

Twin Disc., Inc.
2008 First Quarter Financial Results Conference Call
October 23, 2007

Operator: Good afternoon ladies and gentlemen and thank you for standing by and welcome to the Twin Disc, Inc. 2008 First Quarter Financial Results Conference Call. At this time all participants' lines are in a listen-only mode and during the presentation today you will be given a chance to ask questions and instructions will also be given at that time. If you do need assistance during the conference today, please press the star, followed by the zero. And as a reminder this conference is being recorded today, Tuesday, October 23, 2007. At this time I would now like to turn the conference over to our host, Mr. Stanley Burger (sp?). Sir, you may now begin the call.

Stanley Burger: Thank you Craig. On behalf of the management of Twin Disc., we are extremely pleased that you have taken the time to participate in our call and thank you for joining us to discuss the company's 2008 first quarter financial results and business outlook.

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

Hosting the call now are Michael Batten, Twin Disc. Chairman, President and Chief Executive Officer; and Chris Eperjesy, the company's Vice-President of Finance, Chief Financial Officer and Treasurer. At this time I will turn the call over to Mike. Michael.

Michael Batten: Thanks Stan and good afternoon everyone and welcome to our first quarter conference call. We hope that you'll find this session informative. As Stan Burger has indicated I will start with a brief statement and then Chris and I will be available to answer questions. As you will all have read by now Twin Disc. reported record first quarter results and the board of directors increased the dividend by 27% and split the common stock 2 for 1. Sales for the quarter improved 11.9% to 73.6 million from 65.8 million last year. The net impact of foreign currency was to increase sales by 2.4 million in the quarter with

the result that organic growth was 8.2%. Gross margins improved to 32.4% from 30.9% in the year-ago quarter where the gross margin was adversely impacted by an unfavorable purchase accounting adjustment to inventory in the amount of \$734,000. Net earnings for the three months were up 39.1% to 5.1 million or \$0.88 per diluted share from 3.7 million or \$0.62 per share a year ago.

For the three months EBITDA increased 33.3% to 10.8 million compared to 8.1 million in the same period a year ago. As indicated in our release, we are pleased with the results of the first quarter. Sales of our land base transmissions for oil fields and military applications matched last year's first quarter base, while sales of our vehicular transmissions for use in airport rescue fire fighting vehicles were up for the quarter. However, industrial products continue to experience some cyclical softening in the three months.

On the marine side of the business we continue to see strong demands for our commercial and pleasure craft marine products in the quarter. Sales of our commercial marine gears into Southeast Asia and the US Gulf Coast were particularly robust. In addition, marine propulsion system sales into the Italian mega yacht market continued to expand versus the same period last year.

Looking ahead, we expect that fiscal 2008 will be another good year for Twin Disc. Our backlog of orders to be shipped over the next six months stands at 112 million, up 12.1% from the same period last year and up 2% compared to fiscal year 2000 year-end.

As indicated in our releases, the board of directors voted to increase the quarterly dividend by 27% to \$0.14 per common share from \$0.11 per share payable December 3, 2007 for shareholders of record November 9, 2007. The board also split the stock 2 for 1 effective January 2, 2008 for shareholders of record December 10, 2007.

That concludes the prepared remarks and now Chris and I will take questions. Craig you can open up the lines.

Operator: Certainly. Ladies and gentlemen at this time we will begin the question-and-answer session. If you do have any questions at this time, please press the star, followed by the one on your push button telephone. You'll hear a tone indicating you've been placed in the queue. You may also remove yourself from the queue at any time by pressing the star, followed by the two. As a reminder, if you are using speaker phone equipment you will need to lift the handset first before pressing the numbers. Once again, if there are any questions, please press the star, followed by the one at this time. One moment please for our first question.

And our first question comes from the line of Harris Hall with Singular Research. Please go ahead at this time.

Harris Hall: Congratulations gentlemen on the quarter.

Michael Batten: Thank you Harris.

Christopher Eperjesy: Thank you.

Harris Hall: I have to see, no I'll be taking over coverage on your stock. I was wondering is there any cyclical to your business?

Michael Batten: Yes there is cyclical to our business and we have been in the capital goods industry all along and find that we are subject to certain swings as the economy varies as well.

Harris Hall: I guess I misspoke, what I meant was seasonality in your business?

