VIAVID communications simplified.

Twin Disc, Inc.

Fiscal Second Quarter 2016 Investor Conference Call

February 2, 2016

CORPORATE PARTICIPANTS

John Batten, *President, Chief Executive Officer*

Jeff Knutson, *Vice President, Finance, Chief Financial Officer, Treasurer, Secretary*

Stan Berger, *SM Berger Investor Relations*

CONFERENCE CALL PARTICIPANTS

Josh Chan, *Baird*

Steve McManus, *Sidoti & Company*

Walter Liptak, *Seaport Global*

Mario Gabelli, *Gabelli & Company*

Brian Rafn, *Morgan Dempsey Capital Management*

PRESENTATION

Operator:

Ladies and gentlemen, welcome to the Twin Disc Fiscal Second Quarter 2016 Investor Conference Call. As a reminder, today's conference is being recorded. At this time, I'd like to turn the call over to Mr. Stan Berger of SM Berger. Please go ahead, sir.

Stan Berger:

Thank you, Aaron. On behalf of the Management of Twin Disc, we are extremely pleased that you have taken the time to participate in our call, and thank you for joining us to discuss the Company's fiscal 2016 second quarter and first half 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 are 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 Annette Mianecki at 262-638-4000 and she will send a copy to you.

Hosting the call today are John Batten, Twin Disc's President and Chief Executive Officer; and Jeff Knutson, the Company's Vice President of Finance, Chief Financial Officer, Treasurer and Secretary.

At this time, I will turn the call over to John. John?

John Batten:

Thank you, Stan, and good morning everyone. Welcome to our fiscal 2016 second quarter conference call. As usual, we will begin with a short summary statement and then Jeff and I will be happy to take your questions.

Looking at our second quarter results, sales for the 2016 fiscal second quarter were $44.8 million versus $72.7 million a year ago, a decrease of about 38%. Year-to-date sales were $82.8 million versus $137.5 million in fiscal 2017. FX had a negative impact on sales of $2.8 million and $6.8 million on the quarter and year-to-date numbers respectively.

Looking at our product end markets, the biggest year-over-year decline continues to be our transmission business, which continues to suffer from the dramatic slowdown in the North American and the Asian oil and gas markets. When compared to the first half of fiscal 2015, this business is down almost 50%. We were able to book and to ship a small number of 8500s in the quarter. Unfortunately, we did not replace these with any new orders. The further downward pressure on oil and gas continued to pull our marine markets down as well, and we saw about a 30% decline versus the previous year in those markets. Like the transmission market, most of this impact was felt in North America and Asia.

Our industrial business had about a 20% decline versus last year, but a lot of this decline was the result of inventories being reduced at all levels of the channel to market. In relative terms, there markets are in better shape than the oil and gas counterpart.

When looking at our sales geographically, it is not surprising that the biggest declines versus 2015 came in North America and Asia in terms of volume and sheer dollars, which saw nearly a 50% reduction in volume. Sales into our European markets were down about 24%, and the biggest year-over-year declines were in our South American markets, which were down about 90% when compared to last year.

Gross margins for the quarter were 25.9% compared to 30.4% a year ago, and 20.9% the previous quarter. Obviously mix and volume are the two main factors for the decline year-over-year, but we did see improvement from the first quarter, primarily in our North American operations where we got almost a full quarter of cost reduction benefits, and we only had a three-day shutdown versus a month-long shutdown in July.

Second quarter spending in marketing, engineering and administrative, or ME&A expenses decreased by $1.9 million versus the same period last year, from $16.5 million to $14.6 million. Spending also reduced $600,000 from the previous quarter and was the lowest quarter in ME&A spending since our fiscal 2010 year. The decreased spending was a result of reduced bonus expenses, headcount reductions, FX and general cost containment activities, but was slightly offset by increases in pension expenses and corporate development activity.

Net earnings for the quarter were negative $2.3 million or $0.21 a share compared to $3.7 million last year or $0.33 per share. Year-to-date, the losses are negative $6.6 million or $0.59 a share compared to $7.8 million or $0.69 a share for the first half of fiscal 2015. During the quarter, we enacted further cost structure actions and reduced expenses by another $4.3 million on an annual basis. This is in addition to the $6 million announced last June.

As we mentioned last quarter, we have identified additional steps to improve our global cost structure. During the quarter, we worked with our lenders on a new short-term banking agreement that will allow us some flexibility in making some of these needed changes, and I will come back to this at the end of my comments.

