

SECURITIES AND EXCHANGE COMMISSION
 Washington, D. C. 20549
 FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934

 For the Fiscal Year Ended June 30, 1996
 Commission File Number 1-7635
 TWIN DISC, INCORPORATED

 (Exact Name of Registrant as Specified in its Charter)

Wisconsin

39-0667110

 (State or Other Jurisdiction of
 Incorporation or Organization)

 (I.R.S. Employer Identification
 Number)

1328 Racine Street, Racine, Wisconsin

53403

 (Address of Principal Executive Offices)

 (Zip Code)

Registrant's Telephone Number, including area code: (414) 638-4000

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

Title of each class	Name of each exchange on which registered:
Common stock, no par value	New York Stock Exchange

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

Common stock, no par value

 (Title of Class)

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

At August 30, 1996, the aggregate market value of the common stock held by non-affiliates of the registrant was \$46,939,728. Determination of stock ownership by affiliates was made solely for the purpose of responding to this requirement and registrant is not bound by this determination for any other purpose.

At August 30, 1996, the registrant had 2,777,274 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The incorporated portions of such documents being specifically identified in the applicable Items of this Report.

Portions of the Annual Report to Shareholders for the year ended June 30, 1996 are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held October 18, 1996 are incorporated by reference into Parts I, III and IV.

Portions of the Company's Annual Report on Form 10-K for the year ended June 30, 1988, are incorporated by reference into Part II.

PART I

Item 1. Business

The Company is engaged in one line of business. Twin Disc designs, manufactures and sells heavy duty off-highway power transmission equipment. Products offered include: hydraulic torque converters; power-shift transmissions; marine transmissions and surface drives; universal joints; gas turbine starting drives; power take-offs and reduction gears; industrial clutches; fluid couplings and control systems. Principal markets are: construction equipment, industrial equipment, government, marine, energy and natural resources and agriculture. The Company's worldwide sales to both domestic and foreign customers are transacted through a direct sales force and a distributor network. There have been no significant changes in products or markets since the beginning of the fiscal year. The products described above have accounted for more than 90% of revenues in each of the last three fiscal years.

During 1995, the Company purchased the outstanding stock of Marine Diffusion, S.R.L. The acquisition did not require significant capital investment. A further description of this acquisition appears in Note N to the consolidated financial statements on page 37 of the 1996 Annual Report, which financial statements are incorporated by reference in this Form 10-K Annual Report in Part II.

In July 1994, the Company acquired a minority interest in Palmer Johnson Distributors, LLC, a major distributor of Twin Disc products. A further description of this transaction appears in Note E to the consolidated financial statements on page 29 of the 1996 Annual Report, which financial statements are incorporated by reference in this Form 10-K Annual Report in Part II. The Company also began operations of a fully owned marketing subsidiary in Madrid, Spain in fiscal year 1994. The establishment of this subsidiary did not require significant capital investment.

The Company's products receive direct widespread competition, including from divisions of other larger independent manufacturers. The Company also competes for business with parts manufacturing divisions of some of its major customers. Ten customers accounted for approximately 45% of the Company's consolidated net sales during the year ended June 30, 1996. One such customer is Caterpillar Inc. which accounted for approximately 10% of consolidated net sales in 1996.

Unfilled open orders for the next six months of \$65,574,000 at June 30, 1996 compares to \$72,183,000 at June 30, 1995. Since orders are subject to cancellation and rescheduling by the customer, the six-month order backlog is considered more representative of operating conditions than total backlog. However, as procurement and manufacturing "lead times" change, the backlog will increase or decrease; and thus it does not necessarily provide a valid indicator of the shipping rate. Cancellations are generally the result of rescheduling activity and do not represent a material change in backlog.

Most of the Company's products are machined from cast iron, forgings, cast aluminum and bar steel which generally are available from multiple sources and which are believed to be in adequate supply.

The Company has pursued a policy of applying for patents in both the United States and certain foreign countries on inventions made in the course of its development work for which commercial applications are considered probable. The Company regards its patents collectively as important but does not consider its business dependent upon any one of such patents.

Engineering and development costs include research and development expenses for new product development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totalled \$2,564,000, \$2,718,000 and \$2,649,000 in 1996, 1995 and 1994, respectively. Total engineering and development costs were \$6,998,000, \$7,411,000 and \$6,843,000 in 1996, 1995 and 1994, respectively.

Item 1. Business (continued)

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, is not anticipated to have a material effect on capital expenditures, earnings or the competitive position of the Company.

The number of persons employed by the Company at June 30, 1996 was 1,080.

The business is not considered to be seasonal except to the extent that employee vacations are taken mainly in the months of July and August curtailing production during that period.

Management recognizes that there are attendant risks that foreign governments may place restrictions on dividend payments and other movements of money, but these risks are considered minimal due to the political relations the United States maintains with the countries in which the Company operates or the relatively low investment within individual countries.

A summary of financial data by geographic area for the years ended June 30, 1996, 1995 and 1994 appears in Note D to the consolidated financial statements on pages 27 through 29 of the 1996 Annual Report to Shareholders, which financial statements are incorporated by reference in this Form 10-K Annual Report in Part II.

Item 2. Properties

The Company owns two manufacturing, assembly and office facilities in Racine, Wisconsin, U.S.A. and one in Nivelles, Belgium. The aggregate floor space of these three plants approximates 677,000 square feet. The Racine facility includes office space which is the location of the Company's corporate headquarters.

The Company also has operations in the following locations, all of which are used for sales offices, warehousing and light assembly or product service. The following properties are leased except for the Johannesburg, South Africa location, which is owned:

Jacksonville, Florida, U.S.A.	Brisbane, Queensland, Australia
Miami, Florida, U.S.A.	Perth, Western Australia, Australia
Loves Park, Illinois, U.S.A.	Viareggio, Italy
Coburg, Oregon, U.S.A.	Singapore
Seattle, Washington, U.S.A.	Johannesburg, South Africa
	Madrid, Spain

The properties are generally suitable for operations and are utilized in the manner for which they were designed. Manufacturing facilities are currently operating at less than 70% capacity and are adequate to meet foreseeable needs of the Company.

4

Item 3. Legal Proceedings

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

The Company has joined with a group of potentially responsible parties in signing a consent decree with the Illinois Environmental Protection Agency to conduct a remedial investigation and feasibility study at the Interstate Pollution Control facility in Rockford, Illinois. The consent decree was signed on October 17, 1991, and filed with the federal court in the Northern District of Illinois. The Company's total potential liability on the site cannot be estimated with particularity until completion of the remedial investigation. Based upon current assumptions, however, the Company anticipates potential liability of approximately \$500,000.

The Company has also joined with a group of potentially responsible parties in signing a consent decree with the Illinois Environmental Protection Agency to conduct a remedial investigation and feasibility study at the MIG\DeWane Landfill in Rockford, Illinois. The consent decree was signed on March 29, 1991, and filed with the federal court in the Northern District of Illinois.

The Company's total potential liability on the site cannot be estimated with particularity until completion of the remedial investigation. Based upon current assumptions, however, the Company anticipates potential liability of approximately \$126,000.

The Company also is involved with other potentially responsible parties in various stages of investigation and remediation relating to other hazardous waste sites, some of which are on the United States EPA National Priorities List (Superfund sites). While it is impossible at this time to determine with certainty the ultimate outcome of such environmental matters, they are not expected to materially affect the Company's financial position, operating results or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

(Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 18, 1996.)

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer since October 1991; formerly Chairman, President, Chief Executive Officer	56
Michael H. Joyce	President-Chief Operating Officer since October 1991; formerly President-North American Operations since January 1991; formerly President, Mobile Fluid Products Division, Dana Corporation	55
James O. Parrish	Vice President - Finance and Treasurer	56
Philippe O. Pecriaux	Vice President - Europe	58
Lance J. Melik	Vice President - Corporate Development since September 1995; formerly Vice President - Marketing	53

5

Executive Officers of the Registrant (continued)

Name	Principal Occupation Last Five Years	Age
Michael J. Hablewitz	Vice President - Quality Assurance since February 1994; formerly Vice President - Manufacturing Services	50
James McIndoe	Vice President - International Marketing	57
Darrell J. Olson	Vice President - Human Resources since November 1995; formerly Vice President - Operations, Intercraft Company Division, Newell Company since March 1994; formally Vice President - Human Resources, Mirro Company Division, Newell Company	49
Paul A. Pelligrino	Vice President - Engineering since April 1996; formerly Chief Engineer	57

of Corporate Engineering

John W. Spano	Vice President - Sales and Marketing since September 1995; formerly Director Mobile Market Group, Trinova Corporation since June 1993; formerly Director of Customer Service since October 1991; formerly Marine Market Sales Manager	52
Fred H. Timm	Corporate Controller and Secretary since August 1994; formerly Controller and Secretary	50

Officers are elected annually by the Board of Directors at the first meeting of the Board held after each Annual Meeting of the Shareholders. Each officer shall hold office until his successor has been duly elected, or until he shall resign or shall have been removed from office.

PART II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The dividends per share and stock price range information set forth under the caption "Sales and Earnings by Quarter" on page 1 of the Annual Report for the year ended June 30, 1996 are incorporated into this Report by reference.

