

**Twin Disc, Inc.**  
**2008 Fourth Quarter Financial Results Conference Call**  
**July 29, 2008**

**Operator:** Good day ladies and gentlemen. Thank you for standing by. Welcome to the Twin Disc, Incorporated 2008 Fourth Quarter Financial Results Conference Call. During today's presentation, all parties will be in a listen only mode. Following the presentation, the conference will be open for questions. If you have a question, please press the star followed by the one on your touch-tone phone. Please press star, zero for operator assistance at any time. For participants using speaker equipment it may be necessary to pick up your handset before making your selection. As a reminder, this conference is being recorded today, Tuesday, July 29, 2008. I would now like to turn the conference over to Mr. Stan Berger (sp?), please go ahead, sir.

**Stan Berger:** On behalf of the management at Twin Disc, we are extremely pleased that you have taken the time to participate in our call. And thank you for joining us to discuss the company's fiscal 2008 fourth quarter financial results and business outlook.

Before I introduce management, I would like to remind everyone that certain statements made during the course of this conference call, especially those that state management's intentions, hopes, beliefs, expectations, or predictions for the future are forward-looking statements.

It is important to remember that the company's actual results could differ materially from those projected in such forward looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the company's annual report 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 us at 262-638-4000 and we will send you a copy. Hosting the call today are Michael Batten, Twin Disc Chairman and Chief Executive Officer, John Batten, President and Chief Operating Officer, and Chris Eperjesy, the company's Vice-President of Finance, Chief Financial Officer and Treasurer. At this time, I will turn the call over to Michael Batten. Mike?

**Michael Batten:** Thank you, Sam and good afternoon everyone. Welcome to our fourth quarter and yearend conference call. As Stan has mentioned, I will start with a brief statement and then both Chris and I and John will be available to answer questions.

Sales for the fourth quarter were 90.3 million about equal to those reported for the same period a year ago at 90.8 million. For the fiscal year just ended, sales were 331.7 million compared to 317.2 million recorded in the prior fiscal year. Foreign currency translation favorably impacted sales by 6.2 million and 16.7 million for the quarter and the year-to-date, respectively.

In the quarter, softness in oil and gas transmission market was offset by continuing strong demand for the mega yacht and commercial marine markets. Net earnings for the fiscal 2008 fourth quarter were 7 million or about \$0.62 per diluted share compared to 5 million or \$0.41 per diluted share for the comparable quarter last year.

Net earnings for the fiscal 2007 fourth quarter were impacted by an after tax restructuring charge of 1.8 million or \$0.29 per diluted share associated with our Belgian operation. For fiscal 2008, net earnings totaled 24.3 million or \$2.13 per share compared to 21.9 million or \$1.84 per diluted share.

Gross margins as a percent of sales for the fourth quarter were 32.1% compared to 33.1% for the same quarter a year ago. The net impact of the change in foreign currency exchange rates was to increase gross profit by 1.8 million for the fourth quarter. For the year, gross margins were 31.6% compared to 32.4% last year.

The net impact of foreign currency exchange rates was to increase gross profit by 4.9 million in fiscal 2008 compared to fiscal 2007. Marketing, engineering, and administrative expenses as a percent of sales were 21.4% in the fiscal 2008 fourth quarter compared to 21.1% for the same period a year ago.

The slight increase was driven primarily by the impact of foreign currency translation and expenditures related to the implementation of our new ERP system. For the fiscal year ME&A expenses were 20% of sales compared to 19.9% last year. Included in the fiscal 2008 expense was a \$1.5 million reduction in the company stock based compensation as a result of the decline of the price of our stock during the year.

Increases in the current year included 3 million as a result of foreign currency translation and 1.5 million for implementation of our new ERP system. We continue to invest in our business and during fiscal 2008, we spent 15 million on capital expenditures to modernize our equipment and facilities, as well as to implement the new global ERP system.

