Twin Disc, Incorporated
2010 First Quarter Newsletter
September 25, 2009

To Our Shareholders:

The global recession that we began to experience in the second half of fiscal 2009 continued to impact our results in the first quarter. As announced previously, we implemented temporary plant shutdowns along with government sponsored layoffs, in addition to normal seasonal actions, to adjust production levels to near term demand, which had a negative impact on absorption rates. Tight controls on spending and other cost reduction initiatives helped offset the impact of the decline in volume.

Financial Results

Sales for the fiscal 2010 first quarter were $47,057,000, compared to $72,671,000 for the same period last year, which was the second best first quarter in the Company's history. The decline in sales for the fiscal 2010 first quarter was due to the continued impact the global recession is having on the Company's markets, the seasonally weak first quarter and shutdowns at the Company's Italian, Belgian and Racine manufacturing facilities. Shipments to the mega yacht, industrial, and oil and gas markets remained weak during the fiscal 2010 first quarter, which was partially offset by good demand from the airport, rescue and fire fighting (ARFF) market and stable demand from land- and marine-based military, and Asian-Pacific commercial marine markets.

Gross profit, as a percentage of fiscal 2010 first-quarter sales, was 20.7 percent, compared to 27.6 percent in last year's comparable period. Gross margins were severely impacted for the fiscal 2010 first quarter by the combination of plant closings for the equivalent of two months at the Company's European facilities and the closing for one month of the Company's Racine, Wisconsin facilities, due to previously announced cost cutting initiatives.

For the fiscal 2010 first quarter, marketing, engineering and administrative (ME&A) expenses, decreased $3,540,000 to $12,778,000 compared to $16,318,000 for the same period last year, as a result of previously announced cost reduction initiatives. As a percentage of sales, ME&A expenses for the fiscal 2010 first quarter were 27.2 percent, compared to 22.5 percent in the fiscal 2009 first quarter.

The Company recorded a net loss for the fiscal 2010 first quarter of $2,404,000, or $0.22 per share, compared with net earnings of $2,465,000, or $0.22 per diluted share, for the fiscal 2009 first quarter. Earnings before interest, taxes, depreciation and amortization (EBITDA)* was a loss of $808,000 for the fiscal 2010 first quarter, compared to a gain of $6,814,000 for the fiscal 2009 first quarter.

We are actively managing our cost structure, balance sheet and cash flows. Working capital at September 25, 2009 was $103,127,000 compared to $103,669,000 at June 30, 2009 and $109,843,000 at September 26, 2008. As a result of net changes in working capital, cash provided by operations was $8,066,000 for the quarter, which increased our overall cash position by $3,875,000. At September 25, 2009, the Company had cash of $17,141,000, compared to $13,266,000 at June 30, 2009. Total debt at September 25, 2009 was $49,013,000, compared to $50,769,000 at June 30, 2009 and $55,147,000 at September 26, 2008. As the fiscal year progresses, we will continue to work on paying down debt and improving cash flows through working capital efficiencies.

Dividend

The Board of Directors declared a regular quarterly cash dividend of $0.07 per share payable on December 1, 2009, to shareholders of record on November 13, 2009.

Outlook

Our six-month backlog at September 25, 2009 was $62,485,000, compared to $60,583,000 at June 30, 2009 and $118,639,000 at September 26, 2008. We are encouraged to see a slight improvement in our six-month backlog. While demand from our pleasure craft and industrial markets remains depressed, trends in the commercial marine market, particularly in the Pacific Basin, remain steady. Orders from the airport rescue and fire fighting and land-based military sectors are also holding up well, while order intake from the military patrol boat market has been growing. And finally, we have experienced an uptick in orders for pressure pumping transmissions and air clutches from the domestic and international oil and gas markets. We continue to expect our new 7500 series transmission to be available to the market by fiscal year end. Our outlook is for improving quarterly trends for the balance of the fiscal year.

Michael E. Batten
Chairman and Chief Executive Officer

John H. Batten
President and Chief Operating Officer

Forward-Looking Statements
This press release 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. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved.

