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 December 27, 2024

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

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.)

222 East Erie Street, Suite 400 , Milwaukee, Wisconsin 53202
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (No Par Value)	TWIN	The NASDAQ Stock Market LLC

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☑
Non-accelerated filer ☐	Smaller reporting company ☑
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

At January 20, 2025, the registrant had 14,145,862 shares of its common stock outstanding.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	December 27, 2024	June 30, 2024
ASSETS		
Current assets:		
Cash	$ 15,906	$ 20,070
Trade accounts receivable, net	53,670	52,207
Inventories, net	128,278	130,484
Other current assets	18,712	16,870
Total current assets	216,566	219,631
Property, plant and equipment, net	58,508	58,074
Right-of-use operating lease assets	16,431	16,622
Intangible assets, net	10,856	12,686
Deferred income taxes	2,277	2,339
Other noncurrent assets	2,722	2,706
Total assets	$ 307,360	$ 312,058
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 2,000	$ 2,000
Current maturities of right-of use operating lease obligations	2,813	2,521
Accounts payable	28,561	32,586
Accrued liabilities	69,284	62,409
Total current liabilities	102,658	99,516
Long-term debt	22,873	23,811
Right-of-use operating lease obligations	13,656	14,376
Accrued retirement benefits	9,613	7,854
Deferred income taxes	4,712	5,340
Other long-term liabilities	6,214	6,107
Total liabilities	159,726	157,004
Twin Disc, Incorporated shareholders' equity:		
Preferred shares authorized: 200,000; issued: none; no par value	-	-
Common shares authorized: 30,000,000; issued: 14,632,802; no par value	40,111	41,798
Retained earnings	126,610	129,592
Accumulated other comprehensive loss	(12,222)	(6,905)
	154,499	164,485
Less treasury stock, at cost (486,940 and 637,778 shares, respectively)	7,475	9,783
Total Twin Disc, Incorporated shareholders' equity	147,024	154,702
Noncontrolling interest	610	352
Total equity	147,634	155,054
Total liabilities and equity	$ 307,360	$ 312,058

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

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	For the Quarter Ended December 27, 2024	For the Quarter Ended December 29, 2023	For the Two Quarters Ended December 27, 2024	For the Two Quarters Ended December 29, 2023
Net sales	$ 89,921	$ 72,994	$ 162,818	$ 136,547
Cost of goods sold	66,662	52,338	120,237	96,156
Cost of goods sold - Other	1,579	-	1,579	3,099
Gross profit	21,680	20,656	41,002	37,292
Marketing, engineering and administrative expenses	18,920	17,218	38,407	34,136
Income from operations	2,760	3,438	2,595	3,156
Other (expense) income:				
Interest expense	(495)	(392)	(1,131)	(786)
Other income (expense), net	386	(449)	(958)	(310)
	(109)	(841)	(2,089)	(1,096)
Income before income taxes and noncontrolling interest	2,651	2,597	506	2,060
Income tax expense	1,552	1,662	2,179	2,208
Net income (loss)	1,099	935	(1,673)	(148)
Less: Net income attributable to noncontrolling interest, net of tax	(180)	(5)	(173)	(95)
Net income (loss) attributable to Twin Disc, Incorporated	$ 919	$ 930	$ (1,846)	$ (243)
Dividends per share	$ 0.04	$ 0.04	$ 0.08	$ 0.04
Income (loss) per share data:				
Basic income (loss) per share attributable to Twin Disc, Incorporated common shareholders	$ 0.07	$ 0.07	$ (0.13)	$ (0.02)
Diluted income (loss) per share attributable to Twin Disc, Incorporated common shareholders	$ 0.07	$ 0.07	$ (0.13)	$ (0.02)
Weighted average shares outstanding data:				
Basic shares outstanding	13,868	13,718	13,818	13,629
Diluted shares outstanding	14,058	13,923	13,818	13,629
Comprehensive (loss) income				
Net income (loss)	$ 1,099	$ 935	$ (1,673)	$ (148)
Benefit plan adjustments, net of income taxes of $ 13, ($13), $2 and ($8), respectively	(1,668)	(108)	(1,446)	(279)
Foreign currency translation adjustment	(11,369)	5,190	(4,078)	2,154
Unrealized gain (loss) on hedges, net of income taxes of $ 0, $0, $0 and $0, respectively	1,146	(485)	293	(269)
Comprehensive (loss) income	(10,792)	5,532	(6,904)	1,458
Less: Comprehensive income attributable to noncontrolling interest	(122)	(40)	(258)	(190)
Comprehensive (loss) income attributable to Twin Disc, Incorporated	$ (10,914)	$ 5,492	$ (7,162)	$ 1,268

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

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	For the Two Quarters Ended December 27, 2024	For the Two Quarters Ended December 29, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,673)	$ (148)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,534	5,023
Gain on sale of assets	(39)	(42)
Loss on write-down of industrial product inventory	1,579	-
Loss on sale of boat management product line and related inventory	-	3,099
(Benefit) provision for deferred income taxes	(363)	280
Stock compensation expense and other non-cash changes, net	1,625	1,413
Net change in operating assets and liabilities	(3,348)	6,422
Net cash provided by operating activities	4,315	16,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant, and equipment	(5,142)	(5,419)
Proceeds from sale of fixed assets	39	-
Other, net	(76)	(252)
Net cash used by investing activities	(5,179)	(5,671)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving loan arrangements	54,824	50,632
Repayments of revolving loan arrangements	(54,824)	(50,632)
Repayments of other long-term debt	(500)	(1,010)
Dividends paid to shareholders	(1,136)	(560)
Payments of right-of-use finance lease obligations	(1,017)	(471)
Payments of withholding taxes on stock compensation	(1,256)	(1,772)
Net cash used by financing activities	(3,909)	(3,813)
Effect of exchange rate changes on cash	609	1,195
Net change in cash	(4,164)	7,758
Cash:		
Beginning of period	20,070	13,263
End of period	$ 15,906	$ 21,021

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

A. Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by Twin Disc, Incorporated (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include adjustments, consisting primarily of normal recurring items, necessary for a fair statement 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. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for June 30, 2024. The prior year-end condensed consolidated 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.

The condensed consolidated financial statements and information presented herein include the financial results of Katsa Oy ("Katsa"). On May 31, 2024, the Company completed the acquisition of 100% of the outstanding common stock of Katsa. Based in Finland, Katsa is a European manufacturer of custom-designed, high-quality power transmission components and gearboxes for industrial and marine end-markets for a broad range of end market applications. Katsa also provides a wide range of after-sales services, including spare part deliveries, reverse engineering, modeling, and gearbox refurbishment. The provisional fair value estimates of Katsa's property, plant and equipment, net, intangible assets, net, and deferred income taxes are pending final review by the Company, and Katsa is included in the Company's manufacturing segment.

The Company's condensed consolidated financial statements include the accounts of Twin Disc, Incorporated and its wholly-owned domestic and foreign subsidiaries. The Company's reporting period ends on the last Friday of the quarterly calendar period. The Company's fiscal year ends on June 30, regardless of the day of the week on which June 30 falls. One foreign subsidiary is included based on a fiscal year ending May 31, to facilitate prompt reporting of consolidated results. All significant intercompany transactions have been eliminated.

Certain prior year immaterial amounts have been reclassified to conform with the current year's presentation. The changes did not have a material impact on the Company's condensed consolidated financial position, results of operations, or cash flows in any of the periods presented.

Recently Issued Not Yet Adopted Accounting Standards

In November 2024, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2024-03, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures" ("ASU 2024-03") to expand expense disclosures by requiring disaggregated disclosure of certain income statement expense line items, including those that contain purchases of inventory, employee compensation, depreciation and amortization. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, or the Company's fiscal 2028, and subsequent interim periods, with early adoption permitted. The amendments should be applied prospectively, but retrospective application is permitted. The company is currently assessing the impact of the requirements on our Condensed Consolidated Financial Statements. The Company is currently evaluating the impact of adopting this standard on it financial statement disclosures.

In November 2023, the FASB issued guidance ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which is intended to improve reportable segment disclosures, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment and contain other disclosure requirements. The Company expects to adopt the new annual disclosures as required for fiscal 2025 and the interim disclosures as required beginning with the first quarter of fiscal 2026.

In December 2023, the FASB issued guidance ASU 2023-09, Improvements to Income Tax Disclosures ("ASU 2023-09"), which includes requirements that an entity disclose specific categories in the rate reconciliation and provide additional information for reconciling items that are greater than five percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income rate. The standard also requires that entities disclose income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) disaggregated between domestic and foreign. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact of adopting this standard on its financial statement disclosures.

Special Note Regarding Smaller Reporting Company Status

Under SEC Release 33-10513; 34-83550, Amendments to Smaller Reporting Company Definition, the Company qualifies as a smaller reporting company and accordingly, it has scaled some of its disclosures of financial and non-financial information in this quarterly report. The Company will continue to determine whether to provide additional scaled disclosures of financial or non-financial information in future quarterly reports, annual reports and/or proxy statements if it remains a smaller reporting company under SEC rules.

