TWIN DISC, INCORPORATED

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON
Form 10-Q

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

For the quarter ended December 31, 2001 Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact name of registrant as specified in its charter)

Wisconsin	39-0667110
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
1328 Racine Street, Racine, Wisconsin	53403
(Address of principal executive offices)	(Zip Code)

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

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 .

At December 31, 2001, the registrant had 2,807,832 shares of its common stock outstanding.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31 2001	June 30 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 11,397	$ 5,961
Trade accounts receivable, net	26,115	27,058
Inventories, net	49,006	46,492
Deferred income taxes	8,330	8,330
Other	4,273	3,925
Total current assets	99,121	91,766
Property, plant and equipment, net	30,054	31,584
Investments in affiliates	2,439	2,358
Goodwill	12,187	12,119
Deferred income taxes	6,302	6,302
Intangible pension asset	1,988	1,988
Other assets	9,897	10,617
	$161,988	$156,734
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 3,824	$ 4,797
Current maturities on long-term debt	2,857	2,857
Accounts payable	14,921	10,368
Accrued liabilities	23,734	23,428
Total current liabilities	45,336	41,450
Long-term debt	23,433	23,404
Accrued retirement benefits	33,832	33,121
	102,601	97,975
Minority Interest	371	337
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	87,143	87,431
Accumulated other comprehensive loss	(22,299)	(23,181)
	76,497	75,903
Less treasury stock, at cost	17,481	17,481
Total shareholders' equity	59,016	58,422
	$161,988	$156,734

The notes to consolidated financial statements are an integral part of this statement. Amounts in thousands.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	2000
Net sales	$43,986	$44,025	$84,617	$85,374
Cost of goods sold	34,024	33,569	66,109	65,174
	9,962	10,456	18,508	20,200
Marketing, engineering and administrative expenses	8,698	8,049	16,546	15,578
Interest expense	444	685	932	1,443
Minority Interest	11	0	34	0
Other expense (income)	14	(54)	(291)	(231)
	9,167	8,680	17,221	16,790
Earnings before income taxes	795	1,776	1,287	3,410
Income taxes	372	816	592	1,544
Net earnings	$ 423	$ 960	$ 695	$ 1,866
Dividends per share	$ 0.175	$ 0.175	$ 0.35	$ 0.35
Earnings per share data:				
Basic earnings per share	$ 0.15	$ 0.34	$ 0.25	$ 0.66
Diluted earnings per share	$ 0.15	$ 0.34	$ 0.25	$ 0.66
Shares outstanding data:				
Average shares outstanding	2,808	2,808	2,808	2,808
Dilutive stock options	0	0	0	0
Diluted shares outstanding	2,808	2,808	2,808	2,808
Comprehensive income:				
Net earnings	$ 423	$ 960	$ 695	$ 1,866
Foreign currency translation adjustment	(935)	(167)	882	(1,795)
Comprehensive (loss) income	$ (512)	$ 793	$ 1,577	$ 71

In thousands of dollars except per share statistics. Per share figures are based on shares outstanding data.

The notes to consolidated financial statements are an integral part of this statement. Amounts in thousands.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31 2001	2000
Cash flows from operating activities:		
Net earnings	$ 695	$ 1,866
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	2,802	3,184
Equity in earnings of affiliates	(261)	(451)
Dividends received from affiliate	180	263
Minority Interest	34	0
Net change in working capital, excluding cash and debt, and other	4,571	(3,017)
	8,021	1,845
Cash flows from investing activities:		
Acquisitions of fixed assets	(758)	(1,096)
Proceeds from sale of fixed assets	19	7
	(739)	(1,089)
Cash flows from financing activities:		
(Decrease) Increase in notes payable	(981)	2,100
Treasury stock activity	0	(34)
Dividends paid	(983)	(983)
	(1,964)	1,083
Effect of exchange rate changes on cash	118	(321)
Net change in cash and cash equivalents	5,436	1,518
Cash and cash equivalents:		
Beginning of period	5,961	5,651
End of period	$11,397	$ 7,169

