

REFINITIV

DELTA REPORT

10-Q

TWIN - TWIN DISC INC

10-Q - MARCH 29, 2024 COMPARED TO 10-Q - DECEMBER 29, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 976

█ CHANGES 301

█ DELETIONS 313

█ ADDITIONS 362

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 29, 2023 March 29, 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

(State or other jurisdiction of
Incorporation or organization)

39-0667110

(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 February 2, 2024 April 23, 2024, the registrant had 13,995,627 13,996,503 shares of its common stock outstanding.

Part I. **FINANCIAL** FINANCIAL INFORMATION
INFORMATION

Item 1. Financial Statements

Item 1. Financial Statements

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

	December 29, 2023	June 30, 2023	March 29, 2024	June 30, 2023
ASSETS				
Current assets:				
Cash	\$ 21,021	\$ 13,263	\$ 23,843	\$ 13,263
Trade accounts receivable, net	41,428	54,760	40,950	54,760
Inventories	131,768	131,930	129,845	131,930
Assets held for sale	2,968	2,968	2,968	2,968
Prepaid expenses	10,157	8,459	10,471	8,459
Other	9,235	8,326	10,451	8,326
Total current assets	216,577	219,706	218,528	219,706
Property, plant and equipment, net	40,334	38,650	40,606	38,650
Right-of-use assets operating leases	12,017	13,133	14,498	13,133
Intangible assets, net	11,146	12,637	10,157	12,637
Deferred income taxes	2,371	2,244	2,210	2,244
Other assets	2,745	2,811	2,755	2,811
Total assets	\$ 285,190	\$ 289,181	\$ 288,754	\$ 289,181
LIABILITIES AND EQUITY				
Current liabilities:				
Current maturities of long-term debt	\$ 2,000	\$ 2,010	\$ 2,000	\$ 2,010
Accounts payable	32,611	36,499	33,230	36,499
Accrued liabilities	62,929	61,586	63,406	61,586
Total current liabilities	97,540	100,095	98,636	100,095
Long-term debt	15,698	16,617	15,042	16,617
Lease obligations	9,988	10,811	12,638	10,811
Accrued retirement benefits	6,975	7,608	6,707	7,608
Deferred income taxes	3,162	3,280	2,965	3,280
Other long-term liabilities	5,917	5,253	5,822	5,253
Total liabilities	139,280	143,664	141,810	143,664
Twin Disc shareholders' equity:				
Preferred shares authorized: 200,000; issued: none; no par value	-	-	-	-
Preferred shares authorized: 200,000; issued: none; no par value	-	-	-	-
Common shares authorized: 30,000,000; issued: 14,632,802; no par value	39,661	42,855	40,428	42,855
Retained earnings	119,496	120,299	122,759	120,299

Accumulated other comprehensive loss	(4,059)	(5,570)	(7,094)	(5,570)
	155,098	157,584	156,093	157,584
Less treasury stock, at cost (639,006 and 814,734 shares, respectively)	9,802	12,491		
Less treasury stock, at cost (638,712 and 814,734 shares, respectively)			9,797	12,491
Total Twin Disc shareholders' equity	145,296	145,093	146,296	145,093
Noncontrolling interest	614	424	648	424
Total equity	145,910	145,517	146,944	145,517
Total liabilities and equity	\$ 285,190	\$ 289,181	\$ 288,754	\$ 289,181

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

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

(UNAUDITED)

	For the Quarter Ended		For the Two Quarters Ended		For the Quarter Ended		For the Three Quarters Ended	
	As Adjusted		As Adjusted		As Adjusted		As Adjusted	
	December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
Net sales	\$ 72,994	\$ 63,351	\$ 136,547	\$ 119,264	\$ 74,161	\$ 73,772	\$ 210,709	\$ 193,036
Cost of goods sold (COGS)	52,338	46,328	96,156	88,944	53,221	54,507	149,377	143,451
COGS - Sale of boat management system product line and related inventory	-	-	3,099	-	-	-	3,099	-
Gross profit	20,656	17,023	37,292	30,320	20,940	19,265	58,233	49,585
Marketing, engineering and administrative expenses	17,149	15,983	34,068	31,063	17,199	14,626	51,268	45,688
Restructuring expenses	69	164	68	174	139	33	207	208
Other operating income	-	(4,150)	-	(4,150)				
Other operating expense (income)						1	-	(4,149)
Income from operations	3,438	5,026	3,156	3,233	3,602	4,605	6,758	7,838
Interest expense	392	594	786	1,160	263	522	1,049	1,682
Other expense (income), net	449	182	310	(164)				
Other (income) expense, net	841	776	1,096	996	(959)	178	(649)	13
	(696)				700	400	1,695	
Income before income taxes and noncontrolling interest	2,597	4,250	2,060	2,237	4,298	3,905	6,358	6,143
Income tax expense	1,662	2,489	2,208	1,801	398	548	2,606	2,350
Net income (loss)	935	1,761	(148)	436				
Net income					3,900	3,357	3,752	3,793

Less: Net earnings attributable to noncontrolling interest, net of tax	(5)	(15)	(95)	(112)	(78)	(76)	(173)	(188)
Net income (loss) attributable to Twin Disc	\$ 930	\$ 1,746	\$ (243)	\$ 324				
Net income attributable to Twin Disc					\$ 3,822	\$ 3,281	\$ 3,579	\$ 3,605
Dividends per share	\$ 0.04	\$ -	\$ 0.04	\$ -	\$ 0.04	\$ -	\$ 0.08	\$ -
Income (loss) per share data:								
Basic income (loss) per share attributable to Twin Disc common shareholders	\$ 0.07	\$ 0.13	\$ (0.02)	\$ 0.02				
Diluted income (loss) per share attributable to Twin Disc common shareholders	\$ 0.07	\$ 0.13	\$ (0.02)	\$ 0.02				
Income per share data:								
Basic income per share attributable to Twin Disc common shareholders					\$ 0.28	\$ 0.24	\$ 0.26	\$ 0.27
Diluted income per share attributable to Twin Disc common shareholders					\$ 0.27	\$ 0.24	\$ 0.26	\$ 0.26
Weighted average shares outstanding data:								
Basic shares outstanding	13,718	13,460	13,629	13,434	13,742	13,504	13,663	13,455
Diluted shares outstanding	13,923	13,699	13,629	13,649	13,904	13,662	13,852	13,608
Comprehensive income (loss)								
Net income (loss)	\$ 935	\$ 1,761	\$ (148)	\$ 436				
Benefit plan adjustments, net of income taxes of \$13, \$13, \$8 and \$4, respectively	(108)	(1,122)	(279)	(1,211)				
Comprehensive income								
Net income					\$ 3,900	\$ 3,357	\$ 3,752	\$ 3,793
Benefit plan adjustments, net of income taxes of \$10, \$(1), \$2 and \$(5), respectively					(191)	(29)	(470)	(1,240)
Foreign currency translation adjustment	5,190	8,392	2,154	2,102	(3,084)	1,014	(930)	3,116
Unrealized (loss) gain on hedges, net of income taxes of \$0, \$0, \$0 and \$0, respectively	(485)	(595)	(269)	198				
Unrealized gain (loss) on hedges, net of income taxes of \$0, \$0, \$0 and \$0, respectively					196	(224)	(73)	(26)
Comprehensive income	5,532	8,436	1,458	1,525	821	4,118	2,279	5,643
Less: Comprehensive income attributable to noncontrolling interest	40	74	190	210	34	67	224	277
Comprehensive income attributable to Twin Disc	\$ 5,492	\$ 8,362	\$ 1,268	\$ 1,315	\$ 787	\$ 4,051	\$ 2,055	\$ 5,366

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		For the Three Quarters Ended As Adjusted
	As Adjusted	As Adjusted	

	December 29, 2023	December 30, 2022	March 29, 2024	March 31, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net (loss) income	\$ (148)	\$ 436		
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Net income			\$ 3,752	\$ 3,793
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,023	4,266	7,497	6,936
Gain on sale of assets	(42)	(4,203)	(87)	(4,237)
Loss on sale of boat management product line and related inventory	3,099	-	3,099	-
Provision for deferred income taxes	280	(1,105)	239	(1,462)
Stock compensation expense and other non-cash charges, net	1,413	1,565	2,242	2,355
Net change in operating assets and liabilities	6,422	(927)	5,531	(526)
Net cash provided by operating activities	16,047	32	22,273	6,859
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of property, plant, and equipment	(5,419)	(4,734)	(7,598)	(6,783)
Proceeds from sale of fixed assets	-	7,152	-	7,177
Other, net	(252)	385	(167)	199
Net cash (used) provided by investing activities	(5,671)	2,803	(7,765)	593
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings under revolving loan arrangements	50,632	42,898	66,661	65,862
Repayments of revolving loan arrangements	(50,632)	(46,628)	(66,661)	(69,823)
Repayments of other long-term debt	(1,010)	(707)	(1,510)	(1,534)
Dividends paid to shareholders	(560)	-	(1,119)	-
Payments of finance lease obligations	(471)	(132)	(663)	(231)
Payments of withholding taxes on stock compensation	(1,772)	(463)	(1,791)	(463)
Net cash used by financing activities	(3,813)	(5,032)	(5,083)	(6,189)
Effect of exchange rate changes on cash	1,195	3,204	1,155	240
Net change in cash	7,758	1,007	10,580	1,503
Cash:				
Beginning of period	13,263	12,521	13,263	12,521
End of period	\$ 21,021	\$ 13,528	\$ 23,843	\$ 14,024

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

TWIN DISC, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

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, 2023. The 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 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.

Change in Accounting Method

During the fourth quarter of fiscal year 2023, the Company changed its accounting method related to the recognition of actuarial gains and losses for the Company's pension and postretirement benefit plans (the "Accounting change"). Prior to the Accounting change, actuarial gains and losses were recognized as a component of Accumulated other comprehensive income (loss) upon annual remeasurement and were amortized into earnings in future periods when they exceeded the accounting corridor, a defined range within which amortization of net gains and losses is not required. Under the Accounting change, the accounting corridor of 10% of the greater of the projected benefit obligation and plan assets was modified to add full, immediate recognition above a second 20% threshold. Although the decision to make the Accounting change occurred in the fourth quarter of fiscal year 2023, the actual accounting method change was applied to all calculations for fiscal year end 2023, and retroactively applied to all other amounts presented in this Form 10-Q.

Under the new accounting method, actuarial gains and losses are recognized in net periodic benefit cost through a modified mark-to-market (expense) benefit upon annual remeasurement in the fourth quarter, or on an interim basis as triggering events warrant remeasurement. The method for recognizing prior service credits (charges) as a component of Accumulated other comprehensive income (loss) and amortized into earnings in future periods did not change. With respect to the recognition of actuarial gains and losses, while the historical principle was acceptable, the Company believes the Accounting change is preferable as it better aligns with fair value principles by recognizing the effects of economic and interest rate changes in plan assets and liabilities in the year in which the gains and losses are incurred to the degree such accumulated gains and losses exceed the new 20% threshold in addition to amortizing the amounts between the 10% and 20% thresholds over time. The Accounting change has been applied retrospectively to prior years and amounts presented.

See Notes G, K, M and P for further information regarding the impact of the Accounting change on the Company's current and prior consolidated financial statements.

Recently Issued Not Yet Adopted Accounting Standards

In March 2020 and January 2021, December 2023, the FASB issued guidance (ASU 2020-04-09, and Improvements to Income Tax Disclosures ("ASU 2021-01-09"), 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 (5%) 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) each 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 the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. The amendments in adopting this guidance are effective beginning standard on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The adoption of this guidance did not have a material impact on the Company's financial statements. statement disclosures.

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Recently Adopted Accounting Standards

In June 2016, the FASB issued updated guidance (ASU 2016-13) and also issued subsequent amendments to the initial guidance under ASU 2018-19, ASU 2019-04, ASU 2019-05, and ASU 2019-10 (collectively ASC 326). ASC 326 requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. This replaces the existing incurred loss model with an expected loss model and requires the use of forward-looking information to calculate credit loss estimates. The amendments in this guidance are effective for filers, excluding smaller reporting companies, for fiscal years beginning after December 15, 2019, and for smaller reporting companies for fiscal years beginning after December 15, 2022 (the Company's fiscal 2024), with early adoption permitted for certain amendments. ASC 326 must be adopted by applying a cumulative effect adjustment to retained earnings. The adoption of this guidance did not have a material impact on the Company's financial statements.