As of June 30, 1996 there were 913 shareholder accounts. The Company's stock is traded on the New York Stock Exchange. The market price of the Company's common stock as of the close of business on August 30, 1996 was \$22.00 per share.

Pursuant to a shareholder rights plan (the "Rights Plan"), on June 17, 1988, the Board of Directors declared a dividend distribution, payable to shareholders of record on July 1, 1988, of one Preferred Stock Purchase Right for each outstanding share of Common Stock. The Rights will expire 10 years after issuance, and will be exercisable only if a person or group becomes the beneficial owner of 20% or more (or 30% in the case of any person or group which currently owns 20% or more of the shares or who shall become the Beneficial Owner of 20% or more of the shares as a result of any transfer by reason of the death of or by gift from any other person who is an Affiliate or an Associate of such existing holder or by succeeding such a person as trustee of a trust existing on the Record Date) of the Common Stock (such person or group, an "Acquiring Person") or commences a tender or exchange offer which would result in the offeror beneficially owning 30% or more of the Common Stock. A person who is not an Acquiring Person will not be deemed to have become an Acquiring Person solely as a result of a reduction in the

6

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters (continued)

number of shares of Common Stock outstanding due to a repurchase of Common Stock by the Company until such person becomes beneficial owner of any additional shares of Common Stock. Each Right will entitle shareholders to buy one newly issued unit of one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of \$80, subject to certain antidilution adjustments. The Company will generally be entitled to redeem the Rights at \$.05 per Right at any time prior to 10 business days after a public announcement of the existence of an Acquiring Person. In addition, if (i) a person or group accumulates more than 30% of the Common Stock (except pursuant to an offer for all outstanding shares of Common Stock which the independent directors of the Company determine to be fair to and otherwise in the best interests of the Company and its shareholders and except solely due to a reduction in the number of shares of Common Stock outstanding due to the repurchase of Common Stock by the Company), (ii) a merger takes place with an Acquiring Person where the Company is the surviving corporation and its Common Stock is not changed or exchanged, (iii) an Acquiring Person engages in certain self-dealing transactions, or (iv) during such time as there is an Acquiring Person, an event occurs which results in such Acquiring Person's ownership interest being increased by more than 1% (e.g., a reverse stock split), each Right (other than Rights held by such Acquiring Person and

certain related parties which become void) will represent the right to purchase, at the exercise price, Common Stock (or in certain circumstances, a combination of securities and/or assets) having a value of twice the exercise price. In addition, if following the public announcement of the existence of an Acquiring Person the Company is acquired in a merger or other business combination transaction, except a merger or other business combination transaction that takes place after the consummation of an offer for all outstanding shares of Common Stock that the independent directors of the Company have determined to be fair, or a sale or transfer of 50% or more of the Company's assets or earning power is made, each Right (unless previously voided) will represent the right to purchase, at the exercise price, common stock of the acquiring entity having a value of twice the exercise price at the time.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of Rights being acquired. However, the Rights are not intended to prevent a take-over, but rather are designed to enhance the ability of the Board of Directors to negotiate with an acquiror on behalf of all of the shareholders. In addition, the Rights should not interfere with a proxy contest.

The Rights should not interfere with any merger or other business combination approved by the Board of Directors since the Rights may be redeemed by the Company at \$.05 per Right prior to 10 business days (as such period may be extended by the Company) after the public announcement of the existence of an Acquiring Person.

The press release announcing the declaration of the Rights dividend, dated June 20, 1988, and a letter to the Company's shareholders, dated June 22, 1988, explaining the Rights, filed as Item 14(a)(3), Exhibits 4(a) and (b) of Part IV of the Annual Report on Form 10-K for the year ended June 30, 1988 are hereby incorporated by reference.

Item 6. Selected Financial Data

The information set forth under the caption "Ten-Year Financial Summary" on pages 40 and 41 of the Annual Report to Shareholders for the year ended June 30, 1996 is incorporated into this report by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information set forth under the caption "Management's Discussion and Analysis" on pages 19 through 21 of the Annual Report to Shareholders for the year ended June 30, 1996 is incorporated into this report by reference.

7

Item 8. Financial Statements and Supplementary Data

The following Consolidated Financial Statements of Twin Disc, Incorporated and Subsidiaries set forth on pages 22 through 39 of the Annual Report to Shareholders for the year ended June 30, 1996 are incorporated into this report by reference:

Consolidated Balance Sheets, June 30, 1996 and 1995

Consolidated Statements of Operations for the years ended June 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the years ended June 30, 1996, 1995 and 1994

Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

Report of Independent Accountants for the year ended June 30, 1996

The supplementary data regarding quarterly results of operations set forth under the caption "Sales and Earnings by Quarter" on page 1 of the Annual Report to Shareholders for the year ended June 30, 1996 is incorporated into

this report by reference.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

For information with respect to the executive officers of the Registrant, see "Executive Officers of the Registrant" at the end of Part I of this report. For information with respect to the Directors of the Registrant, see "Election of Directors" on pages 5 through 6 of the Proxy Statement for the Annual Meeting of Shareholders to be held October 18, 1996, which is incorporated into this report by reference.

Item 11. Executive Compensation

The information set forth under the captions "Compensation of Executive Officers", "Stock Options" and "Compensation Pursuant to Plans" on pages 8 through 10 of the Proxy Statement for the Annual Meeting of Shareholders to be held on October 18, 1996 is incorporated into this report by reference. Discussion in the Proxy Statement under the captions "Board Executive Selection and Salary Committee Report on Executive Compensation" and "Corporate Performance Graph" is not incorporated by reference and shall not be deemed "filed" as part of this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain beneficial owners and management is set forth on pages 3 and 4 of the Proxy Statement for the Annual Meeting of Shareholders to be held on October 18, 1996 under the caption "Principal Shareholders and Share Ownership of Directors and Executive Officers" and incorporated into this report by reference.

There are no arrangements known to the Registrant, the operation of which may at a subsequent date result in a change in control of the Registrant.

8

Item 13. Certain Relationships and Related Transactions

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) The following Consolidated Financial Statements of Twin Disc, Incorporated and Subsidiaries set forth on pages 22 through 39 of the Annual Report to Shareholders for the year ended June 30, 1996 are incorporated by reference into this report in Part II:

Consolidated Balance Sheets, June 30, 1996 and 1995

Consolidated Statements of Operations for the years ended June 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the years ended June 30, 1996, 1995 and 1994

Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

Report of Independent Accountants for the year ended June 30, 1996

The supplementary data regarding quarterly results of operations under the caption "Sales and Earnings by Quarter" on page 1 of the Annual Report to Shareholders for the year ended June 30, 1996 is incorporated by reference into this report in Part II hereof.

Individual financial statements of the 50% or less owned entities accounted for by the equity method are not required because such 50% or less owned entities do not constitute significant subsidiaries.

(a)(2) Consolidated Financial Statement Schedule (numbered in accordance with Regulation S-X) for the three years ended June 30, 1996:

	Page

Report of Independent Accountants	12
Schedule II-Valuation and Qualifying Accounts	13

Schedules, other than those listed, are omitted for the reason that they are inapplicable, are not required, or the information required is shown in the financial statements or the related notes thereto.

The Report of the Independent Accountants of the Registrant with respect to the above-listed consolidated financial statement schedule appears on page 12 of this report.

9

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K
(continued)

(a)(3) List of Exhibits: (numbered in accordance with Item 601 of Regulation S-K)

- 2 Not applicable
- 3
 - a) Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10-K for the year ended June 30, 1989).
 - b) Corporate Bylaws, amended through June 16, 1995 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10-K for the year ended June 30, 1995).
- 4 Instruments defining the rights of security holders, including indentures
 - a) Form of Rights Agreement dated as of June 17, 1988 by and between the Company and the First Wisconsin Trust Company, as Rights Agent, with Form of Rights Certificate (Incorporated by reference to Exhibits 1 and 2 of the Company's Form 8-A dated June 27, 1988).
 - b) Announcement of Shareholder Rights Plan per press release dated June 20, 1988 and explanation of plan per letter to Company's shareholders dated June 20, 1988 (Incorporated by reference to Exhibit 4(a) and (b), respectively, of the Company's Form 10-K for the year ended June 30, 1988).
- 9 Not applicable
- 10 Material Contracts
 - a) * The 1988 Incentive Stock Option Plan (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 21, 1988).
 - b) * The 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors (Incorporated by reference to Exhibit C of the Proxy Statement for the Annual Meeting of Shareholders held on October 21, 1988).
 - c) * Amendment to 1988 Incentive Stock Option Plan of Twin Disc, Incorporated (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 25, 1993).

- d) * Amendment to 1988 Non-Qualified Incentive Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).
- e) * Form of Severance Agreement for Senior Officers and form of Severance Agreement for Other Officers (Incorporated by reference to Exhibit 10(c) and (d), respectively, of the Company's Form 10-K for the year ended June 30, 1989).
- f) *Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(a) of the Company's Form 10-K for the year ended June 30, 1986).
- g) * Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K for the year ended June 30, 1993).