Looking at our balance sheet, we ended the quarter with total debt of $17.4 million, up from $13.8 million from the end of the prior fiscal year, and cash of $20.6 million, which was down slightly from $22.9 million at the end of the prior fiscal year. Our six-month backlog decreased to $34.6 million from $37.5 million and is essentially flat now to the end of fiscal 2015 year-end. As I previously mentioned, the book and build of the 8500s, our lead times on all products are well within our 12-week window so that we can ship any product within a quarter and not have it show up necessarily in the quarterly backlog.

Looking at the outlook, over the last two conference calls, we talked about how the first two fiscal quarters of 2016 would be our most challenging. This was our assumption give $50 oil. Thirty dollar oil has only pushed this reality out further, and we do not see any year-over-year comparable improvements until fiscal 2017. What Management can do is focus both on our cost structure improvements and growth opportunities. This is why the Board elected to temporarily suspend the cash dividend. This was not a decision predicated by our lenders but a prudent capital allocation choice made by the Board, given the uncertainty of our end markets. We have several new industrial marine products in the pipeline and there may be some strategic corporate development targets that become available. We think that this temporary suspension is in the best interest of all shareholders, given the outlook of the next few quarters.

As I mentioned earlier in the call, during the quarter we worked with our lenders on a new short-term banking agreement which will allow us some flexibility to arrive at the right long-term banking arrangement to achieve our long-term goals. The information on this agreement was released in an 8-K this morning.

That concludes my prepared remarks, and now Jeff and I will be happy to take your questions. Aaron, please open the line for questions.

Operator:

Thank you. Ladies and gentlemen, if you'd like to ask a question at this time, please signal by pressing star, one on your telephone keypad, and if you're using a speakerphone, please be sure that the mute function is turned off to allow that signal to reach our equipment. Again, that is star, one if you'd like to ask a question at this time.

We'll go first to Josh Chan with Baird.

Josh Chan:

Hi, good morning John and Jeff. Just first question on demand. I understand that a lot of the end markets remain very depressed, and that's certainly understandable. I think even with that, though, your business typically has a little bit of a pick-up in the second half from a seasonal perspective. I was just wondering if that would still be the case this year.

John Batten:

I would expect—yes, Josh, it usually picks up seasonally, particularly in just general aftermarket activity and industrial. We foresee that happening, and if I kind of put in order where I see the markets returning, it would be industrial first growth, then marine, and then transmission oil and gas. I would say that there are a couple projects out there in oil and gas for land-based pressure pumping that could pop in the third quarter or the fourth quarter, but in general it will be industrial coming back, marine, and then transmission - that's how we see it. Seasonally, typically the fourth quarter, heading into the summer months on equipment and rebuilds, that's where we'll see kind of a general increase. So, we expect, at least on the top line, improvement in the second half of the year.

Josh Chan:

Okay. Does that imply that may be a little bit less of an improvement in the third quarter particularly?

John Batten:

I think the third quarter, given what we know now, is going to be a lot like the second quarter on the top line, maybe some improvement. It's tough to tell because our lead times are so short that people are ordering just when they need it. So, I think the third quarter is probably going to be, at least on the top line, very much like the second quarter. We will have the cost reductions that we announced in the second quarter and the first quarter will be flowing through in the third quarter. More of it will drop to the bottom line.

Josh Chan:

Okay, yes. That kind of bridges to my second question, which is basically since you're going to see the full benefit of your cost actions, does it make sense that gross margins perhaps only improve from here, because you get those actions and then also the seasonal pick-up in Q4?

John Batten:

Yes, provided there's not a dramatic change in the mix, I would expect our gross margins to improve in the third quarter, yes.

Josh Chan:

Okay, okay. Then just can I get your thoughts on the second half in total and whether you think you can be profitable, and also from a cash flow perspective what you might be expecting there in the second half?

John Batten:

I would say the best shot at a profitable quarter is going to be the fourth quarter. Hopefully we'll be closer to breakeven in the third quarter, but the fourth quarter is—when we see some of the volume coming back, particularly in industrial, the fourth quarter is a much better bet.

I'll let Jeff answer the cash flow.