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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:

Inventories:	December 29, 2023		June 30, 2023		March	June 30,
					29, 2024	2023
Finished parts	\$ 65,089		\$ 66,956		\$ 64,191	\$ 66,956
Work in process	22,239		23,374		24,698	23,374
Raw materials	44,440		41,600		40,956	41,600
	\$ 131,768		\$ 131,930		\$ 129,845	\$ 131,930

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 29, 2023, March 29, 2024 and December 30, 2022, March 31, 2023:

	For the Quarter Ended				For the Two Quarters Ended				For the Quarter		For the Three	
	December 29, 2023		December 30, 2022		December 29, 2023		December 30, 2022		Ended March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
	\$ 4,160	\$ 3,804	\$ 3,476	\$ 3,329	\$ 4,488	\$ 4,145	\$ 3,476	\$ 3,329				
Reserve balance, beginning of period	\$ 4,160	\$ 3,804	\$ 3,476	\$ 3,329	\$ 4,488	\$ 4,145	\$ 3,476	\$ 3,329				
Current period expense and adjustments	1,208	770	2,724	1,678	1,656	371	4,377	2,052				
Payments or credits to customers	(898)	(503)	(1,718)	(869)	(1,236)	(510)	(2,948)	(1,381)				
Translation	18	74	6	7	(13)	12	(10)	18				
Reserve balance, end of period	\$ 4,488	\$ 4,145	\$ 4,488	\$ 4,145	\$ 4,895	\$ 4,018	\$ 4,895	\$ 4,018				

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The current portion of the warranty accrual (\$3,549,405 and \$3,552,3,503 as of December 29, 2023, March 31, 2024 and December 30, 2022, March 31, 2023, respectively) is reflected in accrued liabilities, while the long-term portion (\$939,843 and \$593,515 as of December 29, 2023, March 31, 2024 and December 30, 2022, March 31, 2023, respectively) is included in other long-term liabilities on the consolidated balance sheets.

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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 income.

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

	For the Quarter Ended		For the Two Quarters Ended		For the Quarter Ended		For the Three Quarters Ended	
	December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
	\$ 58,368	\$ 56,678	\$ 112,906	\$ 105,675	\$ 62,640	\$ 64,353	\$ 175,545	\$ 169,607
<u>Net sales</u>								
Manufacturing segment sales	\$ 37,242	\$ 25,584	\$ 70,095	\$ 49,892	\$ 37,022	\$ 33,839	\$ 107,117	\$ 83,732
Inter/Intra segment elimination – manufacturing	(18,795)	(14,198)	(38,979)	(27,842)	(19,929)	(18,531)	(58,908)	(46,373)
Inter/Intra segment elimination – distribution	(3,821)	(4,713)	(7,475)	(8,461)	(5,572)	(5,889)	(13,045)	(13,930)
	\$ 72,994	\$ 63,351	\$ 136,547	\$ 119,264	\$ 74,161	\$ 73,772	\$ 210,709	\$ 193,036
<u>Net income (loss) attributable to Twin Disc</u>								
<u>Net income attributable to Twin Disc</u>								
Manufacturing segment net income	\$ 2,078	\$ 4,439	\$ 3,636	\$ 6,841	\$ 5,662	\$ 6,480	\$ 9,298	\$ 13,321
Distribution segment net income	3,173	1,403	4,179	2,359	3,248	2,053	7,427	4,412
Corporate and eliminations	(4,321)	(4,096)	(8,058)	(8,876)	(5,088)	(5,252)	(13,146)	(14,128)
	\$ 930	\$ 1,746	\$ (243)	\$ 324	\$ 3,822	\$ 3,281	\$ 3,579	\$ 3,605
<u>Assets</u>								
Manufacturing segment assets	\$ 380,283	\$ 381,668	\$ 385,832	\$ 381,668	December 29, 2023	June 30, 2023	March 29, 2024	June 30, 2023
Distribution segment assets	70,391	69,213	73,586	69,213				
Corporate assets and elimination of intercompany assets	(165,484)	(161,700)	(170,664)	(161,700)				
	\$ 285,190	\$ 289,181	\$ 288,754	\$ 289,181				

Disaggregated revenue:

The following **table** presents details deemed most relevant to the users of the financial statements for the quarters ended **December 29, 2023**, **March 29, 2024** and **December 30, 2022**, **March 31, 2023**.

Net sales by product group for the quarter ended **December 29, 2023**, **March 29, 2024** is summarized as follows:

	Elimination of				Elimination of			
	Manufacturing	Distribution	Intercompany Sales	Total	Manufacturing	Distribution	Intercompany Sales	Total
	\$ 5,704	\$ 1,557	\$ (730)	\$ 6,531	\$ 5,779	\$ 1,084	\$ (631)	\$ 6,232
Industrial								

Land-based transmissions	15,003	7,953	(7,093)	\$ 15,863	16,701	9,286	(6,898)	19,089
Marine and propulsion systems	37,661	24,058	(14,773)	\$ 46,946	40,160	23,052	(17,968)	45,244
Other	-	3,674	(20)	\$ 3,654	-	3,600	(4)	3,596
Total	\$ 58,368	\$ 37,242	\$ (22,616)	\$ 72,994	\$ 62,640	\$ 37,022	\$ (25,501)	\$ 74,161

Net sales by product group for the quarter ended **December 30, 2022** **March 31, 2023** is summarized as follows:

	Elimination of				Elimination of			
	Manufacturing	Distribution	Intercompany Sales	Total	Manufacturing	Distribution	Intercompany Sales	Total
Industrial	\$ 6,963	\$ 1,726	\$ (1,177)	\$ 7,512	\$ 7,076	\$ 1,548	\$ (1,321)	\$ 7,303
Land-based transmissions	15,256	3,445	(4,030)	14,671	16,785	8,692	(5,902)	19,575
Marine and propulsion systems	34,262	15,427	(13,223)	36,466	40,492	19,867	(16,505)	43,854
Other	197	4,986	(481)	\$ 4,702	-	3,732	(692)	3,040
Total	\$ 56,678	\$ 25,584	\$ (18,911)	\$ 63,351	\$ 64,353	\$ 33,839	\$ (24,420)	\$ 73,772

Net Sales by product group for the **two** **three** quarters ended **December 29, 2023** **March 29, 2024** is summarized as follows:

	Elimination of				Elimination of			
	Manufacturing	Distribution	Intercompany Sales	Total	Manufacturing	Distribution	Intercompany Sales	Total
Industrial	\$ 10,994	\$ 2,586	\$ (1,364)	\$ 12,216	\$ 16,773	\$ 3,670	\$ (1,994)	\$ 18,449
Land-based transmissions	29,684	20,623	(15,867)	\$ 34,440	46,385	29,910	(22,765)	53,530
Marine and propulsion systems	72,228	40,378	(29,197)	\$ 83,409	112,387	63,430	(47,166)	128,651
Other	(0)	6,508	(26)	\$ 6,482	-	10,107	(28)	10,079
Total	\$ 112,906	\$ 70,095	\$ (46,454)	\$ 136,547	\$ 175,545	\$ 107,117	\$ (71,953)	\$ 210,709

Net Sales by product group for the **two** **three** quarters ended **December 30, 2022** **March 31, 2023** is summarized as follows:

	Elimination of				Elimination of			
	Manufacturing	Distribution	Intercompany Sales	Total	Manufacturing	Distribution	Intercompany Sales	Total
Industrial	\$ 13,656	\$ 2,774	\$ (1,886)	\$ 14,544	\$ 20,732	\$ 4,322	\$ (3,208)	\$ 21,846
Land-based transmissions	31,543	8,051	(8,985)	\$ 30,609	48,329	16,743	(14,888)	50,184
Marine and propulsion systems	60,077	29,971	(24,246)	\$ 65,802	100,546	49,838	(40,751)	109,633
Other	399	9,096	(1,186)	\$ 8,309	-	12,829	(1,456)	11,373
Total	\$ 105,675	\$ 49,892	\$ (36,303)	\$ 119,264	\$ 169,607	\$ 83,732	\$ (60,303)	\$ 193,036

F. Stock-Based Compensation

Performance Stock Awards ("PSA")

During the first **two** **three** quarters of fiscal 2024 and 2023, the Company granted a target number of 119.3 and 118.1 PSAs, respectively, to various employees of the Company, including executive officers. 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 earnings before interest, taxes, depreciation, and amortization ("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.

The fiscal 2023 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, 2025. 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 **236.2**, **234.2**.

There were 335.2 329.9 and 438.9 437.9 unvested PSAs outstanding at December March 29, 2023 2024 and December 30, 2022, March 31, 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 \$261 \$326 and \$366 \$307 was recognized for the quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively, related to PSAs. Compensation expense of \$314 \$704 and \$596 \$903 was recognized for the two three quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively, related to PSAs. The weighted average grant date fair value of the unvested awards at December March 29, 2023 2024 was \$11.48. At December March 29, 2023 2024, the Company had \$1,977 \$1,652 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 March 29, 2023 2024 and December 30, 2022 March 31, 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 three quarters of fiscal 2024 and 2023, the Company granted a target number of 10.5 and 0 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 0 unvested PSUAs outstanding at December March 29, 2023 2024 and December 30, 2022, March 31, 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 \$0 was recognized for the quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively, related to PSUAs. Compensation expense of \$18 \$29 and \$0 was recognized for the two three quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively, related to PSUAs. The weighted average grant date fair value of the unvested awards at December March 29, 2023 2024 was \$12.15. At December March 29, 2023 2024, the Company had \$109 \$98 of unrecognized compensation expense related to the unvested shares that would vest if the specified target objective was/were achieved for the fiscal 2024 awards. The total fair value of PSUAs vested as of December March 29, 2023 2024 and December 30, 2022 March 31, 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 three quarters of fiscal 2024 and 2023, the Company granted 115.7 117.2 and 177.7 180.0 service based restricted shares, respectively, to employees and non-employee directors. There were 251.3 246.6 and 309.2 308.6 unvested shares outstanding at December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. A total of 2.4 and 0 shares of restricted stock were forfeited during the two three quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. Compensation expense of \$210 \$330 and \$334 \$313 was recognized for the quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. Compensation expense of \$523 \$953 and \$694 \$1,007 was recognized for the two three quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. The total fair value of restricted stock grants vested as of December March 29, 2023 2024 and December 30, 2022 March 31, 2023 was \$2,206 \$2,196 and \$1,669 \$1,699, respectively. As of December March 29, 2023 2024, the Company had \$1,804 \$1,568 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 three quarters of fiscal 2024 and 2023, the Company granted 7.1 and 72.4 of employment based RSUs, respectively. There were 135.0 and 130.9 130.2 unvested RSUs outstanding at December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. Compensation expense of \$126 \$124 and \$132 \$116 was recognized for the quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. Compensation expense of \$247 \$372 and \$224 \$340 was recognized for the two three quarters ended December March 29, 2023 2024 and December 30, 2022, March 31, 2023, respectively. The total fair value of restricted stock units RSUs vested as of December March 29, 2023 2024 and December 30, 2022 March 31, 2023 was \$25 and \$40, respectively. The weighted average grant date fair value of the unvested awards at December March 29, 2023 2024 was \$10.97. As of December March 29, 2023 2024, the Company had \$537 \$412 of unrecognized compensation expense related to restricted stock RSUs 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.

As discussed in Note A, during the fourth quarter of fiscal year 2023, the Company changed its accounting method related to the recognition of actuarial gains and losses for its pension and postretirement benefit plans. Under the new method, actuarial gains and losses are recognized in net periodic benefit costs upon annual remeasurement in the fourth quarter, or on an interim basis as triggering events warrant remeasurement. These changes have been applied retrospectively to prior years presented below. See Notes A, K, M, and P for further information regarding the impact of the change in accounting principle on the Company's consolidated financial statements.