We have a strong balance sheet and a solid capital structure. As of fiscal year end, our debt totaled 50 million compared to 43.9

million last year and our total debt to capitalization ratio is at 27.8% compared to 27.6% at the end of fiscal 2007. We are pleased with the many accomplishments that we have achieved over the past fiscal year and continue to plan for the future. We are committed to expand Twin Disc globally by looking at ways to run our business more efficiently and by investing in new products, machine tools, facilities, systems, and people.

Our six month backlog at June 30th was 121 million compared to \$110 million last year. Looking to fiscal 2009, we expect demand from our commercial marine, mega yacht, defense and airport fire fighting and rescue markets to continue to be strong. We are seeing signs of a turnaround in demand in our industrial markets and we have seen an increase in inquiries related to the oil and gas markets. We are cautiously optimistic for the new fiscal year.

That concludes the prepared remarks for today and Chris and John and I are ready to take your questions. (Inaudible)?

**Operator:** Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you do have a question, please press the star followed by the one on your touch-tone phone. If you would like to withdraw your question, please press the star followed by the two. If you're using speaker equipment, you'll need to lift the handset before making your selection. Our first question comes from the line of Bo McKenzie with Lafitte Capital. Please go ahead.

**Bo McKenzie:** Hey, guys congratulations on a good quarter. If we were to look back into 2006/2007 when there was an awful lot of equipment coming out for the pressure pumping and work over market about what percentage of the business that represented at that point in time?

**Michael Batten:** Thanks for your comments, Bo. The – what you saw was a huge run up in orders that took place in our backlog during that period. And the growth of actual shipments occurred, of course, on a delayed basis off of that run up in backlog and in orders. So, we don't give out exact numbers on how much we have in each one sector, but we do have – we did see a significant run up in Viam Force (sp?) that did impact our overall sales rate and, of course, our profitability.

**Bo McKenzie:** But would it be better then to say that the level that you got in the energy segment is at least, you know, as a percentage of the business substantially lower than it would have been a year ago or two years ago given the fact that a lot of the work over in pressure pumping business is shipped out?

**Michael Batten:** That characterization would be valid. We are seeing that the pressure pumping sector of our business has declined over the last year. Starting in the second quarter of fiscal '08, the year just concluded. I might add though that we are very pleased about the fact that while that demand subsided somewhat we have seen an offsetting and almost as profitable run up and continue to run up in our commercial, marine, and mega yacht sales. So, we have seen an ability to roughly maintain the margin rates.

**Bo McKenzie:** Well, if I'm right in terms of the data I've got, it does look like that pressure pumping side of the market is going to be coming back fairly soon, hopefully, knock on wood. Separately, if you were to look at, you know, some of the press releases that came out of Brunswick in the last quarter, obviously, their boat business has been going through its share of issues. Now, they're totally different than in the market that you guys are. But is there kind of a rule of thumb you could give us about how much the top end of their business overlaps with yours and whether or not the – how would I say this. The lower end of the mega yacht business has seen any kind of pressure as opposed to the high end?

**Michael Batten:** Well, as you know, Bo, you're correct in your characterization that the troubles that are being experienced by our good friends at Brunswick relate primarily to the much smaller end of the personal water craft side of the business, the lower end sub 500 horsepower segment. We don't have as much penetration in that area as we do in the higher horsepower segment. So, your characterization is correct.

There is some say erosion going on in the, again, the lower end of what might be the bottom end of the mega yacht market. It is not significant, but obviously, we have seen some fall off there, but it's been more than adequately replaced by additions at the higher end.

**Bo McKenzie:** One last question and I'll turn it back over if that's all right. There are things that we've been trying to track in terms of the mega yacht into the business. It seems like at least from a shipyards perspective that there's a gigantic backlog that seems to stretch out for several years. Is that pretty much the way you would characterize what you're seeing, you know, the \$10 plus million into the yacht market is somewhat limited in its capacity to deliver finished product out right now, the stretching demand kind of further out into the future?

**Michael Batten:** That's a fair characterization that the very high end is more or less at their capacity and they are seeing that their backlogs are extending. We're not aware of significant additions to the capacity of the industry at this point.