Jeff Knutson:

Yes, on the free cash flow, Josh, I think we're looking to be positive in the second half. I think the first half, we have some fairly significant payouts related to the restructuring charge at the end of last year and the bonus accrual coming into the year hurting our free cash flow in the first half. I think we'll drive some inventory improvement through the second half. Part of the challenge in the first half are—and a little bit of a maybe misleading item is the reduction in inventory related to the sale of Twin Disc Southeast doesn't flow into our free cash flow, so we're showing a pretty good inventory reduction, not getting credit for it necessarily in free cash flow. I think we'll continue to drive inventory reduction. We won't have the significant outflows related to the accruals, so I think we'll be generating some positive free cash flow through the second half.

Josh Chan:

Okay, that's good to hear. Then just John, you elaborated a little bit, but just wanted to get some thoughts behind the dividend suspension and what the Board's thought process was behind that, and the timing. Then also, either John or Jeff, maybe a comment on your confidence on being able to secure longer term financing by the end of the fiscal year, that'd be appreciated. Thanks.

John Batten:

Sure. Well, you know, the discussion on suspending the dividend, which was not taken lightly, was just the uncertainty when we built the business plan and the forecast on oil prices that were significantly higher and activity in marine and transmission that was going to be higher. I think everyone's been surprised, you know, breaking the $50 barrier and then the $30 barrier. Just the next few quarters, a general—you can't bank on a lot of forecasts and what experts are going to predict in the market, so I guess in discussions with just cash flow in general, we thought it'd be better to take this type of decision before it was ever needed and be conservative, and make sure that we have capital available, a, for growth, whether it's new projects or—sorry, new products coming out or the right corporate development activity, or on the balance further cost reduction activities to bring in line the cost structure if this is where we're going to be for a substantial amount of time. By substantial, I mean two, three, four quarters.

So, I do think it's the right decision. We have a very strong balance sheet. Obviously this strengthens it on the quarters going out where there is no dividend, but I do believe when we come out of this, we're going to be a much stronger company. It is a temporary suspension, and I don't want to predict when it will come back. This is not seen as a long-term action but a short-term action, given just the uncertainty of where we are at this point.

Jeff Knutson:

Josh, I can just comment on the—I think your second part was the confidence in achieving a long-term financing solution.

Josh Chan:

That's correct, yes.

Jeff Knutson:

So, we've been working with our lenders really since the end of the first quarter, I think in a very productive way, and step one was really to get a short-term amendment to provide covenant relief for a few quarters as we continue to work on that longer term solution. It will quite likely be an asset-backed solution, obviously something that we haven't done in some time, so as a company we want to make sure we arrive at the right solution that provides us with the right level of flexibility and comfort. So, I think we're well along that path and quite confident we'll be in line to have something in place before the end of the year.

Josh Chan:

Great. Thank you for your time and best of luck.

John Batten:

Thanks Josh.

Operator:

We'll go next to Steve McManus with Sidoti & Company.

Steve McManus:

Morning guys. Thanks for taking my questions.

John Batten:

Thanks Steve.

Steve McManus:

So, first one on—can you give us an idea of how much non-energy related industrial makes up the current mix, and maybe a potential target of where you could see that going, maybe by the end of the year?

John Batten:

Non-energy industrial? You know, it's probably in the neighborhood of a quarter of our overall business right now. The problem with our industrial products - clutches, PTOs, torque convertors, gearboxes is they have a lot of industrial applications but they also get used in--if not in the energy oil and gas business, but certainly in industries that are supporting it, construction, things like that. So, I do see that just a general—you know, if everything goes into a slight recession other than our end markets the next couple quarters, it would also be the first the kind of come out of it. So, we have new products coming out, hydraulic PTOs, some remotely actuated PTOs, and some other things that are going to be new products and market share gain potential for us. So, we're going to put the big push behind these new products coming out, because this is where we see the best opportunity obviously, and also looking for some key corporate development initiatives in this space as well.

Steve McManus:

Okay, and how does the margin profile of some of those newer products compare to the core products right now?

John Batten:

The ones that we're coming out with are in the higher horsepower range, and as a general rule, the higher up you go in horsepower, the better margin that we have in those products. So, I expect those to come in and help the gross margin percentage.

Steve McManus:

Okay, and then when can we expect full run rate with respect to the $10 million in cost savings recently put in place?

John Batten:

You will see those starting to flow in the third and fourth quarter, and we are-—-you know, we've been working essentially the calendar, our second quarter on the new banking agreement and working with the lenders now on a long-term solution, so we didn't enact any more cost—I would say, cost-cutting activities other than what we've previously announced. Now that we have this short-term agreement and are finalizing a long-term one, I think you'll also see some further cost reduction activity around the world.