The notes to consolidated financial statements are an integral part of this statement. Amounts in thousands.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. Basis of Presentation

The unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of the Company, include all adjustments, consisting only of normal recurring items, necessary for a fair 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. It is suggested that these financial statements be read in conjunction with financial statements and the notes thereto included in the Company's latest Annual Report. The year end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

B. Inventory

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

	December 31 2001	June 30 2001
Inventories:		
Finished parts	$38,641	$37,711
Work in process	5,638	4,931
Raw materials	4,727	3,850
	$49,006	$46,492

C. 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 in the normal course of business.

At December 31, 2001 the Company has accrued approximately $1,049,000, which represents management's best estimate available for possible losses related to these contingencies. This amount has been provided 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.

D. BUSINESS SEGMENTS

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

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	2000
Manufacturing segment sales	$38,358	$42,516	$73,116	$81,154
Distribution segment sales	15,673	10,848	29,808	22,176
Inter/Intra segment sales	(10,045)	(9,339)	(18,307)	(17,956)
Net sales	$43,986	$44,025	$84,617	$85,374
Manufacturing segment earnings	$ 673	$ 2,035	$ 786	$ 3,242
Distribution segment earnings	717	483	1,736	1,430
Inter/Intra segment loss	(595)	(742)	(1,235)	(1,262)
Pretax earnings	$ 795	$ 1,776	$ 1,287	$ 3,410

Assets	December 31, 2001	June 30, 2001
Manufacturing segment assets	$142,953	$141,737
Distribution segment assets	30,328	24,822
Corporate assets and elimination of inter-company assets	(11,293)	(9,825)
	$161,988	$156,734

E. GOODWILL AND OTHER INTANGIBLES

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead will be reviewed for impairment and written down in the periods in which the recorded value of goodwill and certain intangibles is determined to be greater than its fair value. The Company adopted the provisions of SFAS No. 142 as of July 1, 2001.

The principal effect of adopting SFAS No. 142 was the cessation of the amortization of goodwill. The initial evaluation of impairment of existing goodwill was completed with no impairment charge being recorded. This standard only permits prospective application of the new accounting. Therefore, adoption of this standard will not affect previously reported financial information. Goodwill amortization for the quarter and six months ended December 31, 2001 amounted to approximately $0.1 million and $0.2 million net of tax, respectively, which would have impacted the reported basic and diluted earnings per share by approximately $0.02 and $0.04, respectively.

F. RESTRUCTURING OF OPERATIONS

During the fourth quarter of 2001, the Company recorded a pre-tax restructuring charge of $1.5 million in connection with the reduction of its workforce and consolidation of facilities. These actions were taken in an effort to streamline the Company's cost structure and improve utilization of available capacity at other locations. The charge included $1.0 million in employee termination and severance benefits, $0.3 million for remaining costs related to preexisting leases, $0.1 million for the estimated loss on fixed assets which were held for disposal, and $0.1 million in miscellaneous costs. During 2001 and the first six months of 2002 the Company made cash payments of $0.2 million and $0.7 million, respectively, and has a remaining balance in accrued liabilities of $0.6 million as of December 31, 2001.

G. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which amends SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies", and is effective for all companies. This statement addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently reviewing this statement to determine its effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of Accounting Principle Board (APB) Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company is currently reviewing this statement to determine its effect on the Company's financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated net sales for the second fiscal quarter were even with a year ago, the net result of first-time revenues from our Japanese sales joint venture and weakness in our core markets. However, with relatively low margins on the joint-venture sales, margins and net earnings were down from last year's second quarter.

