Twin Disc, Incorporated
2010 Second Quarter Newsletter
December 25, 2009

To Our Shareholders:

The sequential improvements we have made in our sales, balance sheet, cost structure, and backlog during the fiscal 2010 second quarter is encouraging. The second quarter last fiscal year was historically strong and we believe the Company is positioned to achieve these strong financial results again. We will exit the global recession a stronger and more competitive company, as we leverage our strengthening financial position and superior brands. We are working hard to extend our leading positions in certain key markets by supporting our existing products and developing new products, such as our new joystick control system that will begin to be rolled out at boat shows in late spring. Furthermore, we are making good progress in the development of our new 7500 series transmission and we are on track to begin delivering test units to our oil and gas customers this summer. Both of these new product initiatives seek to address opportunities in their respective markets and we are optimistic of their potential.

Financial Results

Sales for the fiscal 2010 second quarter were $55,186,000, compared to the near record level of $81,598,000 for the fiscal 2009 second quarter. Year-to-date, sales were $102,243,000, compared to $154,270,000 for the fiscal 2009 first half. Sales continued to be affected by the impact the global recession is having on the Company's markets, specifically from customers in the mega yacht and industrial markets. This weakness was partially offset by continued 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 margin, as a percentage of fiscal 2010 second-quarter sales, was 26.8 percent, compared to 28.1 percent in last year's comparable period and 20.7 percent in the fiscal 2010 first quarter. The sequential gross margin improvement in the fiscal 2010 second quarter compared to the fiscal 2010 first quarter benefited from increased sales volumes and a slight improvement in the mix of business. Year-to-date, gross profit, as a percentage of sales, was 24.0 percent, compared to 27.9 percent for the fiscal 2009 first half.

For the fiscal 2010 second quarter, marketing, engineering and administrative (ME&A) expenses, decreased $2,113,000, or 12.4 percent to $14,895,000, compared to $17,008,000 for the same period last year, as a result of previously announced cost reduction initiatives. As a percentage of sales, ME&A expenses were 27.0 percent, compared to 20.8 percent for the fiscal 2009 second quarter, and 27.2 percent for the fiscal 2010 first quarter. Year-to-date ME&A expenses have decreased $5,653,000, or 17.0 percent to $27,673,000, or 27.1 percent of sales, compared to $33,326,000, or 21.6 percent of sales, for the fiscal 2009 first half.

The Company recorded a net loss for the fiscal 2010 second quarter of $490,000, or $0.04 per share, compared to net income of $3,433,000, or $0.31 per share, for the fiscal 2009 second quarter and a net loss of $2,404,000, or $0.22 per share for the fiscal 2010 first quarter. Year-to-date, the Company reported a net loss of $2,894,000, or $0.26 per share, compared to net income of $5,898,000, or $0.52 per diluted share for the fiscal 2009 first half.

Earnings before interest, taxes, depreciation and amortization (EBITDA)* was $2,270,000 for the fiscal 2010 second quarter, compared to $8,426,000 for the fiscal 2009 second quarter and a negative EBITDA of $808,000 for the fiscal 2010 first quarter. For the fiscal 2010 first half, EBITDA was $1,462,000, compared to $15,240,000 for the fiscal 2009 comparable period.

We are pleased that year-to-date we have generated $16,061,000 in cash from operations, reduced total debt by 18.0 percent to $41,611,000, and become more efficient in managing our working capital levels. The net reduction in working capital, excluding cash and debt, and other, for the six months ended December 25, 2009 was $13,773,000. The positive changes in working capital and cash flow from operations improved our overall cash position by $3,496,000 since the end of last fiscal year and reduced debt levels by $9,158,000. The Company had cash of $16,762,000 at December 25, 2009, compared to $13,266,000 at June 30, 2009 and $11,151,000 at December 26, 2008. Total debt to total capital now stands at 27.5 percent, compared to 32.0 percent at June 30, 2009 and 31.1 percent at December 26, 2008. This is the strongest our balance sheet has been in the past several years.

Dividend

The Board of Directors declared a regular quarterly cash dividend of $0.07 per share payable on March 1, 2010 to shareholders of record on February 12, 2010.