Michael Batten: I'm sorry.

Harris Hall: Yeah, it's my fault.

Michael Batten: There is a certain amount of seasonality that comes into play. Typically the summer months have in the past been at somewhat lower sales and earning levels due to the fact that our customers and some of our operations have vacation shutdowns.

Harris Hall: The summer months are generally lower.

Michael Batten: That's correct, yeah.

Christopher Eperjesy: So first fiscal quarter.

Harris Hall: Okay. And you mentioned in your release that transmissions for oil field and military applications were flat with last year. Can you elaborate on what those are a little bit?

Michael Batten: The transmissions that we supply to oil fields are high horsepower, 3,000 horsepower style transmissions that are used in fracturing rigs that are part of well servicing activities. The transmission that we supply to the military in large measure at this point, go into what we call our legacy vehicles. These are applications such as the M88 tank retriever that are in the fleet, the government fleet at present and we supply newer vehicles, new vehicles to those existing fleets or to remanufacture transmissions for vehicles that come out of the fleet for remanufacture and updating.

Harris Hall: But those are more kind of repair and renewal than new military sales.

Michael Batten: That's correct, though we do participate periodically in new military contracts.

Harris Hall: But you do have a marine military business?

Michael Batten: We do, yes.

Harris Hall: Which is a separate division than this.

Michael Batten: Well not division but it is a separate activity and we participate and supply transmissions and other propulsion systems for patrol boats primarily.

Harris Hall: Okay. And do you generally file your 10-Q within a couple days of the release or when should we expect that?

Michael Batten: The Q, it's going to be the second week in November and I don't have the date in my head. I believe it's the 9th. We generally file it when it's due so it would be November 9th.

Harris Hall: Okay. And then just lastly, you had mentioned you see cyclical softening in the industrial products. Can you elaborate a little bit on that?

Michael Batten: Yes. The products in question are typically are power takeoffs and industrial clutches that and the power takeoffs is basically an industrial clutch for application on diesel engines used in applications such as recycling, top grinding, wood chipping, those kinds of activities, quarrying activities and irrigation activities. They're following a run-up associated with the aftermath of Hurricane Katrina, sales have subsided in this sector.

Harris Hall: The clients, who would be the typical clients to these products?

Michael Batten: The industrial products would be our own distributors who in turn sell them to engine manufacturers for fabrication into irrigation units and things like that. Or they may be people like Morbark (sp?) or Peterson who make equipment for recycling activities.

Harris Hall: Okay, great. Thank you very much for answering all my questions.

Michael Batten: You're quite welcome. Craig, next one.

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

And our next question comes from the line of George Grayson with L-Point (sp?) Capital. Please go ahead at this time.

George Grayson: Hi. I wanted to know about the linearity of the quarter, how your revenues kind of broke down between the months, whether the kind of, end was stronger than the beginning?

Michael Batten: Yes. Our months can fluctuate and the quarter had its best month of August. July typically is a startup month that includes our vacation schedules. We have a plant shutdown. August is more of a straightforward month. September is somewhat affected by the Labor Day weekend but August was our strongest month.

George Grayson: And that's typical with previous years? Nothing changed this quarter over last, over what you might have seen in a typical Q1 in previous years?

Michael Batten: The months can bounce around. The year before we had August as a slower month and September as a better month domestically. Overseas, our facilities tend to see August, July/August is a vacation month for Belgian and Italian operations in particular. So September is their best month in the quarter. So we tend to see some fluctuation but all in all this year perhaps a little softer in September versus last year but that would be it.

George Grayson: Mm-hmm. I have another question, your former President and COO received their half a million dollar retirement payment I saw in your proxy? What quarter was that paid in from last year and I assume that, you know, his compensation won't be recurring this year?

Michael Batten: I believe that would have occurred in February of '07 and you're, let me see, that was the first, he retired in July and he would have another payment due in February of '08.

George Grayson: Is that a similar size?

Michael Batten: Roughly comparable.

George Grayson: Okay. And public company expenses, should we expect these to be going up or down, just looking at some more numbers from

your proxy from this year over last year? I'm trying to get an idea of what your, how to model G&A?

Michael Batten: You're talking about the public company?

George Grayson: Like directors' fees of 450,000 audited of 860,000 and taxes 500,000.