B. Inventories

The major classes of inventories were as follows:

	December 27, 2024	June 30, 2024
Inventories:		
Finished parts	$ 59,396	$ 60,166
Work in process	24,503	23,096
Raw materials	44,379	47,222
	$ 128,278	$ 130,484

In the second quarter of fiscal year 2025, the Company completed a product rationalization evaluation on its industrial product offerings. As a result of the evaluation, an inventory write-down on certain industrial products, totaling $1.6 million, was recorded.

In the first quarter of fiscal year 2024, the Company entered into an agreement to sell most of its boat management system product line located at one of its subsidiaries in Italy. The sale amount was below cost and resulted in the Company recognizing an inventory write-down of $2.1 million. The Company also evaluated its other boat management system inventory, not associated with the sale. This evaluation resulted in the Company recognizing an additional inventory write-down of $1.6 million for inventory located in the U.S. These write-downs were partially offset by certain liabilities transferred to the buyer at the time of the sale. The sale was completed in the second quarter of fiscal year 2024.

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 number of units 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 for the quarters ended December 27, 2024 and December 29, 2023:

	For the Quarter Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Reserve balance, beginning of period	$ 4,450	$ 4,160	$ 4,220	$ 3,476
Current period expense and adjustments	1,762	1,208	2,598	2,724
Payments or credits to customers	(1,851)	(898)	(2,517)	(1,718)
Translation	198	18	258	6
Reserve balance, end of period	$ 4,559	$ 4,488	$ 4,559	$ 4,488

The current portion of the warranty accrual ($ 3,467 and $3,549 as of December 27, 2024 and December 29, 2023, respectively) is reflected in accrued liabilities, while the long-term portion ($1,092 and $939 as of December 27, 2024 and December 29, 2023, respectively) is included in other long-term liabilities on the consolidated balance sheets.

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

The Company and its subsidiaries are engaged in the manufacture and sale of marine and heavy-duty off-highway power transmission equipment. Principal products include marine transmissions, azimuth drives, surface drives, propellers and boat management systems, as well as power-shift transmissions, hydraulic torque converters, power take-offs, industrial clutches and controls systems. The Company sells to both domestic and foreign customers in a variety of market areas, principally pleasure craft, commercial and military marine markets, as well as in the energy and natural resources, government and industrial markets. The Company's worldwide sales to both domestic and foreign customers are transacted through a direct sales force and a distributor network.

The Company has two reportable segments: manufacturing and distribution. These segment structures reflect the way management makes operating decisions and manages the growth and profitability of the business. It also corresponds with management's approach of allocating resources and assessing the performance of its segments. The accounting practices of the segments are the same as those described in the summary of significant accounting policies. Transfers among segments are at established inter-company selling prices. Management evaluates the performance of its segments based on net earnings.

Information about the Company's segments is summarized as follows:

	For the Quarter Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Net sales				
Manufacturing segment sales	$ 76,463	$ 58,368	$ 139,781	$ 112,906
Distribution segment sales	35,727	37,242	65,311	70,095
Inter/Intra segment elimination – manufacturing	(14,673)	(18,795)	(28,045)	(38,979)
Inter/Intra segment elimination – distribution	(7,596)	(3,821)	(14,229)	(7,475)
	$ 89,921	$ 72,994	$ 162,818	$ 136,547
Net income (loss) attributable to Twin Disc, Incorporated				
Manufacturing segment net income	$ 3,131	$ 2,078	$ 5,000	$ 3,636
Distribution segment net income	1,228	3,173	2,179	4,179
Corporate and eliminations	(3,440)	(4,321)	(9,025)	(8,058)
	$ 919	$ 930	$ (1,846)	$ (243)

Assets	December 27, 2024	June 30, 2024
Manufacturing segment assets	$ 459,422	$ 443,149
Distribution segment assets	39,376	73,033
Corporate assets and elimination of intercompany assets	(191,438)	(204,124)
	$ 307,360	$ 312,058

Disaggregated revenue:

The following table presents details deemed most relevant to the users of the financial statements for the quarters ended December 27, 2024 and December 29, 2023.

Net sales by product group for the quarter ended December 27, 2024 is summarized as follows:

	Manufacturing	Distribution	Elimination of Intercompany Sales	Total
Industrial	$ 9,329	$ 1,053	$ (923)	$ 9,459
Land-based transmissions	18,594	2,101	(1,685)	19,010
Marine and propulsion systems	48,512	27,659	(19,479)	56,692
Other	28	4,914	(182)	4,760
Total	$ 76,463	$ 35,727	$ (22,269)	$ 89,921

Net sales by product group for the quarter ended December 29, 2023 is summarized as follows:

	Manufacturing	Distribution	Elimination of Intercompany Sales	Total
Industrial	$ 5,704	$ 1,557	$ (730)	$ 6,531
Land-based transmissions	15,003	7,953	(7,093)	15,863
Marine and propulsion systems	37,661	24,058	(14,773)	46,946
Other	-	3,674	(20)	3,654
Total	$ 58,368	$ 37,242	$ (22,616)	$ 72,994

Net Sales by product group for the two quarters ended December 27, 2024 is summarized as follows:

	Manufacturing	Distribution	Elimination of Intercompany Sales	Total
Industrial	$ 18,126	$ 2,106	$ (1,604)	$ 18,628
Land-based transmissions	36,747	5,664	(6,117)	36,294
Marine and propulsion systems	84,859	48,992	(34,057)	99,794
Other	49	8,549	(496)	8,102
Total	$ 139,781	$ 65,311	$ (42,274)	$ 162,818

Net Sales by product group for the two quarters ended December 29, 2023 is summarized as follows:

	Manufacturing	Distribution	Elimination of Intercompany Sales	Total
Industrial	$ 10,994	$ 2,586	$ (1,364)	$ 12,216
Land-based transmissions	29,684	20,623	(15,867)	34,440
Marine and propulsion systems	72,228	40,378	(29,197)	83,409
Other	-	6,508	(26)	6,482
Total	$ 112,906	$ 70,095	$ (46,454)	$ 136,547

F. Stock-Based Compensation

In the first quarter of fiscal 2025, the Company adopted the Twin Disc, Incorporated Amended and Restated 2021 Omnibus Incentive Plan (the “Omnibus Plan”), which was subsequently approved by the Company’s shareholders. The Omnibus Plan amended and restated the Twin Disc, Incorporated 2021 Long-Term Incentive Plan (the “2021 LTI Plan”), and effectively replaced the Twin Disc, Incorporated 2020 Stock Incentive Plan for Non-Employee Directors (the “2020 Directors' Plan”). Benefits under the Omnibus Plan may be granted, awarded or paid in any one or a combination of stock options, stock appreciation rights, restricted stock awards, restricted stock units, cash-settled restricted stock units, performance stock awards, performance stock unit awards, performance unit awards, and dividend equivalent awards. The Omnibus Plan is designed to benefit key employees and consultants of the Company and its subsidiaries, as well as non-employee directors of the Company.

There is reserved for issuance under the Plan an aggregate of 1,636,550 shares of the Company's common stock, which consists of the previously-approved 715,000 shares of common stock reserved for issuance under the 2021 LTI Plan prior to its amendment and restatement to become the Omnibus Plan; 521,550 shares of common stock that remained available for issuance under the 2020 Directors' Plan; and 400,000 newly authorized shares of common stock. Shares issued under the Omnibus Plan may be authorized and unissued shares or shares reacquired by the Company in the open market or a combination of both. The aggregate amount is subject to proportionate adjustments for stock dividends, stock splits and similar changes.

Performance Stock Awards ("PSA")

During the first two quarters of fiscal 2025 and 2024, the Company granted a target number of 116.1 and 119.3 PSAs, respectively, to various employees of the Company, including executive officers.

The fiscal 2025 PSAs will vest if the Company achieves performance-based target objectives relating to average return on invested capital and cumulative EBITDA (as defined in the PSA Grant Agreement), in the cumulative three fiscal year period ending June 30, 2027. These PSAs are subject to adjustment if the Company's return on invested capital and cumulative EBITDA falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 232.2.

The fiscal 2024 PSAs will vest if the Company achieves performance-based target objectives relating to average return on invested capital and cumulative EBITDA (as defined in the PSA Grant Agreement), in the cumulative three fiscal year period ending June 30, 2026. These PSAs are subject to adjustment if the Company's return on invested capital and cumulative EBITDA falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 238.7.

There were 350.0 and 335.2 unvested PSAs outstanding at December 27, 2024 and December 29, 2023, respectively. The fair value of the PSAs (on the date of grant) is expensed over the performance period for the shares that are expected to ultimately vest. Compensation expense of $376 and $325 was recognized for the quarters ended December 27, 2024 and December 29, 2023, respectively, related to PSAs. Compensation expense of $1,035 and $379 was recognized for the two quarters ended December 27, 2024 and December 29, 2023, respectively, related to PSAs. The weighted average grant date fair value of the unvested awards at December 27, 2024 was $10.85. At December 27, 2024, the Company had $2,296 of unrecognized compensation expense related to the unvested shares that would vest if the specified target objective was achieved for the fiscal 2024 and 2023 awards. The total fair value of PSAs vested as of December 27, 2024 and December 29, 2023 was $0.