10

(a) (3) List of Exhibits: (numbered in accordance with Item 601 of Regulation S-K) (continued)

- h) * Form of Twin Disc, Incorporated Corporate Short Term Incentive Plan (Incorporated by reference to Exhibit 10(g) of the Company's Form 10-K for the year ended June 30, 1993).

* Denotes management contract or compensatory plan or arrangement.

- 11 Not applicable
- 12 Not applicable
- 13 Annual Report of the Registrant for the year ended June 30, 1996 is separately filed as Exhibit (13) to this Report (except for those portions of such Annual Report separately incorporated by reference into this Report, such Annual Report is furnished for the information of the Securities and Exchange Commission and shall not be deemed "filed" as part of this report).
- 18 Not applicable
- 21 Subsidiaries of the registrant
- 22 Not applicable
- 23 Consent of Independent Accountants
- 24 Power of Attorney
- 27 Financial Data Schedule for the year ended June 30, 1996 is separately filed as Exhibit (27) to this report. (This schedule is furnished for the information of the Securities and Exchange Commission and shall not be deemed "filed" for purposes of Section 11 of the Securities Act or Section 18 of the Exchange Act.)
- 28 Not applicable
- 99 Foreign Affiliate Separate Financial Statements
 - a) Niigata Converter Co., Ltd. financial statements for the year ended March 31, 1995 prepared in accordance with Japanese Commercial Code (Incorporated by reference to Exhibit 99(a) of the Company's Form 10-K for the year ended June 30, 1995).
 - b) Niigata Converter Co., Ltd. financial statements for the year ended March 31, 1994 prepared in accordance with Japanese Commercial Code (Incorporated by reference to

Copies of exhibits filed as a part of this Annual Report on Form 10-K may be obtained by shareholders of record upon written request directed to the Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By FRED H TIMM

Fred H. Timm, Corporate Controller
and Secretary (Chief Accounting Officer)

September 16, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

(By MICHAEL E. BATTEN
(-----
(Michael E. Batten, Chairman,
((Chief Executive Officer and Director(
(
(
(
September 16, 1996 (By MICHAEL H. JOYCE
(-----
(Michael H. Joyce, President,
(Chief Operating Officer and Director
(
(
(
(By JAMES O. PARRISH
(-----
(James O. Parrish, Vice President-
(Finance, Treasurer and Director
((Chief Financial Officer)

(William W. Goessel, Director
(Jerome K. Green, Director
(John L. Murray, Director
(
(Paul J. Powers, Director
(Richard T. Savage, Director
(David L. Swift, Director
(Stuart W. Tisdale, Director
(David R. Zimmer, Director
(
(
(By JAMES O. PARRISH
(-----
(James O. Parrish, Attorney in Fact

Twin Disc, Incorporated and Subsidiaries

To the Shareholders
Twin Disc, Incorporated
Racine, Wisconsin

Our report on the consolidated financial statements of Twin Disc, Incorporated and Subsidiaries has been incorporated by reference in this Form 10-K from page 39 of the 1996 Annual Report to Shareholders of Twin Disc, Incorporated and Subsidiaries. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page 8 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L. L. P.

Milwaukee, Wisconsin
July 26, 1996

13

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
for the years ended June 30, 1996, 1995 and 1994
(In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (1)	Balance at end of Period
1996:				
Allowance for losses on accounts receivable	\$ 408	\$ 41	\$ 77	\$ 372
Reserve for inventory obsolescence	1,581	845	1,500	926
1995:				
Allowance for losses on accounts receivable	\$ 441	\$ 54	\$ 87	\$ 408
Reserve for inventory obsolescence	1,586	886	891	1,581
1994:				
Allowance for losses on accounts receivable	\$ 416	\$ 264	\$ 239	\$ 441
Reserve for inventory obsolescence	-	2,094	508	1,586

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<FN>
 <F1> Accounts receivable written-off and inventory disposed of during the year and other adjustments.
 </FN>

14

EXHIBIT INDEX

Exhibit	Description	Page
3a)	Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10-K for the year ended June 30, 1989).	-
b)	Corporate Bylaws, as amended through June 16, 1995 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10-K for the year ended June 30, 1995).	-
4a)	Form of Rights Agreement dated as of June 17, 1988 by and between the Company and the First Wisconsin Trust Company, as Rights Agent, with Form of Rights Certificate (Incorporated by reference to Exhibits 1 and 2 of the Company's Form 8-A date June 27, 1988).	-
b)	Announcement of Shareholder Rights Plan per press release dated June 20, 1988 and explanation of plan per letter to Company's shareholders dated June 20, 1988 (Incorporated by reference to Exhibit 4(a) and (b), respectively of the Company's Form 10-K for the year ended June 30, 1988).	-
Material Contracts		
10a)	The 1988 Incentive Stock Option Plan (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 21, 1988).	-
b)	The 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors (Incorporated reference to Exhibit C of the Proxy Statement for the Annual Meeting of Shareholders held on October 21,1988).	-
c)	Amendment to 1988 Incentive Stock Option Plan of Twin Disc, Incorporated (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).	-
d)	Amendment to 1988 Non-Qualified Incentive Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).	-
e)	Form of Severance Agreement for Senior Officers and form of Severance Agreement for Other Officers (Incorporated by reference to Exhibit 10(c) and (d), respectively, of the Company's Form 10-K for the year ended June 30, 1989).	-
f)	Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(a) of the Company's Form 10-K for the year ended June 30, 1986).	-
g)	Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K for the year ended June 30, 1993).	-
h)	Form of Twin Disc, Incorporated Corporate Short Term Incentive Plan (Incorporated by reference to Exhibit 10(g) of the Company's Form 10-K for the year ended June 30, 1993).	-

EXHIBIT INDEX
(Continued)
Description

Exhibit	Description	Page
13	Annual Report of the Registrant for the year ended June 30, 1996	16
21	Subsidiaries of the Registrant	41
23	Consent of Independent Accountants	42
24	Power of Attorney	43
27	Financial Data Schedule for the year ended June 30, 1996	44
	Foreign Affiliate Separate Financial Statements	
99a)	Niigata Converter Co., Ltd. financial statements for the year ended March 31, 1995 prepared in accordance with Japanese Commercial Code (Incorporated by reference to Exhibit 99(a) of the Company's Form 10-K for the year ended June 30, 1995).	-
b)	Niigata Converter Co., Ltd. financial statements for the year ended March 31, 1994 prepared in accordance with Japanese Commercial Code (Incorporated by reference to Exhibit 99(b) of the Company's Form 10-K for the year ended June 30, 1995).	-

EXHIBIT 13

FINANCIAL HIGHLIGHTS

	1996	1995	1994
Net Sales	\$176,657	\$164,232	\$141,193
Earnings Before Accounting Changes	6,559	5,672	4,389
Earnings Per Share Before Accounting Changes	2.36	2.03	1.57
Dividends Per Share	.70	.70	.70
Average Shares Outstanding For The Year	2,776,805	2,790,111	2,799,390

Sales and Earnings by Quarter

1996	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net Sales	\$36,775	\$41,763	\$47,209	\$50,910	\$176,657
Gross Profit	7,093	9,295	11,340	13,149	40,877
Net Earnings	221	1,263	1,808	3,267	6,559
Net Earnings Per Share	.08	.45	.65	1.18	2.36
Dividends Per Share	.175	.175	.175	.175	.70
Stock Price Range:					
High	25 1/4	23 3/4	23 1/4	25 1/2	25 1/2
Low	22 1/2	22	21 3/8	22 1/4	21 3/8

Sales and Earnings by Quarter

1995	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net Sales	\$31,600	\$41,102	\$42,946	\$48,584	\$164,232
Gross Profit	6,444	9,246	9,502	11,154	36,346
Net Earnings	183	1,384	1,405	2,700	5,672
Net Earnings Per Share	.07	.49	.50	.97	2.03
Dividends Per Share	.175	.175	.175	.175	.70
Stock Price Range:					
High	24 1/4	23 5/8	21 1/4	25	25
Low	19 3/8	17	18 3/8	21 3/8	17

Based on average shares outstanding for the period.

In thousands of dollars except per share and stock price range statistics.

(1)

Management's Discussion and Analysis of
Financial Condition and Results of Operations

RESULTS OF OPERATIONS

NET SALES, NEW ORDERS AND BACKLOG

Sales for 1996 continued the upward trend of the past three years but at a rate below that of the previous year. The increased demand occurred in most markets, but was most evident in the marine pleasure craft and commercial markets. The multi-year trend of order rate and backlog improvement ended in fiscal year 1996 with order rates stabilizing early in the year and moderating during the last fiscal quarter.

Net sales for 1996 were \$176 million, an increase of 7 percent over the \$164 million reported in 1995, and 25 percent above the \$141 million in 1994. The recovery begun in 1994 strengthened worldwide in 1995 with the pleasure craft and commercial marine, light construction equipment, agricultural tractor, and specialty vehicle markets all providing support for increased domestic and European production volume. In 1996, the demand from marine and construction equipment markets continued, and there was new interest in modulating clutches for marine and environmental applications overseas.

