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, 1998 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 (414) 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, 1998, the registrant had 2,835,184 shares of its common stock outstanding.

FINANCIAL STATEMENTS

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31 1998	June 30 1998
Assets		
Current assets:		
Cash and cash equivalents	$ 8,127	$ 5,087
Trade accounts receivable, net	22,709	28,320
Inventories	56,428	53,280
Deferred income taxes	1,987	1,987
Other	5,715	4,906
Total current assets	94,966	93,580
Property, plant and equipment, net	36,809	35,728
Investments in affiliates	9,883	10,356
Deferred income taxes	1,099	1,241
Intangible pension asset	4,082	4,082
Other assets	15,940	15,967
	$162,779	$160,954
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 283	$ 276
Accounts payable	10,524	9,917
Accrued liabilities	19,702	19,360
Total current liabilities	30,509	29,553
Long-term debt	19,955	19,949
Accrued retirement benefits	29,621	29,457
	80,085	78,959
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	83,836	84,738
Accumulated other comprehensive income	4,312	2,757
	99,801	99,148
Less treasury stock, at cost	17,107	17,153
Total shareholders' equity	82,694	81,995
	$162,779	$160,954

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	
	1998	1997	1998	1997
Net sales	$40,108	$53,994	$80,733	$101,874
Cost of goods sold	30,833	41,744	62,239	79,688
	9,275	12,250	18,494	22,186
Marketing, engineering and administrative expenses	8,964	8,797	16,815	16,227
Interest expense	375	383	752	759
Other (income) and expense, net	148	(497)	30	(609)
	9,487	8,683	17,597	16,377
Earnings (loss)before income tax	(212)	3,567	897	5,809
Income taxes	79	1,451	600	2,337
Net earnings (loss)	($ 291)	$ 2,116	$ 297	$ 3,472
Dividends per share	$ 0.21	$ 0.19	$ 0.42	$ 0.38
Earnings per share data:				
Basic earnings (loss) per share	($ 0.10)	$ 0.75	$ 0.10	$ 1.23
Diluted earnings (loss) per share	($ 0.10)	$ 0.73	$ 0.10	$ 1.21
Shares outstanding data:				
Average shares outstanding	2,835	2,834	2,835	2,822
Dilutive stock options	10	65	18	57
Diluted shares outstanding	2,845	2,899	2,853	2,879
Comprehensive income:				
Net earnings (loss)	($ 291)	$ 2,116	$ 297	$ 3,472
Other comprehensive income:				
Foreign currency translation adjustment	1,362	(1,069)	1,555	(1,323)
Comprehensive income	$ 1,071	$ 1,047	$ 1,852	$ 2,149

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

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

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

	Six Months Ended December 31 1998	1997
Cash flows from operating activities:		
Net earnings	$ 297	$ 3,472
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	2,835	2,608
(Gain) loss on sale of fixed assets	45	(364)
Equity in earnings of affiliates	(82)	(461)
Dividends received from affiliate	375	270
Net change in working capital, excluding cash and debt	4,226	3,575
	7,696	9,100
Cash flows from investing activities:		
Acquisitions of fixed assets	(3,240)	(3,355)
Proceeds from sale of fixed assets	-	426
Business acquisition	(437)	(1,021)
	(3,677)	(3,950)
Cash flows from financing activities:		
Increase in notes payable, net	2	15
Treasury stock activity	38	850
Dividends paid	(1,191)	(1,076)
	(1,151)	(211)
Effect of exchange rate changes on cash	172	(216)
Net change in cash and cash equivalents	3,040	4,723
Cash and cash equivalents:		
Beginning of period	5,087	8,983
End of period	$ 8,127	$13,706

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.

B. Inventory

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

	December 31 1998	June 30 1998
Inventories:		
Finished parts	$48,026	$43,848
Work in process	4,369	5,524
Raw materials	4,033	3,908
	$56,428	$53,280

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.

At December 31, 1998 the Company has accrued approximately $1,350,000, 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.

Net sales were down 26 percent for the quarter and 21 percent for the six months compared with the same periods last year. Almost all of the decline was experienced at our domestic manufacturing operations. The major shortfall was in our automatic transmission product line due primarily to the absence of the contract with a European truck manufacturer, which was completed last January. The sale of automatic transmissions for use in agricultural tractors also was down considerably from a year ago. Other significant factors in the domestic decline were a fall-off in commercial boat production and lower oil prices, which caused a drop in shipments of the higher horsepower marine transmissions, torque converters, and aftermarket service parts. Aftermarket sales also were impacted adversely by the shorter lead times resulting from improved Twin Disc delivery performance.

Shipments from our Belgian manufacturing operation increased compared with the three- and six-month periods last year as demand for pleasure-craft marine transmissions remained stable and improved for the universal control drives.

Most of the distribution subsidiaries reported lower sales for the quarter compared with a year ago with the largest portion of the decline realized at our operations in Singapore and Australia. While much of the softness can be attributed to the Asian crisis, weak domestic logging, oil, and commercial marine markets also affected sales.