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		For the Quarter Ended		For the Three Quarters Ended	
	December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022	March	March	March	March
					29, 2024	31, 2023	29, 2024	31, 2023
Pension Benefits:								
Service cost	\$ 94	\$ 102	\$ 188	\$ 203	\$ 95	\$ 106	\$ 283	\$ 309
Prior service cost	-	8	-	17	-	8	-	25
Interest cost	896	868	1,792	1,736	896	912	2,688	2,648
Expected return on plan assets	(1,048)	(1,060)	(2,096)	(2,120)	(1,049)	(1,053)	(3,145)	(3,173)
Amortization of transition obligation	10	9	19	18	10	9	29	27
Amortization of prior service cost	9	9	17	18	9	9	26	27
Amortization of actuarial net loss	16	617	31	1,235	15	639	47	1,873
Net periodic benefit (gain) cost	\$ (23)	\$ 553	\$ (49)	\$ 1,107	\$ (24)	\$ 630	\$ (72)	\$ 1,736
Postretirement Benefits:								
Service cost	\$ 2	\$ 2	\$ 4	\$ 5	\$ 2	\$ 2	\$ 6	\$ 7
Interest cost	48	53	95	106	48	53	143	159
Amortization of prior service cost	(22)	(69)	(44)	(137)	(22)	(69)	(66)	(206)
Amortization of actuarial net loss	(155)	(10)	(310)	(19)	(155)	(10)	(465)	(29)
Net periodic benefit gain	\$ (127)	\$ (24)	\$ (255)	\$ (45)	\$ (127)	\$ (24)	\$ (382)	\$ (69)

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 (income) expense, (income), net.

The Company expects to contribute approximately \$675 \$662 to its pension plans in fiscal 2024. As of December March 29, 2023, 2024, \$403 \$634 in contributions to the pension plans have been made.

The Company has reclassified (\$108) \$191 (net of \$13 \$10 in taxes) of benefit plan adjustments from accumulated other comprehensive loss during the quarter ended December March 29, 2023, 2024, and (\$1,122) 29 (net of \$13 \$1 in taxes) during the quarter ended December 30, 2022. March 31, 2023. These reclassifications are included in the computation of net periodic benefit (gain) cost. The Company has reclassified (\$279) \$470 (net of \$8 \$2 in taxes) of benefit plan adjustments from accumulated other comprehensive loss during the two three quarters ended December March 29, 2023, 2024, and (\$1,211) \$(1,240) (net of \$4 \$5 in taxes) during the two three quarters ended December 30, 2022. March 31, 2023. These reclassifications are included in the computation of net periodic benefit (gain) cost.

H. Income Taxes

Accounting policies for interim reporting require The Company to adjust computes 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 requirements of ASC 740-270-25-9 25 applies. Due However, due to continued historical historic

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, allowance, the fully valued domestic entity was Company has removed the loss jurisdiction for which no tax benefit may be recorded from the annualized effective rate calculation. Because of the full US valuation allowance, the US entity may only recognize tax expense / benefit recorded for Annual Effective Tax Rate ("AETR") calculations consistent with ASC 740-10 270-30-30.

The Company recorded an overall effective tax rate of 9.3% and 14.0% for the quarters ended March 29, 2024 and March 31, 2023, respectively and an overall effective tax rate of 41.0% and 38.2% for the three adjustments quarters ended March 29, 2024 and March 31, 2023. Year-to-date foreign earnings were \$14,916 and \$8,207, with corresponding income tax expense of \$2,599 and \$2,303 for the period ended March 29, 2024 and March 31, 2023. The foreign effective tax rate for the period ended March 29, 2024 includes a total discrete benefit of (\$834), of which (\$786) related to a favorable tax ruling related to operations in the Netherlands.

For the six months ended December 29, 2023 and December 30, 2022 the Company's effective income tax rate was 107.2% and 80.5% respectively. Foreign Year-to-date domestic earnings were \$9,282 (\$8,557) and \$5,094 respectively, (\$2,063), with a related corresponding income tax expense of \$2,199 \$7 and \$1,773, respectively. Domestic losses were (\$7,222) and (\$2,857), respectively, with a related tax expense of \$9 and \$28, respectively. Due to \$47 for the full US valuation allowance currently in place, no tax benefit can be recognized on the domestic losses. This inability to recognize a tax benefit for domestic purposes resulted in a consolidated tax expense of \$2,208 and \$1,801, respectively, on year-to-date income of \$2,061 and \$2,237, respectively.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. In addition, all other available positive and negative evidence is taken into consideration, including all new impacts of tax reform. The Company has evaluated the realizability of the net deferred tax assets related to its foreign operations and based on this evaluation management has concluded that no valuation allowances are required.

The Company has approximately \$834 of unrecognized tax benefits, including interest and penalties, as of December 29, 2023, which, if recognized, would favorably impact the effective tax rate. There were no significant changes in the total unrecognized tax benefits due to the settlement of audits, the expiration of statutes of limitations or for other items during the two three quarters ended December March 29, 2023, 2024. It appears possible that the amount of unrecognized tax benefits could change in the next twelve months due to on-going activity.

Annually, the Company files income tax returns in various taxing jurisdictions inside and outside the United States. In general, the tax years that remain subject to examination in foreign jurisdictions are 2018 through 2023 for our major operations in Belgium, Japan, Netherlands, Singapore and Australia. The tax years open to examination in the U.S. are for years subsequent to fiscal 2018. It is reasonably possible that other audit cycles will be completed during fiscal 2024. March 31, 2023.

I. Intangible Assets

As of December March 29, 2023, 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					Net Book Value Rollforward			Net Book Value By Asset Type				
	Gross	Accumulated	Net	Customer Relationships	Technology Know-how	Trade Name	Other	Gross	Accumulated	Net	Customer Relationships	Technology Know-how	Trade Name			
	Carrying Amount	Amortization / Impairment	Book Value					Carrying Amount	Amortization / Impairment	Book Value						
Balance at June 30, 2023	\$ 31,925	\$ (19,288)	\$ 12,637	\$ 6,553	\$ 2,422	\$ 668	\$ 2,994	\$ 31,925	\$ (19,288)	\$ 12,637	\$ 6,553	\$ 2,422	\$ 668			
Addition	73	-	73	-	-	-	73	89	-	89	-	-	-			
Reduction	(631)	631	-	-	-	-	-	(631)	631	-	-	-	-			
Amortization	-	(1,636)	(1,636)	(622)	(601)	(39)	(374)	-	(2,458)	(2,458)	(935)	(923)	(39)			
Translation adjustment	72	-	72	62	(173)	195	(12)	(111)	-	(111)	(66)	(135)	105			
Balance at December 29, 2023	\$ 31,439	\$ (20,293)	\$ 11,146	\$ 5,993	\$ 1,648	\$ 824	\$ 2,681									
Balance at March 29, 2024								\$ 31,272	\$ (21,115)	\$ 10,157	\$ 5,552	\$ 1,364	\$ 734			

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 \$817 \$822 and \$704 \$738 for the quarters ended December March 29, 2023, 2024, and December 30, 2022, March 31, 2023, respectively. Intangible amortization expense was \$1,636 \$2,458 and \$1,402 \$2,140 for the two three quarters ended December March 29, 2023, 2024, and December 30, 2022, March 31, 2023, respectively. Estimated intangible amortization expense for the remainder of fiscal 2024 and each of the next five fiscal years and thereafter is as follows:

Fiscal Year			
2024	\$	1,827	\$ 945
2025		3,316	3,274
2026		2,310	2,290
2027		1,553	1,531
2028		1,405	1,382
2029		735	735
Thereafter		0	
Total			\$ 10,157

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J. Long-term Long-Term Debt and Subsequent Event

Long-term debt at December March 29, 2023 2024 and June 30, 2023 consisted of the following:

	December 29, 2023	June 30, 2023	March 29, 2024	June 30, 2023
Credit Agreement Debt				
Revolving loans (expire June 2025)	\$ 7,175	\$ 7,094		
Term loan (due March 2026)	10,500	11,500		
Revolving loans (expire April 2027)			\$ 7,019	\$ 7,094
Term loan (due April 2027)			10,000	11,500
Other	23	33	23	33
Subtotal	17,698	18,627	17,042	18,627
Less: current maturities	(2,000)	(2,010)	(2,000)	(2,010)
Total long-term debt	\$ 15,698	\$ 16,617	\$ 15,042	\$ 16,617

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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 March 4, 2026, 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 \$40.0 million \$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 \$3.0 million \$5.0 million in any fiscal year. The term of the Revolving Loans under the Credit Agreement currently runs through June 30, 2025, 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 "EURIBOR 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 **1.25%** **2.00%** and **2.75%** **3.50%** for Revolving Loans and Letters of Credit; **1.375%** **2.125%** and **2.875%** **3.625%** for Term Loans; and **.10%** **.15%** and **.15%** **.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 Oy acquisition, as well as pro-forma EBITDA of Katsa Oy as permitted by the Bank. The Company's Tangible Net Worth may not be less than **\$100 million** **\$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.

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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.

On April 1, 2024, the Company entered into Amendment No.10 to Credit Agreement (the "Tenth Amendment") that amended and extended the Credit Agreement. The Tenth Amendment increased the Revolving Credit Commitment from \$40.0 million to \$45.0 million, and also increased the Borrowing Base for Revolving Loans from the sum of (a) 85% of outstanding unpaid Eligible Receivable and (b) the lesser of \$30.0 million and 50% of Eligible Inventory to the sum of (a) 85% of outstanding unpaid Eligible Receivables and (b) the lesser of \$35.0 million (reduced to \$32.5 million beginning with the first quarter of the 2026 fiscal year) and 60% of Eligible Inventory (reduced to 55% of Eligible Inventory beginning with the third quarter of the 2025 fiscal year, and 50% of Eligible Inventory beginning with the first quarter of the 2026 fiscal year).

The Company intends to use the increased borrowing capacity under the Credit Agreement to help finance its previously announced proposed acquisition of Katsa Oy by TD Finland Holding Oy, a wholly-owned subsidiary of the Company. The Tenth Amendment specifically permits the Company to use Revolving Loans for the Katsa Oy acquisition. In addition, 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 Oy acquisition, as well as pro-forma EBITDA of Katsa Oy as permitted by the Bank.

The Tenth Amendment also extended the Credit Agreement through April 1, 2027 and extended the maturity date of the Term Loan and the Term Loan Commitment Date to April 1, 2027. Prior to the Tenth Amendment, the Credit Agreement was scheduled to terminate as of June 30, 2025, and the Term Loan and Term Loan Commitment Date were scheduled to mature/terminate on March 4, 2026.

The Tenth Amendment also increased the Applicable Margins under the Credit Agreement for purposes of determining interest rates on Revolving Loans, Letters of Credit, Term Loans, and the Unused Revolving Credit Commitment. Prior to the Tenth Amendment, the Applicable Margins were between 1.25% and 2.75% for Revolving Loans and Letters of Credit; 1.375% and 2.875% for Term Loans; and .10% and .15% for the Unused Revolving Credit Commitment (each depending on the Company's Total Funded Debt to EBITDA ratio). Under the Tenth Amendment, the Applicable Margins are between 2% and 3.5% for Revolving Loans and Letters of Credit; 2.125% and 3.625% for Term Loans; and .15% and .3% for the Unused Revolving Credit Commitment (each depending on the Company's Total Funded Debt to EBITDA ratio).

The Tenth Amendment also increased the amount of Restricted Payments that the Company may make in the form of cash dividends, distributions, purchases, redemptions, or other acquisitions of its common stock from \$3.0 million to \$5.0 million in any fiscal year.

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

As of December **March 29, 2023**, **2024**, current maturities include **\$2,000** **\$2.0 million** of term loan payments due within the coming year.

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Other: Other long-term debt pertains mainly to a financing arrangement in Europe. These liabilities carry terms of three to five years and implied interest rates ranging from 7% to 25%. A total amount of \$10 in principal was paid on these liabilities during the current fiscal year.

During the **quarter** quarters ended **December** **March 29, 2023, 2024**, the average interest rate was **6.82%** **6.83%** on the Term Loan, and **5.63%** **5.12%** on the Revolving Loans.

As of **December** **March 29, 2023, 2024**, the Company's borrowing capacity on the Revolving Loans under the terms of the Credit Agreement was **\$37,157**, **\$37,016**, and the Company had approximately **\$29,982** **\$29,694** 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** **March 29, 2023, 2024** and June 30, 2023. 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** **March 29, 2023, 2024**, the notional amount was **\$10,500**, **\$10,000**. 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** **March 29, 2023, 2024** remain authorized for purchase. The Company did not make any open market purchases of its shares during the quarters ended **December** **March 29, 2023, 2024** and **December 30, 2022, March 31, 2023**.