Shipments from our overseas marketing subsidiaries in 1995 were up approximately 8 percent from the previous year and increased by about 10 percent in the year just completed. In 1995, sales gains were realized in Arneson surface drives and higher-horsepower marine transmissions for the Australian fish boat market. There also was continuing improvement in the volume of transmissions sold through our South African subsidiary to the agricultural tractor market. The 1996 sales gains of about 10 percent from these subsidiaries continued to be driven by the marine market with some moderation in the agricultural tractor business.

The six-month order backlog (orders to be shipped within the following six months) showed a modestly improving trend through fiscal year 1994, but during 1995 order rates improved considerably. The 53 percent improvement in six-month backlog from \$47 million to \$72 million during the year was continuous and strong. Order rates were steady through most of fiscal 1996 and closely matched our shipping rates. However, due to higher shipments and lower order rates during the fourth quarter, the six-month backlog declined to \$66 million at year-end, down 9 percent for the year.

For several years prior to fiscal 1995, the fluctuation in foreign currency exchange rates had little impact on the dollar sales. However, in fiscal 1995 the dollar weakened significantly against the currencies of most of the countries in which the Company operates, most notably about 15 percent against European currencies. That decline in the dollar's value helped boost reported sales and accounted for about one-half of the offshore sales increase in 1995. In 1996, exchange rate fluctuations again were relatively small and did not have a significant impact on dollar sales. Price increases, which were implemented selectively in each year, had the overall effect of increasing revenues by a rate about equal to the rate of inflation.

MARGINS, COSTS AND EXPENSES

There have been continuing efforts during the past three years to adjust manpower requirements and to restructure manufacturing facilities to establish a foundation for more efficient operations. Most of the recent activity has been at our domestic operations. A voluntary separation program for hourly
(19)

employees in early 1994 and rearrangement of machine tools into cells during much of the past three years have been the principal activities. While those efforts caused some inefficiencies during the period, we recently have begun to realize the benefits of the changes.

The gross margin increased by more than 2 percentage points in 1995, caused

18
primarily by the increased domestic sales volume. The European margin also improved in 1995 as a result of higher volume and greater productivity, but those gains were partially offset by the effects of the decline in the value of the U.S. dollar. The weaker dollar put pressure on profit margins since much of the incremental demand was in dollar denominated sales. Fortunately, our Belgian employees were able to achieve greater productivity to offset some of the margin loss.

The consolidated gross margin increased an additional 1 percentage point in 1996 primarily as a result of good productivity and a favorable product mix at our Belgian operation. Domestic margins improved during the last quarter of the fiscal year, but were slightly lower for the full year. A charge was made in the first quarter to cover the costs associated with a salaried employee voluntary separation program, but savings later in the year offset much of that expense. The factory rearrangement was completed in the second fiscal quarter, but there was a mid-year production and shipping disruption caused by the installation of new computer hardware and business systems software in November.

Marketing, engineering, and administrative (MEA) expenses for fiscal year 1995 increased by almost 16 percent over 1994 but declined as a percent of sales. Principal components of the increase were computer leasing and training costs associated with the planned new business systems, weakness of the dollar exchange rates, and expenses associated with domestic operational changes.

In 1996, the MEA expenses increased by 8 percent, about the same as the sales growth. Increases were due primarily to the addition of marketing and engineering personnel, higher computer related expense, and additional product promotion and other marketing expense.

INTEREST, TAXES AND NET EARNINGS

Interest expense increased significantly in 1995 as a result of both higher bank rates and greater domestic borrowing. The incremental debt was related to a business acquisition made early in the fiscal year. In 1996, there was another large increase in interest expense which was attributed about equally to higher domestic debt and payment of interest related to the audit of prior years' tax returns. As discussed in more detail below, additional debt was required to finance the working capital increase.

The effective income tax rate of 12 percent in 1994 was well below normal and resulted from the utilization of foreign tax credits to offset the domestic tax liability. The effective income tax rate returned to a more normal range in 1995 but was still somewhat below historical figures as we again were able to utilize a small amount of foreign tax credit. There was a further increase of five percentage points in the effective tax rate in 1996 due primarily to the proportionately greater foreign earnings on which a higher tax rate is applied.

The Financial Accounting Standards Board recently issued Statement of Accounting Standard 123, "Accounting for Stock Based Compensation", which is addressed in Footnote J to the consolidated financial statements.

ACQUISITIONS

Twin Disc purchased the stock of Marine Diffusion, SRL, an Italian company active in the distribution of the Arneson surface drive in May 1995. The company, renamed Twin Disc Italia, SRL, provides sales and service for the full range of Twin Disc products and improves product visibility and service capability for our European customers.

(20)

In February 1996, the Company entered into an agreement with Doen Marine Pty., Melbourne, giving Twin Disc the right to manufacture and market the Doen line of axial-flow water jet propulsion systems for boats. The water jets will be manufactured in Racine and will complement our line of marine transmissions, surface drives, and electronic control systems.

19

LIQUIDITY AND CAPITAL RESOURCES

Operating cash flows for 1995 increased to \$7.6 million with some working capital increases, primarily inventory, partially offsetting the cash flow generated by improved net earnings. The operating cash flows and \$1.4 million of net additional borrowing provided funds to invest in business acquisitions, purchase capital equipment and pay dividends. In 1996, the net cash from operating activities was a deficit of \$4.8 million. Despite the higher earnings, working capital increases more than offset the positive cash flows. Receivables as a percent of net sales rose two percentage points from last year, but most of that increase was due to the high domestic shipments in June. Inventory, at higher levels throughout the year, declined during the fourth quarter and, as a percent of sales, ended the year at about the same rate as in 1995. Also, current liabilities were down from the prior year due to lower trade payables and a decline in the amount of current pension liabilities. During the year we took advantage of relatively low interest rates to convert \$20 million of our revolving bank credit into fixed rate 10-year private placement debt. This will provide a stable financial base for future development and growth. Overall debt rose by \$11 million in 1996 to cover increased working capital and purchase of the water jet license.

Fixed asset purchases in 1995 and 1996 were less than depreciation. We will continue to make the changes necessary to enhance our manufacturing capability and expect future spending will exceed depreciation somewhat in order to support more efficient manufacture of current and newly developed product.

With the increase in current assets and decline in liabilities, the current ratio at June 30, 1996 rose to 3.0, up from 2.5 at the previous two year-ends. Working capital increased by \$6 million in 1995, generally reflecting the funds required to support the higher sales volume. Further increases of \$9 million in 1996 related to the higher sales volume and the reduction of current liabilities discussed above.

The Company is involved in various stages of investigation relative to hazardous waste sites on the United States EPA National Priorities List. It

is not possible at this time to determine the ultimate outcome of those matters; but, as discussed further in footnote 0 to the audited financial statements, they are not expected to affect materially the Company's operations, financial position, or cash flows. The Company believes the capital resources available in the form of existing cash, lines of credit and funds provided by operations will be adequate to meet anticipated requirements for capital expenditures and other foreseeable business requirements in the future.

(21)

20

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 1996 and 1995

(In thousands)	1996 ----	1995 ----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,043	\$ 3,741
Trade accounts receivable, net	34,917	29,247
Inventories	51,083	47,157
Deferred income taxes	2,710	3,865
Other	5,887	6,480
	-----	-----
Total current assets	96,640	90,490
Property, plant and equipment, net	35,715	37,348
Investment in affiliates	12,079	14,249
Deferred income taxes	3,758	4,119
Intangible pension asset	8,079	8,293
Other assets	6,428	3,802
	-----	-----
	\$162,699	\$158,301
	-----	-----
	-----	-----
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 7,360	\$ 2,415
Accounts payable	8,806	12,395
Accrued liabilities	17,836	22,042
	-----	-----
Total current liabilities	34,002	36,852
Long-term debt	19,938	14,000
Accrued retirement benefits	33,578	32,827
	-----	-----
	87,518	83,679
Shareholders' equity:		
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Preferred shares authorized: 200,000	-	-
Retained earnings	71,658	67,054
Cumulative adjustments	9,706	13,797
	-----	-----
	93,017	92,504
Less treasury stock, at cost	17,836	17,882
	-----	-----
Total shareholders' equity	75,181	74,622
	-----	-----
	\$162,699	\$158,301
	-----	-----
	-----	-----

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

(22)

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 1996, 1995 and 1994

(In thousands, except per share data)

	1996	1995	1994
	----	----	----
Net sales	\$176,657	\$164,232	\$141,193
Cost of goods sold	135,780	127,886	113,404
	-----	-----	-----
Gross profit	40,877	36,346	27,789
Marketing, engineering and administrative expenses	28,706	26,461	22,840
	-----	-----	-----
Earnings from operations	12,171	9,885	4,949
Other income (expense):			
Interest income	121	186	173
Interest expense	(1,942)	(1,281)	(733)
Equity in earnings of affiliates	45	186	522
Other, net	512	(392)	56
	-----	-----	-----
	(1,264)	(1,301)	18
	-----	-----	-----
Earnings before income taxes	10,907	8,584	4,967
Income taxes	4,348	2,912	578
	-----	-----	-----
Net earnings	\$ 6,559	\$ 5,672	\$ 4,389
	-----	-----	-----
Earnings per common share, based on weighted average shares outstanding	\$ 2.36	\$ 2.03	\$ 1.57
	-----	-----	-----
Weighted average shares outstanding	2,777	2,790	2,799
	-----	-----	-----