Michael Batten: They should be about the same and flat with last year.

George Grayson: And do you guys have this, I understand you've owned property in Wisconsin for a long time now. Do you have a sense, sort of, what the fair market value of the property in Racine might be?

Michael Batten: Not off the top of my head. Chris.

Christopher Eperjesy: We do. Also not off the top of my head. Obviously we get that valuation done from time to time for property tax purposes but I don't have it off the top of my head.

George Grayson: But you don't adjust that on the balance sheet at all?

Christopher Eperjesy: No.

George Grayson: It's just, and when was that acquired, around what time?

Michael Batten: The earliest was 1918. We're on the, for the, for one facility 1956 for the other in Racine.

George Grayson: Okay, great. Thanks guys, great quarter, appreciate it.

Male Speakers: Thank you.

Michael Batten: Next question Craig.

Operator: And our next question comes from the line of Wayne Lee with White Box (sp?). Please go ahead at this time.

Wayne Lee: Hi guys, Michael that's a great quarter.

Michael Batten: Well thank you Wayne.

Wayne Lee: Hi. I'm actually quite surprised to see your commercial marine product and pleasure craft is doing quite well, you know,

compared with the rest of the boat builders. Can you elaborate a little bit more on that and what are you guys selling to Asia at this point?

Michael Batten: Let's split the markets. In our commercial business we are selling primarily marine transmissions into the US Gulf Coast oil fields, offshore oil market and these are cool and supply boats. The same is true for Southeast Asia. Our Singapore office is very active in the marine market and oil and other work boats in the area, fishing boats and other work boats are also very strong at the present time. So that's what's driving our commercial business. Other factors would also include push boats, tugboats and the like are also, applications in the commercial area.

On the pleasure craft side, we're seeing good demand from the mega yacht market, which would start at about 60 to 70 feet upwards up to approaching 300 feet in length and here we sell a whole portfolio of products including marine transmissions, various propulsion systems and boat management systems reflecting the acquisitions that we've made in recent years. So both of these markets, the commercial markets and the upscale pleasure craft marine markets are doing very well at the present time.

Wayne Lee: So great. So you guys are seeing the acquisitions you were making last year start to pay off right now, that's the buyers buy likely producing a single product?

Michael Batten: Right. The, we are seeing payoff on our acquisitions of, especially in Italy. The Italian market is the largest mega yacht market in the world today, it's surpassed the US. The other would be particularly US and Great Britain are the three major markets but especially in the Italian market with the integration of our acquisitions we are able to go to market now in a very concentrated way and it's gained dividends for us.

Wayne Lee: Great, great. One more macro (sp?) question. Are you guys were obviously had a block buster '07 and you're saying '08 will be another good year. How should we think about this? Is '08 going to be like better than '07 or, I don't want to put you on the spot but just give me some flavor of, you know, for model and purpose what should we think about?

Michael Batten: Sure. We've indicated that '08 was going to be another good year for Twin Disc. and we had some discussion at the last conference about what sort of growth rate was appropriate and that growth rate basically sorted out in this quarter, which confirmed our expectations that we are seeing moderating growth but still growth. So we're off the double-digit growth rates that we had in '07 and we're in a more moderate single to high single-digit growth rate this year.

Wayne Lee: Okay. That's very good to hear, thank you. Final question is on currency. Seems that the majority of the product has you, you will benefit a lot from the US dollar depreciation but also at the same time you have some Euro dollar, it's closer to you, but in general if we are seeing US dollar coming down against other currencies, it's good for you guys, right?

Michael Batten: Yes. The weaker dollar is good and we're, Wayne, we're in, we've got a foot in each canoe so to speak because the dollar, the weaker dollar obviously favorably impacts products produced in the US and at the same time it adversely impacts the competitiveness of European produced products in the US market. If the dollar were to go, to strengthen, we would see a reverse equation working. The US products would be less competitive in world markets and the European products would be more competitive. So we get both sides of that coin working for us simultaneously.

Wayne Lee: Okay, great. That's all I had. Great. Great job guys. Thank you.

Male Speakers: Thank you Wayne.

Michael Batten: Craig.

Operator: And our next question comes from the line of Efron (sp?) Fields with Claris Capital. Please go ahead at this time.

