

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, 1999

Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
Incorporation or organization)

39-0667110
(I.R.S. Employer
Identification No.)

1328 Racine Street, Racine, Wisconsin
(Address of principal executive offices)

53403
(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 No .

At December 31, 1999, the registrant had 2,814,790 shares of its common stock outstanding.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31 1999 ----	June 30 1999 ----
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,455	\$ 4,136
Trade accounts receivable, net	27,447	27,201
Inventories	55,273	54,500
Deferred income taxes	6,004	6,004
Other	6,599	5,906
	-----	-----
Total current assets	98,778	97,747
Property, plant and equipment, net	36,982	38,935
Investments in affiliates	6,818	6,663
Deferred income taxes	4,439	4,349
Intangible pension asset	3,385	3,385
Other assets	25,176	25,821
	-----	-----
	\$175,578	\$176,900
	-----	-----
	-----	-----
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$ 8,862	\$ 23,015
Accounts payable	9,247	10,724
Accrued liabilities	21,643	21,022
	-----	-----
Total current liabilities	39,752	54,761
Long-term debt	35,115	17,112
Accrued retirement benefits	35,596	37,567
	-----	-----
	110,463	109,440
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	80,233	81,430
Accumulated other comprehensive loss	(9,386)	(8,516)
	-----	-----
	82,500	84,567
Less treasury stock, at cost	17,385	17,107
	-----	-----
Total shareholders' equity	65,115	67,460
	-----	-----
	\$175,578	\$176,900
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The notes to consolidated financial statements are an integral part of this statement. Amounts in thousands.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	1999 ----	1998 ----	1999 ----	1998 ----
Net sales	\$44,342	\$40,108	\$79,619	\$80,733
Cost of goods sold	34,390	30,833	62,811	62,239
	-----	-----	-----	-----
	9,952	9,275	16,808	18,494
Marketing, engineering and administrative expenses	8,139	8,964	15,884	16,815
Interest expense	828	375	1,484	752
Other income, net	(252)	148	(353)	30
	-----	-----	-----	-----
	8,715	9,487	17,015	17,597
	-----	-----	-----	-----
Earnings before income tax	1,237	(212)	(207)	897
Income taxes	544	79	(3)	600
	-----	-----	-----	-----
Net earnings (loss)	\$ 693	(\$ 291)	(\$ 204)	\$ 297
	-----	-----	-----	-----
	-----	-----	-----	-----
Dividends per share	\$ 0.175	\$ 0.21	\$ 0.35	\$ 0.42
Earnings per share data:				
Basic earnings (loss) per share	\$ 0.25	(\$ 0.10)	(\$ 0.07)	\$ 0.10
Diluted earnings (loss) per share	\$ 0.25	(\$ 0.10)	(\$ 0.07)	\$ 0.10
Shares outstanding data:				
Average shares outstanding	2,826	2,835	2,831	2,835
Dilutive stock options	0	10	0	18
	-----	-----	-----	-----
Diluted shares outstanding	2,826	2,845	2,831	2,853
	-----	-----	-----	-----
	-----	-----	-----	-----
Comprehensive income:				
Net earnings	\$ 693	(\$ 291)	(\$ 204)	\$ 297
Foreign currency translation adjustment	(858)	1,362	(870)	1,555
	-----	-----	-----	-----
Comprehensive income	(\$ 165)	\$ 1,071	(\$ 1,074)	\$ 1,852
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In thousands of dollars except per share statistics and shares outstanding data. Per share figures are based on shares outstanding data.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	December 31	
	1999	1998
	-----	-----
Cash flows from operating activities:		
Net earnings (loss)	(\$ 204)	\$ 297
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	3,201	2,835
Loss on sale of fixed assets	0	45
Equity in earnings of affiliates	(405)	(82)
Dividends received from affiliate	250	375
Net change in working capital, excluding cash and debt, and other	(3,589)	4,226
	-----	-----
	(747)	7,696
	-----	-----
Cash flows from investing activities:		
Acquisitions of fixed assets	(1,145)	(3,240)
Proceeds from sale of fixed assets	51	0
Business acquisition	0	(437)
	-----	-----
	(1,094)	(3,677)
	-----	-----
Cash flows from financing activities:		
Increase in notes payable, net	2,489	2
Treasury stock activity	(278)	38
Dividends paid	(993)	(1,191)
	-----	-----
	1,218	(1,151)
	-----	-----
Effect of exchange rate changes on cash	(58)	172
	-----	-----
Net change in cash and cash equivalents	(681)	3,040
Cash and cash equivalents:		
Beginning of period	4,136	5,087
	-----	-----
End of period	\$3,455	\$8,127
	-----	-----
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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 1999	June 30 1999
	-----	-----
Inventories:		
Finished parts	\$44,046	\$42,405
Work in process	6,640	6,385
Raw materials	4,587	5,710
	-----	-----
	\$55,273	\$54,500
	-----	-----
	-----	-----