Performance Stock Unit Awards ("PSUA")

The PSUAs entitle an individual to shares of common stock of the Company or cash in lieu of shares of Company common stock if specific terms and conditions or restrictions are met through a specified date. During the first two quarters of fiscal 2024 and 2023, the Company granted a target number of 0 and 10.5 PSUAs, respectively, to various individuals in the Company. The fiscal 2024 PSUAs will vest if the Company achieves performance-based target objectives relating to average return on invested capital and cumulative EBITDA (as defined in the PSUA Grant Agreement), in the cumulative three fiscal year period ending June 30, 2026. These PSUAs are subject to adjustment if the Company's return on invested capital and cumulative EBITDA falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 20.9.

There were 10.5 and 10.5 unvested PSUAs outstanding at December 27, 2024 and December 29, 2023, respectively. The fair value of the PSUAs (on the date of grant) is expensed over the performance period for the shares that are expected to ultimately vest. Compensation expense of $11 and $11 was recognized for the quarters ended December 27, 2024 and December 29, 2023, respectively, related to PSUAs. Compensation expense of $22 and $18 was recognized for the two quarters ended December 27, 2024 and December 29, 2023, respectively, related to PSUAs. The weighted average grant date fair value of the unvested awards at December 27, 2024 was $12.15. At December 27, 2024, the Company had $65 of unrecognized compensation expense related to the unvested shares that would vest if the specified target objective was achieved for the fiscal 2024 awards. The total fair value of PSUAs vested as of December 27, 2024 and December 29, 2023 was $0.

Restricted Stock Awards ("RS")

The Company has unvested RS awards outstanding that will vest if certain service conditions are fulfilled. The fair value of the RS grants is recorded as compensation expense over the vesting period, which is generally 1 to 3 years. During the first two quarters of fiscal 2024 and 2023, the Company granted 44.0 and 115.7 service based restricted shares, respectively, to employees and non-employee directors. There were 251.0 and 251.3 unvested shares outstanding at December 27, 2024 and December 29, 2023, respectively. A total of 0 and 2.4 shares of restricted stock were forfeited during the two quarters ended December 27, 2024 and December 29, 2023, respectively. Compensation expense of $317 and $310 was recognized for the quarters ended December 27, 2024 and December 29, 2023, respectively. Compensation expense of $628 and $623 was recognized for the two quarters ended December 27, 2024 and December 29, 2023, respectively. The total fair value of restricted stock grants vested as of December 27, 2024 and December 29, 2023 was $437 and $2,206, respectively. As of December 27, 2024, the Company had $1,176 of unrecognized compensation expense related to restricted stock which will be recognized over the next three years.

Restricted Stock Unit Awards ("RSU")

The RSUs entitle an individual to shares of common stock of the Company or cash in lieu of shares of Company common stock if specific terms and conditions or restrictions are met through a specified date, generally three years from the date of grant or when performance conditions have been met. The fair value of the RSUs (on the date of grant) is recorded as compensation expense over the vesting period. During the first two quarters of fiscal 2024 and 2023, the Company granted 77.4 and 7.1 of employment based RSUs, respectively. There were 159.9 and 135.0 unvested RSUs outstanding at December 27, 2024 and December 29, 2023, respectively. Compensation expense of $149 and $126 was recognized for the quarters ended December 27, 2024 and December 29, 2023, respectively. Compensation expense of $192 and $247 was recognized for the two quarters ended December 27, 2024 and December 29, 2023, respectively. The total fair value of restricted stock units vested as of December 27, 2024 and December 29, 2023 was $701 and $25, respectively. The weighted average grant date fair value of the unvested awards at December 27, 2024 was $10.88. As of December 27, 2024, the Company had $1,022 of unrecognized compensation expense related to restricted stock which will be recognized over the next three years.

G. Pension and Other Postretirement Benefit Plans

The Company has non-contributory, qualified defined benefit plans covering substantially all domestic employees hired prior to October 1, 2003 and certain foreign employees. Additionally, the Company provides healthcare and life insurance benefits for certain domestic retirees.

The components of the net periodic benefit cost for the defined benefit pension plans and the other postretirement benefit plan are as follows:

	For the Quarter Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Pension Benefits:				
Service cost	$ 81	$ 94	$ 164	$ 188
Prior service cost	5	-	10	-
Interest cost	836	896	1,672	1,792
Expected return on plan assets	(826)	(1,048)	(1,652)	(2,096)
Amortization of transition obligation	10	10	20	19
Amortization of prior service cost	6	9	13	17
Amortization of actuarial net loss	246	16	493	31
Net periodic benefit cost (gain)	$ 358	$ (23)	$ 720	$ (49)
Postretirement Benefits:				
Service cost	$ 2	$ 2	$ 5	$ 4
Interest cost	53	48	106	95
Amortization of prior service benefit	(69)	(22)	(137)	(44)
Amortization of actuarial net gain	(10)	(155)	(19)	(310)
Net periodic benefit gain	$ (24)	$ (127)	$ (45)	$ (255)

The service cost component is included in cost of goods sold and marketing, engineering, and administrative expenses. All other components of net periodic benefit cost are included in other (expense) income, net.

The Company expects to contribute approximately $535 to its pension plans in fiscal 2024. As of December 27, 2024, $396 in contributions to the pension plans have been made.

The Company has reclassified $140 (net of $13 in taxes) of benefit plan adjustments from accumulated other comprehensive loss during the quarter ended December 27, 2024, and ($108) (net of ($13) in taxes) during the quarter ended December 29, 2023. These reclassifications are included in the computation of net periodic benefit cost (gain). The Company has reclassified $361 (net of $2 in taxes) of benefit plan adjustments from accumulated other comprehensive loss during the two quarters ended December 27, 2024, and ($279) (net of ($8) in taxes) during the two quarters ended December 29, 2023. These reclassifications are included in the computation of net periodic benefit cost (gain).

H. Income Taxes

Accounting policies for interim reporting require the Company to adjust its effective tax rate each quarter to be consistent with the estimated Annual Effective Tax Rate (AETR). Under this effective tax rate methodology, the Company applies an estimated annual income tax rate to its year-to-date ordinary earnings to derive its income tax provision each quarter. To calculate its AETR, an entity must estimate its ordinary income or loss and the related tax expense or benefit for its full fiscal year. In situations in which an entity is in a loss position and recognizes a full valuation allowance, the guidance in ASC 740-270-25-9 applies. Due to continued historical domestic losses and uncertain future domestic earnings, the Company continues to recognize a full domestic valuation allowance.

Permanent differences continue to fluctuate and are significant compared to projected ordinary income. Therefore, per ASC guidance, the fully valued domestic entity was removed from the annualized effective rate calculation. Because of the full U.S. valuation allowance, the U.S. entity may only recognize tax expense (benefit) recorded for ASC 740-10 adjustments.

	For the Quarter-Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Foreign earnings, before income taxes of $1,552, $1,683, $2,406, and $2,199, respectively	$ 5,660	$ 6,209	$ 9,100	$ 8,264
Domestic losses, before income taxes of $0, ($21), ($227) and $9, respectively	(3,009)	(3,612)	(8,594)	(6,204)
Earnings before income taxes and noncontrolling interest	$ 2,651	$ 2,597	$ 506	$ 2,060
Income tax expense	$ 1,552	$ 1,662	$ 2,179	$ 2,208
Effective income tax rate	58.5%	64.0%	430.6%	107.2%

Due to the full US valuation allowance currently in place, no tax benefit can be recognized on the domestic losses.

A discrete expense was recorded during the period of $148 related to foreign returns filed compared to income tax provision accrued.

I. Intangible Assets

As of December 27, 2024, the following acquired intangible assets have definite useful lives and are subject to amortization:

	Net Book Value Rollforward			Net Book Value By Asset Type				
	Gross Carrying Amount	Accumulated Amortization / Impairment	Net Book Value	Customer Relationships	Technology Know-how	Trade Name	Other	Total
Balance at June 30, 2024	$ 34,533	$ (21,847)	$ 12,686	$ 6,720	$ 2,098	$ 1,511	$ 2,357	$ 12,686
Addition	203	-	203	-	-	-	203	203
Amortization	-	(1,806)	(1,806)	(650)	(627)	(125)	(404)	(1,806)
Translation adjustment	(227)	-	(227)	(156)	(50)	(18)	(3)	(227)
Balance at December 27, 2024	$ 34,509	$ (23,653)	$ 10,856	$ 5,914	$ 1,421	$ 1,368	$ 2,153	$ 10,856

Other intangibles consist mainly of computer software. Amortization is recorded on the basis of straight-line or accelerated, as appropriate, over the estimated useful lives of the assets.

The weighted average remaining useful life of the intangible assets included in the table above is approximately 5 years.