The consolidated gross margin was slightly above the second quarter last year but below the rate established during the last half of fiscal 1998. The deterioration was primarily at our domestic manufacturing operation and resulted from the reduced sales volume. Other components of the higher cost of sales were expenses associated with a salaried staff reduction and a decline in manufacturing productivity during the last month of the quarter. Manufacturing margins overseas improved over a year ago and were comparable with the levels achieved during the second half of last year.

Marketing, engineering, and administrative expenses for the quarter were slightly higher than the second quarter last year but included a small charge for the salaried staff reduction. Interest expense was comparable with a year ago with little change in borrowings. However, interest expense will increase in the second half of the year to reflect an increase in borrowings to fund the acquisitions made early in the third quarter. The change in other income and expense was due to the absence of a gain on the disposal of fixed assets and a decline in the earnings of our affiliates. While individual country statutory income tax rates were unchanged, the effective consolidated rate increased due to the mix of domestic losses and overseas earnings which are taxed at a higher rate.

Working capital was essentially unchanged from the prior period, and the current ratio, down to 3.1, was in line with the ratio at the end of fiscal 1998. Accounts receivable declined with the lower volume and better collection rates, but inventories rose at our Belgian manufacturing operation and both domestic distributors. With the decline in accounts receivable, cash flows from operating activities for the six months exceeded investing and financing requirements and provided an increase in the cash balance. Our balance sheet remains strong, and we continue to have liquidity sufficient for our near-term needs.

Year 2000 Readiness

Updating the report provided in the first quarter, our year 2000 (Y2K) readiness project is proceeding on schedule. Mainframe and network hardware, operating systems software, and business systems software at the Company's domestic manufacturing operation and at most other non-manufacturing subsidiaries has been replaced or remediated, and some of the business systems currently are processing year 2000 transactions. Testing of those changes is ongoing and will be completed by the end of the current fiscal year. Installation and implementation of Y2K ready hardware and software is now scheduled for completion at the Company's Belgian manufacturing operation in the fiscal 1999 fourth quarter.

A Company-wide inventory of all other systems and equipment (e.g. building and communications control systems, research and production equipment, and products) possibly affected by the date change has been completed. Assessment, remediation, and testing of those systems is taking place now and should be completed during the fiscal 1999 third quarter.

In addition, suppliers and service providers are being contacted to ensure they are actively involved in a program to address the Y2K issue and provide uninterrupted service to Twin Disc. With the exception of utilities, steps are being taken to provide back-up sourcing for critical suppliers, and contingency plans are being developed to solve internal problems as they occur. If Company efforts are unsuccessful in mitigating the effects of Y2K or if key suppliers are unable to provide their products and services, the Company may be unable to continue normal operations.

OTHER INFORMATION

Item 1. Legal Proceedings.

There were no reports on Form 8-K and two reports on Form S-8 during the three months ended December 31, 1998. The financial statements included herein have been subjected to a limited review by PricewaterhouseCoopers LLP, the registrant's independent public accountants, in accordance with professional standards and procedures for such review.

Item 2. Changes in Securities and Use of Proceeds.

There were no securities of the Company sold by the Company during the three months ended December 31, 1998 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 16, 1998, 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 2001:

James O. Parrish	For: 2,024,187	Authority withheld: 275,969
Paul J. Powers	For: 2,024,041	Authority withheld: 276,115
John A. Mellowes	For: 2,021,728	Authority withheld: 278,428

2. Approval of the Qualified Incentive Compensation Plan for Qualified

   Management Personnel:

   For: 1,742,861 Against: 312,050 Abstain: 28,128

3. Approval of Non-Qualified Stock Option Plan for Non-Employee Directors:

   For: 2,007,210 Against: 42,304 Abstain: 33,525

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 on 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)

/S/ FRED H. TIMM

(Date)

Fred H. Timm
Corporate Controller and
Secretary

Report of Independent Accountants

To the Board of Directors
Twin Disc, Incorporated
Racine, Wisconsin

We have reviewed the accompanying condensed consolidated balance sheet of Twin Disc, Incorporated and subsidiaries as of December 31, 1998, and the related condensed consolidated statements of operations for the three and six-month periods ended December 31, 1998 and 1997 and the related condensed consolidated statements of cash flows for the six-month period ended December 31, 1998 and 1997. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of June 30, 1998, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated July 24, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 1998, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/
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PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
January 11, 1999

[TYPE] EX-15

EXHIBIT 15

Awareness Letter of Independent Accountants

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

RE: Twin Disc, Incorporated

We are aware that our report dated January 11, 1999 on our review of interim financial information of Twin Disc, Incorporated for the three and six-month periods ended December 31, 1998 and 1997 and included in the Company's quarterly report on Form 10-Q for the quarter then ended, is incorporated by reference in the registration statements of Twin Disc, Incorporated on Form S-8 (Twin Disc, Incorporated 1988 Incentive Stock Option Plan; Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors; Twin Disc, Incorporated 1998 Incentive Compensation Plan; and Twin Disc, Incorporated 1998 Stock Option Plan for Non-Employee Directors). Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

/S/
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PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
January 29, 1999

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED
FROM THE TWIN DISC,
INCORPORATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SET
FORTH IN THE SECOND QUARTER
REPORT TO SHAREHOLDERS FOR THE SIX MONTHS ENDED DECEMBER 31, 1998
AND
IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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