

Twin Disc, Incorporated

2007 Third Quarter Newsletter

March 30, 2007

To Our Shareholders:

We are delighted with our financial results for fiscal 2007 and our outlook for fiscal 2008. With one quarter remaining, fiscal 2007 should produce the highest financial results in the Company's history, as our nine-month earnings are higher than they were for all of fiscal 2006. The fiscal 2007 third quarter represents the 13th consecutive quarter of year-over-year quarterly increases in sales and the eighth consecutive quarter of year-over-year quarterly increases in gross margin, as a percentage of sales, and net earnings.

Financial Results

Sales for the quarter ended March 30, 2007 improved 34.7 percent to \$86,405,000 from \$64,125,000 in the same period a year ago. Year-to-date, sales increased 32.6 percent to \$226,418,000 from \$170,753,000 in the fiscal 2006 nine-month period. The BCS Group acquisition contributed \$7,305,000 to net sales in the fiscal 2007 third quarter and \$22,002,000 to year-to-date sales. Sales continue to benefit from strong demand across all the markets the Company serves, especially from its oil and military customers.

Gross profit, as a percentage of 2007 third-quarter sales, increased 1.6 percentage points to 32.6 percent from 31.0 percent in the fiscal 2006 third quarter and gross profit, as a percentage of year-to-date sales, increased 2.7 percentage points to 32.2

percent from 29.5 percent in the same period last fiscal year. Profitability continues to improve from higher sales volumes, the implementation of cost reduction programs, manufacturing efficiencies, a better product mix, and selective price increases.

Net earnings for the third quarter increased 96.6 percent, or by \$3,690,000 to \$7,509,000, or \$1.27 per diluted share, compared with \$3,819,000, or \$0.64 per diluted share, for the fiscal 2006 third quarter. Year-to-date, earnings increased 91.6 percent to \$16,851,000, or \$2.86 per diluted share from \$8,793,000, or \$1.49 per diluted share.

For the fiscal 2007 third-quarter and nine-month period, the recently acquired BCS Group companies continue to meet expectations and added \$0.06 and \$0.16, respectively, to diluted earnings per share. There was no unfavorable non-cash purchase accounting adjustment to inventory made in the fiscal 2007 third quarter, as in this year's prior quarters; however, year-to-date, \$1,223,000 before tax has been adjusted. There is no further adjustment anticipated for the fourth quarter.

Our balance sheet remains stable. Inventories increased 25.7 percent to \$81,794,000 at March 30, 2007, as a result of our strong incoming orders and six-month backlog. Total debt increased to \$55,178,000, and represented 33.7 percent of total capital at

the end of the quarter. Debt was used to cover the increased inventories, higher accounts receivables and the \$11,208,000 we have spent so far this year for capital expenditures. We have increased our capital expenditure budget for fiscal 2007 and are concentrating on core competencies. Working capital for the period ended March 30, 2007 increased 29.8 percent to \$92,808,000, compared to \$71,510,000 at June 30, 2006. Shareholders' equity was \$108,662,000 at March 30, 2007, compared to \$89,233,000 at June 30, 2006.

Dividend

The Board of Directors declared a regular quarterly cash dividend of \$0.11 per share payable on June 1, 2007, to shareholders of record on May 11, 2007.

Outlook

With our six-month backlog at a record \$118,397,000 (which includes backlog of \$8,182,000 from BCS), the preliminary outlook for fiscal 2008 is encouraging. The six-month backlog (excluding backlog from BCS) was \$91,598,000 at fiscal 2006 year end and \$88,500,000 at March 31, 2006. The industrial cycle that began in earnest in 2004 remains strong. We continue to see positive trends in the markets we serve and remain optimistic about our future.



Michael E. Batten
Chairman, President and Chief Executive Officer

This correspondence may contain statements that are forward looking as defined by the Securities and Exchange Commission in its rules, regulations and releases. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors including those identified in the Company's most recent periodic report and other filings with the Securities and Exchange Commission.

Twin Disc, Incorporated
Condensed Consolidated Financial Information
(In thousands except per-share data; unaudited)

Statements of Operations	Three Months Ended		Nine Months Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
Net sales	\$86,405	\$64,125	\$226,418	\$ 170,753
Cost of goods sold	<u>58,220</u>	<u>44,219</u>	<u>153,531</u>	<u>120,420</u>
Gross profit	28,185	19,906	72,887	50,333
Marketing, engineering and administrative expenses	15,913	13,153	44,093	34,790
Interest expense	886	421	2,353	1,136
Other expense (Income), net	<u>(199)</u>	<u>34</u>	<u>(527)</u>	<u>(67)</u>
Earnings before income taxes and minority interest	11,585	6,298	26,968	14,474
Income taxes	4,023	2,445	9,973	5,582
Minority interest	<u>(53)</u>	<u>(34)</u>	<u>(144)</u>	<u>(99)</u>
Net earnings	<u>\$ 7,509</u>	<u>\$ 3,819</u>	<u>\$ 16,851</u>	<u>\$ 8,793</u>
Earnings per share:				
Basic	\$ 1.29	\$ 0.66	\$ 2.90	\$ 1.53
Diluted	\$ 1.27	\$ 0.64	\$ 2.86	\$ 1.49
Average shares outstanding:				
Basic	5,813	5,775	5,808	5,760
Diluted	5,911	5,923	5,902	5,889
Dividends per share	\$ 0.1100	\$ 0.0950	\$ 0.3000	\$ 0.2700

Balance Sheets

Assets	March 30, 2007	June 30, 2006
Current assets:		
Cash and cash equivalents	\$14,819	\$ 16,427
Trade accounts receivable, net	63,012	55,963
Inventories, net	81,794	65,081
Deferred income taxes	6,656	5,780
Other	<u>6,427</u>	<u>7,880</u>
Total current assets	172,708	151,131
Property, plant and equipment, net	53,797	46,958
Goodwill	15,976	15,304
Deferred income taxes	4,869	4,152
Intangible assets, net	11,668	12,211
Other assets	<u>6,607</u>	<u>6,416</u>
	<u>\$265,625</u>	<u>\$236,172</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Bank overdraft	\$ -	\$ 3,194
Notes payable	-	16
Current maturities on long-term debt	551	633
Accounts payable	30,396	27,866
Accrued liabilities	<u>48,953</u>	<u>47,912</u>
Total current liabilities	79,900	79,621
Long-term debt	54,627	38,369
Accrued retirement benefits	20,557	28,065
Other long-term liabilities	<u>1,301</u>	<u>312</u>
	156,385	146,367
Minority interest	578	572
Shareholders' equity:		
Common stock	12,582	11,777
Retained earnings	116,751	101,652
Accumulated other comprehensive loss	<u>(5,999)</u>	<u>(9,166)</u>
	123,334	104,263
Less treasury stock, at cost	<u>14,672</u>	<u>15,030</u>
Total shareholders' equity	<u>108,662</u>	<u>89,233</u>
	<u>\$265,625</u>	<u>\$236,172</u>