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, 1999 the Company has accrued approximately \$1,050,000, 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	
	1999	1998	1999	1998
	----	----	----	----
Manufacturing segment sales	\$40,994	\$38,049	\$72,213	\$76,251
Distribution segment sales	11,729	10,225	22,248	20,366
Inter/Intra segment sales	(8,381)	(8,166)	(14,842)	(15,884)
	-----	-----	-----	-----
Net sales	\$44,342	\$40,108	\$79,619	\$80,733
	-----	-----	-----	-----
	-----	-----	-----	-----
Manufacturing segment earnings(loss)\$	773	\$ 340	(\$ 1,015)	\$ 1,423
Distribution segment earnings	848	475	1,393	1,143
Inter/Intra segment earnings (loss)	(384)	(1,027)	(585)	(1,669)

Pretax earnings (loss)	\$ 1,237	(\$ 212)	(\$ 207)	\$ 897
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Assets	December 31, 1999	June 30, 1999
Manufacturing segment assets	\$149,309	\$152,251
Distribution segment assets	25,576	25,448
Corporate assets and elimination of inter-company assets	693	(799)
	\$175,578	\$176,900

MANAGEMENT DISCUSSION AND ANALYSIS

Net sales for the second quarter were 11 percent greater than the same period a year ago primarily due to acquisitions made during the last half of fiscal year 1999. Net earnings of \$693,000 represented a welcome turnaround from the \$291,000 loss reported in last year's second quarter. Generally, market conditions were stable with evidence of improving trends in specific market segments.

The increase in shipments from our domestic manufacturing facilities consisted mainly of industrial products. Most of the increase was attributable to the power take-off product line purchased a year ago. There also was some improvement in sales of Arneson marine surface drives and power-shift transmissions for construction equipment. Renewal part sales to the aftermarket were comparable to a year ago and have begun to recover somewhat from the low-point at the end of last fiscal year. Shipments of marine transmissions were down slightly from last year, but demand has been relatively stable in both pleasure craft and commercial markets. Higher sales volume in Europe was attributable to our Italian manufacturing subsidiary acquired last February with shipments from our Belgium operation about even with last year's second quarter. Most of our distribution subsidiaries reported higher sales compared with a year ago, including a significant increase in Singapore reflecting the beginning of economic recovery in Asia. During the past year, the dollar has appreciated by approximately 10 percent versus the currencies in which we operate mitigating the dollar impact of the increased shipping levels overseas.

The consolidated gross margin was higher than in the previous three quarters but was down modestly from the same period last year. As a result of higher volume and better productivity, domestic manufacturing margins were up from a year ago. At our Belgian subsidiary, the gross margin was down about four percentage points due to less favorable product mix and to the lower production levels associated with inventory reduction activity.

Marketing, engineering and administrative expenses were below the second quarter last year as a result of personnel and other cost reductions implemented in fiscal 1999. Offsetting some of those savings were the additional expenses incurred at the newly acquired Italian subsidiary. Statutory income tax rates are comparable with a year ago; but domestic losses, which were taxed at a relatively low rate, resulted in a higher than normal effective tax rate.

Working capital, at \$59 million, was comparable to the previous quarter but much greater than at the prior fiscal year-end. The increase was caused by restructuring much of the current borrowings at year-end to long-term debt in the first fiscal quarter. Accounts receivable was up from the previous quarter as a result of increased sales, and inventory declined slightly as turnover improved. Both receivables and inventory were comparable to balances at the prior fiscal year-end. While debt levels are high by our historical standards, our balance sheet is strong and we continue to have sufficient liquidity for near-term needs.

As a final report on Year 2000 Readiness, we have started the new millennium with all systems operational and business being conducted without interruption.

OTHER INFORMATION

Item 1. Legal Proceedings.

There were no reports on Form 8-K during the six months ended December 31, 1999. 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 six months ended December 31, 1999 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 15, 1999, 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 2002:

Michael E. Batten	For: 2,422,053	Authority withheld: 24,052
David L. Swift	For: 2,415,391	Authority withheld: 30,714
David R. Zimmer	For: 2,414,612	Authority withheld: 31,493

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)

/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, 1999, and the related condensed consolidated statements of operations for the three and six-month periods ended December 31, 1999 and 1998 and the related condensed consolidated statements of cash flows for the six-month periods ended December 31, 1999 and 1998. 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, 1999, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated July 23, 1999, 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, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
January 7, 2000

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 7, 2000 on our review of interim financial information of Twin Disc, Incorporated for the three and six month periods ended December 31, 1999 and 1998 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).

/S/

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PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
January 27, 2000

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, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS	JUN-30-1999	
	DEC-31-1999	
		3,455
		0
		28,005
		558
		55,273
		98,778
		119,873
		82,891
		175,578
	39,752	
		35,115
		11,653
	0	
		0
		53,462
175,578		
		79,619
	79,619	
		62,811
		62,811
		0
		0
	1,484	
	(207)	
		(3)
	(204)	
		0
		0
		0
		(204)
		(.07)
		(.07)