The notes to consolidated financial statements
are an integral part of these statements.
(23)

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 1996, 1995 and 1994

(In thousands)

	1996	1995	1994
	----	----	----

Cash flows from operating activities:			
Net earnings	\$ 6,559	\$ 5,672	\$ 4,389
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	5,233	4,847	4,726
Gain (loss) on sale of fixed assets	(26)	65	(185)
Equity in earnings of affiliates	(45)	(186)	(522)
Provision for deferred income taxes	1,646	1,038	(161)
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(6,055)	(2,266)	(66)
Inventories	(3,926)	(3,259)	1,969

Other assets	(987)	(3,608)	(1,842)
Accounts payable	(3,513)	3,765	501
Accrued liabilities	(3,231)	1,170	(570)
Deferred retirement plan	(336)	337	(1,099)
	-----	-----	-----
Net cash provided (used) by operating activities	(4,681)	7,575	7,140
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sale of plant assets	18	39	1,126
Dividends received from affiliate	548	371	342
Acquisitions of plant assets	(4,140)	(4,290)	(4,216)
Payments for business acquisitions and investment in affiliates	-	(3,172)	-
Payment for license agreement	(2,402)	-	-
	-----	-----	-----
Net cash used by investing activities	(5,976)	(7,052)	(2,748)
	-----	-----	-----
Cash flows from financing activities:			
Increases (decreases) in notes payable, net	5,076	(1,113)	262
Proceeds from long-term debt	19,914	2,500	-
Principal payments on long-term debt	(14,000)	-	(1,500)
Acquisition of treasury stock	-	(586)	-
Proceeds from exercise of stock options	35	71	-
Dividends paid	(1,943)	(1,951)	(1,960)
	-----	-----	-----
Net cash provided (used) by financing activities	9,082	(1,079)	(3,198)
	-----	-----	-----
Effect of exchange rate changes on cash	(123)	131	69
	-----	-----	-----
Net change in cash and cash equivalents	(1,698)	(425)	1,263
	-----	-----	-----
Cash and cash equivalents:			
Beginning of year	3,741	4,166	2,903
	-----	-----	-----
End of year	\$ 2,043	\$ 3,741	\$ 4,166
	-----	-----	-----

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

(24)

23

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
for the years ended June 30, 1996, 1995 and 1994

(In thousands)	1996	1995	1994
	----	----	----
Common stock			
Balance, June 30	\$ 11,653	\$ 11,653	\$ 11,653
	-----	-----	-----
Retained earnings			
Balance, July 1	67,054	63,353	60,924
Net earnings	6,559	5,672	4,389
Cash dividends	(1,943)	(1,951)	(1,960)
Stock options exercised	(12)	(20)	-
	-----	-----	-----
Balance, June 30	71,658	67,054	63,353
	-----	-----	-----
Treasury stock, at cost			
Balance, July 1	(17,882)	(17,387)	(17,387)
Shares acquired	-	(586)	-
Stock options exercised	46	91	-
	-----	-----	-----
Balance, June 30	(17,836)	(17,882)	(17,387)
	-----	-----	-----
Cumulative adjustments			

Balance, July 1	13,797	7,778	6,219
Foreign currency translation adjustment	(3,755)	5,352	2,510
Minimum pension liability adjustment, net	(336)	667	(951)
	-----	-----	-----
Balance, June 30	9,706	13,797	7,778
	-----	-----	-----
Shareholders' equity balance, June 30	\$ 75,181	\$ 74,622	\$ 65,397
	-----	-----	-----
	-----	-----	-----

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

(25)

24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

Consolidation Principles--The consolidated financial statements include the accounts of Twin Disc, Incorporated and its subsidiaries, all of which are wholly owned. Certain foreign subsidiaries are included based on fiscal years ending May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

Revenue Recognition--Revenues are recognized when products are shipped.

Investment In Affiliates--The Company's 25% investments in affiliates are stated at cost, adjusted for equity in undistributed earnings since acquisition.

Translation Of Foreign Currencies--Substantially all foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange prevailing at year-end. Revenues and expenses are translated at average rates of exchange in effect during the year. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings.

Cash Equivalents--The Company considers all highly liquid marketable securities purchased with a maturity date of three months or less to be cash equivalents.

Receivables--Trade accounts receivable are stated net of an allowance for doubtful accounts of \$372,000 and \$409,000 at June 30, 1996 and 1995, respectively.

Inventories--Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for parent company inventories, and by the first-in, first-out (FIFO) method for other inventories.

Property, Plant and Equipment and Depreciation--Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and amortized by depreciation charges. Depreciation is provided on the straight-line method over the estimated useful lives of the assets for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physical disposition.

Management Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates.

Fair Value of Financial Instruments--The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximates fair value because of the immediate short-term maturity of these financial instruments. The carrying amount reported for long-term debt approximates fair value because the underlying instrument bears interest at a current market rate.

25

Income Taxes--The Company recognizes deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the company's financial statements. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

(26)

The Company does not provide for taxes which would be payable if undistributed earnings of its foreign subsidiaries or its foreign affiliate were remitted because the Company either considers these earnings to be invested for an indefinite period or anticipates that if such earnings were distributed, the U. S. income taxes payable would be substantially offset by foreign tax credits.

Reclassification--Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the 1996 presentation.

B. INVENTORIES

The major classes of inventories at June 30 were as follows:

(In thousands)	1996	1995
	----	----
Finished parts	\$41,535	\$32,887
Work-in-process	5,429	7,849
Raw materials	4,119	6,421
	-----	-----
	\$51,083	\$47,157
	-----	-----
	-----	-----

Inventories stated on a LIFO basis represent approximately 36% of total inventories at June 30, 1996 and 1995. The approximate current cost of the LIFO inventories exceeded the LIFO cost by \$17,171,000 and \$16,782,000 at June 30, 1996 and 1995, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30 were as follows:

(In thousands)	1996	1995
	----	----
Land	\$ 1,399	\$ 1,406
Buildings	19,082	19,366
Machinery and equipment	88,182	88,675
	-----	-----
	108,663	109,447
Less accumulated depreciation	72,948	72,099
	-----	-----
	\$35,715	\$37,348
	-----	-----
	-----	-----

D. BUSINESS SEGMENTS AND FOREIGN OPERATIONS

The Company and its subsidiaries are engaged in one line of business, the manufacture and sale of power transmission equipment. Transfers among

geographic areas are made at established intercompany selling prices. Principal products include industrial clutches, hydraulic torque converters, fluid couplings, power-shift transmissions, marine transmissions, universal joints, power take-offs, and reduction gears. The Company sells to both domestic and foreign customers in a variety of market areas, principally

26

construction, industrial, marine, energy and natural resources and agricultural.

One customer accounted for approximately 10%, 12% and 13% of consolidated net sales in 1996, 1995 and 1994, respectively.

(27)

Information about the Company's operations in different geographic areas for the years ended June 30, 1996, 1995 and 1994 is summarized as follows:

(In thousands)	1996 ----	1995 ----	1994 ----
Sales to unaffiliated customers:			
United States	\$120,137	\$108,607	\$ 95,331
Foreign:			
Europe	34,206	35,572	27,222
Other	22,314	20,053	18,640
	-----	-----	-----
Total	\$176,657	\$164,232	\$141,193
	-----	-----	-----
Transfers between geographic areas:			
United States	\$ 30,230	\$ 26,167	\$ 24,003
Foreign:			
Europe	23,130	15,024	10,508
Other	322	361	132
	-----	-----	-----
Total	\$ 53,682	\$ 41,552	\$ 34,643
	-----	-----	-----
Net sales:			
United States	\$150,367	\$134,774	\$119,334
Foreign:			
Europe	57,336	50,596	37,730
Other	22,636	20,414	18,772
Eliminations	(53,682)	(41,552)	(34,643)
	-----	-----	-----
Total	\$176,657	\$164,232	\$141,193
	-----	-----	-----
Earnings before income taxes:			
United States	\$ 2,821	\$ 4,332	\$ 1,500
Foreign:			
Europe	6,126	2,635	1,513
Other	1,960	1,617	1,954
	-----	-----	-----
Total	\$ 10,907	\$ 8,584	\$ 4,967
	-----	-----	-----
Identifiable assets at June 30:			
United States	\$117,552	\$106,971	\$ 98,945
Foreign:			
Europe	36,356	39,537	30,778
Other	12,794	10,269	9,814
Eliminations	(4,003)	1,524	4,379
	-----	-----	-----
Total	\$162,699	\$158,301	\$143,916
	-----	-----	-----

Net earnings of the foreign subsidiaries were \$4,758,000, \$2,480,000 and \$2,365,000 in 1996, 1995 and 1994, respectively. The net assets of the foreign subsidiaries were \$32,085,000 and \$32,368,000 at June 30, 1996 and 1995, respectively. Undistributed earnings of foreign subsidiaries, on which no provisions for United States income taxes have been made, aggregated approximately \$22,949,000 (including \$5,170,000 translation component) at June

27

30, 1996. Included in earnings are foreign currency transaction gains (losses) of \$409,000, \$(248,000) and \$21,000 in 1996, 1995 and 1994, respectively.