***Non-GAAP Financial Disclosures (EBITDA)**
EBITDA represents net earnings before interest expense, income taxes, depreciation and amortization. EBITDA is not a calculation based upon generally accepted accounting principles (GAAP). The amounts included in the EBITDA calculation, however, are derived from amounts included in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows data. EBITDA should not be considered as an alternative to net earnings or operating profit as an indicator of the Company's operating performance, or as an alternative to operating cash flows as a measure of liquidity. Twin Disc has presented EBITDA because it regularly reviews this as a measure of the Company's ability to incur and service debt. In addition, EBITDA is used by many of our investors and lenders, and is presented as a convenience to them. However, the EBITDA measure presented may not always be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

Twin Disc, Incorporated
Condensed Consolidated Statements of Cash Flows
(In thousands, unaudited)

	Three Months Ended September 25, 2009	Three Months Ended September 26, 2008
Cash Flows from Operating Activities:		
Net (loss) earnings	$ (2,312)	$ 2,624
Adjustments to reconcile net (loss) earnings to cash provided (used) by operating activities:		
Depreciation and amortization	2,375	2,399
Other non-cash changes, net	93	288
Net change in working capital, excluding cash and debt, and other	7,910	(6,603)
Net cash provided (used) by operating activities	8,066	(1,292)
Cash Flows from Investing Activities:		
Acquisitions of fixed assets	(1,031)	(1,679)
Net cash used by investing activities	(1,031)	(1,679)
Cash Flows from Financing Activities:		
Decrease in notes payable, net	(874)	(1,403)
(Payment) proceeds from long-term debt	(1,394)	6,306
Proceeds from exercise of stock options	80	72
Dividends paid	(783)	(789)
Other	(317)	—
Net cash (used) provided by financing activities	(3,288)	4,186
Effect of exchange rate changes on cash	128	(774)
Net change in cash and cash equivalents	3,875	441
Cash and cash equivalents:		
Beginning of period	13,266	14,447
End of period	$ 17,141	$ 14,888

Twin Disc, Incorporated
Condensed Consolidated Balance Sheets
(In thousands, unaudited)

	September 25, 2009	June 30, 2009
Assets		
Current assets:		
Cash	$ 17,141	$ 13,266
Trade accounts receivable, net	42,260	53,367
Inventories, net	89,501	92,331
Deferred income taxes	5,653	6,280
Other	8,723	8,677
Total current assets	163,278	173,921
Property, plant and equipment, net	65,340	65,799
Goodwill, net	17,602	17,509
Deferred income taxes	14,000	14,386
Intangible assets, net	7,728	7,855
Other assets	6,457	6,095
	$274,405	$285,565
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities on long-term debt	$ 4,038	$ 4,421
Accounts payable	21,445	24,864
Accrued liabilities	34,668	40,967
Total current liabilities	60,151	70,252
Long-term debt	44,975	46,348
Accrued retirement benefits	60,603	60,241
Other long-term liabilities	899	899
	166,628	177,740
Shareholders' equity:		
Twin Disc Shareholders' Equity:		
Common stock	10,416	13,205
Retained earnings	147,069	150,257
Accumulated other comprehensive loss	(22,858)	(26,218)
	134,627	137,244
Less treasury stock, at cost	27,794	30,256
Total Twin Disc Shareholders' equity	106,833	106,988
Noncontrolling interest	944	837
Total Equity	$107,777	$107,825
Total Liabilities and Shareholders's Equity	$274,405	$285,565

Twin Disc, Incorporated
Condensed Consolidated Statements of Operations
(In thousands except per-share data; unaudited)

	Three Months Ended	
	September 25, 2009	September 26, 2008
Net sales	$47,057	$72,671
Cost of goods sold	37,310	52,599
Gross profit	9,747	20,072
Marketing, engineering and administrative expenses	12,778	16,318
Interest expense	619	597
Other expense (income), net	60	(820)
(Loss) Earnings before income taxes and noncontrolling interest	(3,710)	3,977
Income taxes	(1,398)	1,353
Net (loss) earnings	(2,312)	2,624
Less: Net earnings attributable to noncontrolling interest, net of tax	(92)	(159)
Net (loss) earnings attributable to Twin Disc	(2,404)	$ 2,465
(Loss) earnings per share:		
Basic (loss) earnings per share attributable to Twin Disc common shareholders	$ (0.22)	$ 0.22
Diluted (loss) earnings per share attributable to Twin Disc common shareholders	$ (0.22)	$ 0.22
Weighted average shares outstanding:		
Basic	11,137	11,278
Diluted	11,137	11,424
Dividends per share	$ 0.07	$ 0.07

Reconciliation of Consolidated Net Earnings to EBITDA
(In thousands; unaudited)

	Three Months Ended	
	September 25, 2009	September 26, 2008
Net (loss) earnings attributable to Twin Disc	$ (2,404)	$ 2,465
Interest expense	619	597
Income taxes	(1,398)	1,353
Depreciation and amortization	2,375	2,399
(Loss) Earnings before interest, taxes, depreciation and amortization	$ (808)	$ 6,814

Twin Disc Incorporated
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