**Bo McKenzie:** All right. Well, congratulations, guys, and let's hope that we see during 2009 resurgence to the pressure pumping and work over markets as well. Thanks a lot.

**Michael Batten:** We share the same thoughts. Thanks, Bo.

**Operator:** Thank you, sir. Ladies and gentlemen, if there are any additional questions, please press the star followed by the one at this time. As a reminder, if you are using speaker equipment, you will need to lift the handset before making your selection. And our next question comes from the line of Bryan Dutt with Iron Man Energy. Please go ahead.

**Bryan Dutt:** Gentlemen, how are you doing this afternoon?

**Michael Batten:** Finem Bryan. Thank you. And you?

**Bryan Dutt:** Good. On airport and fire fighting is that – you said things are going well there. Is that economically sensitive, are you worried about any kind of downturn with the economy in that sector?

**Michael Batten:** The exposure that we have is both US and overseas and our greatest area of growth and penetration has been occurring abroad. So, it's largely dependent upon a) the creation of new airports and b) the turnover or the upgrading of equipment at existing airports around the world.

And so we have been successful in gaining new customer accounts and volume particularly in Europe, but also in Asia. So, we're seeing demand continuing to grow in that area.

**Bryan Dutt:** Okay. In terms of currency hedging, do you do any and have you considered any in the future?

**Michael Batten:** Chris, why don't you just step in on that.

**Chris Eperjesy:** Yeah, we do do hedging at the transactional level, so we will hedge in particular receivables on transactions. But we haven't done any broad scale hedging beyond that. And, you know, as Mike has alluded to in prior calls, we kind of have it going in both directions in that, you know, a little more than half of our revenue now is generated overseas. So, there is somewhat of a natural hedge built in, but we do hedge at the transactional level.

**Bryan Dutt:** And also on hedging, what about for steel or alloys and where is pricing going with that, is that going in your favor now?

**Michael Batten:** I'm sorry the question was, Bryan?

**Bryan Dutt** Commodity pricing how it relates to you, steel or alloys or whatever.

**Michael Batten:** Well, we are seeing especially domestic steel prices accelerating and we presume some of that is a result of their ability to do so against the Euro, but that has accelerated during the year into double digits. We are responding – John, do you want to pick up on our response?

**John Batten:** Yeah, as just mentioned, the surcharges and the material price increases have been much stronger in the US than they have been in our European operations. Obviously, a lot of the cost in producing these materials is outside the dollar zone. And we've seen just more aggressive pricing here in North America than we have in Europe.

**Bryan Dutt:** Okay. Great quarter. Thank you gentlemen.

**Michael Batten:** Okay. Thank you.

**Operator:** Thank you, sir. And our next question is a follow-up question from the line of Bo McKenzie. Please go ahead.

**Bo McKenzie:** Hi, I got one more question. This is just more out of intellectual curiosity than anything else. You guys have got – is it the quick shift transmission that's the real smooth, low, RPM kind of transmission that you developed for the mega yacht business? I believe you were saying at one point that you were looking to try to market that more towards the DPT market for some fuel efficiencies, stuff like that. There was some work going on in terms of upping the horsepower or whatever the right term would be there. I was just curious for a little bit of an update on how that's going.

**Michael Batten:** John?

**John Batten:** Bo, you're absolutely right. We started off kind of in the pleasure craft 800 horsepower range in over the last two to three years have been essentially taking it to every transmission model whether it's pleasure craft or work boat above 500 horsepower. And we've now completed the designs on everything and we're just rolling out the last one into production. Specifically, the ones that you're mentioning for the DP2 market, which are produced here in Reseen and they have been very well received in the marketplace by the operators.

Because you're able to operate at a much lower operational RPM once you're at the rig (sp?) you're using less fuel. And for those listening on the call not familiar with DP2, DP is the dynamic positioning that the supply boats and through boats use when they're out next to the rigs out in the Gulf of Mexico or off the coast of Nigeria or wherever. Typically in the past

they've been operating these are four and five engine boats that are operating – to stay on station they're operating at or near full RPM with half the engines in reverse, half the engines in back to kind of hold the station.