E. INVESTMENTS IN AFFILIATES

The Company's investments in affiliates consists of 25% interests in Niigata Converter Company, Ltd., Japan and Palmer Johnson Distributors, LLC, a domestic distributor of Twin Disc products. The Company acquired the interest in Palmer Johnson Distributors, LLC, in July 1994.

Undistributed earnings of the affiliates included in consolidated retained earnings approximated \$3,120,000 and \$3,623,000 at June 30, 1996 and 1995, respectively.

Combined condensed financial data of the above-listed affiliates are summarized in U.S. dollars as follows:

	(In thousands)		
	1996	1995	
	----	----	
Current assets	\$104,949	\$111,393	
Other assets	51,263	63,898	
	-----	-----	
	\$156,212	\$175,291	
	-----	-----	
	-----	-----	
Current liabilities	\$100,153	\$100,836	
Other liabilities	14,622	24,693	
Shareholders' equity	41,437	49,762	
	-----	-----	
	\$156,212	\$175,291	
	-----	-----	
	-----	-----	
	1996	1995	1994
	----	----	----
Net sales	\$183,487	\$169,256	\$152,728
Gross profit	23,436	26,173	21,864
Net earnings	181	742	2,087

F. ACCRUED LIABILITIES

Accrued liabilities at June 30 were as follows:

	(In thousands)	
	1996	1995
	----	----
Salaries and wages	\$ 5,756	\$ 6,476
Retirement plans	4,122	7,818
Other	7,958	7,748
	-----	-----
	\$ 17,836	\$ 22,042
	-----	-----
	-----	-----

G. DEBT

Short-term notes payable consists of amounts borrowed under line of credit agreements. Unused lines of credit total \$11,632,000 at June 30, 1996. These lines of credit are available predominately at the LIBOR rate and may be

withdrawn at the option of the banks. The weighted average interest rate of short-term lines outstanding at June 30, 1996 and 1995 was 8.4% and 9.4%, respectively.

Prior to June 1996, the Company maintained a three-year revolving credit agreement (the "Agreement") for borrowings of up to \$16 million. The Agreement provided that the Company could select among various loan arrangements with interest based on the LIBOR or prime rates. The Company paid a commitment fee of 3/8 of 1% annually on the unused portion of the Agreement. In June 1996, the Company issued \$20 million of 7.37% ten-year notes in a private placement offering, net of \$86,000 unamortized debt issuance costs. Principal payments of \$2,857,000 are due in the years 2000 through 2005, with the remaining balance due on June 1, 2006.

Cash paid for interest was \$1,802,000, \$1,288,000 and \$771,000 in 1996, 1995 and 1994, respectively.

H. LEASE COMMITMENTS

Approximate future minimum rental commitments under noncancellable operating leases are as follows:

Fiscal Year -----	(In thousands) -----
1997	\$ 2,000
1998	1,693
1999	1,245
2000	738
2001	469
Thereafter	229

	\$ 6,374

Total rent expense for operating leases approximated \$2,109,000, \$1,939,000 and \$1,633,000 in 1996, 1995 and 1994, respectively.

I. SHAREHOLDERS' EQUITY

At June 30, 1996 and 1995, treasury stock consisted of 866,356 and 868,606 shares of common stock, respectively. The Company issued 2,250 shares of treasury stock in 1996 to fulfill its obligations under the stock option plans. The difference between the cost of treasury shares issued and the option price is charged to retained earnings.

Cash dividends per share were \$.70 in 1996, 1995 and 1994.

(30)

In 1988, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders of record on July 1, 1988, one preferred stock purchase right for each outstanding share of common stock. Under certain circumstances, a right may be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of \$80, subject to certain anti-dilution adjustments. The rights become exercisable ten (10) days after a public announcement that a party or group has either acquired at least 20%, (or at least 30% in the case of existing holders who currently own 20% or more of the common stock), or commenced a tender offer for at least 30%, of the Company's common stock. Generally, after the rights become exercisable, if the Company is a party to certain merger or business combination transactions, or transfers 50% or more of its assets or earnings power, or certain other events occur, each right will entitle its holders, other than the acquiring person, to buy a number of shares of common stock of the Company, or of the other party to the transaction, having a value of twice

the exercise price of the right. The rights expire June 30, 1998 and may be redeemed by the Company for \$.05 per right at any time until ten (10) days following the stock acquisition date. The Company has designated 50,000 shares of the preferred stock for the purpose of a Shareholder Rights Plan.

J. STOCK OPTION PLANS

The Company has a non-qualified stock option plan for officers, key employees and directors to purchase up to 125,000 shares of common stock, and an incentive stock option plan for officers and key employees to purchase up to 225,000 shares of common stock.

The plans are administered by the Executive Selection and Compensation Committee of the Board of Directors which has the authority to determine which officers and key employees of the Company will be granted options. The grant of options to non-employee directors is fixed and based on such directors' seniority. All options allow for the purchase of common stock at prices not less than the fair market value at the date of grant, except for options under the incentive stock option plan if the optionee owns more than 10% of the total combined voting power of all classes of the Company's stock, in which case the option price will be not less than 110% of the fair market value of such stock. Options granted under the plans become exercisable immediately and expire ten years after the date of grant, unless the employee owns more than 10% of the total combined voting power of all classes of the Company's stock, in which case they must be exercised within five years of the date of grant.

Shares available for future options as of June 30 were as follows:

	1996 ----	1995 ----
Non-qualified stock option plan	28,650	42,550
Incentive stock option plan	67,500	89,150

(31)

Stock option transactions under the plans during 1996 and 1995 were as follows:

	1996 ----	1995 ----
Non-qualified stock option plan:		
Options outstanding at beginning of year	81,450	71,550
Granted	13,900	12,600
Cancelled	-	(1,700)
Exercised (\$17.88-\$19.50 per share)	-	(1,000)
	-----	-----
Options outstanding at June 30	95,350	81,450
	-----	-----
Options price range at June 30	\$ 14.00 - 29.63	\$ 14.00 - 29.63
Incentive stock option plan:		
Options outstanding at beginning of year	132,050	118,550
Granted	25,050	24,450
Cancelled	(3,400)	(7,550)
Exercised (\$14.00-\$19.50 per share)	(2,250)	(3,400)

Options outstanding at June 30	151,450 ----- -----	132,050 ----- -----
Options price range at June 30	\$ 14.00 - 29.63	\$ 14.00 - 29.63

The Company is required to adopt the pro forma disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation," in fiscal year 1997. In the current fiscal year, the Company accounted for its stock option plan under the provisions of Accounting Principles Board Opinion No. 25.

K. ENGINEERING AND DEVELOPMENT COSTS

Engineering and development costs include research and development expenses for new products, development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totalled \$2,564,000, \$2,718,000 and \$2,649,000 in 1996, 1995 and 1994, respectively. Total engineering and development costs were \$6,998,000, \$7,411,000 and \$6,843,000 in 1996, 1995 and 1994, respectively.

L. INCOME TAXES

United States and foreign earnings before income taxes were as follows:

(In thousands)	1996 ----	1995 ----	1994 ----
United States	\$ 2,821	\$ 4,332	\$ 1,500
Foreign	8,086	4,252	3,467
	-----	-----	-----
	\$10,907	\$ 8,584	\$ 4,967
	-----	-----	-----
	-----	-----	-----

(32)

The provision (credit) for income taxes is comprised of the following:

(In thousands)	1996 ----	1995 ----	1994 ----
Currently payable:			
Federal	\$ 829	\$ 782	\$ (112)
State	78	12	39
Foreign	1,925	1,007	812
	-----	-----	-----
	2,832	1,801	739
	-----	-----	-----
Deferred:			
Federal	388	452	(150)
State	(54)	12	-
Foreign	1,182	647	(11)
	-----	-----	-----
	1,516	1,111	(161)
	-----	-----	-----
	\$ 4,348	\$ 2,912	\$ 578
	-----	-----	-----
	-----	-----	-----

The components of the net deferred tax asset as of June 30, were as follows:

	----	----
Deferred tax assets:		
Retirement plans and employer benefits	\$ 9,971	\$10,878
Research and development expenses	926	205
Other	1,550	1,205
Foreign net operating loss carryforwards	380	1,823
Foreign tax credit carryforwards	292	2,150
R&E tax credit carryforwards	335	250
Alternative minimum tax credit carryforwards	1,223	979
Valuation allowance	-	(1,430)
	-----	-----
	14,677	16,060
	-----	-----
Deferred tax liabilities:		
Fixed assets	6,368	6,771
Other	1,841	1,305
	-----	-----
	8,209	8,076
	-----	-----
Total net deferred tax assets	\$ 6,468	\$ 7,984
	-----	-----
	-----	-----

[CAPTION]

(33)

The Company previously recorded a valuation allowance to reflect the estimated amount of deferred tax assets which may not be realized due to the expiration of net operating loss and tax credit carryforwards. The change in the valuation allowance is as follows:

(In thousands)	1996	1995
	----	----
Balance at July 1	\$ (1,430)	\$ (2,453)
Utilization of foreign net operating loss carryforwards	-	139
Utilization of foreign tax credit carryforwards	1,430	884
	-----	-----
Balance at June 30	\$ -	\$ (1,430)
	-----	-----
	-----	-----

Following is a reconciliation of the applicable U.S. federal income tax rate to the effective tax rates reflected in the statements of operations:

	1996	1995	1994
	----	----	----
U.S. federal income tax rate	34.0%	34.0%	34.0%
Increases (reductions) in tax rate resulting from:			
Utilization of net operating loss carryforwards	-	(1.6)	(12.2)
Foreign tax items	4.2	(1.8)	(13.8)
Employee benefits - foreign	-	1.8	3.2
Other, net	1.7	1.5	0.4
	-----	-----	-----
	39.9%	33.9%	11.6%
	----	----	----
	----	----	----

At June 30, 1996, net operating loss carryforwards of approximately \$900,000 were available for reduction of future foreign income taxes payable at Twin Disc International, S. A.