Revenues from our domestic manufacturing operations were off versus year-ago levels, continuing the trend from this year's first fiscal quarter. While sales of marine transmissions for commercial applications and propulsion products improved from a year ago, those gains were offset by declines in other markets. The industrial products group saw stable demand for power take-offs (PTOs) sold to engine packagers, primarily for irrigation applications; but there was reduced demand for PTOs and clutches used in environmental and recycling applications. Although sales of power-shift transmissions for military applications improved from a year ago, total transmission sales were down as demand declined for transmissions used in construction and other applications. Shipments of product to the aftermarket also continued to lag slightly those of a year ago. In terms of our core businesses, however, the weakness in pleasure craft activity was the largest single factor adversely affecting sales and that impact was felt most keenly by our Belgian manufacturing operation. Elsewhere in Europe, shipments from our Italian subsidiary, primarily industrial products, were well ahead of last year. Sales from our distribution subsidiaries throughout the world were down modestly from last year reflecting current economic conditions and weakness of various currencies against the U.S. dollar. The revenue declines, about evenly split between domestic and offshore operations, were offset by sales into the home markets of our new Japanese sales and engineering affiliate.

The consolidated gross margin improved slightly from the first fiscal quarter but was down from a year ago mainly as a result of reduced production volumes in Europe. Another unfavorable element of the reduced margins was the component of consolidated sales contributed by our new joint venture. A large part of that operation's sales are made into the Japanese market by our partner and do not reflect the higher margins earned on export sales.

Marketing, engineering and administrative spending for the quarter was above a year ago due to the first-time inclusion of the expenses of operating our new joint venture and due to a one-time charge related to a customer's bankruptcy proceedings. Part of those additional expenses were offset by a 35 percent reduction in interest expense. Interest rates have dropped throughout the past year and debt is about 25 percent lower than a year ago. The income tax rate for the quarter was comparable to a year ago and elevated slightly due to the mix of domestic losses incurred and overseas earnings, which are taxed at a higher rate.

The Company adopted the Statement of Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets," at the beginning of the fiscal year. On review, it was determined that there is no impairment in these assets and thus no losses were recorded in the first two fiscal quarters or are anticipated for the fiscal year. The favorable after-tax impact on earnings for the six months was $108,000, or $.04 per share.

Working capital, at $54 million, was slightly higher than the balance at the end of the first fiscal quarter and about $5 million above the year-ago level. Most of the difference from last year is in the higher cash balance, as receivables and inventory are both below last year's second quarter. For the six months, cash flows from operating activities were well in excess of our needs for capital expenditures and dividend payments. The Company's balance sheet is strong, and we continue to have sufficient liquidity for near-term needs.

The Financial Accounting Standards Board recently issued Statement of Financial Standards (SFAS) No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" and No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 establishes accounting standards for the measurement and recognition of an asset retirement obligation and its associated retirement cost. SFAS No. 144 also addresses financial accounting and reporting issues and supersedes SFAS No. 121. The statements are effective for the Company beginning July 1, 2002, although early application is encouraged. The Company is currently evaluating the impact of these statements.

OTHER INFORMATION

Item 1. Legal Proceedings.

There were no reports on Form 8-K during the six months ended December 31, 2001.

Item 2. Changes in Securities and Use of Proceeds.

There were no securities of the Company sold by the Company during the six months ended December 31, 2001 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.

Item 5. Other Information.

At the Annual Meeting of Shareholders held October 19, 2001, the number of votes cast for, against or abstentions with respect to each matter were as follows:

1. Election of Directors:

a) To serve until Annual Meeting in 2004:

James O. Parrish	For:	2,586,365	Authority withheld:	23,844
Paul J. Powers	For:	2,578,082	Authority withheld:	32,127
John A. Mellowes	For:	2,584,437	Authority withheld:	25,772

The discussions in this report on Form 10-Q and in the documents incorporated herein by reference, and oral presentations made by or on behalf of the Company contain or may contain various forward-looking statements (particularly those referring to the expectations as to possible strategic alternatives, future business and/or operations, in the future tense, or using terms such as "believe", "anticipate", "expect" or "intend") that involve risks and uncertainties. The Company's actual future results could differ materially from those discussed, due to the factors which are noted in connection with the statements and other factors. The factors that could cause or contribute to such differences include, but are not limited to, those further described in the "Management's Discussion and Analysis".

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)

February 11, 2002	/S/ FRED H. TIMM
(Date)	Fred H. Timm Vice President - Administration and Secretary