TWIN DISC INC
Form 10-Q
May 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 27, 2009

Commission File Number 1-7635

TWIN DISC, INCORPORATED
(Exact name of registrant as specified in its charter)

Wisconsin	39-0667110
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

1328 Racine Street, Racine, Wisconsin 53403
(Address of principal executive offices)

(262) 638-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes √ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer Accelerated Filer √ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No √

At April 30, 2009, the registrant had 11,029,344 shares of its common stock outstanding.

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FOR THE QUARTER ENDED MARCH 27, 2009

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Unaudited)

	March 27, 2009	June 30, 2008
Assets		
Current assets:		
Cash	$ 12,303	$ 14,447
Trade accounts receivable, net	55,102	67,611
Inventories, net	97,906	97,691
Deferred income taxes	6,265	6,297
Other	8,780	9,649
Total current assets	180,356	195,695
Property, plant and equipment, net	63,548	67,855
Goodwill, net	16,651	18,479
Deferred income taxes	5,045	5,733
Intangible assets, net	7,366	9,589
Other assets	6,039	7,277
	$ 279,005	$ 304,628
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 2,313	$ 1,730
Accounts payable	31,808	37,919
Accrued liabilities	37,615	49,939
Total current liabilities	71,736	89,588
Long-term debt	55,695	48,227
Accrued retirement benefits	32,713	34,325
Other long-term	1,224	2,163
	161,368	174,303
Minority interest	677	679
Shareholders' equity:		
Common shares authorized: 30,000,000;		
issued: 13,099,468; no par value	14,225	14,693
Retained earnings	148,776	142,361
Accumulated other comprehensive (loss) income	(15,785)	2,446

		147,216		159,500
Less treasury stock, at cost				
(2,070,124 and 1,929,354 shares, respectively)		30,256		29,854
Total shareholders' equity		116,960		129,646
	$	279,005	$	304,628

The notes to condensed consolidated financial statements are an integral part of these statements.

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TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands Except Per Share Data, Unaudited)

	Three Months Ended		Nine Months Ended	
	Mar. 27, 2009	Mar. 28, 2008	Mar. 27, 2009	Mar. 28, 2008
Net sales	$ 69,292	$ 85,838	$ 223,562	$ 241,345
Cost of goods sold	50,141	59,211	161,386	165,522
Gross profit	19,151	26,627	62,176	75,823
Marketing, engineering and administrative expenses	14,517	14,969	47,843	47,041
Earnings from operations	4,634	11,658	14,333	28,782
Interest expense	526	757	1,837	2,325
Other expense, net	1,049	194	37	368
	1,575	951	1,874	2,693
Earnings before income taxes and minority interest	3,059	10,707	12,459	26,089
Income taxes	362	2,719	3,639	8,686
Earnings before minority interest	2,697	7,988	8,820	17,403
Minority interest	153	(59)	(72)	(160)
Net earnings	$ 2,850	$ 7,929	$ 8,748	$ 17,243
Dividends per share	$ 0.0700	$ 0.0700	$ 0.2100	$ 0.1950
Earnings per share data:				
Basic earnings per share	$ 0.26	$ 0.71	$ 0.79	$ 1.52
Diluted earnings per share	$ 0.26	$ 0.70	$ 0.78	$ 1.51
Weighted average shares outstanding data:				
Basic shares outstanding	11,006	11,198	11,127	11,318
Dilutive stock awards	35	112	70	129
Diluted shares outstanding	11,041	11,310	11,197	11,447
Comprehensive income (loss):				
Net earnings	$ 2,850	$ 7,929	$ 8,748	$ 17,243
Adjustment for amortization of net actuarial loss and prior service cost	470	231	1,412	694
Foreign currency translation adjustment	(1,119)	4,799	(19,643)	11,884
Comprehensive income (loss)	$ 2,201	$ 12,959	$ (9,483)	$ 29,821

The notes to condensed consolidated financial statements are an integral part of these statements.

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TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Unaudited)

	Nine Months Ended March 27, 2009	Nine Months Ended March 28, 2008
Cash flows from operating activities:		
Net earnings	$ 8,748	$ 17,243
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,308	5,426
Other non-cash changes, net	417	2,391
Net change in working capital, excluding cash	(15,973)	(13,908)
Net cash provided by operating activities	500	11,152
Cash flows from investing activities:		
Acquisitions of fixed assets	(6,631)	(10,605)
Proceeds from sale of fixed assets	56	263
Other, net	1,111	(337)
Net cash used by investing activities	(5,464)	(10,679)
Cash flows from financing activities:		
Increase (decrease) in notes payable, net	898	(98)
Proceeds from long-term debt	7,939	12,880
Proceeds from exercise of stock options	110	133
Purchase of treasury stock	(1,813)	(15,643)
Dividends paid	(2,333)	(2,220)
Other	(252)	19
Net cash provided (used) by financing activities	4,549	(4,929)
Effect of exchange rate changes on cash	(1,729)	1,888
Net change in cash	(2,144)	(2,568)
Cash balance:		
Beginning of period	14,447	19,508
End of period	$ 12,303	$ 16,940

The notes to condensed consolidated financial statements are an integral part of these statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation of results for each period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest Annual Report. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Certain balances in the prior fiscal year have been reclassified to conform to the presentation adopted in the current year. This reclassification impacted the Company's Condensed Consolidated Statements of Cash Flow, resulting in a transfer of $337,000 from operating activities to investing activities.

