

Twin Disc, Incorporated

2008 First Quarter Newsletter

September 28, 2007

To Our Shareholders:

We are pleased with the results of the first fiscal quarter, which confirmed our expectations for sales growth and profitability. Sales of our land based transmissions for oil field and military applications matched last year's first quarter pace, while sales of vehicular transmissions for use in airport, rescue and firefighting vehicles were up for the quarter. However, industrial product markets continued to experience some cyclical softening in the quarter. On the marine side of our business, we continued to see strong demand for our commercial and pleasure craft marine products in the quarter. Sales of our commercial marine gears into Southeast Asia and the Gulf Coast of the United States were particularly robust. In addition, marine propulsion system sales into the Italian mega yacht market, the largest in the World, continued to expand versus the same period last year.

Financial Results

Sales for the quarter ended September 28, 2007 improved 11.9 percent to \$73,613,000 from \$65,774,000 in the same period a year ago. The results for the current fiscal quarter were led by strong sales of marine and propulsion products to the commercial marine and mega yacht markets, as well as continued strong demand for land based transmission products.

Gross margin, as a percentage of fiscal 2008 first-quarter sales, increased 1.5 percentage points to 32.4 percent from 30.9 percent in last year's comparable period. Profitability continued to be strong during the fiscal 2008 first quarter. For the fiscal 2007 first quarter, gross margins were negatively impacted by an unfavorable purchase accounting adjustment to inventory in the amount of \$734,000. Net earnings for the fiscal 2008 first quarter increased 39.1 percent, or \$1,434,000 to \$5,106,000, or \$0.88 per diluted share, compared with \$3,672,000, or \$0.62 per diluted share, for the fiscal 2007 first quarter.

Earnings before interest, taxes, depreciation and amortization (EBITDA)* increased 33.3 percent to

\$10,842,000 for the fiscal 2008 first quarter, from \$8,136,000 for the same period last fiscal year.

The net year-over-year translation effect of the change in foreign currency exchange rates was to increase sales by \$2,357,000 in the fiscal 2008 first quarter when compared to the same period in fiscal 2007. The net impact to gross profit was \$455,000. This represents the net impact of favorable foreign currency translation of \$740,000 and the unfavorable margin impact of a strengthening Euro on US dollar sales of our Belgian manufacturing operation of \$285,000.

During the quarter, we repurchased 260,000 shares of our common stock outstanding at an average cost of \$51.44 per share. We currently have 140,000 shares remaining under our previously announced share repurchase program. Other use of capital in the quarter included \$2,502,000 for upgrading our manufacturing processes and the implementation of a global ERP system. Total debt increased during the quarter to \$55,156,000 compared to \$43,920,000 at June 30, 2007 primarily due to the \$13,475,000 stock repurchase in the quarter. Our total debt to total capitalization now stands at 33.5 percent compared to 27.6 percent at June 30, 2007. We are comfortable with our capital structure and have the financial flexibility to continue to look at ways to expand our businesses. Working capital at September 28, 2007 increased 2.7 percent to \$95,877,000 compared to the 11.9 percent increase in sales.

Stock Split

Record holders of Twin Disc's common stock at the close of business on December 10, 2007, will receive one additional share of common stock for every share of Twin Disc common stock owned as of that date. The Company anticipates that the additional shares resulting from the split will be issued in book-entry form on the distribution date of December 31, 2007. The Company's common stock will begin trading at its post-split price at the beginning of trading on January 2, 2008.

The two-for-one split will increase the number of Twin Disc's outstanding shares of common stock from approximately 5,700,000 to 11,400,000. Accordingly, pursuant to Wisconsin statutes, the Board of Directors has adopted an amendment to the Company's articles of incorporation increasing the number of authorized shares of common stock from 15,000,000 to 30,000,000.

Dividend

The Board of Directors increased the regular quarterly cash dividend by 27.3 percent to \$0.14 per share from \$0.11 per share payable on December 3, 2007, to shareholders of record on November 9, 2007. This is the third increase in the quarterly dividend since March 1, 2006.

Annual Shareholders' Meeting

Of the approximately 5,696,000 shares outstanding, more than 90.5 percent were represented in person or by proxy at the Annual Shareholders' Meeting held October 19, 2007 at the Twin Disc corporate headquarters in Racine, Wisconsin. John H. Batten, John A. Mellowes and Harold M. Stratton II were

re-elected to the Board of Directors for the term ending in 2010.

Outlook

Going forward, we expect that fiscal 2008 will be another good year, as worldwide demand for our products continues in the markets we serve. Our backlog of orders to be shipped over the next six months was \$112,293,000, an increase of 12.1 percent from \$100,184,000 in the same period a year ago and up 1.8 percent from \$110,357,000 at fiscal 2007 year end. As a result of our current financial results and the outlook for the remainder of fiscal 2008, the Board of Directors has increased our quarterly dividend payment 27.3 percent to \$0.14 per common share from \$0.11 per common share.