Steve McManus:

Do you have kind of like a ballpark range of where you think ME&A will end for the year, or even as some of your revs…

John Batten:

Well, it's probably—it will end up, just as a sheer number, under $60 million, and I would foresee that the run rate going into 2017 will probably be lower than that. As to the timing of when that will happen, I can't specify an exact date, but—yes. So, if you count on under $60 million, exclusive of any one-time charges for the run rate for fiscal '16, and then I would suspect it will be slightly lower than that going into '17.

Steve McManus:

Okay, and then the last one from me, any changes with respect to cap ex guidance for the year?

John Batten:

Not from what we've said at the end of the first quarter.

Jeff Knutson:

Yes, we're just under $3 million through the first half. I think we'll probably do somewhere between $2 million and $3 million in the second.

John Batten:

Yes.

Steve McManus:

Okay, great. Thanks a lot, guys. I appreciate it.

John Batten:

Thanks Steve.

Operator:

We'll go next to Walter Liptak with Seaport Global.

Walter Liptak:

Hi, thanks. Good morning guys.

John Batten:

Morning Walt.

Walter Liptak:

Hi. I wanted to ask about cash inflow, and maybe going back to your comments on inventory and other working capital accounts. How much can you bring down inventories, and then I wanted to ask about receivables and just any issues with bad debts increasing or days getting extended from your customers.

John Batten:

Yes, it's John, Walt. We are—I think some conservative plans that we've made is another $7 million coming down, which is primarily in our North American operations. We've had some changes that we've enacted here and we saw actual real inventory improvement in the second half of the quarter. There are some—we're moving a distribution depot warehouse that we had in Florida back up here to Racine, so we're going to see some inventory improvement there as well, not holding as much as we had in the past. So, you'll see us primarily in North America and our manufacturing operations, and then working through some sales at our distribution subs primarily in Singapore but also in the Pacific Northwest. I think you'll see some inventory reduction flowing through there, so there will be real cash inflow from inventory reduction in the second half.

And then I'm sorry, Walt - I forgot the second part of your question.

Walter Liptak:

It's okay. Just on the receivables and have your—yes, just any thoughts about collections and how (inaudible).

John Batten:

I would say this—right now, we're in a—macro, we're in a much better position than we were back in 2009, 2010. We have one, I would say, significant oil and gas receivable, but that is with a survivor in the frack world, so it probably is going to take a little bit more time to get that one paid down. But it's a company that's going to survive, so we're really tackling one. But, the days outstanding have increased, and it's been primarily from a receivable at one customer, but we are working that issue.

Walter Liptak:

Okay, got it. Okay, great. The comments that you made about industrial seasonally picking up in the back half, I wonder if you could talk a little bit about how things were trending at the end of the year and in January, and just a little bit more color on maybe pricing that you're seeing as we go forward.

John Batten:

It was—we had a—just color on the kind of influx of orders over the last, I'd say, month, we had a half-week shutdown in December. We kind of extended the Christmas shutdown here, so we were really only shipping here in Racine for the first half of December, and orders were very light. I think people assumed that everyone was gone for the month, but it picked up in the first part of January but then leveled off. So, it is—while it is very up and down and we see just a lot more orders for industrial products, the absolute just-in-time, and as I mentioned in the script at the beginning of the call, we see a lot of inventory reduction activities, whether it's a the equipment OEM, our distributor or an engine dealer, and they are typically working down their inventory of PTOs and the industrial products, preserving their own cash flow. So, we see those inventories working down and that, along with seasonal activity and market recovery leads us to believe that the order trends in general will pick up in our second half of the year, particularly in the fourth quarter.

Walter Liptak:

Okay, all right. Sounds good. Then just on pricing, you know, I guess, how is pricing looking on orders, or the backlog pricing? What's the pricing strategy been here?

John Batten:

Well, there's good news, bad news. We haven't had a significant amount of pricing pressure on existing prices. There's certainly been a lot of resistance on future pricing actions, so it is very much project oriented where you're—particularly in marine, where you're bidding on a project and you're having—if it's produced in the US, you're bidding against potentially products that are priced in euros, so I would say the bigger impact right now is on global tenders, which we see in marine. It's the dollar to the euro impact right now.

Walter Liptak:

Okay. All right, makes sense. Okay, thanks for taking my questions, guys. Good luck.