Intangible amortization expense was $880 and $817 for the quarters ended December 27, 2024, and December 29, 2023, respectively. Intangible amortization expense was $1,806 and $1,636 for the two quarters ended December 27, 2024, and December 29, 2023, respectively. Estimated intangible amortization expense for the remainder of fiscal 2025 and each of the next five fiscal years and thereafter is as follows:

Fiscal Year	
2025	$ 1,678
2026	2,552
2027	1,992
2028	1,785
2029	1,331
2030	307
Thereafter	1,211
	$ 10,856

J. Long-term Debt

Long-term debt at December 27, 2024 and June 30, 2024 consisted of the following:

	December 27, 2024	June 30, 2024
Credit Agreement Debt		
Revolving loans (expire April 2027)	$ 15,851	$ 16,288
Term loan (due April 2027)	9,000	9,500
Other	22	23
Subtotal	24,873	25,811
Less: current maturities	(2,000)	(2,000)
Total long-term debt	$ 22,873	$ 23,811

Credit Agreement Debt: On June 29, 2018, the Company entered into a Credit Agreement (the "Credit Agreement") with BMO Harris Bank N.A. ("BMO") that provided for the assignment and assumption of the previously existing loans between the Company and Bank of Montreal (the "2016 Credit Agreement") and subsequent amendments into a term loan (the "Term Loan") and revolving credit loans (each a "Revolving Loan" and, collectively, the "Revolving Loans," and, together with the Term Loan, the "Loans"). Pursuant to the Credit Agreement, BMO agreed to make the Term Loan to the Company in a principal amount not to exceed $35.0 million and the Company may, from time to time prior to the maturity date, enter into Revolving Loans in amounts not to exceed, in the aggregate, $50.0 million (the "Revolving Credit Commitment"), subject to a Borrowing Base based on Eligible Inventory and Eligible Receivables. Subsequent amendments to the Credit Agreement reduced the Term Loan to $20.0 million, extended the maturity date of the Term Loan to April 1, 2027, and require the Company to make principal installment payments on the Term Loan of $ 0.5 million per quarter. In addition, under subsequent amendments to the Credit Agreement, BMO's Revolving Credit Commitment is currently $45.0 million. The Credit Agreement also allows the Company to obtain Letters of Credit from BMO, which if drawn upon by the beneficiary thereof and paid by BMO, would become Revolving Loans. Under the Credit Agreement, the Company may not pay cash dividends on its common stock in excess of $ 5.0 million in any fiscal year. The term of the Revolving Loans under the Credit Agreement currently runs through April 1, 2027.

Under the Credit Agreement as amended, interest rates are based on either the secured overnight financing rate ("SOFR") or the euro interbank offered rate (the "EURIBO Rate"). Loans are designated either as "SOFR Loans," which accrue interest at an Adjusted Term SOFR plus an Applicable Margin, or "Eurodollar Loans," which accrue interest at the EURIBO Rate plus an Applicable Margin. Amounts drawn on a Letter of Credit that are not timely reimbursed to the Bank bear interest at a Base Rate plus an Applicable Margin. The Company also pays a commitment fee on the average daily Unused Revolving Credit Commitment equal to an Applicable Margin. Currently, the Applicable Margins are between 2.00% and 3.50% for Revolving Loans and Letters of Credit; 2.125% and 3.625% for Term Loans; and 0.15% and 0.30% for the Unused Revolving Credit Commitment (each depending on the Company's Total Funded Debt to EBITDA ratio).

The Credit Agreement, as amended, requires the Company to meet certain financial covenants. Specifically, the Company's Total Funded Debt to EBITDA ratio may not exceed 3.50 to 1.00, and the Company's Fixed Charge Coverage Ratio may not be less than 1.10 to 1.00. In determining whether the Company is in compliance with its Total Funded Debt/EBITDA Ratio, the Company's EBITDA will include transaction expenses of up to $0.6 million for the Katsa acquisition, as well as pro-forma EBITDA of Katsa as permitted by the Bank. The Company's Tangible Net Worth may not be less than $100.0 million plus 50% of positive Net Income for each fiscal year ending on or after June 30, 2023.

Borrowings under the Credit Agreement are secured by substantially all of the Company's personal property, including accounts receivable, inventory, machinery and equipment, and intellectual property. The Company has also pledged 100% of its equity interests in certain domestic subsidiaries and 65% of its equity interests in certain foreign subsidiaries. The Company also entered into a Collateral Assignment of Rights under Purchase Agreement for its acquisition of Veth Propulsion. To effect these security interests, the Company entered into various amendment and assignment agreements that consent to the assignment of certain agreements previously entered into between the Company and the Bank of Montreal in connection with the 2016 Credit Agreement. The Company also amended and assigned to BMO a Negative Pledge Agreement that it has previously entered into with Bank of Montreal, pursuant to which it agreed not to sell, lease or otherwise encumber real estate that it owns except as permitted by the Credit Agreement and the Negative Pledge Agreement.

The Company has also entered into a Deposit Account Control Agreement with the Bank, reflecting the Bank's security interest in deposit accounts the Company maintains with the Bank. The Bank may not provide a notice of exclusive control of a deposit account (thereby obtaining exclusive control of the account) prior to the occurrence or existence of a Default or an Event of Default under the Credit Agreement or otherwise upon the occurrence or existence of an event or condition that would, but for the passage of time or the giving of notice, constitute a Default or an Event of Default under the Credit Agreement.

Upon the occurrence of an Event of Default, BMO may take the following actions upon written notice to the Company: (1) terminate its remaining obligations under the Credit Agreement; (2) declare all amounts outstanding under the Credit Agreement to be immediately due and payable; and (3) demand the Company to immediately Cash Collateralize L/C Obligations in an amount equal to 105% of the aggregate L/C Obligations or a greater amount if BMO determines a greater amount is necessary. If such Event of Default is due to the Company's bankruptcy, BMO may take the three actions listed above without notice to the Company.

The Company remains in compliance with its liquidity and other covenants.

As of December 27, 2024, current maturities include $2,000 of term loan payments due within the coming year.

Other: During the quarter ended December 27, 2024, the average interest rate was 7.94% on the Term Loan, and 6.09% on the Revolving Loans.

As of December 27, 2024, the Company's borrowing capacity on the Revolving Loans under the terms of the Credit Agreement was $ 42,909, and the Company had approximately $27,058 of available borrowings. In addition to the Credit Agreement, the Company has established unsecured lines of credit that are used from time to time to secure certain performance obligations by the Company.

The Company's borrowings described above approximate fair value at December 27, 2024 and June 30, 2024. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy.

The Company is party to an interest rate swap arrangement with Bank of Montreal, with an initial notional amount of $ 20,000 and a maturity date of March 4, 2026 to hedge the Term Loan. As of December 27, 2024, the notional amount was $9,000. This swap has been designated as a cash flow hedge under ASC 815, Derivatives and Hedging. This swap is included in the disclosures in Note O, Derivative Financial Instruments.

During the fourth quarter of fiscal 2021, the Company designated its euro denominated Revolving Loan as a net investment hedge to mitigate the risk of variability in its euro denominated net investments in wholly-owned foreign companies. Effective upon the designation, all changes in the fair value of the euro revolver are reported in accumulated other comprehensive loss along with the foreign currency translation adjustments on those foreign investments. This net investment hedge is included in the disclosures in Note O, Derivative Financial Instruments.

K. Shareholders' Equity

The Company, from time to time, makes open market purchases of its common stock under authorizations given to it by the Board of Directors, of which 315.0 shares as of December 27, 2024 remain authorized for purchase. The Company did not make any open market purchases of its shares during the quarters ended December 27, 2024 and December 29, 2023.

The following is a reconciliation of the Company's equity balances for the first two fiscal quarters of 2025 and 2024:

	Twin Disc, Inc. Shareholders' Equity					
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total Equity
Balance, June 30, 2024	41,798	129,592	(6,905)	(9,783)	352	$ 155,054
Net loss		(2,765)			(7)	(2,772)
Dividends paid to shareholders		(570)				(570)
Translation adjustments			7,148		143	7,291
Benefit plan adjustments, net of tax			221			221
Unrealized loss on hedges, net of tax			(853)			(853)
Compensation expense	1,024					1,024
Stock awards, net	(2,920)			1,671		(1,249)
Balance, September 27, 2024	39,902	126,257	(389)	(8,112)	488	158,146
Net income		919			180	1,099
Dividends paid to shareholders		(566)				(566)
Translation adjustments			(11,311)		(58)	(11,369)
Benefit plan adjustments, net of tax			(1,668)			(1,668)
Unrealized gain on hedges, net of tax			1,146			1,146
Compensation expense	853					853
Stock awards, net	(644)			637		(7)
Balance, December 27, 2024	$ 40,111	$ 126,610	$ (12,222)	$ (7,475)	$ 610	$ 147,634

	Twin Disc, Inc. Shareholders' Equity					
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total Equity
Balance, June 30, 2023	42,855	120,299	(5,570)	(12,491)	424	$ 145,517
Net (loss) income		(1,173)			90	(1,083)
Translation adjustments			(3,096)		60	(3,036)
Benefit plan adjustments, net of tax			(171)			(171)
Unrealized gain on hedges, net of tax			216			216
Compensation expense	495					495
Stock awards, net	(3,911)			2,148		(1,763)
Balance, September 29, 2023	39,439	119,126	(8,621)	(10,343)	574	140,175
Net income		930			5	935
Dividends paid to shareholders		(560)				(560)
Translation adjustments			5,155		35	5,190
Benefit plan adjustments, net of tax			(108)			(108)
Unrealized loss on hedges, net of tax			(485)			(485)
Compensation expense	772					772
Stock awards, net	(550)			541		(9)
Balance, December 29, 2023	$ 39,661	$ 119,496	$ (4,059)	$ (9,802)	$ 614	$ 145,910

Reconciliations for the changes in accumulated other comprehensive loss, net of tax, by component for the quarters ended December 27, 2024 and December 29, 2023 are as follows:

	Translation Adjustment	Benefit Plan Adjustment	Cash Flow Hedges	Net Investment Hedges
Balance, June 30, 2024	$ (849)	$ (8,062)	$ 504	$ 1,502
Translation adjustment during the quarter	7,148	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	221	(169)	(684)
Net current period other comprehensive income (loss)	7,148	221	(169)	(684)
Balance, September 27, 2024	$ 6,299	$ (7,841)	$ 335	$ 818
Translation adjustment during the quarter	(11,311)	-	-	-
Return on plan assets		(1,808)		
Amounts reclassified from accumulated other comprehensive loss	-	140	24	1,122
Net current period other comprehensive (loss) income	(11,311)	(1,668)	24	1,122
Balance, December 27, 2024	$ (5,012)	$ (9,509)	$ 359	$ 1,940

	Translation Adjustment	Benefit Plan Adjustment	Cash Flow Hedges	Net Investment Hedges
Balance, June 30, 2023	$ (1,582)	$ (5,948)	$ 688	$ 1,272
Translation adjustment during the quarter	(3,096)	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(171)	(6)	222
Net current period other comprehensive (loss) income	(3,096)	(171)	(6)	222
Balance, September 29, 2023	$ (4,678)	$ (6,119)	$ 682	$ 1,494
Translation adjustment during the quarter	5,155	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(108)	(183)	(302)
Net current period other comprehensive income (loss)	5,155	(108)	(183)	(302)
Balance, December 29, 2023	$ 477	$ (6,227)	$ 499	$ 1,192

Reconciliation for the changes in benefit plan adjustments, net of tax for the quarter ended December 27, 2024 are as follows:

	Quarter Ended December 27, 2024	Two Quarters Ended December 27, 2024
Changes in benefit plan items		
Actuarial losses	$ 180(a)	$ 464(a)
Transition asset and prior service benefit	(53)(a)	(104)(a)
Return on plan assets	(1,808)	(1,808)
Total amortization	(1,681)	(1,448)
Income taxes	13	2
Total reclassification, net of tax	$ (1,668)	$ (1,446)

Reconciliation for the changes in benefit plan adjustments, net of tax for the quarter ended December 29, 2023 is as follows:

	Quarter Ended December 29, 2023	Two Quarters Ended December 29, 2023
Changes in benefit plan items		
Actuarial losses	$ (91)(a)	$ (263)(a)
Transition asset and prior service benefit	(4)(a)	(8)(a)
Total amortization	(95)	(271)
Income taxes	(13)	(8)
Total reclassification, net of tax	$ (108)	$ (279)

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note G, "Pension and Other Postretirement Benefit Plans" for further details).

L. Earnings Per Share

The Company calculates basic earnings per share based upon the weighted average number of common shares outstanding during the period, while the calculation of diluted earnings per share includes the dilutive effect of potential common shares outstanding during the period. The calculation of diluted earnings per share excludes all potential common shares if their inclusion would have an anti-dilutive effect. Certain restricted stock award recipients have a non-forfeitable right to receive dividends declared by the Company and are therefore included in computing earnings per share pursuant to the two-class method.

The components of basic and diluted earnings per share were as follows:

	For the Quarter Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Basic:				
Net income (loss)	$ 1,099	$ 935	$ (1,673)	$ (148)
Less: Net income attributable to noncontrolling interest, net of tax	(180)	(5)	(173)	(95)
Net income (loss) attributable to Twin Disc, Incorporated	919	930	(1,846)	(243)
Weighted average shares outstanding - basic	13,868	13,718	13,818	13,629
Basic Income (Loss) Per Share:				
Net earnings (loss) per share - basic	**$ 0.07**	**$ 0.07**	**$ (0.13)**	**$ (0.02)**
Diluted:				
Net income (loss)	$ 1,099	$ 935	$ (1,673)	$ (148)
Less: Net income attributable to noncontrolling interest, net of tax	(180)	(5)	(173)	(95)
Net income (loss) attributable to Twin Disc, Incorporated	919	930	(1,846)	(243)
Weighted average shares outstanding - basic	13,868	13,718	13,818	13,629
Effect of dilutive stock awards	190	205	-	-
Weighted average shares outstanding - diluted	14,058	13,923	13,818	13,629
Diluted Income (Loss) Per Share:				
Net earnings (loss) per share - diluted	**$ 0.07**	**$ 0.07**	**$ (0.13)**	**$ (0.02)**

The following potential common shares were excluded from diluted EPS for the two quarters ended December 27, 2024 as the Company reported a net loss: 404.3 related to the Company's unvested PSAs, 7.9 related to the Company's unvested PSAUs, 171.0 related to the Company's unvested RS awards, and 68.0 related to the Company's unvested RSUs.

The following potential common shares were excluded from diluted EPS for the two quarters ended December 29, 2023 as the Company reported a net loss: 330.0 related to the Company's unvested PSAs, 10.5 related to the Company's unvested PSAUs, 80.2 related to the Company's unvested RS awards, and 87.4 related to the Company's unvested RSUs.

M. Lease Liabilities

The Company leases certain office and warehouse space, as well as production and office equipment.

The Company determines if an arrangement is a lease at contract inception. The lease term begins upon lease commencement, which is when the Company takes possession of the asset, and may include options to extend or terminate the lease when it is reasonably certain that such options will be exercised. As its lease agreements typically do not provide an implicit rate, the Company primarily uses an incremental borrowing rate based upon the information available at lease commencement. In determining the incremental borrowing rate, the Company considers its current borrowing rate, the term of the lease, and the economic environments where the lease activity is concentrated. Some of the Company's leases contain non-lease components (e.g., common area, other maintenance costs, etc.) that relate to the lease components of the agreement. Non-lease components and the lease components to which they relate are accounted for as a single lease component.

The following table provides a summary of leases recorded on the condensed consolidated balance sheet.

	Condensed Consolidated Balance Sheet Location	December 27, 2024	June 30, 2024
Lease Assets			
Right-of-use operating lease assets	Right-of-use operating lease assets	$ 16,431	$ 16,622
Right-of-use finance lease assets	Property, plant and equipment, net	5,435	5,210
Lease Liabilities			
Right-of use operating lease liabilities, current	Current maturities of right-of use operating lease obligations	$ 2,813	$ 2,521
Right-of use operating lease liabilities, non-current	Right-of use operating lease obligations	13,656	14,376
Right of use finance lease liabilities, current	Accrued liabilities	880	713
Right of use finance lease liabilities, non-current	Other long-term liabilities	4,980	4,795

The components of lease expense were as follows:

	For the Quarter Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Finance lease cost:				
Amortization of right-of-use assets	$ 237	$ 175	$ 469	$ 397
Interest on lease liabilities	96	77	189	151
Operating lease cost	1,003	882	1,942	1,775
Short-term lease cost	22	6	33	9
Variable lease cost	139	99	239	199
Total lease cost	1,497	1,239	2,874	2,531
Less: Sublease income	(21)	(20)	(42)	(41)
Net lease cost	$ 1,476	$ 1,219	$ 2,830	$ 2,490

Other information related to leases was as follows:

	For the Quarter Ended		For the Two Quarters Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 1,084	$ 934	$ 2,086	$ 1,871
Operating cash flows from finance leases	97	76	192	149
Financing cash flows from finance leases	471	207	1,017	471
Right-of-use-assets obtained in exchange for lease obligations:				
Operating leases	1,255	188	1,581	188
Finance leases	224	123	732	657
Weighted average remaining lease term (years):				
Operating leases			7.9	8.1
Finance lease			8.1	9.5
Weighted average discount rate:				
Operating leases			8.5%	7.6%
Finance leases			6.4%	5.8%

Approximate future minimum rental commitments under non-cancellable leases as of December 27, 2024 were as follows:

	Operating Leases	Finance Leases
2024	$ 2,095	$ 593
2025	3,869	1,154
2026	3,233	1,085
2027	2,339	986
2028	2,215	695
2029	1,774	526
Thereafter	7,661	2,285
Total future lease payments	23,186	7,324
Less: Amount representing interest	(6,717)	(1,464)
Present value of future payments	$ 16,469	$ 5,860

N. Derivative Financial Instruments

From time to time, the Company enters into derivative instruments to manage volatility arising from risks relating to interest rates and foreign currency exchange rates. The Company does not purchase, hold or sell derivative financial instruments for trading purposes. The Company’s practice is to terminate derivative transactions if the underlying asset or liability matures or is sold or terminated, or if it determines the underlying forecasted transaction is no longer probable of occurring.

The Company reports all derivative instruments on its condensed consolidated balance sheets at fair value and establishes criteria for designation and effectiveness of transactions entered into for hedging purposes.

Interest Rate Swap Contracts

The Company has one outstanding interest rate swap contract as of December 27, 2024, with a notional amount of $9,000. It has been designated as a cash flow hedge in accordance with ASC 815, Derivatives and Hedging.

The primary purpose of the Company’s cash flow hedging activities is to manage the potential changes in value associated with interest payments on the Company’s SOFR-based indebtedness. The Company records gains and losses on interest rate swap contracts qualifying as cash flow hedges in accumulated other comprehensive loss to the extent that these hedges are effective and until the Company recognizes the underlying transactions in net earnings, at which time these gains and losses are recognized in interest expense on its condensed consolidated statements of operations and comprehensive income (loss). Cash flows from derivative financial instruments are classified as cash flows from financing activities on the consolidated statements of cash flows. These contracts generally have original maturities of greater than twelve months.