New Accounting Releases

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides additional clarification on the determination of fair value, including illustrative examples. FSP FAS 157-4 is effective for interim and annual periods beginning after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and is not expected to have a material impact on the Company's financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." This FSP provides guidance on determining whether an impairment is other than temporary, provides examples to be considered and identifies reporting requirements related to such impairments. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods beginning after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and is not expected to have a material impact on the Company's financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosure about the fair value of financial instruments whenever summarized financial information for interim periods is issued, and requires disclosure of the fair value of all financial instruments (where practicable) in the body or accompanying notes of interim and annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim periods beginning after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and is not expected to have a material impact on the Company's financial statements ..

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." This FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated, and eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Adoption of this FSP is not expected to have a material impact on the

Company’s financial statements.

In December 2008, the FASB issued FSP 132(R)-1, “Employers’ Disclosure about Postretirement Benefit Plan Assets.” This FSP provides guidance on an employer’s disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this FSP are to provide users of financial statements with an understanding of:

a) How investment allocation decisions are made;
b) The major categories of plan assets;

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c) The inputs and valuation techniques used to measure the fair value of plan assets;
d) The effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and
e) Significant concentrations of risk within plan assets.

The disclosures about plan assets required by this FSP are required for fiscal years ending after December 15, 2009, and earlier application is permitted. This FSP is not expected to have a material impact on the Company's financial statements.

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This FSP is not expected to have a material impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133." This statement enhances the disclosures regarding derivatives and hedging activities by requiring:

- Disclosure of the objectives for using derivative instruments in terms of underlying risk and accounting designation;
- Disclosure of the fair values of derivative instruments and their gains and losses in a tabular format;
- Disclosure of information about credit-risk-related contingent features; and
- Cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed.

SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company has adopted SFAS No. 161 in its fiscal third quarter, however these disclosures were considered immaterial due to the nature and fair value of the derivatives held by the Company at March 27, 2009.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This statement will significantly change the accounting for business combinations, requiring the acquiring entity to recognize the acquired assets and liabilities at the acquisition date fair value with limited exceptions. The statement also includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual report period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, the Company will be subject to SFAS No. 141(R) beginning on July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary, and includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Adoption of SFAS No. 160 is not expected to have a material impact on the financial statements of the Company.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS No. 159 in the first quarter of fiscal 2009 with no material impact to the financial statements. The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

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In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. On February 12, 2008, the FASB issued FSP 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 in the first quarter of fiscal 2009 for those assets and liabilities not subject to the one year deferral granted in FSP 157-2, with no material impact to the financial statements. The Company is currently evaluating the impact of adopting SFAS No. 157 for the assets and liabilities subject to the one year deferral granted under FSP 157-2, for which SFAS No. 157 will become effective for fiscal years beginning after November 15, 2008.

In September 2006 and March 2007, respectively, the FASB ratified Emerging Issues Task Force (“EITF”) Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements” and Issue No. 06-10, “Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements.” These EITF’s address the possible recognition of a liability and related compensation costs for split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. EITF 06-4 and 06-10 are effective for fiscal years beginning after December 15, 2007, including interim periods within those years. The Company adopted these EITF’s in the first quarter of fiscal 2009 with no material impact to the financial statements.

During June 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.” FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements by standardizing the level of confidence needed to recognize uncertain tax benefits and the process for measuring the amount of benefit to recognize. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 as of July 1, 2007, with no material impact to the Company’s financial statements.

B. Inventory

The major classes of inventories were as follows (in thousands):

	March 27, 2009	June 30, 2008
Inventories:		
Finished parts	$ 61,793	$ 53,697
Work in process	12,174	20,725
Raw materials	23,939	23,269
	$ 97,906	$ 97,691

The year end fiscal 2008 figures were revised to reflect subcomponents in raw materials rather than finished parts. Finished parts now more properly reflects goods in a saleable state.

C. Warranty

The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends. While we believe the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires. The following is a listing of the activity in the warranty reserve during the three and nine month periods ended March 27, 2009 and March 28, 2008 (in thousands).

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	Three Months Ended		Nine Months Ended	
	Mar. 27, 2009	Mar. 28, 2008	Mar. 27, 2009	Mar. 28, 2008
Reserve balance, beginning of period	$ 8,231	$ 7,802	$ 8,125	$ 7,266
Current period expense	2,068	1,191	4,175	3,333
Payments or credits to customers	(2,372)	(1,151)	(3,928)	(3,089)
Translation	(161)	279	(606)	611
Reserve balance, end of period	$ 7,766	$ 8,121	$ 7,766	$ 8,121

D. Contingencies

The Company is involved in litigation of which the ultimate outcome and liability to the Company, if any, is not presently determinable. Management believes that final disposition of such litigation will not have a material impact on the Company's results of operations, financial position or cash flows.

E. Business Segments

Information about the Company's segments is summarized as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Mar. 27, 2009	Mar. 28, 2008	Mar. 27, 2009	Mar. 28, 2008
Manufacturing segment sales	$ 65,931	$ 78,689	$ 201,308	$ 214,881
Distribution segment sales	25,741	28,702		