John Batten:

Thanks Walt.

Operator:

Just as a reminder everyone, that is star, one if you'd like to ask a question. We'll go next to Mario Gabelli with Gabelli & Company.

Mario Gabelli:

Sorry, I couldn't hear you.

John Batten:

Hi Mario, it's John and Jeff.

Mario Gabelli:

Yes hey, John and Jeff. Listen - I've been following the company for 50 years, and congratulations on having another cycle. No. Listen, your decision to eliminate the dividend, or suspend it, was appropriate and very necessary, but you mentioned several times about, in quotes, being prepared for, in quotes, corporate development. Can you kind of flesh that out a little more? I mean, you must be seeing a lot of opportunities. What's so different that might want you to do it now?

John Batten:

Well, I—Mario, the last time that we went through a cycle, and it wasn't anything like you maybe experienced in the early 80s that I lived through just in high school, watching.

Mario Gabelli:

Oh, stop bragging! Stop bragging, will you?

John Batten:

No, but we—I think that in 2009 and '10, we let some opportunities maybe slip by. We didn't pursue them because—and rightly so. We were focused on our own balance sheet and our own P&L and just getting through it. One of the things that we don't want to let a crisis go by is that there are companies and products…

Mario Gabelli:

Yes, I got it.

John Batten:

If they're strategic and we can add, we'd like to be able to do it. That's obviously one track. The other reason—you know, to enhance our own internal product development. The other is obviously working on our cost structure, and if this is a paradigm shift where the markets—energy markets and the adjacent markets are going to be smaller for the next few quarters, then we'd like to…

Mario Gabelli:

Yes, we're just—we're interested in the next five years. So, just so I can pick and tie a number together, your under-absorbed burden because you're reducing overhead and is an element, but I didn't get the best case for six months out, what your $73 million of inventory and the balance sheet might look like.

John Batten:

Well, I would like to have that inventory down another $7 million to $10 million, and a lot of that is predicated on sales at our distribution companies, you know…

Mario Gabelli:

No, no, I got it. Just one other one, you said one major customer on your accounts receivable, that you narrowed it down. Since the receivables are down $10 million anyway, just how big is that - 10%, 15% of the receivables, or—

Jeff Knutson:

Ten percent.

John Batten:

Ten percent.

Mario Gabelli:

All right. Hey guys, I hate to say it, but as a buyer of your stock, you've got to play these cycles. Thank you. Listen - I'd love to chat. If you ever have any ideas and you need money, our clients want to buy your rights, on the rights offering, or do anything you need to help you finance it. Take care.

John Batten:

All right, see you later this month at the conference.

Operator:

We'll go next to Brian Rafn with Morgan Dempsey Capital Management.

Brian Rafn:

Morning guys. Let me ask, in your oil and gas segment, if you see recovery, what specifically for your markets would—I'm guessing rig transmissions, pumpers, how much potential overhang in used equipment might there be early on in a recovery?

John Batten:

You know, I'm glad you asked that question because with that respect, I personally am getting more positive about the recovery of the North American shale players. That's because you've seen a lot of stuff in the news about the consolidation of the frack fleet. I know that a lot of stuff, equipment has been bought for pennies on the dollar, whether $0.10, $0.18, but the good equipment is going for what it's worth, and I'm happy to say that our transmissions are on a lot of that equipment. So, what we are seeing is the consolidation of the inventory that's out there, and I think a lot of the stuff that's been purchased for pennies on the dollar may or may not make it back into the fleet.

So, I think on the next up cycle, whenever that is, there is going to be a right-sized fleet out there, and if the blend of stuff purchased at pennies on the dollar makes it into that fleet, the cost structure and the breakeven point for the pressure pumping fleet will come down. So, when we started the cycle and the breakeven point was X, it's going to be X minus some percentage now, so I am more optimistic there that it will be a healthy—there will be fewer players, there will be fewer rigs, but we'll have healthier players in the next cycle.

Brian Rafn:

Okay, I appreciate the clarity. Let me ask from the standpoint, and maybe it's more of a three or five-year question, historically if we throw the bums out of Washington, how much potential military sales might you guys have, if any, if we get a different defense budget?