Well, a couple of – obviously fuel prices are up and the requirements now with DP2 are to hold a much tighter station. With our transmissions and the new clutching technology, vessels are able to do it at a much lower operational RPM thus saving fuel. So, we see – there is potential out there for new builds and obviously for retrofits as the equipment and the power (inaudible) is replaced. So, both – yeah, we do see a big potential there and we're just starting to rollout essentially the whole line. We've had a couple of models here and there, but more and more are starting to be released.

**Bo McKenzie:** I may have my facts wrong, which I occasionally do. But did you tell me that Sea Core (sp?) has tried some of this and if so, are you starting to see some reception from some of the other offshore support vessel owners in terms of at least looking at it?

**John Batten:** Sea Core was first and we will know more in the next couple of months. Obviously, we know what they've told us they're very happy. But as far as, you know, we have a lot on order going out with quick shift. It's how much of this are going into the DP2 application. We've had a lot at also on push boats OSVs, the smaller end of the OSV. So, yes, the word is getting out and you know how it spreads in the Gulf, it's from radio to radio on the vessels.

**Bo McKenzie:** Oh, all right. Well, thanks a lot guys.

**John Batten:** Thanks, Bo.

**Operator:** Thank you, sir. Our next question comes from the line of Philip Zera with the Algorithm Group. Please go ahead.

**Philip Zera:** Yes, I hopped on the call a little late. Have you given color yet on your tax rate for fiscal '09? Do you expect to have the favorable tax adjustment foreign and state similar to what you have in this quarter?

**Michael Batten:** Chris?

**Chris Eperjesy:** No, I mean, those really were, you know, items that occurred in the fourth quarter and in some cases through the year. For example, there was the Italian – the income tax corporate rate change that occurred in the year and certainly that'll have some benefit going forward, but not the magnitude that was announced in the third quarter, which was really the catch up.

So, I guess the quick answer is no, I wouldn't anticipate those similar either magnitude, in particular magnitude adjustments.

So, if you adjusted those out, you know, and it depends on the geographic distribution of our earnings in any given year, but that 37% to 39% effective tax rate range is still applicable.

**Philip Zera:** Great. And my other question I was fortunate to visit the former Johnson facility up in Sturgeon Bay and I happened to be a – one of the 124th (sp?) yacht. I don't know if you're familiar with that.

**Chris:** Yes.

**Philip Zera:** That type of – that's a unique boat that's for sure, a unique yacht. But with that type of sport yacht would that be using Twin Disc any whether propulsion or clusters or anything?

**Michael Batten:** That could use a whole host of our equipment. That one has MTU engines in it from Fredrick's Hobb (sp?) in Germany. There's a better than 50/50 chance that it has (inaudible) boxes from Fredrick's Hobb in Germany as well. Those are packaged at the factory in Germany. But as far as the thrusters and things like that, that is precisely the market that we're going after.

**Philip Zera:** Great. Thank you.

**Operator:** Thank you, sir. Ladies and gentlemen, at this time we would like to give participants a final opportunity to ask any questions. At this time, please press the star followed by the one if you do have a question.

And at this time, we have no further questions. I would like to turn it back to management for any closing remarks.

**Michael Batten:** Well, we'd like to thank you all very much for your attendance this afternoon. And I appreciate your interest in Twin Disc and your following our company. As you know, if you have any follow-up questions that you think of after the call, please feel free to give us a ring at our offices in Reseen. In the meantime, enjoy your day. Thank you.

**Operator:** Ladies and gentlemen, this concludes the Twin Disc, Incorporated 2008 Fourth Quarter Financial Results Conference Call. This conference will be available for replay after 4:00 p.m. Eastern Standard Time today through August 8th at midnight. You may access the replay system at any time by dialing 303-590-3030 or 1-800-406-7325 and entering pass code 3900293. Once again, if you would like to listen to a replay of today's conference, please dial 303-590-3030 or 1-800-406-7325 entering pass code 3900293. Thank you for your participation, you may now disconnect, have a pleasant day.



