collateral Assignment of Rights under Purchase Agreement from Twin Disc, Incorporated and Twin Disc NL Holding B.V. in favor of BMO Harris Bank N.A., dated July 2, 2018. (Incorporated by reference to Exhibit 10.9 of the Company's Form 8-K dated July 3, 2018). File No. 001-07635.
- dd) First Amendment to June 29, 2018 Credit Agreement between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.2 of the Company's Form 8-K dated September 21, 2018). File No. 001-07635.
- ee) Amendment No. 2 to June 29, 2018 Credit Agreement between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.1 of the Company's Form 8-K dated March 6, 2019). File No. 001-07635.
- ff) Amended and Restated Term Note between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.2 of the Company's Form 8-K dated March 6, 2019). File No. 001-07635.
- gg) Amendment No. 3 to June 29, 2018 Credit Agreement between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.1 of the Company's Form 8-K dated January 30, 2020). File No. 001-07635.
- hh) Promissory Note dated April 17, 2020, entered into by Twin Disc, Incorporated, as borrower, for the benefit of BMO Harris Bank, N.A., as lender (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated April 21, 2020). File No. 001-07635.
- ii) Amendment No. 4 to June 29, 2018 Credit Agreement between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.2 of the Company's Form 8-K dated April 21, 2020). File No. 001-07635.



- jj) Amendment No. 5 to June 29, 2018 Credit Agreement between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.1 of the Company's Form 8-K dated July 28, 2020). File No. 001-07635.
- kk) Second Amended and Restated Revolving Note between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.2 of the Company's Form 8-K dated July 28, 2020). File No. 001-07635.
- ll) Form of Deposit Account Control Agreement between Twin Disc, Incorporated and BMO Harris Bank, N.A. (Incorporated by reference to Exhibit 1.3 of the Company's Form 8-K dated July 28, 2020). File No. 001-07635.
- mm) ISDA Master Agreement and Schedule, dated April 11, 2019, between Twin Disc, Incorporated and Bank of Montreal (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated April 26, 2019). File No. 001-07635.
- nn) Confirmation of swap transaction, dated April 22, 2019, from Bank of Montreal to Twin Disc, Incorporated (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated April 26, 2019). File No. 001-07635.

Exhibit	Description	Herewith
21	Subsidiaries of the Registrant	X
23a	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
101.INS	XBRL Instance Document, filed herewith	
101.SCH	XBRL Schema Document, filed herewith	
101.CAL	XBRL Calculation Linkbase Document, filed herewith	
101.DEF	XBRL Definition Linkbase Document, filed herewith	
101.LAB	XBRL Label Linkbase Document, filed herewith	
101.PRE	XBRL Presentation Linkbase, filed herewith	



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.

August 26, 2020

TWIN DISC, INCORPORATED

By: /s/ JOHN H. BATTEN

John H. Batten

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.

August 26, 2020

By: /s/ DAVID B. RAYBURN

David B. Rayburn

Chairman of the Board

August 26, 2020

By: /s/ JOHN H. BATTEN

John H. Batten

Chief Executive Officer

August 26, 2020

By: /s/ JEFFREY S. KNUTSON

Jeffrey S. Knutson

Vice President - Finance, Chief Financial Officer,
Treasurer and Secretary

August 26, 2020

By: /s/ DEBBIE A. LANGE

Debbie A. Lange

Corporate Controller (Chief Accounting Officer)

August 26, 2020

Michael Doar, Director

Janet P. Giesselman, Director

David W. Johnson, Director

Michael C. Smiley, Director

Harold M. Stratton II, Director

David R. Zimmer, Director

By: /s/ JEFFREY S. KNUTSON

Jeffrey S. Knutson

Vice President - Finance, Chief Financial Officer,
Treasurer and Secretary (Attorney in Fact)



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.P.R.L. (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. Twin Disc (Far East) Pte. Ltd. (a Singapore corporation)
7. Twin Disc Japan (a Japanese corporation)
8. Twin Disc Power Transmission Private, Ltd. (an Indian limited liability corporation)
9. Twin Disc Power Transmission (Shanghai) Co. Ltd. (a Chinese corporation)
10. Twin Disc Netherlands Holdings B.V. (a Netherlands corporation)
11. Twin Disc NL Holding B.V. (a Netherlands corporation)
12. Veth Propulsion Holding B.V. (a Netherlands corporation)
13. Veth Propulsion B.V. (a Netherlands corporation)
14. Twin Disc European Distribution S.P.R.L (a Belgian corporation)

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

The registrant has neither a parent nor any other subsidiaries. All of the above subsidiaries are included in the consolidated financial statements.



EXHIBIT 23a

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-99229, 333-119770, 333-169963, 333-169962 and 333-228245) on Form S-8 and (No. 333-227130) on Form S-3 of Twin Disc, Incorporated of our reports dated August 26, 2020, relating to the consolidated financial statements, the financial statement schedule and the effectiveness of internal control over financial reporting of Twin Disc, Incorporated, appearing in this Annual Report on Form 10-K of Twin Disc, Incorporated for the year ended June 30, 2020.