John Batten:

Brian, that's a tough one. Most of our stuff is legacy—actually all of it for the US military land-based is legacy. But I'd just throw out there that the number of projects that we pay attention to, vehicular, has come down significantly. So, to your point, there is a lot of, I would say, pent-up demand for new equipment for the Army and the Marine Corps in general, trucks and vehicles, so I think a change in Washington would be significant for a lot of players. I don't know how much we would participate in that forward market activity, but it certainly would be interesting to look at. A lot of the projects that we have quoted on five years ago, 10 years ago, 15 years ago, they actually never came to fruition, period. Things like our XT1410 into the equipment, we're in vehicles that were designed 30, 40 years ago but are in still in production, so the fleet does need modernizing. That would probably benefit some of the engine guys and our competitors more than it would us, though.

Brian Rafn:

Yes, let me just as an adjunct to that, beyond just vehicular trucks, the Marines have been talking about a new amphibious landing craft, the Army is looking at the third generation Abrams tank. When you get up in the really big name battle tanks, is that something that your transmissions would have a market for, or are you strictly just Humvees and MRAPs?

John Batten:

I mean, that is a size and power range that we could do. The tanks are typically cross-drive transmissions, and we do produce a cross-drive transmission but it's a design that we purchased from someone years ago, so we have not been in the business to date of designing cross-drive transmissions for tracked vehicles. So, I wouldn't put that at the top of our list for potential.

Brian Rafn:

Yes, okay. Fair enough. Then just finally with the restructurings, how has the headcount, say, changed from maybe your post-'07, '08 mortgage crisis, the last time we had tough markets, so post-that to, say, where your headcount is today?

John Batten:

Sure. Globally, since we've had no acquisitions since then, we're down versus where we were in 2010. To put it in perspective, we're down just about, I would say company-wide, 10% versus, say, June of 2015, with primarily most of that in North America here. So, we're down about, I'd say just about 25% in North America from June of 2015.

Brian Rafn:

Okay, and then just one final one, what's kind of your aptitude relative to some of the best acquisitions price-wise might be purchased in markets where there's a lot of trepidation, how sensitive, what's your aptitude? Certainly you've got a great balance sheet. Obviously there may be some issues relative to your bank covenants or your financing. What's available, how do you see it pricing, or is that something you're really not looking at, you're more or less looking just at your own cost structure now?

John Batten:

Always looking. Again Brian, if it's a product and a market and a business that our entire Management team and—you know, we're familiar with in terms of manufacturing and marketing through our distribution subs, we have more of an appetite to look at something bigger, something significant. If it is something that we're—that's new or maybe one or two steps away from what we've traditionally done in the past, our appetite—or new technology that hasn't been fully developed, the appetite would be a little bit smaller. So, we're looking at everything, whether it's a small technology acquisition that we can apply to many of our products, or if it's a complete product line that comes with a facility and everything.

So, in the last 18 to 24 months, we've looked at everything like that - small acquisitions to much larger ones. But, I would say just given where we are right now, we want to have that long-term agreement signed before we would make any move.

Brian Rafn:

Okay. Hey, appreciate the clarity. Thanks.

John Batten:

Thank you, Brian.

Operator:

We'll go back to Walter Liptak with Seaport Global.

Walter Liptak:

Hi, thanks. I think in the beginning, you talked about the regions and how much each of the regions were down. I didn't catch China and maybe the product mix and how things are trending in China. We know they're bad, but just what kind of trends did you see?

John Batten:

That's down just about 50%. You know, it's in the mid-40s, and it—sorry, it's marine based, so offshore oil and gas, coal barge type activity, and then also the onshore, the land-based energy. So, it really kind of—it's very balanced in how much it's down, if I could say that, Walt. Everything was down significantly over second quarter of last year.

Walter Liptak:

Okay. Okay, good. Any trends? Did it stay about the same with last quarter, or with (inaudible)?

John Batten:

I would think certainly—yes, the trends for China and Asia in general would continue through our third quarter, so—I mean, if we're looking for any improvement in China, it really won't be until the calendar second and third quarter of 2016.

Walter Liptak:

Okay. All right, got it. All right. Thank you.

John Batten:

Thanks.

Operator:

We have no questions holding at this time.

John Batten:

Okay, thank you, Aaron. Thank you for joining our conference call today. We appreciate your continuing interest in Twin Disc and hope that we've answered all of your questions. If not, please feel free to call Jeff or myself. We look forward to speaking with you again in April following the close of our fiscal 2016 third quarter.

Aaron, now I'll turn it back to you.

Operator:

Ladies and gentlemen, this does conclude today's conference call. We thank you for your participation. You may now disconnect.