Net unrealized after-tax gains related to cash flow hedging activities that were included in accumulated other comprehensive loss were $ 359 and $504 as of December 27, 2024, and June 30, 2024, respectively. The unrealized amounts in accumulated other comprehensive loss will fluctuate based on changes in the fair value of open contracts during each reporting period.

The Company estimates that $132 of net unrealized losses related to cash flow hedging activities included in accumulated other comprehensive loss will be reclassified into earnings within the next twelve months.

Derivatives Designated as Net Investment Hedges

The Company is exposed to foreign currency exchange rate risk related to its investment in net assets in foreign countries. During the fourth quarter of fiscal 2021, the Company designated its euro denominated Revolving Loan, with a notional amount of €13,000, as a net investment hedge to mitigate the risk of variability in its euro denominated net investments in wholly-owned foreign subsidiaries. All changes in the fair value of the euro revolver were then recorded in accumulated other comprehensive loss along with the foreign currency translation adjustments on those foreign investments. Net unrealized after-tax income related to net investment hedging activities that were included in accumulated other comprehensive loss were $1,940 and $1,502 as of December 27, 2024 and June 30, 2024, respectively.

Fair Value of Derivative Instruments

The fair value of derivative instruments included in the condensed consolidated balance sheets were as follows:

	Condensed Consolidated Balance Sheet Location	December 27, 2024	June 30, 2024
Derivative designated as hedge:			
Interest rate swap	Other current assets	$ 123	$ 218
Interest rate swap	Other noncurrent assets	26	76

The impact of the Company's derivative instruments on the condensed consolidated statements of operations and comprehensive (loss) income for the quarters ended December 27, 2024 and December 29, 2023, respectively, was as follows:

	Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income Location	For the Quarter Ended		For the Two Quarters Ended	
		December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Derivative designated as hedge:					
Interest rate swap	Interest expense	$ 55	$ 67	$ 112	$ 138
Interest rate swap	Unrealized gain (loss) on hedges	(24)	183	145	189
Net investment hedge	Unrealized gain (loss) on hedges	(1,122)	302	(438)	80

Item 2. Management Discussion and Analysis

In the financial review that follows, we discuss our results of operations, financial condition and certain other information. This discussion should be read in conjunction with our consolidated financial statements as of December 27, 2024, and related notes, as reported in Item 1 of this Quarterly Report.

Some of the statements in this Quarterly Report on Form 10-Q are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the Company’s description of plans and objectives for future operations and assumptions behind those plans. The words “anticipates,” “believes,” “intends,” “estimates,” and “expects,” or similar anticipatory expressions, usually identify forward-looking statements. In addition, goals established by the Company should not be viewed as guarantees or promises of future performance. There can be no assurance the Company will be successful in achieving its goals.

In addition to the assumptions and information referred to specifically in the forward-looking statements, other factors, including but not limited to those factors discussed under Item 1A, Risk Factors, of the Company’s Annual Report filed on Form 10-K for June 30, 2024, as supplemented in this Quarterly Report, could cause actual results to be materially different from what is expressed or implied in any forward-looking statement.

Results of Operations

	Quarter Ended				Two Quarters Ended			
	December 27, 2024	% of Net Sales	December 29, 2023	% of Net Sales	December 27, 2024	% of Net Sales	December 29, 2023	% of Net Sales
Net sales	$ 89,921		$ 72,994		$ 162,818		$ 136,547	
Cost of goods sold	66,662		52,338		120,237		96,156	
Cost of goods sold - other	1,579		-		1,579		3,099	
Gross profit	21,680	24.1%	20,656	28.3%	41,002	25.2%	37,292	27.3%
Marketing, engineering and administrative expenses	18,920	21.0%	17,218	23.6%	38,407	23.6%	34,136	25.0%
Income from operations	$ 2,760	3.1%	$ 3,438	4.7%	$ 2,595	1.6%	$ 3,156	2.3%

Comparison of the Second Quarter of Fiscal 2025 with the Second Quarter of Fiscal 2024

Net sales for the second quarter increased 23.2%, or $16.9 million, to $89.9 million from $73.0 million in the same quarter a year ago. The acquisition of Katsa Oy, completed in the fourth quarter of fiscal 2024, contributed $10.0 million of additional revenue in the quarter. This was partially offset by the sale of the boat management system product line in the prior year, reducing revenue by $0.8 million in the quarter. The remaining increase of $7.1 million primarily reflects continued growth in demand for the company’s Veth propulsion systems, along with improved shipments of the Company’s products for the airport rescue and firefighting (“ARFF”) market. The Company experienced a decline in demand for oilfield transmissions, negatively impacting revenue for the quarter. Global sales of marine and propulsion products improved 20.8% from the prior year, while shipments of industrial products improved by 44.8%. Shipments of off-highway transmission products improved by 19.8%, with improving ARFF shipments. The European region saw a significant increase in revenue ($5.4 million or 21.5%) thanks primarily to the acquisition of Katsa. Sales into North America increased 13.3%, or $2.7 million, on improved industrial and commercial marine shipments in the quarter. The Asia Pacific region increased 2.1%, or $0.4 million, on flat demand for oilfield transmissions into China. Currency translation had a favorable impact on second quarter fiscal 2025 sales compared to the second quarter of the prior year totaling $0.4 million primarily due to the strengthening of the euro, Singapore dollar and Australian dollar against the U.S. dollar.

Sales at our manufacturing segment increased 31.0%, or $18.1 million, versus the same quarter last year. The Company’s new acquisition, Katsa Oy, in Finland contributed $10.0 million of incremental revenue. The U.S. manufacturing operations experienced a 10.3%, or $2.9 million, increase in sales versus the second fiscal quarter of 2024, with improvement in demand for ARFF and industrial products. The Company’s operation in the Netherlands saw increased revenue of $8.2 million (48.6%) compared to the second fiscal quarter of 2024, as this operation continues to experience record demand for its propulsion systems. The Company’s Belgian operation saw a decrease compared to the prior year first quarter (20.3% or $1.4 million), with weaker demand for its marine transmission products. The Company’s Italian manufacturing operations were down $2.4 million (47.8%) compared to the second quarter of fiscal 2024, due primarily to the sale of the boat management product line in the prior year, along with weaker European demand for industrial and commercial marine products. The Company’s Swiss manufacturing operation, which supplies customized propellers for the global mega yacht and patrol boat markets, was up $0.1 million (6.1%) compared to the prior year second quarter.

Our distribution segment experienced a decrease in sales of $1.5 million (6.1%) in the second quarter of fiscal 2025 compared to the second quarter of fiscal 2024. The Company's Asian distribution operations in Singapore, China and Japan were up 39.8% or $4.6 million from the prior year on improved deliveries of commercial marine transmissions. The Company's North America distribution operation saw a decrease ($2.2 million or 27.2%) on timing of shipments from European manufacturing operations and some softening in North American demand. The Company's European distribution operation saw a decline ($0.9 million or 12.3%) on weaker shipments of commercial marine projects. The Company's distribution operation in Australia and New Zealand, which provides boat accessories, propulsion and marine transmission systems for the pleasure craft market, saw a decrease in revenue of 17.9% from the prior year first fiscal quarter, primarily due to weaker pleasure craft demand partially offset by a favorable currency impact.

Gross profit as a percentage of sales for the second quarter of fiscal 2025 declined to 24.1%, compared to 28.3% for the same period last year. The current quarter includes the impact of a non-cash inventory write-down of $1.6 million. This write-down reflects the results of a product rationalization exercise of the Company's industrial product line following the acquisition of Katsa. Excluding this adjustment, the second quarter gross profit percent was 26.0%. The shortfall to the prior year gross profit percentage is attributed to a less favorable product mix, purchase accounting amortization related to Katsa and surcharges related to the purchase of electric motors in the quarter.

For the fiscal 2025 second quarter, marketing, engineering and administrative ("ME&A") expenses, as a percentage of sales, were 21.0%, compared to 23.6% for the fiscal 2024 second quarter. ME&A expenses increased $1.7 million (9.9%) over the same period last fiscal year. The increase in ME&A spending for the quarter was comprised of the addition of Katsa ($1.6 million) and an increase in professional fees ($0.8 million). These increases were offset by a decrease in global bonus expense ($0.8 million).

Interest expense was up $0.1 million to $0.5 million in the second quarter of fiscal 2025, with a higher average outstanding revolver balance following the Katsa acquisition.

Other expense (benefit) of ($0.4) million for the second fiscal quarter was primarily attributable to a currency gain ($0.5 million), partially offset by pension amortization expense ($0.2 million).

The fiscal 2025 second quarter effective tax rate was 58.5% compared to 64.0% in the prior fiscal year second quarter. The full domestic valuation allowance, along with the mix of foreign earnings by jurisdiction, resulted in the change to the effective tax rate.