As of July 1, 2022, the cumulative effect of the Accounting change resulted in \$25.1 million decrease to retained earnings and a corresponding \$25.1 million increase to **Accumulated** **accumulated** other comprehensive **income (loss)**, **loss**, both net of tax of \$0 (\$7.9 million in deferred tax asset offset by \$7.9 million valuation allowance).

See Notes A, G, M, and P for further information regarding the impact of the Accounting change on the Company's prior year consolidated financial statements.

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The following is a reconciliation of the Company's equity balances for the **first** **two** **three** fiscal quarters of 2024 and 2023:

Twin Disc, Inc. Shareholders' Equity												Twin Disc, Inc. Shareholders' Equity												
	Accumulated											Accumulated												
	Other			Non-			Other			Non-			Other			Non-			Other			Non-		
	Common Stock	Retained Earnings	Comprehensive Loss	Treasury Stock	Controlling Interest	Total Equity	Common Stock	Retained Earnings	Comprehensive Loss	Treasury Stock	Controlling Interest	Total Equity	Common Stock	Retained Earnings	Comprehensive Loss	Treasury Stock	Controlling Interest	Total Equity	Common Stock	Retained Earnings	Comprehensive Loss	Treasury Stock	Controlling Interest	Total Equity
Balance, June 30, 2023	\$ 42,855	\$ 120,299	\$ (5,570)	\$ (12,491)	\$ 424	\$ 145,517	\$ 42,855	\$ 120,299	\$ (5,570)	\$ (12,491)	\$ 424	\$ 145,517												
Net (loss) income		(1,173)			90	(1,083)		(1,173)			90	(1,083)												
Translation adjustments			(3,096)		60	(3,036)						(3,096)												
Benefit plan adjustments, net of tax			(171)			(171)						(171)												

Unrealized gain on hedges, net of tax		216		216		216		216	
Compensation expense	495			495	495			495	
Shares (acquired) issued, net	(3,911)		2,148	(1,763)	(3,911)		2,148	(1,763)	
Balance, September 29, 2023	39,439	119,126	(8,621)	(10,343)	574	140,175	39,439	119,126	(8,621)
Net income		930		5	935		930		5
Dividends paid to shareholders		(560)			(560)		(560)		(560)
Translation adjustments		5,155		35	5,190		5,155		35
Benefit plan adjustments, net of tax		(108)			(108)		(108)		(108)
Unrealized loss on hedges, net of tax		(485)			(485)		(485)		(485)
Compensation expense	772			772	772			772	
Shares (acquired) issued, net	(550)		541	(9)	(550)		541	(9)	
Balance, December 29, 2023	\$ 39,661	\$ 119,496	\$ (4,059)	\$ (9,802)	\$ 614	\$ 145,910	39,661	119,496	(4,059)
Net income						3,822			78
Dividends paid to shareholders						(559)			(559)
Translation adjustments						(3,040)			(44)
Benefit plan adjustments, net of tax						(191)			(191)
Unrealized gain on cash flow hedge, net of tax						196			196
Compensation expense					791				791
Shares (acquired) issued, net					(24)		5		(19)
Balance, March 29, 2024					\$ 40,428	\$ 122,759	\$ (7,094)	\$ (9,797)	\$ 648
									\$ 146,944

Twin Disc, Inc. Shareholders' Equity						
	Accumulated					
	Common	Retained	Other	Treasury	Non-	Total
	Stock	Earnings	Comprehensive Loss	Stock	Controlling Interest	Equity
Balance, June 30, 2022	\$ 42,551	\$ 109,919	\$ (6,974)	\$ (14,720)	\$ 412	\$ 131,188
Net (loss) income		(1,422)			98	(1,324)
Translation adjustments			(6,328)		38	(6,290)
Benefit plan adjustments, net of tax			(89)			(89)
Unrealized gain on hedges, net of tax			793			793
Compensation expense	658					658
Shares (acquired) issued, net	(1,924)			1,756		(168)
Balance, September 30, 2022	41,285	108,497	(12,598)	(12,964)	548	124,768
Net income		1,746			15	1,761
Translation adjustments			8,333		59	8,392
Benefit plan adjustments, net of tax			(1,122)			(1,122)
Unrealized loss on hedges, net of tax			(595)			(595)
Compensation expense	856					856
Shares (acquired) issued, net	(697)			402		(295)
Balance, December 30, 2022	41,444	110,243	(5,982)	(12,562)	622	133,765
Net income		3,281			76	3,357
Translation adjustments			1,023		(9)	1,014
Benefit plan adjustments, net of tax			(29)			(29)
Unrealized loss on cash flow hedge, net of tax			(224)			(224)
Compensation expense	736					736
Shares (acquired) issued, net	(35)			35		-
Balance, March 31, 2023	\$ 42,145	\$ 113,524	\$ (5,212)	\$ (12,527)	\$ 689	\$ 138,619

Twin Disc, Inc. Shareholders' Equity						
	Accumulated					
	Common	Retained	Other	Treasury	Non-	Total
	Stock	Earnings	Comprehensive Loss	Stock	Controlling Interest	Equity
Balance, June 30, 2022	\$ 42,551	\$ 109,919	\$ (6,974)	\$ (14,720)	\$ 412	\$ 131,188
Net (loss) income		(1,422)			98	(1,324)
Translation adjustments			(6,328)		38	(6,290)
Benefit plan adjustments, net of tax			(89)			(89)
Unrealized gain on hedges, net of tax			793			793
Compensation expense	658					658
Shares (acquired) issued, net	(1,924)			1,756		(168)
Balance, September 30, 2022	41,285	108,497	(12,598)	(12,964)	548	124,768
Net income		1,746			15	1,761
Translation adjustments			8,333		59	8,392
Benefit plan adjustments, net of tax			(1,122)			(1,122)
Unrealized loss on hedges, net of tax			(595)			(595)
Compensation expense	856					856
Shares (acquired) issued, net	(697)			402		(295)

Balance, December 30, 2022	\$ 41,444	\$ 110,243	\$ (5,982)	\$ (12,562)	\$ 622	\$ 133,765
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Reconciliations for the changes in accumulated other comprehensive loss, net of tax, by component for the quarters ended December 29, 2023 March 29, 2024 and December 30, 2022 March 31, 2023 are as follows:

	Translation	Benefit Plan	Cash Flow	Net Investment	Translation	Benefit Plan	Cash Flow	Net Investment
	Adjustment	Adjustment	Hedges	Hedges	Adjustment	Adjustment	Hedges	Hedges
	\$ (1,582)	\$ (5,948)	\$ 688	\$ 1,272	\$ (1,582)	\$ (5,948)	\$ 688	\$ 1,272
Balance, June 30, 2023								
Translation adjustment during the quarter	(3,096)	-	-	-	(3,096)	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(171)	(6)	222	-	(171)	(6)	222
Net current period other comprehensive (loss) income	(3,096)	(171)	(6)	222	(3,096)	(171)	(6)	222
Balance, September 29, 2023	(4,678)	(6,119)	682	1,494	(4,678)	(6,119)	682	1,494
Translation adjustment during the quarter	5,155	-	-	-	5,155	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(108)	(183)	(302)	-	(108)	(183)	(302)
Net current period other comprehensive income (loss)	5,155	(108)	(183)	(302)	5,155	(108)	(183)	(302)
Balance at December 29, 2023	\$ 477	\$ (6,227)	\$ 499	\$ 1,192	477	(6,227)	499	1,192
Translation adjustment during the quarter					(3,040)	-	-	-
Amounts reclassified from accumulated other comprehensive loss					-	(191)	40	156
Net current period other comprehensive (loss) income					(3,040)	(191)	40	156
Balance at March 29, 2024					\$ (2,563)	\$ (6,418)	\$ 539	\$ 1,348

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	Translation	Benefit Plan	Cash Flow	Net Investment
	Adjustment	Adjustment	Hedges	Hedges
	\$ (2,266)	\$ (6,614)	\$ 356	\$ 1,550
Balance, June 30, 2022				
Translation adjustment during the quarter	(6,328)	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(89)	657	136
Net current period other comprehensive (loss) income	(6,328)	(89)	657	136
Balance, September 30, 2022	(8,594)	(6,703)	1,013	1,686
Translation adjustment during the quarter	8,333	-	-	-
Amounts reclassified from accumulated other comprehensive loss		(7)	(10)	(585)
Plan merger adjustment	-	(1,115)	-	-
Net current period other comprehensive income (loss)	8,333	(1,122)	(10)	(585)
Balance at December 30, 2022	\$ (261)	\$ (7,825)	\$ 1,003	\$ 1,101

	Translation	Benefit Plan	Cash Flow	Net Investment
	Adjustment	Adjustment	Hedges	Hedges
	\$ (2,266)	\$ (6,614)	\$ 356	\$ 1,550
Balance, June 30, 2022				
Translation adjustment during the quarter	(6,328)	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(89)	657	136
Net current period other comprehensive (loss) income	(6,328)	(89)	657	136
Balance, September 30, 2022	(8,594)	(6,703)	1,013	1,686

Translation adjustment during the quarter	8,333	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(7)	(10)	(585)
Plan merger adjustment	-	(1,115)	-	-
Net current period other comprehensive income (loss)	8,333	(1,122)	(10)	(585)
Balance at December 30, 2022	(261)	(7,825)	1,003	1,101
Translation adjustment during the quarter	1,023	-	-	-
Amounts reclassified from accumulated other comprehensive loss	-	(29)	(133)	(91)
Net current period other comprehensive income (loss)	1,023	(29)	(133)	(91)
Balance at March 31, 2023	\$ 762	\$ (7,854)	\$ 870	\$ 1,010

Reconciliation for the changes in benefit plan adjustments, net of tax for the quarter ended December 29, 2023 March 29, 2024 are as follows:

	Amount Reclassified	Amount Reclassified	Amount Reclassified	Amount Reclassified
	Quarter Ended	Two Quarters Ended	Quarter Ended	Three Quarters Ended
	December 29, 2023	December 29, 2023	March 29, 2024	March 29, 2024
Changes in benefit plan items				
Actuarial losses	\$ (91) (a)	\$ (263) (a)	\$ (198) (a)	\$ (461) (a)
Transition asset and prior service benefit	(4) (a)	(8) (a)	(3) (a)	(11) (a)
Total amortization	(95)	(271)	(201)	(472)
Income tax expense	(13)	(8)	10	2
Total reclassification net of tax	\$ (108)	\$ (279)	\$ (191)	\$ (470)

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Reconciliation for the changes in benefit plan adjustments, net of tax for the quarter ended December 30, 2022 March 31, 2023 is as follows:

	Amount Reclassified	Amount Reclassified	Amount Reclassified	Amount Reclassified
	Quarter Ended	Two Quarters Ended	Quarter Ended	Three Quarters Ended
	December 30, 2022	December 30, 2022	March 31, 2023	March 31, 2023
Changes in benefit plan items				
Actuarial losses	\$ 664 (a)	\$ 1,223 (a)	\$ 630 (a)	\$ 1,853 (a)
Actuarial gains				
Transition asset and prior service benefit	(51) (a)	(101) (a)	(51) (a)	(152) (a)
Mark-to-market adjustment	(607)	(1,214)	(607)	(1,821)
Plan merger remeasurement adjustment	(1,115)	(1,115)	-	(1,115)
Total amortization	(1,109)	(1,207)	(28)	(1,235)
Income taxes	(13)	(4)	(1)	(5)
Total reclassification net of tax	\$ (1,122)	\$ (1,211)	\$ (29)	\$ (1,240)

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

L. Assets Held for Sale

To improve its fixed cost structure and monetize some of its under-utilized assets, the Company commenced the active marketing of several of its real estate properties. Such actions required the Company to reclassify these assets from Property, Plant and Equipment to Assets Held for Sale, at fair value less costs to sell, or net book value, whichever is lower. Fair value was determined using real estate broker estimates and would be classified as Level 3 in the fair value hierarchy. This assessment of fair value resulted in the Company recognizing a write-down of the carrying value of its former corporate headquarters by \$4,267 in the fourth quarter of fiscal 2021.