Michael E. Batten
Chairman, President and Chief Executive Officer

Forward-Looking Statements

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.

***Non-GAAP Financial Disclosures**

Financial information excluding the impact of foreign currency exchange rate changes and the impact of acquisitions in this press release are not measures that are defined in U.S. Generally Accepted Accounting Principles ("GAAP"). These items are measures that management believes are important to adjust for in order to have a meaningful comparison to prior and future periods and to provide a basis for future projections and for estimating our earnings growth prospects. Non-GAAP measures are used by management as a performance measure to judge profitability of our business absent the impact of foreign currency exchange rate changes and acquisitions. Management analyzes the company's business performance and trends excluding these amounts. These measures, as well as EBITDA, provide a more consistent view of performance than the closest GAAP equivalent for management and investors. Management compensates for this by using these measures in combination with the GAAP measures. The presentation of the non-GAAP measures in this press release are made alongside the most directly comparable GAAP measures.

Definition - Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The sum of, net earnings and adding back provision for income taxes, interest expense, depreciation and amortization expenses: this is a financial measure of the profit generated excluding the above mentioned items.

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

Statements of Operations

	Three Months Ended	
	September 28,	September 30,
	2007	2006
Net sales	\$73,613	\$65,774
Cost of goods sold	<u>49,762</u>	<u>45,461</u>
Gross profit	23,851	20,313
Marketing, engineering and administrative expenses	14,694	13,652
Interest expense	744	643
Other income, net	<u>(5)</u>	<u>(80)</u>
Earnings before income taxes and minority interest	8,418	6,098
Income taxes	3,237	2,377
Minority interest	<u>(75)</u>	<u>(49)</u>
Net earnings	<u>\$ 5,106</u>	<u>\$ 3,672</u>
Earnings per share:		
Basic	\$ 0.89	\$ 0.63
Diluted	\$ 0.88	\$ 0.62
Average shares outstanding:		
Basic	5,748	5,802
Diluted	5,816	5,905
Dividends per share	\$ 0.11	\$ 0.095

Reconciliation of Consolidated Net Earnings to EBITDA

	Three Months Ended	
	September 28,	September 30,
	2007	2006
Net earnings	\$ 5,106	\$ 3,672
Income taxes	3,237	2,377
Interest expense	744	643
depreciation and amortization	<u>1,755</u>	<u>1,444</u>
Earnings before interest, taxes, Depreciation and amortization	<u>\$ 10,842</u>	<u>\$ 8,136</u>

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

Cash Flows from Operating Activities:	September 28, 2007	September 30, 2006
Net earnings	\$ 5,106	\$ 3,672
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	1,755	1,444
Net change in working capital	<u>(1,719)</u>	<u>(14,609)</u>
	<u>5,142</u>	<u>9,493</u>
 Cash flows from investing activities:		
Acquisition of fixed assets	<u>(2,502)</u>	<u>(1,267)</u>
	<u>(2,502)</u>	<u>(1,267)</u>
 Cash flows from financing activities:		
Bank overdraft	-	(1,252)
(Decrease) increase in notes payable, net	(395)	101
Proceeds from long-term debt	11,251	11,577
Proceeds from exercise of stock options	100	100
Purchase of treasury stock	(15,077)	-
Dividends paid	(653)	(554)
Other	<u>1,728</u>	<u>171</u>
	<u>(3,046)</u>	<u>10,143</u>
 Effect of exchange rate changes on cash	<u>575</u>	<u>104</u>
Net change in cash and cash equivalents	169	(513)
Cash and cash equivalents:		
Beginning of period	<u>19,508</u>	<u>16,427</u>
End of period	<u>\$ 19,677</u>	<u>\$ 15,914</u>

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

	Three Months Ended	
Assets	September 28, 2007	June 30, 2007
Current assets:		
Cash and cash equivalents	\$ 19,677	\$ 19,508
Trade accounts receivable, net	55,192	63,277
Inventories, net	81,809	76,253
Deferred income taxes	6,403	6,046
Other	8,480	8,156
Total current assets	171,561	173,240
Property, plant and equipment, net	58,181	56,810
Goodwill	17,281	17,171
Deferred income taxes	3,314	3,956
Intangible assets, net	9,229	9,352
Other assets	6,941	6,655
	\$266,507	\$267,184
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities on long-term debt	\$ 1,846	\$ 1,768
Accounts payable	29,415	28,896
Accrued liabilities	44,423	49,254
Total current liabilities	75,684	79,918
Long-term debt	53,310	42,152
Accrued retirement benefits	24,578	26,392
Other long term liabilities	2,627	2,640
	156,199	151,102
Minority interest	718	645
Shareholders' equity:		
Common stock	13,884	13,304
Retained earnings	125,562	121,109
Accumulated other comprehensive loss	(1,785)	(4,493)
	137,661	129,920
Less treasury stock, at cost	28,071	14,483
Total shareholders' equity	109,590	115,437
	\$266,507	\$267,184

Twin Disc Incorporated
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