<u>Comparison of the First Six Months of Fiscal 2025 with the First Six Months of Fiscal 2024</u>

Net sales for the first six months increased 19.2%, or $26.3 million, to $162.8 million from $136.5 million in the same period a year ago. The acquisition of Katsa Oy, completed in the fourth quarter of fiscal 2024, contributed $19.2 million of additional revenue in the first half. This was partially offset by the sale of the boat management system product line in the prior year, reducing revenue by $2.6 million in the period. The remaining increase of $9.7 million primarily reflects continued growth in demand for the company's Veth propulsion systems, along with improved shipments of the Company's products for the airport rescue and firefighting ("ARFF") market. Global sales of marine and propulsion products improved 19.6% from the prior year, driven by strong demand for the Veth product. Shipments of industrial products improved by 52.5%, driven by the addition of Katsa. Shipments of off-highway transmission products improved by 5.4%, with improving ARFF shipments. The European region saw a significant increase in revenue ($19.5 million or 41.6%) thanks primarily to the acquisition of Katsa. Sales into North America increased 4.3%, or $1.7 million, on improved industrial and commercial marine shipments in the second quarter. The Asia Pacific region increased 6.6%, or $2.6 million, on steady demand for oilfield transmissions into China, strong commercial marine activity and a favorable currency impact. Currency translation had a favorable impact on first half fiscal 2025 sales compared to the first half of the prior year totaling $1.0 million primarily due to the strengthening of the euro, Singapore dollar and Australian dollar against the U.S. dollar.

Sales at our manufacturing segment increased 22.8%, or $26.9 million, versus the same period last year. The Company's new acquisition, Katsa Oy, in Finland contributed $19.2 million of incremental revenue. The U.S. manufacturing operations experienced a 6.1%, or $3.4 million, increase in sales versus the first half of fiscal 2024, with improvement in demand for ARFF and industrial products. The Company's operation in the Netherlands saw increased revenue of $8.9 million (27.9%) compared to the first half of fiscal 2024, as this operation continues to experience record demand for its propulsion systems and has begun to increase capacity to satisfy the growing demand. The Company's Belgian operation saw a decrease compared to the prior year first half (14.6% or $1.8 million), with weaker demand for its marine transmission products. The Company's Italian manufacturing operations were down $4.4 million (44.4%) compared to the first half of fiscal 2024, due primarily to the sale of the boat management product line in the prior year, along with weaker European demand for industrial and commercial marine products. The Company's Swiss manufacturing operation, which supplies customized propellers for the global mega yacht and patrol boat markets, was up $0.3 million (8.9%) compared to the prior year first half.

Our distribution segment experienced a decrease in sales of $4.8 million (6.8%) in the first half of fiscal 2025 compared to the first half of fiscal 2024. The Company's Asian distribution operations in Singapore, China and Japan were down 5.7% or $1.7 million from the prior year on weaker demand for oilfield transmissions into China. The Company's North America distribution operation saw a decrease ($1.9 million or 14.5%) on timing of shipments from European manufacturing operations and some softening in North American demand. The Company's European distribution operation saw an increase ($1.2 million or 11.3%) on stronger shipments of commercial marine projects. The Company's distribution operation in Australia and New Zealand, which provides boat accessories, propulsion and marine transmission systems for the pleasure craft market, saw a decrease in revenue of 2.4% from the prior year first fiscal half, primarily due to weaker pleasure craft demand partially offset by a favorable currency impact.

Gross profit as a percentage of sales for the first half of fiscal 2025 declined to 25.2%, compared to 27.3% for the same period last year. The current year includes the impact of a non-cash inventory write-down of $1.6 million. This write-down reflects the results of a product rationalization exercise of the Company's industrial product line following the acquisition of Katsa. Excluding this adjustment, the first half gross profit percent was 26.2%. The shortfall to the prior year gross profit percentage is attributed to a less favorable product mix, along with purchase accounting amortization related to Katsa.

For the fiscal 2025 first half, marketing, engineering and administrative ("ME&A") expenses, as a percentage of sales, were 23.6%, compared to 25.0% for the first half of fiscal 2024. ME&A expenses increased $4.3 million (12.5%) over the same period last fiscal year. The increase in ME&A spending for the first half was comprised of the addition of Katsa ($3.0 million), a catch up adjustment to non-cash stock compensation ($0.6 million), a legal settlement ($0.4 million), an increase in professional fees ($0.4 million) and other inflation related increases ($0.7 million). These increases were offset by a decrease in global bonus expense ($0.8 million).

Interest expense was up $0.3 million to $1.1 million in the first half of fiscal 2025, with a higher average outstanding revolver balance following the Katsa acquisition.

Other expense of $1.0 million for the first half was primarily attributable to a currency loss ($0.6 million), along with pension amortization expense ($0.5 million).

The fiscal 2025 first half effective tax rate was 430.6% compared to 107.2% in the prior fiscal year first half. The full domestic valuation allowance, along with the mix of foreign earnings by jurisdiction, resulted in the change to the effective tax rate.

Financial Condition, Liquidity and Capital Resources

Comparison between December 27, 2024 and June 30, 2024

As of December 27, 2024, the Company had net working capital of $113.9 million, which represents a decrease of $6.2 million, or 5.2%, from the net working capital of $120.1 million as of June 30, 2024.

Cash decreased by $4.2 million to $15.9 million as of December 27, 2024, versus $20.1 million as of June 30, 2024. As of December 27, 2024, the majority of the cash is at the Company's overseas operations in Europe ($4.6 million) and Asia-Pacific ($9.0 million).

Trade receivables of $53.7 million were down $1.5 million, or 2.8%, when compared to last fiscal year-end. The impact of foreign currency translation was to decrease accounts receivable by $0.9 million versus June 30, 2024. As a percent of sales, trade receivables finished at 59.7% in the second quarter of fiscal 2025 compared to 56.8% for the comparable period in fiscal 2024 and 61.8% for the fourth quarter of fiscal 2024.

Inventories decreased by $2.2 million, or 1.7%, versus June 30, 2024 to $128.3 million. The impact of foreign currency translation was to decrease inventories by $2.6 million versus June 30, 2024. The largest decrease came at our operations in the United States ($2.4 million), favorably impacted by the non-cash write down of industrial inventory in the quarter ($1.6 million). Our operation in the Netherlands saw an increase ($1.4 million) in support of growing backlog for the Veth product. The Singapore distribution entity experienced a $4.1 million increase primarily related to customer delays of deliveries on oilfield transmissions into China. Additional increases were seen at our facilities in Belgium ($1.1 million) and Australia ($0.8 million). The global operations team is focused on driving inventory improvements in the second half and beyond. On a consolidated basis, as of December 27, 2024, the Company's backlog of orders to be shipped over the next six months approximates $124.0 million, compared to $133.7 million at June 30, 2024 and $125.2 million at December 29, 2023. The reduction in backlog since June 30, 2024 ($9.7 million) is largely due to a currency translation impact ($5.5 million). As a percentage of six-month backlog, inventory has increased from 98% at June 30, 2024 to 103% at December 27, 2024.

Net property, plant and equipment increased $0.4 million (0.7%) to $58.5 million versus $58.1 million at June 30, 2024. The Company had capital spending of $5.1 million in the first half, and an unfavorable exchange impact of $0.8 million. These increases were offset by depreciation of $4.0 million. Capital spending occurring in the first half was primarily related to replacement capital, along with capital to drive growth and operating efficiencies. In total, the Company expects to invest between $12 and $15 million in capital assets in fiscal 2025. The Company continues to review its capital plans based on overall market conditions and availability of capital and may make changes to its capital plans accordingly. The Company's capital program is focused on modernizing key core manufacturing, assembly and testing processes and improving efficiencies at its facilities around the world.

Accounts payable as of December 27, 2024 of $28.6 million was down $4.0 million, or 12.3%, from June 30, 2024. The impact of foreign currency translation was to decrease accounts payable by $0.4 million versus June 30, 2024. The remaining decrease is primarily related to the inventory reduction during the second quarter.

Total borrowings and long-term debt as of December 27, 2024 decreased $0.9 million to $24.9 million versus $25.8 million at June 30, 2024. During the first half, the Company reported negative free cash flow of $0.5 million (defined as operating cash flow less acquisitions of fixed assets), driven by favorable working capital movement offset by capital spending. The Company ended the quarter with total debt, net of cash, of $9.0 million, compared to $5.7 million at June 30, 2024, for a net degradation of $3.3 million.

Total equity decreased $7.4 million, or 4.8%, to $147.6 million as of December 27, 2024. The net loss during the first half decreased equity by $1.7 million, while other decreases related to a favorable foreign currency translation of $4.1 million and dividends paid to shareholders of $1.1 million. The net change in common stock and treasury stock resulting from the accounting for stock-based compensation increased equity by $0.6 million. The net remaining decrease in equity of $1.1 million primarily represents the amortization of net actuarial loss and prior service cost on the Company's defined benefit pension plans, along with the unrealized loss on cash flow hedges.