In the first quarter of fiscal 2023, the Company commenced the active marketing of an additional real estate property located in Nivelles, Belgium. This action required the Company to reclassify these assets from Property, Plant, and Equipment to Assets Held for Sale, at fair value less costs to sell or net book value, whichever is lower. Fair value was determined using real estate broker estimates and would be classified as Level 3 in the fair value hierarchy. The real estate property's fair value less costs to sell exceeded its net book value. The Company reclassified the property's net book value of \$2,801 from Property, Plant, and Equipment to Assets Held for Sale.

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In the second quarter of fiscal 2023, the Company completed the sale of the real estate property located in Belgium and received \$7,150 in proceeds, net of fees and recorded a gain of \$4,161 in other operating income.

In the first quarter of fiscal 2024, the Company entered into an agreement to sell certain machinery assets, inventory, and legal relationships of its boat management systems product line. This action required the Company to reclassify these assets from Property, Plant and Equipment and Inventory to Assets Held for Sale, at fair value less costs to sell, or net book value, whichever is lower. The fair value of the machinery assets was determined using local internal specialists. The machinery assets' fair value less costs to sell exceeded its net book value. The boat management systems inventory was valued at the lower of cost or net realizable value. Net realizable value was determined using the offer amount from the buyer less costs to sell. This assessment resulted in the Company recognizing a write-down of the carrying value of its boat management systems inventory of \$2.1 million. The write-down was classified in the income statement as a component of cost of goods sold. The agreement closed October 30, 2023.

M. 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.

As discussed in Note A, during the fourth quarter of 2023, the Company changed its accounting method related to the recognition of actuarial gains and losses for its pension plans. Under the new method, actuarial gains and losses are recognized in net periodic benefit costs upon annual remeasurement in the fourth quarter, or on an interim basis as triggering events warrant remeasurement. These changes have been applied retrospectively to prior years. See Notes A, G, K, and P for further information regarding the impact of the change in accounting principle on the Company's consolidated financial statements.

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

	For the Quarter Ended		For the Two Quarters Ended		For the Quarter Ended		For the Three Quarters Ended	
	As Adjusted		As Adjusted		As Adjusted		As Adjusted	
	December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
Basic:								
Net income (loss)	\$ 935	\$ 1,761	\$ (148)	\$ 436	\$ 3,900	\$ 3,357	\$ 3,752	\$ 3,793
Net income								
Less: Net earnings attributable to noncontrolling interest	(5)	(15)	(95)	(112)	(78)	(76)	(173)	(188)
Less: Undistributed earnings attributable to unvested shares	-	-	-	-	-	-	-	-
Net income (loss) attributable to Twin Disc	930	1,746	(243)	324				
Net income attributable to Twin Disc					3,822	3,281	3,579	3,605

Weighted average shares outstanding - basic	13,718	13,460	13,629	13,434	13,742	13,504	13,663	13,455
Basic Loss Per Share:								
Net earnings (loss) per share - basic	\$ 0.07	\$ 0.13	\$ (0.02)	\$ 0.02				
Basic Income Per Share:								
Net earnings per share - basic					\$ 0.28	\$ 0.24	\$ 0.26	\$ 0.27
Diluted:								
Net income (loss)	\$ 935	\$ 1,761	\$ (148)	\$ 436	\$ 3,900	\$ 3,357	\$ 3,752	\$ 3,793
Net income								
Less: Net earnings attributable to noncontrolling interest	(5)	(15)	(95)	(112)	(78)	(76)	(173)	(188)
Less: Undistributed earnings attributable to unvested shares	-	-	-	-	-	-	-	-
Net income (loss) attributable to Twin Disc	930	1,746	(243)	324				
Net income attributable to Twin Disc					3,822	3,281	3,579	3,605
Weighted average shares outstanding - basic	13,718	13,460	13,629	13,434	13,742	13,504	13,663	13,455
Effect of dilutive stock awards	205	239	-	215	162	158	189	153
Weighted average shares outstanding - diluted	13,923	13,699	13,629	13,649	13,904	13,662	13,852	13,608
Diluted Income (Loss) Per Share:								
Net earnings (loss) per share - diluted	\$ 0.07	\$ 0.13	\$ (0.02)	\$ 0.02				
Diluted Income Per Share:								
Net earnings per share - diluted					\$ 0.27	\$ 0.24	\$ 0.26	\$ 0.26

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The following potential common shares were excluded from diluted EPS for the ~~two~~^{three} quarters ended ~~December~~^{March} 29, ~~2023~~²⁰²⁴ because they were anti-dilutive: ~~135.1~~^{224.6} related to the Company's unvested PSAs, ~~2.6~~^{10.5} related to the Company's unvested PSAs, ~~80.2~~^{153.9} related to the Company's unvested RS awards, and ~~87.4~~^{51.0} related to the Company's unvested RSUs.

The following potential common shares were excluded from diluted EPS for the three quarters ended March 31, 2023 because they were anti-dilutive: 355.5 related to the Company's unvested PSAs, 191.6 related to the Company's unvested RS awards, and 59.5 related to the Company's unvested RSUs.

N. 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.

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

<u>Balance Sheet Location</u>	December 29, 2023	June 30, 2023	Balance Sheet Location	March 29, 2024	June 30, 2023

Lease Assets

Operating lease right-of-use assets	Right-of-use assets operating leases	\$ 12,017	\$ 13,133	Right-of-use assets operating leases	\$ 14,498	\$ 13,133
Finance lease right-of-use assets	Property, plant and equipment, net	4,860	4,427	Property, plant and equipment, net	4,845	4,427

Lease Liabilities

Operating lease liabilities	Accrued liabilities	\$ 2,064	\$ 2,343	Accrued liabilities	\$ 1,957	\$ 2,343
Operating lease liabilities	Lease obligations	9,988	10,811	Lease obligations	12,638	10,811
Finance lease liabilities	Accrued liabilities	642	643	Accrued liabilities	628	643
Finance lease liabilities	Other long-term liabilities	4,532	4,314	Other long-term liabilities	4,542	4,314

The components of lease expense were as follows:

	For the Quarter Ended				For the Two Quarters Ended				For the Quarter Ended		For the Three Quarters Ended	
	December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
									December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022
Finance lease cost:												
Amortization of right-of-use assets	\$ 175	\$ 156	\$ 397	\$ 311	\$ 206	\$ 187	\$ 603	\$ 498				
Interest on lease liabilities	77	67	151	132	76	87	227	219				
Operating lease cost	882	686	1,775	1,397	941	852	2,716	2,250				
Short-term lease cost	6	(10)	9	3	1	2	9	5				
Variable lease cost	99	67	199	108	101	94	301	202				
Total lease cost	1,239	966	2,531	1,951	1,325	1,222	3,856	3,174				
Less: Sublease income	(20)	(18)	(41)	(35)	(20)	(18)	(61)	(53)				
Net lease cost	\$ 1,219	\$ 948	\$ 2,490	\$ 1,916	\$ 1,305	\$ 1,204	\$ 3,795	\$ 3,121				

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Other information related to leases was as follows:

	For the Quarter Ended				For the Two Quarters Ended				For the Quarter Ended		For the Three Quarters Ended	
	December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
									December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:												
Operating cash flows from operating leases	\$ 934	\$ 777	\$ 1,871	\$ 1,473	\$ 951	\$ 873	\$ 2,822	\$ 2,268				
Operating cash flows from finance leases	76	215	149	420	76	138	225	270				
Financing cash flows from finance leases	207	67	471	132	192	73	663	231				
Right-of-use-assets obtained in exchange for lease obligations:												

Operating leases	188	990	188	1,518	3,551	218	3,739	1,736
Finance leases	123	269	657	320	227	47	883	367
Weighted average remaining lease term (years):								
Operating leases			8.1	8.3			9.3	8.8
Finance lease			9.5	10.8			9.3	11.3
Weighted average discount rate:								
Operating leases			7.6%	7.2%			8.2%	7.2%
Finance leases			5.8%	5.2%			5.9%	5.2%

Approximate future minimum rental commitments under non-cancellable leases as of December 31, 2023 were as follows:

	Operating Leases	Finance Leases	Operating Leases	Finance Leases
2024	\$ 1,575	\$ 492	\$ 766	\$ 248
2025	2,300	836	2,828	877
2026	1,810	788	2,288	828
2027	1,697	735	2,023	775
2028	1,652	657	1,972	695
2029	1,637	482	1,965	513
Thereafter	5,752	2,646	9,844	2,674
Total future lease payments	16,423	6,636	21,686	6,610
Less: Amount representing interest	(4,371)	(1,462)	(7,091)	(1,440)
Present value of future payments	\$ 12,052	\$ 5,174	\$ 14,595	\$ 5,170

O. 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 31, 2023, with a notional amount of \$10,500. 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 (\$499) \$539 and (\$688) \$688 as of December 31, 2023, and June 30, 2023, 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 \$218 \$230 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** accumulated other comprehensive loss were **(\$1,192)** **1,348** and **(\$1,272)** as of **December** **March** **29, 2023** **2024** and June 30, 2023, respectively.

Fair Value of Derivative Instruments

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

	Balance Sheet Location	December 29, 2023		June 30, 2023		Balance Sheet Location	March 29, 2024	June 30, 2023
<i>Derivative designated as hedge:</i>								
Interest rate swap	Other current assets	\$	209	\$	292	Other current assets	\$ 217	\$ 292
Interest rate swap	Other noncurrent assets		80		187	Other noncurrent assets	112	187

The impact of the Company's derivative instruments on the condensed consolidated statements of operations and comprehensive income **(loss)** for the quarters ended **December** **March** **29, 2023** **2024** and **December** **30, 2022**, **March** **31, 2023**, respectively, was as follows:

	Statement of Comprehensive Income (Loss) Location	For the Quarter Ended		For the Two Quarters Ended		Statement of Comprehensive Income Location	For the Quarter Ended		For the Three Quarters Ended	
		December 29, 2023	December 30, 2022	December 29, 2023	December 30, 2022		March 29, 2024	March 31, 2023	March 29, 2024	March 31, 2023
<i>Derivative designated as hedge:</i>										
Interest rate swap	Interest expense	\$ 67	\$ 79	\$ 138	\$ 162	Interest expense	\$ 62	\$ 76	\$ 200	\$ 238
Interest rate swap	Unrealized gain (loss) on hedges	183	10	189	(339)	Unrealized gain on hedges	40	(133)	(148)	206
Net investment hedge	Unrealized (loss) gain on hedges	(302)	585	(81)	141	Unrealized gain on hedges	156	(91)	75	(232)

P. IMPACT OF ACCOUNTING METHOD CHANGE

The following tables summarize the effects of the Accounting change described in Note A on the Company's condensed consolidated statement of operations and comprehensive **loss**, **income**, statement of cash flows and statement of changes in equity for the quarter ended and the **two** **three** quarters ended **December** **30, 2022** **March** **31, 2023** and condensed consolidated balance sheet as of **December** **30, 2022**, **March** **31, 2023**.