/s/ RSM US LLP
Milwaukee, Wisconsin
August 26, 2020



EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute John H. Batten and Jeffrey S. Knutson, 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, 2020 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/ JANET P. GIESSELMAN)
Janet P. Giesselman, Director)
))
))
/s/ DAVID W. JOHNSON)
David W. Johnson, Director)
))
))
/s/ DAVID B. RAYBURN)
David B. Rayburn, Director)
))
))
/s/ MICHAEL C. SMILEY)
Michael C. Smiley, Director)
))
))
/s/ HAROLD M. STRATTON II)
Harold M. Stratton II, Director)
))
))
/s/ DAVID R. ZIMMER)
David R. Zimmer, Director)

August 6, 2020



EXHIBIT 31a

CERTIFICATIONS

I, John H. 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this 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 an 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 the 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: August 26, 2020

By: /s/ JOHN H. BATTEN
John H. Batten
Chief Executive Officer



EXHIBIT 31b

CERTIFICATIONS

I, Jeffrey S. Knutson, 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this 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 an 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 the 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: August 26, 2020

/s/ JEFFREY S. KNUTSON

Jeffrey S. Knutson

Vice President - Finance, Chief Financial
Officer, Treasurer and Secretary



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, 2020, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, John H. Batten, 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: August 26, 2020

By: /s/ JOHN H. BATTEN
John H. Batten
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, 2020, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Jeffrey S. Knutson, Vice President - Finance, Chief Financial Officer, Treasurer and Secretary 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: August 26, 2020

By: /s/ JEFFREY S. KNUTSON
Jeffrey S. Knutson
Vice President - Finance, Chief Financial
Officer, Treasurer and Secretary



5-YEAR FINANCIAL SUMMARY

(Dollar amounts in thousands, except per share statistics)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)	2020	2019	2018	2017	2016
Net sales	\$ 246,838	\$ 302,663	\$ 240,733	\$ 168,182	\$ 166,282
Cost and expenses, including marketing, engineering and administrative	287,089	284,165	224,585	177,160	190,878
(Loss) income from operations	(40,251)	18,498	16,148	(8,978)	(24,596)
Other income (expense)	(3,489)	(3,991)	(1,728)	(551)	(699)
(Loss) income before income taxes and noncontrolling interest	(43,740)	14,507	14,420	(9,529)	(25,295)
Income taxes	(4,169)	3,711	4,773	(3,414)	(12,282)
Noncontrolling interest	(246)	(123)	(119)	(179)	(91)
Net (loss) income attributable to Twin Disc	(39,817)	10,673	9,528	(6,294)	(13,104)
BALANCE SHEET					
ASSETS					
Cash	\$ 10,688	\$ 12,362	\$ 15,171	\$ 16,367	\$ 18,273
Accounts receivable, net	30,682	44,013	45,422	31,392	25,363
Inventories	120,607	125,893	84,001	66,193	66,569
Other current assets	12,008	20,101	14,675	15,482	14,830
Total current assets	173,985	202,369	159,269	129,434	125,035
Goodwill and other assets	47,410	73,243	26,504	33,252	37,222
Property, plant and equipment, net	72,732	71,258	55,467	48,212	51,665
Total assets	294,127	346,870	241,240	210,898	213,922
LIABILITIES AND EQUITY					
Current liabilities	\$ 66,734	\$ 73,077	\$ 62,344	\$ 44,523	\$ 36,131
Long-term debt	37,896	40,491	4,824	6,323	8,501
Deferred liabilities	49,539	50,484	30,456	36,485	52,237
Total equity	139,389	182,216	142,997	122,921	116,490
Noncontrolling interest	569	602	619	646	563
Total liabilities and equity	294,127	346,870	241,240	210,898	213,922
COMPARATIVE FINANCIAL INFORMATION					
Per share statistics					
Basic (loss) income	\$ (3.03)	\$ 0.84	\$ 0.82	\$ (0.56)	\$ (1.17)
Diluted (loss) income	(3.03)	0.83	0.82	(0.56)	(1.17)
Dividends	—	—	—	—	0.18
Total equity	10.60	14.49	12.66	10.94	10.40
Return on equity	-28.6%	5.9%	6.7%	-5.1%	-11.2%
Return on assets	-13.5%	3.1%	3.9%	-3.0%	-6.1%
Return on sales	-16.1%	3.5%	4.0%	-3.7%	-7.9%
Average basic shares outstanding	13,153,330	12,571,013	11,294,914	11,239,474	11,202,752
Average diluted shares outstanding	13,153,330	12,681,574	11,395,072	11,239,474	11,202,752
Number of shareholder accounts	405	415	435	484	512
Number of employees	806	873	696	672	742
Additions to property, plant and equipment	\$ 10,699	\$ 11,979	\$ 6,328	\$ 3,133	\$ 4,214
Depreciation	7,394	6,682	6,315	6,849	8,682
Net working capital	107,251	129,292	96,925	84,911	88,904

* Certain amounts in fiscal year 2018 have been restated to conform with recently issued accounting guidance that were effective at the beginning of fiscal year 2019. See the notes to the financial statements.



1328 Racine Street, Racine, Wisconsin 53403 USA

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