On June 29, 2018, the Company entered into a Credit Agreement (the "Credit Agreement") with BMO Harris Bank N.A. ("BMO") that provided for the assignment and assumption of the previously existing loans between the Company and Bank of Montreal (the "2016 Credit Agreement") and subsequent amendments into a term loan (the "Term Loan") and revolving credit loans (each a "Revolving Loan" and, collectively, the "Revolving Loans," and, together with the Term Loan, the "Loans"). Pursuant to the Credit Agreement, BMO agreed to make the Term Loan to the Company in a principal amount not to exceed $35.0 million and the Company may, from time to time prior to the maturity date, enter into Revolving Loans in amounts not to exceed, in the aggregate, $50.0 million (the "Revolving Credit Commitment"), subject to a Borrowing Base based on Eligible Inventory and Eligible Receivables. Subsequent amendments to the Credit Agreement reduced the Term Loan to $20.0 million, extended the maturity date of the Term Loan to April 1, 2027, and require the Company to make principal installment payments on the Term Loan of $0.5 million per quarter. In addition, under subsequent amendments to the Credit Agreement, BMO's Revolving Credit Commitment is currently $45.0 million. The Credit Agreement also allows the Company to obtain Letters of Credit from BMO, which if drawn upon by the beneficiary thereof and paid by BMO, would become Revolving Loans. Under the Credit Agreement, the Company may not pay cash dividends on its common stock in excess of $5.0 million in any fiscal year. The term of the Revolving Loans under the Credit Agreement currently runs through April 1, 2027.

Under the Credit Agreement as amended, interest rates are based on either the secured overnight financing rate (“SOFR”) or the euro interbank offered rate (the “EURIBO Rate”). Loans are designated either as “SOFR Loans,” which accrue interest at an Adjusted Term SOFR plus an Applicable Margin, or “Eurodollar Loans,” which accrue interest at the EURIBO Rate plus an Applicable Margin. Amounts drawn on a Letter of Credit that are not timely reimbursed to the Bank bear interest at a Base Rate plus an Applicable Margin. The Company also pays a commitment fee on the average daily Unused Revolving Credit Commitment equal to an Applicable Margin. Currently, the Applicable Margins are between 2.00% and 3.50% for Revolving Loans and Letters of Credit; 2.125% and 3.625% for Term Loans; and 0.15% and 0.30% for the Unused Revolving Credit Commitment (each depending on the Company’s Total Funded Debt to EBITDA ratio).

The Credit Agreement, as amended, requires the Company to meet certain financial covenants. Specifically, the Company’s Total Funded Debt to EBITDA ratio may not exceed 3.50 to 1.00, and the Company’s Fixed Charge Coverage Ratio may not be less than 1.10 to 1.00. In determining whether the Company is in compliance with its Total Funded Debt/EBITDA Ratio, the Company’s EBITDA will include transaction expenses of up to $0.6 million for the Katsa acquisition, as well as pro-forma EBITDA of Katsa as permitted by the Bank. The Company’s Tangible Net Worth may not be less than $100.0 million plus 50% of positive Net Income for each fiscal year ending on or after June 30, 2023.

Borrowings under the Credit Agreement are secured by substantially all of the Company’s personal property, including accounts receivable, inventory, machinery and equipment, and intellectual property. The Company has also pledged 100% of its equity interests in certain domestic subsidiaries and 65% of its equity interests in certain foreign subsidiaries. The Company also entered into a Collateral Assignment of Rights under Purchase Agreement for its acquisition of Veth Propulsion. To effect these security interests, the Company entered into various amendment and assignment agreements that consent to the assignment of certain agreements previously entered into between the Company and the Bank of Montreal in connection with the 2016 Credit Agreement. The Company also amended and assigned to BMO a Negative Pledge Agreement that it has previously entered into with Bank of Montreal, pursuant to which it agreed not to sell, lease or otherwise encumber real estate that it owns except as permitted by the Credit Agreement and the Negative Pledge Agreement.

The Company has also entered into a Deposit Account Control Agreement with the Bank, reflecting the Bank’s security interest in deposit accounts the Company maintains with the Bank. The Bank may not provide a notice of exclusive control of a deposit account (thereby obtaining exclusive control of the account) prior to the occurrence or existence of a Default or an Event of Default under the Credit Agreement or otherwise upon the occurrence or existence of an event or condition that would, but for the passage of time or the giving of notice, constitute a Default or an Event of Default under the Credit Agreement.

Upon the occurrence of an Event of Default, BMO may take the following actions upon written notice to the Company: (1) terminate its remaining obligations under the Credit Agreement; (2) declare all amounts outstanding under the Credit Agreement to be immediately due and payable; and (3) demand the Company to immediately Cash Collateralize L/C Obligations in an amount equal to 105% of the aggregate L/C Obligations or a greater amount if BMO determines a greater amount is necessary. If such Event of Default is due to the Company’s bankruptcy, BMO may take the three actions listed above without notice to the Company.

The Company remains in compliance with its liquidity and other covenants.

Management believes that available cash, the Credit Agreement, the unsecured lines of credit, cash generated from future operations, and potential access to debt markets will be adequate to fund the Company's cash and capital requirements for the foreseeable future.

Other significant contractual obligations as of December 27, 2024 are disclosed in Note M "Lease Liabilities" in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. There are no material undisclosed guarantees. As of December 27, 2024, the Company had no additional material purchase obligations other than those created in the ordinary course of business related to inventory and property, plant, and equipment, which generally have terms of less than 90 days. The Company has long-term obligations related to its postretirement plans which are discussed in detail in Note G "Pension and Other Postretirement Benefit Plans” in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1of this Quarterly Report on Form 10-Q. Postretirement medical claims are paid by the Company as they are submitted. In fiscal 2025, the Company expects to contribute $0.5 million to postretirement benefits based on actuarial estimates; however, these amounts can vary significantly from year to year because the Company is self-insured. In fiscal 2025, the Company expects to contribute $0.5 million to its defined benefit pension plans. The Company does not have any material off-balance sheet arrangements.

New Accounting Releases

See Note A, Basis of Presentation, to the condensed consolidated financial statements for a discussion of recently issued accounting standards.

Critical Accounting Policies

The preparation of this Quarterly Report requires management's judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

The Company's critical accounting policies are described in Item 7 of the Company's Annual Report filed on Form 10-K for June 30, 2024. There have been no significant changes to those accounting policies subsequent to June 30, 2024.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is electing not to provide this disclosure due to its status as a Smaller Reporting Company.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act") as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

(b) *Changes in Internal Control Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). During the most recent fiscal quarter, no changes were made which have materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a defendant in several product liability or related claims which are considered either adequately covered by appropriate liability insurance or involving amounts not deemed material to the business or financial condition of the Company.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in response to Item 1A to Part I of our 2024 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) *Unregistered Sales of Equity Securities*

There were no securities of the Company sold by the Company during the quarter ended December 27, 2024, which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4 (2) of the Act.

(b) *Use of Proceeds*

Not applicable.

(c) *Issuer Purchases of Equity Securities*

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 28 – October 25, 2024	0	NA	0	315,000
October 2 – November 29, 2024	0	NA	0	315,000
November 30 – December 27, 2024	592	NA	0	315,000
Total	0	NA	0	315,000

The amounts shown in Column (a) above represent shares of common stock delivered to the Company as payment of withholding taxes due on the vesting of restricted stock and performance stock issued under the Twin Disc, Incorporated Amended and Restated 2021 Omnibus Incentive Plan (the "Omnibus Plan").

Under authorizations granted by the Board of Directors on February 1, 2008 and July 27, 2012, the Company was authorized to purchase 500,000 shares of its common stock. This authorization has no expiration, and as of December 27, 2024, 315,000 may yet be purchased under these authorizations. The Company did not purchase any shares of its common stock pursuant to these authorizations during the quarter ended December 27, 2024.

The discussion of limitations upon the payment of dividends as a result of the Credit Agreement between the Company and BMO Harris Bank, N.A., as discussed in Part I, Item 2, "Management's Discussion and Analysis " under the heading "Financial Condition, Liquidity and Capital Resources," is incorporated herein by reference.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

31a	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31b	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32a	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32b	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH Inline	XBRL Schema
101.CAL Inline	XBRL Calculation Linkbase
101.DEF Inline	XBRL Definition Linkbase
101.LAB Inline	XBRL Label Linkbase
101.PRE Inline	XBRL Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TWIN DISC, INCORPORATED
(Registrant)

Date: February 5, 2025

/s/ JEFFREY S. KNUTSON
Jeffrey S. Knutson
Vice President – Finance, Chief Financial Officer, Treasurer and Secretary
Chief Accounting Officer

Exhibit 31a
CERTIFICATION

I, John H. Batten, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Twin Disc, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 5, 2025

/s/ JOHN H. BATTEN
John H. Batten
President and Chief Executive Officer

Exhibit 31b
CERTIFICATION

I, Jeffrey S. Knutson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Twin Disc, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 5, 2025

/s/ JEFFREY S. KNUTSON
Jeffrey S. Knutson
Vice President – Finance, Chief Financial Officer, Treasurer and Secretary

EXHIBIT 32a

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Twin Disc, Incorporated (the “Company”) on Form 10-Q for the fiscal quarter ending December 27, 2024, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, John H. Batten, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2025

/s/ JOHN H. BATTEN
John H. Batten
President and Chief Executive Officer

EXHIBIT 32b

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Twin Disc, Incorporated (the “Company”) on Form 10-Q for the fiscal quarter ending December 27, 2024, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, Jeffrey S. Knutson, Vice President – Finance, Chief Financial Officer, Treasurer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2025

/s/ JEFFREY S. KNUTSON
Jeffrey S. Knutson
Vice President – Finance, Chief Financial Officer, Treasurer and Secretary