Efron Fields: Hi, good afternoon. I was a little confused by an answer you just gave about properties that you have in Racine. Could you just repeat what your answer was?

Michael Batten: Yes.

Efron Fields: You do in 1918 and in 1956.

Michael Batten: Correct. We have a building in which our corporate headquarters is located and we have a plant below it on the first floor and that building was started in 1918, expanded through the next decade to take up of the present location that we have right now. In 1956 the company established a second facility in the western part of the city for a second plant location here in Racine and that's where we produce our marine and land base transmissions.

Efron Fields: Got it. So it looks like on your books you have those facilities on your books for like a million dollars and I assume they haven't been brought up to fair market value since either 1918 or 1956.

Christopher Eperjesy: The last part of your statement, this is Chris, the last part of your statement would be correct. I'm not so sure about the first part

because I'm not sure where you're getting the million dollars from. If you're just taking it from the balance sheet that would include all of our company-owned land around the world.

Effron Fields: Yeah, no, I just went back and pulled up quickly an old 10-K, but okay.

Chrostpher Eperjesy: Okay.

Effron Fields: My next question, I was just trying to freshen up my cash flow analysis and, Mike, I see you have paid between a half a million dollars last year. Do you happen to recall how much of that was cash and how much was non-cash?

Michael Batten: The question again, Effron?

Effron Fields: You were paid, Mike, \$3.5 million last year and I'm trying to understand how much of that was cash and how much was non-cash.

Michael Batten: I haven't got the numbers specifically in my head but I, the round numbers are that I had roughly 450,000 in salary, another approximately 450 to 500,000 in bonus and 800, another 300,000 so that would be 4, 6, say 5, 5, say a million three in cash and the rest would have been in stock.

Effron Fields: Okay, great. And my final question just has to do with, I see that the board members were reimbursed about \$10,000 a piece for spousal travel. Could you tell me what that related to?

Michael Batten: We took the, part of it is pertains to normal travel of directors coming in from their various locations to...

Effron Fields: Forgive me for interrupting.

Michael Batten: ... from the East, right.

Effron Fields: Forgive me for interrupting you, this is just reimbursing for spousal travel, not their own travel.

Michael Batten: Yeah, okay. And, I'm sorry, and then there was a trip to visit our operations in Europe.

Effron Fields: So you flew the directors' wives out to Europe?

Michael Batten: Yes.

Effron Fields: Okay. Thank you for your answers and terrific quarter.

Michael Batten: Thank you. Craig.

Operator: Our next question is a follow-up question from Harris Hall with Singular Research. Please go ahead at this time.

Harris Hall: Thanks. I just wondered if you could comment a little bit on the raw material price pressures you're seeing in growth margin trends?

Michael Batten: Well we are seeing some acceleration in surcharges that have been occurring in various metal markets and the, but we have been able to offset those increases either through price realization or through aggressive outsourcing to lower cost countries.

Harris Hall: So would you, would you describe the 32.4% growth margin in Q1 as kind of indicative of where you expect to end the year or higher or lower?

Michael Batten: Well it's in the range of what we are looking to achieve. We could see impact as it relates to product mix but we are working on programs to, as I say, offset some price realization or outsourcing to maintain margins.

Harris Hall: By pressure omission (sp?) you just mean charging higher prices or?

Michael Batten: That's correct.

Harris Hall: Okay. Thank you very much.

Michael Batten: Mm-hmm. Craig.

Operator: Ladies and gentlemen if there are any additional questions at this time, please press the star, followed by the one on your push button telephone. Ladies and gentlemen at this time there do not appear to be any further questions. Please continue with any comments you may have.

Michael Batten: Okay, Craig, thanks very much and ladies and gentlemen appreciate your participation in today's meeting and we look forward to the next meeting which would be scheduled in the third, fourth week of January. Thank you.

Operator: Thank you. Ladies and gentlemen that does conclude our conference call for today. If you wish to listen to a replay of this

conference you may do so by dialing either area code 303-590-3030 or for international participants 1-800-406-7325. You'll need to enter the access code of 3793131. This conference will be available after 2:00 pm Eastern daylight time today. Once again those replay numbers are 303-590-3030 or 1-800-406-7325 with the access code of 3793131. We do thank you for your participation. You may now disconnect your lines at this time.