Cash paid for income taxes was \$4,946,000, \$2,698,000 and \$1,636,000 in 1996,

1995 and 1994, respectively.

M. RETIREMENT PLANS

The Company has noncontributory, qualified defined benefit pension plans covering substantially all domestic employees and contributory plans covering certain foreign employees. Domestic plan benefits are based on years of service, and for salaried employees on final average compensation. The Company's funding policy for the plans covering domestic employees is to contribute an actuarially determined amount which falls between the minimum and maximum amount that can be contributed for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

In addition, the Company has unfunded, non-qualified retirement plans for certain management employees and directors. Benefits are based on final average compensation and do not vest until such management employee reaches normal retirement with the Company.

(34)

Net pension expense for the Company's domestic defined benefit plans consists of the following components:

(In thousands)	1996	1995	1994
	----	----	----
Service cost-benefits earned during the year	\$ 1,529	\$ 1,585	\$ 1,382
Interest cost on projected benefit obligation	6,823	6,643	6,518
Actual return on plan assets	(9,956)	(3,835)	(1,882)
Net amortization and deferral	5,304	(588)	(2,432)
	-----	-----	-----
Net pension cost	\$ 3,700	\$ 3,805	\$ 3,586
	-----	-----	-----
	-----	-----	-----

The following table sets forth the Company's domestic defined benefit plans' funded status and the amounts recognized in the Company's balance sheet as of June 30:

(In thousands)	1996	1995
	----	----
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ 70,042	\$ 63,804
Non-vested benefit obligation	15,683	14,622
	-----	-----
Accumulated benefit obligation	85,725	78,426
Effect of projected future compensation levels	4,622	4,475
	-----	-----
Projected benefit obligation	90,347	82,901
Plan assets at fair value	(73,422)	(64,110)
	-----	-----
Deficiency of plan assets compared to projected benefit obligation	16,925	18,791
Unrecognized net loss	(4,042)	(2,139)
Unrecognized prior service cost	(8,656)	(9,651)
Unrecognized transitional net liability	(667)	(799)
Adjustment required to recognize additional minimum liability	9,095	8,758
	-----	-----
Accrued retirement cost at June 30	\$ 12,655	\$ 14,960
	-----	-----
	-----	-----

	1996	1995
	----	----
Discount rate	7.8%	8.5%
Rate of increase in compensation levels	4.5%	4.5%
Expected long-term rate of return on plan assets	9.0%	9.0%

(35)

Total accrued retirement costs at June 30 are summarized as follows:

(In thousands)	1996	1995
	----	----
Current:		
Domestic defined benefit plans	\$ 1,156	\$ 3,907
Foreign contributory benefit plans	673	1,092
	-----	-----
	1,829	4,999
Long-term:		
Domestic defined benefit plans	11,499	11,053
	-----	-----
	\$13,328	\$16,052
	-----	-----
	-----	-----

Retirement plan expense for the Company's foreign plans was \$597,000, \$307,000 and \$246,000 in 1996, 1995 and 1994, respectively.

The Company sponsors defined contribution plans covering substantially all domestic employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was \$1,056,000, \$906,000 and \$933,000 in 1996, 1995 and 1994, respectively.

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain domestic retirees. In 1993, the Company executed amendments to the health care insurance plan to require all employees retiring after December 31, 1992, and electing to continue coverage through the Company's group plan, to pay 100% of the premium cost.

The Company recognized \$2,680,000, \$2,841,000 and \$2,193,000 in non-pension postretirement benefit expense in 1996, 1995 and 1994, respectively, which consists primarily of interest cost.

The following table sets forth the status of the postretirement benefit programs (other than pensions) and amounts recognized in the Company's consolidated balance sheet at June 30:

(In thousands)	1996	1995
	----	----
Accumulated postretirement benefit obligation:		
Retirees	\$28,077	\$29,993
Fully eligible active plan participants	433	387
Other active participants	471	393
	-----	-----
	28,981	30,773
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	(4,279)	(6,222)
	-----	-----
Accrued postretirement benefit obligation	\$24,702	\$24,551
	-----	-----
	-----	-----

\$2,293,000 and \$2,680,000 is included in accrued liabilities at June 30, 1996 and 1995, respectively.

The assumed weighted average discount rate used in determining the actuarial present value of the accumulated postretirement benefit obligation was 7.75% and 8% at June 30, 1996 and 1995, respectively. The assumed weighted average health care cost trend rate was 10% in fiscal year 1996, decreasing by 1% each year thereafter until it reaches 7% in fiscal year 1999, and remains constant thereafter. A 1% increase in the assumed health care trend would increase the accumulated postretirement benefit obligation by approximately \$1.9 million and the interest cost by approximately \$154,000.

(36)

N. ACQUISITION

Effective January 1, 1995, the Company purchased all outstanding stock of Marine Diffusion SRL, an Italian distributor of Twin Disc products and other marine components and assemblies. The purchase price (\$172,000) approximated the fair value of assets acquired.

The purchase method of accounting was applied to the above transaction. The results of operations of the acquisition are included in the accompanying consolidated financial statements since the date of acquisition. Pro forma results of operations are not presented as the amounts do not significantly differ from historical results.

O. CONTINGENCIES

The Company is involved in various stages of investigation relative to hazardous waste sites, two of which are on the United States EPA National Priorities List (Superfund sites). The Company's assigned responsibility at each of the Superfund sites is less than 2%. The Company has also been requested to provide administrative information related to two other potential Superfund sites but has not yet been identified as a potentially responsible party. Additionally, the Company is subject to certain product liability matters.

At June 30, 1996, the Company has accrued approximately \$1,200,000, which represents the best estimate available for the possible losses. This amount has been accrued over the past several years. Based on the information available, the Company does not expect that any unrecorded liability related to these matters would materially affect the consolidated financial position, results of operations or cash flows.

(37)

35

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders
Twin Disc, Incorporated
Racine, Wisconsin

We have audited the accompanying consolidated balance sheets of Twin Disc, Incorporated and Subsidiaries as of June 30, 1996 and 1995, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Twin Disc, Incorporated and Subsidiaries as of June 30, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1996 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Milwaukee, Wisconsin
July 26, 1996

(39)

36

FINANCIAL SUMMARY

	1996	1995	1994	1993	1992
(In thousands of dollars, except where noted)					
Statement of Operations					
Net sales	\$176,657	\$164,232	\$141,193	\$139,403	\$136,255
Costs and expenses, including marketing, engineering and administrative	164,486	154,347	136,244	135,284	134,242
Earnings from operations	12,171	9,885	4,949	4,119	2,013
Other income (expense)	(1,264)	(1,301)	18	(95)	(162)
Earnings before income taxes	10,907	8,584	4,967	4,024	1,851
Income taxes	4,348	2,912	578	1,362	810
Net earnings	6,559	5,672	4,389	2,662	1,041
Overseas operations					
Sales	55,520	55,625	45,862	44,766	45,668
Earnings (loss)	4,758	2,480	2,365	1,673	(478)
Balance Sheet					
Assets					
Cash and equivalents	2,043	3,741	4,166	2,903	2,987
Receivables, net	34,917	29,247	25,682	25,106	26,026
Inventories	51,083	47,157	41,569	42,562	36,686
Other current assets	8,597	10,345	8,993	6,961	4,521
Total current assets	96,640	90,490	80,410	77,532	70,220
Investments and other assets	30,344	30,463	26,830	21,813	10,554
Fixed assets less accumulated depreciation	35,715	37,348	36,676	37,560	38,724
Total assets	162,699	158,301	143,916	136,905	119,498
Net assets overseas	32,085	32,368	29,580	28,059	30,477
Liabilities and Shareholders' Equity					
Current liabilities	34,002	36,852	32,710	31,252	35,694
Long-term debt	19,938	14,000	11,500	13,000	-
Deferred liabilities	33,578	32,827	34,309	31,244	7,365
Shareholders' equity	75,181	74,622	65,397	61,409	76,439
Total liabilities and shareholders' equity	162,699	158,301	143,916	136,905	119,498

1993 Net Earnings data and Return percentages reflect operating earnings before the effect of adopting Financial Accounting Standards 106 and 109. The cumulative effect of their adoption was a net loss of \$14.44 million or \$5.16 per share.