CONDENSED CONSOLIDATED STATEMENT OF OPERATION AND COMPREHENSIVE INCOME **(LOSS)**

	For the Quarter Ended December 30, 2022			For the Two Quarters Ended December 30, 2022			For the Quarter Ended March 31, 2023			For the Three Quarters Ended March 31, 2023		
	As		As	As		As	As		As	As		As
	Computed	Effect of Under Previous Method	Accounting Change	Under New Method	Computed	Effect of Under Previous Method	Accounting Change	Under New Method	Computed	Effect of Under Previous Method	Accounting Change	Under New Method
Net sales	\$ 63,351	\$ -	\$ 63,351	\$ 119,264	\$ -	\$ 119,264	\$ 73,772	\$ -	\$ 73,772	\$ 193,036	\$ -	\$ 193,036
Cost of goods sold	46,328	-	46,328	88,944	-	88,944	54,507	-	54,507	143,451	-	143,451
Gross profit	17,023	-	17,023	30,320	-	30,320	19,265	-	19,265	49,585	-	49,585
Marketing, engineering and administrative expenses	15,983	-	15,983	31,063	-	31,063	14,626	-	14,626	45,688	-	45,688
Restructuring expenses	164	-	164	174	-	174	33	-	33	208	-	208
Other operating income	(4,150)	-	(4,150)	(4,150)	-	(4,150)						
Other operating expense (income)							1	-	1	(4,149)	-	(4,149)
Income from operations	5,026	-	5,026	3,233	-	3,233	4,605	-	4,605	7,838	-	7,838
Other expense (income):												
Interest expense	594	-	594	1,160	-	1,160	522	-	522	1,682	-	1,682
Other expense (income), net	789	(607)	182	1,050	(1,214)	(164)	785	(607)	178	1,834	(1,821)	13
	1,383	(607)	776	2,210	(1,214)	996	1,307	(607)	700	3,516	(1,821)	1,695
Income before income taxes and noncontrolling interest	3,643	607	4,250	1,023	1,214	2,237	3,298	607	3,905	4,322	1,821	6,143
Income tax expense	2,489	-	2,489	1,801	-	1,801	548	-	548	2,350	-	2,350
Net income (loss)	1,154	607	1,761	(778)	1,214	436						
Net income							2,750	607	3,357	1,972	1,821	3,793
Less: Net earnings attributable to noncontrolling interest, net of tax	(15)	-	(15)	(112)	-	(112)	(76)	-	(76)	(188)	-	(188)
Net income (loss) attributable to Twin Disc	\$ 1,139	\$ 607	\$ 1,746	\$ (890)	\$ 1,214	\$ 324	\$ 2,674	\$ 607	\$ 3,281	\$ 1,784	\$ 1,821	\$ 3,605

Income (loss) per share data:														
Basic income (los)s per share attributable to Twin Disc common shareholders	\$ 0.08	\$ 0.05	\$ 0.13	\$ (0.07)	\$ 0.09	\$ 0.02								
Diluted income (loss) per share attributable to Twin Disc common shareholders	\$ 0.08	\$ 0.05	\$ 0.13	\$ (0.07)	\$ 0.09	\$ 0.02								
Income per share data:							\$ 0.20	\$ 0.04	\$ 0.24	\$ 0.13	\$ 0.14	\$ 0.27		
Basic income per share attributable to Twin Disc common shareholders							\$ 0.20	\$ 0.04	\$ 0.24	\$ 0.13	\$ 0.13	\$ 0.26		
Weighted average shares outstanding data:														
Basic shares outstanding	13,460	-	13,460	13,434	-	13,434	13,504	-	13,504	13,455	-	13,455		
Diluted shares outstanding	13,699	-	13,699	13,434	-	13,434	13,662	-	13,662	13,608	-	13,608		
Comprehensive income (loss)														
Net income (loss)	\$ 1,154	\$ 607	\$ 1,761	\$ (778)	\$ 1,214	\$ 436								
Benefit plan adjustments, net of income taxes of \$ 1 and \$3 computed under previous method; and \$13 and \$4 as reported under new method	(515)	(607)	(1,122)	3	(1,214)	(1,211)								
Comprehensive income														

Net income		\$ 2,750	\$ 607	\$ 3,357	\$ 1,972	\$ 1,821	\$ 3,793
Benefit plan adjustments, net of income taxes of \$ 1 and \$5 computed under previous method; and \$1 and \$5 as reported under new method		578	(607)	(29)	581	(1,821)	(1,240)
Foreign currency translation adjustment	8,392	-	8,392	2,005	-	2,005	1,014
Unrealized (loss) gain on hedges, net of income taxes of \$0 and \$0, respectively	(595)	-	(595)	198	-	198	1,014
Unrealized loss on hedges, net of income taxes of \$0 and \$0, respectively					(224)	-	(224)
Comprehensive income	8,436	-	8,436	1,428	-	1,428	4,118
Less: Comprehensive income attributable to noncontrolling interest	74	-	74	210	-	210	67
Comprehensive income attributable to Twin Disc	\$ 8,362	\$ -	\$ 8,362	\$ 1,218	\$ -	\$ 1,218	\$ 4,051
							\$ 4,051
							\$ 5,366
							\$ 5,366

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CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS	December 30, 2022		
	As Computed Under Previous Method	Effect of Accounting Change	As Reported Under New Method
Current assets:			
Cash	\$ 13,528	\$ -	\$ 13,528

Trade accounts receivable, net	39,392	-	39,392
Inventories	136,810	-	136,810
Assets held for sale	2,968	-	2,968
Prepaid expenses	10,871	-	10,871
Other	7,228	-	7,228
Total current assets	210,797	-	210,797
Property, plant and equipment, net	39,683	-	39,683
Right-of-use assets operating leases	12,807	-	12,807
Intangible assets, net	11,798	-	11,798
Deferred income taxes	2,403	-	2,403
Other assets	2,766	-	2,766
Total assets	\$ 280,254	\$ -	\$ 280,254
LIABILITIES AND EQUITY			
Current liabilities:			
Current maturities of long-term debt	\$ 2,000	\$ -	\$ 2,000
Accounts payable	28,906	-	28,906
Accrued liabilities	55,939	-	55,939
Total current liabilities	86,845	-	86,845
Long-term debt	29,927	-	29,927
Lease obligations	10,278	-	10,278
Accrued retirement benefits	10,587	-	10,587
Deferred income taxes	3,506	-	3,506
Other long-term liabilities	5,346	-	5,346
Total liabilities	146,489	-	146,489
Twin Disc 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	41,444	-	41,444
Retained earnings	134,141	(23,898)	110,243
Accumulated other comprehensive loss	(29,880)	23,898	(5,982)
	145,705	-	145,705
Less treasury stock, at cost (819,398 shares, respectively)	12,562	-	12,562
Total Twin Disc shareholders' equity	133,143	-	133,143
Noncontrolling interest	622	-	622
Total equity	133,765	-	133,765
Total liabilities and equity	\$ 280,254	\$ -	\$ 280,254
March 31, 2023			
	As Computed Under Previous Method	Effect of Accounting Change	As Reported Under New Method
ASSETS			
Current assets:			
Cash	\$ 14,024	\$ -	\$ 14,024

Trade accounts receivable, net	44,438	-	44,438
Inventories	136,153	-	136,153
Assets held for sale	2,968	-	2,968
Prepaid expenses	10,025	-	10,025
Other	8,341	-	8,341
Total current assets	215,949	-	215,949
Property, plant and equipment, net	40,700	-	40,700
Right-of-use assets operating leases	12,415	-	12,415
Intangible assets, net	11,239	-	11,239
Deferred income taxes	2,542	-	2,542
Other assets	2,668	-	2,668
Total assets	\$ 285,513	\$ -	\$ 285,513
LIABILITIES AND EQUITY			
Current liabilities:			
Current maturities of long-term debt	\$ 2,000	\$ -	\$ 2,000
Accounts payable	29,726	-	29,726
Accrued liabilities	56,886	-	56,886
Total current liabilities	88,612	-	88,612
Long-term debt	29,276	-	29,276
Lease obligations	9,897	-	9,897
Accrued retirement benefits	10,315	-	10,315
Deferred income taxes	3,391	-	3,391
Other long-term liabilities	5,403	-	5,403
Total liabilities	146,894	-	146,894
Twin Disc 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	42,145	-	42,145
Retained earnings	136,815	(23,291)	113,524
Accumulated other comprehensive (loss) income	(28,503)	23,291	(5,212)
Less treasury stock, at cost (819,398 shares, respectively)	150,457	-	150,457
Total Twin Disc shareholders' equity	12,527	-	12,527
Noncontrolling interest	689	-	689
Total equity	138,619	-	138,619
Total liabilities and equity	\$ 285,513	\$ -	\$ 285,513

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	December 30, 2022			For the Three Quarters Ended March 31, 2023		
	As Computed Under Previous Method	Effect of Accounting Change	As Reported Under New Method	As Computed Under Previous Method	Effect of Accounting Change	As Reported Under New Method
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net (loss) income	\$ (778)	\$ 1,214	\$ 436	\$ 1,972	\$ 1,821	\$ 3,793
Adjustments to reconcile net (loss) income to net cash provided by activities:						
Net income						
Adjustments to reconcile net income to net cash provided by activities:						
Depreciation and amortization	4,266	-	4,266	6,936	-	6,936
Gain on sale of assets	(4,203)	-	(4,203)	(4,237)	-	(4,237)
Provision for deferred income taxes	(1,105)	-	(1,105)	(1,462)	-	(1,462)
Stock compensation expense	1,565	-	1,565	2,355	-	2,355
Net change in operating assets and liabilities	287	(1,214)	(927)	1,295	(1,821)	(526)
Net cash provided by operating activities	32	-	32	6,859	-	6,859
CASH FLOWS FROM INVESTING ACTIVITIES:						
Acquisition of property, plant, and equipment	(4,734)	-	(4,734)	(6,783)	-	(6,783)
Proceeds from sale of fixed assets	7,152	-	7,152	7,177	-	7,177
Proceeds on note receivable	-	-	-	-	-	-
Other, net	385	-	385	199	-	199
Net cash provided by investing activities	2,803	-	2,803	593	-	593
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings under revolving loan arrangements	42,898	-	42,898	65,862	-	65,862
Repayments of revolving loan arrangements	(46,628)	-	(46,628)	(69,823)	-	(69,823)
Repayments of other long-term debt	(839)	132	(707)	(1,534)	-	(1,534)
Payments of finance lease obligations		(132)	(132)	(231)	-	(231)
Payments of withholding taxes on stock compensation	(463)	-	(463)	(463)	-	(463)
Net cash used by financing activities	(5,032)	-	(5,032)	(6,189)	-	(6,189)
Effect of exchange rate changes on cash	3,204	-	3,204	240	-	240
Net change in cash	1,007	-	1,007	1,503	-	1,503
Cash:						
Beginning of period	12,521	-	12,521	12,521	-	12,521
End of period	\$ 13,528	\$ -	\$ 13,528	\$ 14,024	\$ -	\$ 14,024

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

December 30, 2022

	As Computed		
	Under Previous Method	Effect of Accounting Change	As Reported Under New Method
Retained earnings			
Balance at June 30, 2022	135,031	(25,112)	109,919
Net (loss) income attributable to Twin Disc	(890)	1,214	324
Balance at December 30, 2022	<u>\$ 134,141</u>	<u>\$ (23,898)</u>	<u>\$ 110,243</u>
Accumulated other comprehensive income (loss)			
Balance at June 30, 2022	(32,086)	25,112	(6,974)
Translation adjustments	2,005	-	2,005
Benefit plan adjustments, net of tax	3	(1,214)	(1,211)
Unrealized gain on hedges, net of tax	198	-	198
Balance at December 30, 2022	<u>\$ (29,880)</u>	<u>\$ 23,898</u>	<u>\$ (5,982)</u>
For the Three Quarters Ended March 31, 2023			
	As Computed		
	Under Previous Method	Effect of Accounting Change	As Reported Under New Method
Retained earnings			
Balance at June 30, 2022	135,031	(25,112)	109,919
Net income attributable to Twin Disc	1,784	1,821	3,605
Balance at March 31, 2023	<u>\$ 136,815</u>	<u>\$ (23,291)</u>	<u>\$ 113,524</u>
Accumulated other comprehensive (loss) income			
Balance at June 30, 2022	(32,086)	25,112	(6,974)
Translation adjustments	3,028	-	3,028
Benefit plan adjustments, net of tax	581	(1,821)	(1,240)
Unrealized loss on hedges, net of tax	(26)	-	(26)
Balance at March 31, 2023	<u>\$ (28,503)</u>	<u>\$ 23,291</u>	<u>\$ (5,212)</u>

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 29, 2023** **March 29, 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, 2023, 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

(In
thousands)