Outlook

Our six-month backlog at December 25, 2009 was $70,038,000, compared to $60,583,000 at June 30, 2009 and $62,485,000 at September 25, 2009. The 15.6 percent increase in backlog, since the end of the year, was driven primarily by higher order activity for the 8500 series transmission, which is used by oilfield services companies for pressure pumping oil and natural gas wells. Sales to military customers also contributed to the increase in backlog. While challenges will remain, we continue to expect improving sequential 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 Operations
(In thousands, except per-share data, unaudited)

	Three Months Ended		Six Months Ended	
	December 25, 2009	December 26, 2008	December 25, 2009	December 26, 2008
Net sales	$55,186	$81,598	$102,243	$154,270
Cost of goods sold	40,400	58,645	77,710	111,245
Gross profit	14,786	22,953	24,533	43,025
Marketing, engineering and administrative expenses	14,895	17,008	27,673	33,326
Interest expense	563	714	1,182	1,311
Other expense (income) net	137	(192)	197	(1,012)
	15,595	17,530	29,052	33,625
(Loss) earnings before income taxes and noncontrolling interest	(809)	5,423	(4,519)	9,400
Income taxes	(300)	1,924	(1,698)	3,277
Net (loss) earnings	(509)	3,499	(2,821)	6,123
Less: Net earnings (loss) attributable to noncontrolling interest, net of tax	19	(66)	(73)	(225)
Net (loss) earnings attributable to Twin Disc	($490)	$3,433	($2,894)	$5,898
(Loss) earnings before share data:				
Basic (loss) earnings per share attributable to Twin Disc common shareholders	($0.04)	$0.31	($0.26)	$0.53
Diluted (loss) earnings per share attributable to Twin Disc common shareholders	($0.04)	$0.31	($0.26)	$0.52
Weighted average shares outstanding data:				
Basic shares outstanding	11,185	11,151	11,158	11,214
Diluted shares outstanding	11,185	11,198	11.158	11,284
Dividends per share	$ 0.07	$ 0.07	$ 0.14	$ 0.14

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

	Three Months Ended		Six Months Ended	
	December 25, 2009	December 26, 2008	December 25, 2009	December 26, 2008
Net (loss) earnings attributable to Twin Disc	$ (490)	$3,433	$(2,894)	$ 5,898
Interest expense	563	714	1,182	1,311
Income taxes	(300)	1,924	(1,698)	3,277
Depreciation and amortization	2,497	2,355	4,872	4,754
Earnings before interest, taxes, depreciation and amortization	$2,270	$8,426	$1,462	$15,240

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

	Six Months Ended	
	December 25, 2009	December 26, 2008
Cash Flows from Operating Activities:		
Net (loss) earnings	$ (2,821)	$ 6,123
Adjustments to reconcile net (loss) earnings to cash provided by operating activities:		
Depreciation and amortization	4,872	4,754
Other non-cash changes, net	237	295
Net change in working capital, excluding cash and debt, and other	13,773	(8,046)
Net cash provided by operating activities	16,061	3,126
Cash Flows from Investing Activities:		
Acquisitions of fixed assets	(1,664)	(4,651)
Other, net	(263)	1,126
Net cash used by investing activities	(1,927)	(3,525)
Cash Flows from Financing Activities:		
Increase (decrease) in notes payable, net	73	(951)
(Payments of) proceeds from long-term debt	(9,232)	3,584
Proceeds from exercise of stock options	80	110
Purchase of treasury stock	-	(1,813)
Dividends paid to shareholders	(1,566)	(1,578)
Dividends paid to noncontrolling interest	(160)	(143)
Other	(469)	(252)
Net cash used by financing activities	(11,274)	(1,043)
Effect of exchange rate changes on cash	636	(1,854)
Net change in cash	3,496	(3,296)
Cash:		
Beginning of period	13,266	14,447
End of period	$ 16,762	$ 11,151

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

Assets	**December 25, 2009**	**June 30, 2009**
Current assets:		
Cash	$ 16,762	$ 13,266
Trade accounts receivable, net	39,806	53,367
Inventories, net	89,384	92,331
Deferred income taxes	5,336	6,280
Other	7,587	8,677
Total current assets	158,875	173,921
Property, plant and equipment, net	64,321	65,799
Goodwill, net	18,013	17,509
Deferred income taxes	13,348	14,386
Intangible assets, net	7,841	7,855
Other assets	6,350	6,095
Total Assets	$268,748	$285,565
Liabilities and Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 4,551	$ 4,421
Accounts payable	21,874	24,864
Accrued liabilities	33,706	40,967
Total current liabilities	60,131	70,252
Long-term debt	37,060	46,348
Accrued retirement benefits	60,720	60,241
Other long-term liabilities	899	899
Total liabilities	158,810	177,740
Equity:		
Twin Disc Shareholders' Equity:		
Common stock	10,468	13,205
Retained earnings	145,796	150,257
Accumulated other comprehensive loss	(19,458)	(26,218)
	136,806	137,244
Less treasury stock, at cost	27,690	30,256
Total Twin Disc shareholders' equity	109,116	106,988
Noncontrolling interest	822	837
Total equity	109,938	107,825
Total liabilities and equity	$268,748	$285,565

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