(40-41)

FINANCIAL SUMMARY (CONTINUED)

	1996	1995	1994	1993	1992
--	------	------	------	------	------

(In thousands of dollars, except where noted)

Comparative Financial Information

Per share statistics

Net earnings	2.36	2.03	1.57	.95	.37
Dividends	.70	.70	.70	.70	.70
Shareholders' equity	27.07	26.75	23.36	21.93	27.10
Return on equity	8.7%	7.6%	6.7%	4.3%	1.4%
Return on assets	4.0%	3.6%	3.0%	1.9%	.9%
Return on sales	3.7%	3.5%	3.1%	1.9%	.8%

Average shares

outstanding	2,776,805	2,790,111	2,799,390	2,799,603	2,820,513
Number of shareholder accounts	913	996	1,058	1,139	1,214
Number of employees	1,080	1,097	1,099	1,114	1,221

Additions to plant

and equipment	4,140	4,290	4,216	4,684	4,390
Depreciation	5,071	4,792	4,670	4,958	5,452
Net working capital	62,638	53,638	47,700	46,280	34,526

1993 Net Earnings data and Return percentages reflect operating earnings before the effect of adopting Financial Accounting Standards 106 and 109. The cumulative effect of their adoption was a net loss of \$14.44 million or \$5.16 per share.
(40-41)

DIRECTORS

MICHAEL E. BATTEN

Chairman, Chief Executive Officer

WILLIAM W. GOESSEL

Retired Chairman and former Chief Executive Officer, Harnischfeger Industries,

Incorporated, (Manufacturer of Cranes, Mining Equipment and Papermaking Machines),

Milwaukee, Wisconsin

JEROME K. GREEN

Former Group Vice President, The Marmon Group, (A Diversified Manufacturer), Chicago, Illinois

MICHAEL H. JOYCE

President, Chief Operating Officer

JOHN L. MURRAY

Retired Chairman-Chief Executive Officer, Universal Foods Corporation, (Manufacturer and Marketer of Food Ingredients and Specialty Foods),

Milwaukee,

Wisconsin

JAMES O. PARRISH

Vice President-Finance & Treasurer

PAUL J. POWERS

Chairman, President-Chief Executive Officer, Commercial Intertech Corp., (Manufacturer of Hydraulic Components, Fluid Purification Products,

Pre-Engineered

Buildings and Stamped Metal Products), Youngstown, Ohio

RICHARD T. SAVAGE

President-Chief Executive Officer, Modine Manufacturing Company, (Manufacturer of

Heat Exchange Equipment), Racine, Wisconsin

DAVID L. SWIFT

Retired Chairman, President-Chief Executive Officer, Acme-Cleveland Corporation,

(Manufacturer of Diversified Industrial Products), Pepper Pike, Ohio

STUART W. TISDALE

Retired Chairman-Chief Executive Officer, WICOR, Inc. (Parent Company of Wisconsin

Gas Company, Sta-Rite Industries, Incorporated and WEXCO of Delaware,
Incorporated),
Milwaukee, Wisconsin
DAVID R. ZIMMER

President-Chief Executive Officer, Core Industries, Inc., (Manufacturer of
Specialized Products for Electronics, Fluid Controls, Construction and Farm
Equipment Markets), Bloomfield Hills, Michigan
(42)

39

OFFICERS

MICHAEL E. BATTEN

Chairman, Chief Executive Officer

MICHAEL H. JOYCE

President, Chief Operating Officer

JAMES O. PARRISH

Vice President-Finance & Treasurer

PHILIPPE PECRIAUX

Vice President-Europe

JAMES MCINDOE

Vice President-International Marketing

LANCE J. MELIK

Vice President-Corporate Development

MICHAEL J. HABLEWITZ

Vice President-Quality Assurance

FRED H. TIMM

Corporate Controller & Secretary

PAUL A. PELLIGRINO

Vice President-Engineering

JOHN W. SPANO

Vice President-Sales and Marketing

DARRELL J. OLSON

Vice President-Human Resources
(43)

40

CORPORATE DATA

ANNUAL MEETING

Corporate Offices, 2:00 PM, October 18, 1996

SHARES TRADED

New York Stock Exchange: Symbol TDI

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K

SINGLE COPIES OF THE COMPANY'S 1996 ANNUAL REPORT ON SECURITIES AND
EXCHANGE

COMMISSION FORM 10-K WILL BE PROVIDED WITHOUT CHARGE TO
SHAREHOLDERS AFTER

SEPTEMBER

30, 1996, UPON WRITTEN REQUEST DIRECTED TO THE SECRETARY, TWIN DISC,
INCORPORATED,

1328 RACINE STREET, RACINE, WISCONSIN 53403.

TRANSFER AGENT & REGISTRAR

Firststar Trust Company, Milwaukee, Wisconsin

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P., Milwaukee, Wisconsin

GENERAL COUNSEL

von Briesen, Purtell, & Roper, S.C., Milwaukee, Wisconsin

CORPORATE OFFICES

Twin Disc, Incorporated, Racine, Wisconsin 53403, Telephone: (414) 638-4100

WHOLLY OWNED SUBSIDIARIES

Twin Disc International S.A., Nivelles, Belgium

Twin Disc Spain, S.A., Madrid, Spain

Twin Disc Italia S.R.L., Viareggio, Italy

Twin Disc (Pacific) Pty. Ltd., Brisbane, Queensland, Australia

Twin Disc (Far East) Ltd., Singapore

Twin Disc (South Africa) Pty. Ltd., Johannesburg, South Africa

Mill-Log Equipment Co., Inc., Coburg, Oregon

Southern Diesel Systems Inc., Miami, Florida

TD Electronics, Inc., Loves Park, Illinois

PARTIALLY OWNED AFFILIATES

Niigata Converter Company, Ltd., Kamo, Omiya and Tokyo, Japan

Palmer Johnson Distributors, LLC, Sturgeon Bay, Wisconsin

MANUFACTURING FACILITIES

Racine, Wisconsin; Nivelles, Belgium; Kamo and Omiya Japan

SALES OFFICES

DOMESTIC

Racine, Wisconsin; Coburg, Oregon; Seattle, Washington; Miami, Florida;
Jacksonville, Florida

OVERSEAS

Nivelles, Belgium; Brisbane and Perth Australia; Singapore; Johannesburg,
South Africa; Madrid, Spain; Viareggio, Italy

AFFILIATES

Tokyo, Japan; Sturgeon Bay, Wisconsin

MANUFACTURING LICENSES

Niigata Converter Company, Ltd., Tokyo, Japan; Transfluid S.R.L., Milan,
Italy;
Nakamura Jico Co. Ltd., Tokyo, Japan; Hindustan Motors, Ltd., Madras, India
(44)

EXHIBIT 21
SUBSIDIARIES OF REGISTRANT

Twin Disc, Incorporated, the registrant (a Wisconsin Corporation) owns 100% of the following subsidiaries:

1. Twin Disc International, S.A. (a Belgian corporation)
2. Twin Disc Spain, S.A. (a Spanish corporation)
3. Twin Disc Italia S.R.L. (an Italian corporation)
4. Twin Disc (Pacific) Pty. Ltd. (an Australian corporation)
5. Twin Disc (Far East) Ltd. (a Delaware corporation operating in Singapore and Hong Kong)
6. Twin Disc (South Africa) Pty. Ltd. (a South African corporation)
7. Mill-Log Equipment Co., Inc. (an Oregon corporation)
8. Southern Diesel Systems Inc. (a Florida corporation)
9. TD Electronics, Inc. (a Wisconsin corporation)

The registrant has no parent nor any other subsidiaries. All of the above subsidiaries are included in the consolidated financial statements.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Twin Disc, Incorporated on Form S-8 (Twin Disc, Incorporated 1988 Incentive Stock Option Plan and Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors) of our reports dated July 26, 1996, on our audits of the consolidated financial statements and financial statement schedule of Twin Disc, Incorporated as of June 30, 1996 and 1995 and for the years ended June 30, 1996, 1995 and 1994, which reports are included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Milwaukee, Wisconsin
September 24, 1996

EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute Michael E. Batten and James O. Parrish , and each of them singly, true and lawful attorneys with full power to them, and each of them, singly, to sign for us and in our names as directors the Form 10-K Annual Report for the fiscal year ended June 30, 1996 pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, and generally do all such things in our names and behalf as directors to enable Twin Disc, Incorporated to comply with the provisions of the Securities and Exchange Act of 1934 and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures so they may be signed by our attorneys, or either of them, as set forth below.

/S/ WILLIAM W. GOESSEL

William W. Goessel, Director

/S/ JEROME K. GREEN

Jerome K. Green, Director

/S/ JOHN L. MURRAY

John L. Murray, Director

/S/ PAUL J. POWERS

July 26, 1996

Paul J. Powers, Director)

/S/ RICHARD T. SAVAGE

Richard T. Savage, Director)

/S/ DAVID L. SWIFT

David L. Swift, Director)

/S/ DAVID R. ZIMMER

David R. Zimmer, Director

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF TWIN DISC, INCORPORATED AND SUBSIDIARIES SET FORTH IN THE ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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