	Quarter Ended				Two Quarters Ended				Quarter Ended				Three Quarters Ended		
	December 29, 2023	% of Net Sales	December 30, 2022	% of Net Sales	December 29, 2023	% of Net Sales	December 30, 2022	% of Net Sales	March 29, 2024	% of Net Sales	March 31, 2023	% of Net Sales	March 29, 2024	% of Net Sales	March 31, 2023
	Net sales	\$ 72,994		\$ 63,351		\$ 136,547		\$ 119,264		\$ 74,161		\$ 73,772		\$ 210,709	
Cost of goods sold	52,338		46,328		96,156		88,944		53,221		54,507		149,377		143,451
COGS - Sale of boat management system product line and related inventory	-		-		3,099		-		-		-		3,099		-
Gross profit	20,656	28.3%	17,023	26.9%	37,292	27.3%	30,320	25.4%	20,940	28.2%	19,265	26.1%	58,233	27.6%	49,585
Marketing, engineering and administrative expenses	17,149	23.5%	15,983	25.2%	34,068	24.9%	31,063	26.0%	17,199	23.2%	14,626	19.8%	51,268	24.3%	45,688
Restructuring expense	69	0.1%	164	0.3%	68	0.0%	174	0.1%	139	0.2%	33	0.0%	207	0.1%	208
Other operating income	-	0.0%	(4,150)	-6.6%	-	0.0%	(4,150)	-3.5%							
Loss from operations	\$ 3,438	4.7%	\$ 5,026	7.9%	\$ 3,156	2.3%	\$ 3,233	2.7%							
Other operating expense (income)									-	0.0%	1	0.0%	-	0.0%	(4,149)
Income from operations									\$ 3,602	4.9%	\$ 4,605	6.2%	\$ 6,758	3.2%	\$ 7,838

Comparison of the **Second** **Third** Quarter of Fiscal 2024 with the **Second** **Third** Quarter of Fiscal 2023

Net sales for the **second** **third** quarter increased **15.2%** **0.5%**, or **\$9.6 million** **\$0.4 million**, to **\$73.0 million** **\$74.2 million** from **\$63.4 million** **\$73.8 million** in the same quarter a year ago. The Company has benefited from favorable market conditions across most geographies and product groups through fiscal 2023 and into fiscal 2024. With the **easing** **of some** **stabilization** **in the global supply chain**, **disruptions**, along with improving operational performance, the Company has been able to improve **overall** **delivery results**. Global sales of marine and propulsion products improved **28.7%** **3.2%** from the prior year, while shipments of off-highway transmission products **improved by 8.1%** **declined slightly (2.5%)**. Shipments of industrial products declined by **13.1%** **14.7%**, with a slow-down in the domestic housing and construction **markets**, **markets**, as well as weakness in European market **demand**. The **Asia Pacific** **European** region enjoyed the most significant sales improvement (**\$7.1** **2.1** million or **56.1%** **8.9%**) due to improved shipments **Veth** **propulsion** **products** for **European** **applications**. The **Asia Pacific** region also saw a slight increase (**\$0.1** million or **0.4%**), with improved demand in the **commercial marine** **market**, partially offset by timing of oil and gas **transmissions** **shipments** into **China**, an improved demand for **commercial marine** **products** and continued strength in **pleasure craft** **demand** in **Australia**. The **European** **region** also saw a significant increase (**\$5.3** million or **26.5%**), with improved operational performance at our facilities in **Belgium** and the **Netherlands**, coupled with continued strong **demand**. **China**. Sales into **North America** decreased **20.5%** **19.3%**, or **\$5.3 million** **\$5.2 million**, primarily due to some softening in **aftermarket** **demand** in the **oil and gas** **market** **and weaker demand for industrial products**. Currency translation had a slightly favorable impact on **second** **third** quarter fiscal 2024 sales compared to the **second** **third** quarter of the prior year totaling **\$2.1** million primarily due to the strengthening of the euro against the U.S. dollar. **\$0.1 million**.

Sales at our manufacturing segment increased 3.2% decreased 1.9%, or \$1.8 million \$1.2 million, versus the same quarter last year. The U.S. manufacturing operations experienced a 5.6% 9.4%, or \$1.7 million \$3.1 million, decrease in sales versus the second third fiscal quarter of 2023, with some softening aftermarket demand in the North American energy market and weaker industrial demand related to the North American housing and construction markets. The Company's operation in the Netherlands saw dramatically increased revenue of \$3.6 million (27.3% \$4.9 million (32.8%) compared to the second third fiscal quarter of 2023, primarily due to improving operation performance in support of a record level of incoming orders over the past few quarters, along with a favorable currency impact and improved supply chain performance. Similarly, the Company's Belgian operation saw an increase compared to the prior year second third quarter (35.1% (12.9% or \$1.8 million \$0.9 million), with a favorable translation effect and improved delivery performance driven by operational and supply chain execution. The Company's Italian manufacturing operations were down \$2.0 million (29.2% \$4.1 million (51.9%) compared to the second third quarter of fiscal 2023, primarily due to the sale of the BCS business during the quarter current fiscal year. The Company's Swiss manufacturing operation, which supplies customized propellers for the global mega yacht and patrol boat markets, was up \$0.1 million (6.2% \$0.2 million (13.9%) compared to the prior year second third quarter.

Our distribution segment experienced an increase in sales of \$11.5 million (44.8% \$3.1 million (9.2%) in the second third quarter of fiscal 2024 compared to the second third quarter of fiscal 2023. The Company's Asian distribution operations in Singapore, China and Japan were up 60.4% 1.2% or \$4.4 million \$0.2 million from the prior year on improving improved commercial marine demand, partially offset by reduced deliveries for energy related products in China. The Company's North America distribution operation saw a 26.3% 7.9% (\$1.7 0.7 million) increase on strong demand for marine products from manufactured by the European operations. The Company's European distribution operation saw a significant increase (\$2.1 1.5 million or 41.9% 29.1%) on strong demand a favorable currency impact and improved supply of product. The Company's distribution operation in Australia, which provides boat accessories, propulsion and marine transmission systems for the pleasure craft market, saw an increase a decrease in revenue (29.4% (9.7% or \$2.1 million \$0.7 million) from the prior year second third fiscal quarter, primarily due to continued strong softer demand for pleasure craft products in the region region following record levels in the prior year.

Gross profit as a percentage of sales for the second third quarter of fiscal 2024 improved to 28.3% 28.2%, compared to 26.9% 26.1% for the same period last year. The improvement in the current year second third quarter compared to the prior year result was primarily volume related, driven by price realization and cost reductions, with margin conversion of 37.7% on the additional revenue. a slightly positive mix impact. The mix impact for the quarter was essentially neutral.

For the fiscal 2024 second third quarter, marketing, engineering and administrative ("ME&A") expenses, as a percentage of sales, were 23.5% 23.2%, compared to 25.2% 19.8% for the fiscal 2023 second third quarter. ME&A expenses increased \$1.2 million (7.3% \$2.6 million (17.6%) versus the same period last fiscal year. The increase in ME&A spending for the quarter was comprised of higher wages and benefits (\$0.7 0.5 million), increased global bonus expense (\$0.4 million), travel costs (\$0.3 million), lease expense (\$0.2 million), software maintenance (\$0.1 million), product development (\$0.1 million) and a positive currency translation impact (\$0.3 million). These increases were partially offset by lower higher professional fees (\$0.4 million) 0.5 million, driven by acquisition activities, along with other inflationary increases. The increases were driven by inflationary impacts and investment in resources investments to drive growth (resources to support our hybrid electric strategy, strategy), corporate development and other inflationary impacts.

The Company incurred minor restructuring charges during the second third quarter of fiscal 2024 and fiscal 2023, primarily associated with ongoing cost reduction actions at its European operations and actions to adjust the cost structure at the Company's domestic operation. The Company continues to focus on actively managing its cost structure and reducing fixed costs in light of the ongoing market challenges.

Interest expense was down slightly to \$0.4 million \$0.3 million in the second third quarter of fiscal 2024, with a lower average outstanding revolver balance partially offset by a higher interest rate.

Other expense, income, net of \$0.4 million \$1.0 million for the second third fiscal quarter was primarily attributable to a currency loss, partially offset by gains and a pension benefit.

The fiscal 2024 second third quarter effective tax rate was 64.0% 10.6% compared to 26.3% 14.0% in the prior fiscal year second third quarter. The full domestic valuation allowance, along with the mix of foreign earnings by jurisdiction, resulted in the increase to the reduced effective tax rate, rate for both periods.

Comparison of the First Half Three Quarters of Fiscal 2024 with the First Half Three Quarters of Fiscal 2023

Net sales for the first half three quarters increased 14.5% 9.2%, or \$17.3 million \$17.7 million, to \$136.5 million \$210.7 million from \$119.3 million \$193.0 million in the same period a year ago. The Company has continued to benefit from favorable market conditions across most geographies and product groups through fiscal 2023 and into fiscal 2024. With the easing of global supply chain disruptions, along with improving operational performance, the Company has been able to improve delivery results compared to the prior year. Global sales of marine and propulsion products improved 26.8% 17.3% from the prior year, while shipments of off-highway transmission products improved by 12.5% 6.7%. Shipments of industrial products declined by 16.0% 15.5%, with a slow-down in the domestic housing and construction markets. The Asia Pacific region enjoyed the most significant sales improvement (\$14.5 million or 57.5% 34.1%) due to improved shipments of oil and gas transmissions into China, an improved demand for commercial marine products and continued strength in pleasure craft demand in Australia. The European region also saw a significant increase (\$11.4 13.5 million or 32.2% 23.0%), with improved operational performance at our facilities in Belgium and the Netherlands, coupled with continued strong demand. Sales into North America decreased 18.9% 19.1%, or \$9.2 million \$14.4 million, primarily due to some softening in aftermarket demand in the oil and gas market. Currency translation had a favorable impact on first half three quarters of fiscal 2024 sales compared to the first half of same period in the prior year totaling \$4.4 million \$4.5 million primarily due to the strengthening of the euro against the U.S. dollar.

Sales at our manufacturing segment increased **6.8% 3.5%**, or **\$7.2 million \$5.9 million**, versus the same period last year. The U.S. manufacturing operations experienced a **6.9% 7.8%**, or **\$4.1 million \$7.2 million**, decrease in sales versus the first **half three quarters** of fiscal 2023, with some softening aftermarket demand in the North American energy market and weaker industrial demand related to the North American housing and construction markets. The Company's operation in the Netherlands saw increased revenue of **\$11.2 million (54.1% \$16.1 million (45.2%)** compared to the first **half three quarters** of fiscal 2023, primarily due to improving operation performance in support of a record level of incoming orders over the past several quarters, along with a favorable currency impact and improved supply chain performance. Similarly, the Company's Belgian operation saw an increase compared to the prior fiscal year first **half (28.8% three quarters (21.5% or \$2.7 million \$3.6 million)**, with a favorable translation effect and improved delivery performance driven by operational and supply chain execution. The Company's Italian manufacturing operations were down **\$2.7 million (21.4% \$6.9 million (33.2%)** compared to the first **half three quarters** of fiscal 2023, primarily due to the sale of the BCS business during the current fiscal year. The Company's Swiss manufacturing operation, which supplies customized propellers for the global mega yacht and patrol boat markets, was up **\$0.1 million (4.2% \$0.3 million (7.3%)** compared to the prior fiscal year first **half three quarters**.

Our distribution segment experienced an increase in sales of **\$20.2 million (40.5% \$23.4 million (27.95%)** in the first **half three quarters** of fiscal 2024 compared to the first **half three quarters** of fiscal 2023. The Company's Asian distribution operations in Singapore, China and Japan were up **88.9% 48.6%** or **\$14.0 million \$14.1 million** from the prior year on improving deliveries for energy related products in China and strong commercial marine demand in the region. The Company's North America distribution operation saw a **10.4% 9.3% (\$1.2 million \$1.9 million)** increase on strong domestic demand for marine products from the European operations. The Company's European distribution operation saw a significant increase **(\$2.2 million or 26.1% 27.9%)** on strong demand, a favorable currency impact and improved supply of product. The Company's distribution operation in Australia, which provides boat accessories, propulsion and marine transmission systems for the pleasure craft market, saw an increase in revenue **(6.8% (1.2% or \$0.9 million \$0.3 million)** from the prior year first **half three quarters**, primarily due to continued strong demand for pleasure craft products in the region.

Gross profit as a percentage of sales for the first **half three quarters** of fiscal 2024 improved to **27.3% 27.6%**, compared to **25.4% 25.7%** for the same period last year. The improvement in the first **half three quarters** of the current year compared to the prior year result was primarily volume related, along with a positive mix impact due to additional oil and gas units shipped in the current year. These favorable movements were partially offset by the negative impact of the sale of the BCS business that was recorded in the first quarter of fiscal 2024.

For the fiscal 2024 first **half three quarters**, marketing, engineering and administrative ("ME&A") expenses, as a percentage of sales, were **24.9% 24.3%**, compared to **26.0% 23.7%** for the fiscal 2023 first **half three quarters**. ME&A expenses increased **\$3.0 million (9.7% \$5.6 million (12.2%)** versus the same period last fiscal year. The increase in ME&A spending for the first **half three quarters** was comprised of higher wages and benefits (\$1.4 million), travel costs (\$0.5 million), software maintenance (\$0.3 million), product development (\$0.3 million), global bonus expense (\$0.9 million), professional fees (\$0.4 million), lease expense (\$0.3 million), depreciation and amortization (\$0.6 million) and a positive currency translation impact (\$0.5 million). These increases were partially offset by lower bad debt expense (\$0.2 million). The increases were driven by inflationary impacts and investment in resources to support our hybrid electric strategy.

The Company incurred minor restructuring charges during the first **half three quarters** of fiscal 2024 and fiscal 2023, primarily associated with ongoing cost reduction actions at its European operations and actions to adjust the cost structure at the Company's domestic operation. The Company continues to focus on actively managing its cost structure and reducing fixed costs in light of the ongoing market challenges.

Interest expense was down **slightly 37.6% to \$0.8 million \$1.0 million** in the first **half three quarters** of fiscal 2024, with a lower average outstanding revolver balance partially offset by a higher interest rate.

Other **expense income** of **\$0.3 million \$0.6 million** for the first **half three quarters** of fiscal 2024 was primarily attributable to a **currency loss, pension benefit**, partially offset by a **pension benefit, currency loss**.

The fiscal 2024 first **half three quarters** effective tax rate was **107.1% 41.9%** compared to **80.5% 38.2%** in the prior fiscal year comparable period. The full domestic valuation allowance, along with the mix of foreign earnings by jurisdiction, resulted in the increase to the effective tax rate.

Financial Condition, Liquidity and Capital Resources

Comparison between **December 29, 2023** **March 29, 2024** and **June 30, 2023**

As of **December 29, 2023** **March 29, 2024**, the Company had net working capital of **\$119.0 million \$119.9 million**, which represents **a decrease** an increase of **\$0.6 million \$0.3 million**, or **0.5% 0.2%**, from the net working capital of \$119.6 million as of June 30, 2023.

Cash increased by **\$7.8 million \$10.6 million to \$21.0 million \$23.8 million** as of **December 29, 2023** **March 29, 2024**, versus \$13.3 million as of June 30, 2023. As of **December 29, 2023** **March 29, 2024**, the majority of the cash is at the Company's overseas operations in Europe (\$**5.5 million**) and Asia-Pacific (\$**10.8 million**). The Company had \$7.9 million of domestic cash available at March 29, 2024 in anticipation of the closing of the Katsa Oy acquisition announced in March.

Trade receivables of **\$41.4 million** **\$41.0 million** were down **\$13.3 million** **\$13.8 million**, or **24.3%** **25.2%**, when compared to last fiscal year-end. The impact of foreign currency translation was to **increase** **decrease** accounts receivable by **\$1.2 million** **\$0.2 million** versus June 30, 2023. As a percent of sales, trade receivables finished at **56.8%** **55.2%** in the **second** **third** quarter of fiscal 2024 compared to **62.2%** **60.2%** for the comparable period in fiscal 2023 and 65.2% for the fourth quarter of fiscal 2023.

Inventories were **essentially unchanged** **reduced** by **\$2.1 million** (1.6%) versus June 30, 2023. The impact of foreign currency translation was to **increase** **decrease** inventories by **\$3.9 million** **\$0.9 million** versus June 30, 2023. **This increase** **The remaining decrease** was essentially **offset** by the result of the sale of the BCS business, reducing inventory by \$3.8 million. **Other entity movements** were offsetting, with increases at our operations **The operation** in the Netherlands **driven** **reported** an **offsetting increase** **driven** by **anticipated** **continued** growth in the second half and Australia (timing of purchases and a new product introduction) being offset by reductions at our distribution operations in Singapore, China backlog and the US. **need** for inventory to support growth. Much of this inventory, however, is funded through customer advance payments upon receipt of the order. On a consolidated basis, as of **December 29, 2023** **March 29, 2024**, the Company's backlog of orders to be shipped over the next six months approximates **\$125.2 million** **\$130.5 million**, compared to \$119.2 million at June 30, 2023 and **\$124.0 million** **\$127.7 million** at **December 30, 2022** **March 31, 2023**. As a percentage of six-month backlog, inventory has decreased from 111% at June 30, 2023 to **105%** **100%** at **December 29, 2023** **March 29, 2024**.

Net property, plant and equipment increased **\$1.6 million** (4.4%) **\$2.0 million** (5.1%) to **\$40.3 million** **\$40.6 million** versus **\$38.7 million** **\$38.7 million** at June 30, 2023. The Company had capital spending of **\$5.4 million** **\$7.6 million** in the first half and a favorable exchange impact of \$0.5 million. **These increases were** three quarters. **This increase was partially** offset by depreciation (**\$3.4** **5.0** million) and the impact of the sale of the BCS business. Capital spending occurring in the first half three quarters was primarily related to replacement capital. In total, the Company expects to invest between \$9 and \$11 million in capital assets in fiscal 2024. 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 29, 2023** **March 29, 2024** of **\$32.6 million** **\$33.2 million** was down **\$3.9 million** **\$3.3 million**, or **10.7%** **9.0%**, from June 30, 2023. The impact of foreign currency translation was to **increase** **decrease** accounts payable by **\$1.1 million** **\$0.3 million** versus June 30, 2023. The remaining decrease is primarily related to the reduced purchasing activities in light of stable demand and inventory reduction efforts.

Total borrowings and long-term debt as of **December 29, 2023** **March 29, 2024** decreased **\$0.9 million** **\$1.6 million** to **\$17.7 million** **\$17.0 million** versus \$18.6 million at June 30, 2023. During the first **half**, **three quarters**, the Company reported positive free cash flow of **\$10.6 million** **\$14.7 million** (defined as operating cash flow less acquisitions of fixed assets), driven by positive operating results and working capital performance, partially offset by the payment of a bonus accrual and capital spending. The Company ended the quarter with total debt, net of cash, of **(\$3.3)** **6.8** million, compared to \$5.4 million at June 30, 2023, for a net improvement of **\$8.7 million** **\$12.2 million**.

Total equity increased **\$0.2 million** **\$1.4 million**, or 0.1%, to **\$145.3 million** **\$146.9 million** as of **December 29, 2023** **March 29, 2024**. The net **loss** **income** during the first **half** **decreased** **three quarters** **increased** equity by **\$0.1 million** **\$3.6 million**, offset by **a favorable** **an unfavorable** foreign currency translation of **\$2.2 million** **\$0.9 million** and the payment of a dividend (**\$0.6** **1.2** million). The net change in common stock and treasury stock resulting from the accounting for stock-based compensation decreased equity by \$0.5 million. The net remaining decrease in equity primarily represents the amortization of net actuarial loss and prior service cost on the Company's defined benefit pension plans, along with the unrealized gain 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 **March 4, 2026** **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 **\$40.0 million** **\$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 **\$3.0 million** **\$5.0 million** in any fiscal year. The term of the Revolving Loans under the Credit Agreement currently runs through **June 30, 2025** **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 **1.25%** **2.00%** and **2.75%** **3.50%** for Revolving Loans and Letters of Credit; **1.375%** **2.125%** and **2.875%** **3.625%** for Term Loans; and **.10%** **0.15%** and **.15%** **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 Oy acquisition, as well as pro-forma EBITDA of Katsa Oy as permitted by the Bank. The Company's Tangible Net Worth may not be less than \$100 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, the Bank BMO may take the three actions listed above without notice to the Company.

On April 1, 2024, the Company entered into Amendment No. 10 to Credit Agreement (the "Tenth Amendment") that amended and extended the Credit Agreement. The Tenth Amendment increased the Revolving Credit Commitment from \$40.0 million to \$45.0 million, and also increased the Borrowing Base for Revolving Loans from the sum of (a) 85% of outstanding unpaid Eligible Receivable and (b) the lesser of \$30.0 million and 50% of Eligible Inventory to the sum of (a) 85% of outstanding unpaid Eligible Receivables and (b) the lesser of \$35.0 million (reduced to \$32.5 million beginning with the first quarter of the 2026 fiscal year) and 60% of Eligible Inventory (reduced to 55% of Eligible Inventory beginning with the third quarter of the 2025 fiscal year, and 50% of Eligible Inventory beginning with the first quarter of the 2026 fiscal year).

The Company intends to use the increased borrowing capacity under the Credit Agreement to help finance its previously announced proposed acquisition of Katsa Oy by TD Finland Holding Oy, a wholly-owned subsidiary of the Company. The Tenth Amendment specifically permits the Company to use Revolving Loans for the Katsa Oy acquisition. In addition, 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 Oy acquisition, as well as pro-forma EBITDA of Katsa Oy as permitted by the Bank.

The Tenth Amendment also extended the Credit Agreement through April 1, 2027 and extended the maturity date of the Term Loan and the Term Loan Commitment Date to April 1, 2027. Prior to the Tenth Amendment, the Credit Agreement was scheduled to terminate as of June 30, 2025, and the Term Loan and Term Loan Commitment Date were scheduled to mature/terminate on March 4, 2026.

The Tenth Amendment also increased the Applicable Margins under the Credit Agreement for purposes of determining interest rates on Revolving Loans, Letters of Credit, Term Loans, and the Unused Revolving Credit Commitment. Prior to the Tenth Amendment, the Applicable Margins were between 1.25% and 2.75% for Revolving Loans and Letters of Credit; 1.375% and 2.875% for Term Loans; and .10% and .15% for the Unused Revolving Credit Commitment (each depending on the Company's Total Funded Debt to EBITDA ratio). Under the Tenth Amendment, the Applicable Margins are between 2% and 3.5% for Revolving Loans and Letters of Credit; 2.125% and 3.625% for Term Loans; and .15% and .3% for the Unused Revolving Credit Commitment (each depending on the Company's Total Funded Debt to EBITDA ratio).

The Tenth Amendment also increased the amount of Restricted Payments that the Company may make in the form of cash dividends, distributions, purchases, redemptions, or other acquisitions of its common stock from \$3.0 million to \$5.0 million in any fiscal year.

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

As of March 29, 2024, current maturities include \$2.0 million of term loan payments due within the coming year.

Other significant contractual obligations as of December 29, 2023 March 29, 2024 are disclosed in Note N "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 29, 2023 March 29, 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 1 of this Quarterly Report on Form 10-Q. Postretirement medical claims are paid by the Company as they are submitted. In fiscal 2024, the Company expects to contribute \$0.7 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 2024, the Company expects to contribute \$0.7 million to its defined benefit pension plans. The Company does not have any material off-balance sheet arrangements.

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.

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, 2023. There have been no significant changes to those accounting policies subsequent to June 30, 2023.

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 2023 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 29, 2023** **March 29, 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 30, – October 27, 2023	0	NA	0	315,000
October 28 – November 24, 2023	0	NA	0	315,000
November 25 – December 29, 2023	620	NA	0	315,000
Total	0	NA	0	315,000

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
December 30, 2023 – January 26, 2024	582	NA	0	315,000
January 27 – February 23, 2024	0	NA	0	315,000
February 24 – March 29, 2024	626	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 2021 and 2018 Long-Term Incentive Compensation Plans.

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 29, 2023** **March 29, 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 29, 2023** **March 29, 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 \(formatted as Inline XBRL and contained in Exhibit 101\).](#)
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.](#)
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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 7, 2024 May 8, 2024

/s/ JEFFREY S. KNUTSON

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

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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 7, 2024 May 8, 2024

/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 7, 2024** May 8, 2024

/s/ JEFFREY S. KNUTSON

Jeffrey S. Knutson
Vice President – Finance, Chief Financial Officer,
Treasurer and Secretary

EXHIBIT 32a

CERTIFICATION PURSUANT TO

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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 29, 2023** **March 29, 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 7, 2024** **May 8, 2024**

/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 29, 2023** **March 29, 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 7, 2024** **May 8, 2024**

/s/ JEFFREY S. KNUTSON

Jeffrey S. Knutson

Vice President – Finance, Chief Financial Officer, Treasurer and Secretary

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