UNITED STATES
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, 2003
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 Office)	(Zip Code)

Registrant's Telephone Number, including area code: (262) 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 29, 2003, the aggregate market value of the common stock held by non-affiliates of the registrant was $46,453,235. 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 29, 2003, the registrant had 2,806,842 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 Proxy Statement for the Annual Meeting of Shareholders to be held October 17, 2003 are incorporated by reference into Part III.

PART I

Item 1. Business

Twin Disc was incorporated under the laws of the state of Wisconsin in 1918. Twin Disc designs, manufactures and sells heavy duty off-highway power transmission equipment. Products offered include: marine transmissions and surface drives; power-shift transmissions; power take-offs and reduction gears; industrial clutches; and control systems. The Company sells its products to customers primarily in the marine, industrial equipment, government, energy and natural resources and agricultural markets. 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.

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.

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.

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. Primary competitive factors for the Company's products are performance, price, service and availability. Ten customers accounted for approximately 44% of the Company's consolidated net sales during the year ended June 30, 2003. Sewart Supply, Inc., an independent distributor of Twin Disc products, accounted for approximately 11% of consolidated net sales in 2003.

Unfilled open orders for the next six months of $30,593,000 at June 30, 2003 compares to $31,484,000 at June 30, 2002. 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.

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. The Company's business is not subject to renegotiation of profits or termination of contracts at the election of the Government.

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 totaled $2,220,000, $1,887,000 and $1,929,000 in 2003, 2002 and 2001, respectively. Total engineering and development costs were $7,190,000, $6,718,000 and $5,791,000 in 2003, 2002 and 2001, respectively.

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, 2003 was 832.

A summary of financial data by segment and geographic area for the years ended June 30, 2003, 2002 and 2001 appears in Note L to the consolidated financial statements on pages 25 through 27 of this form.

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. (NTC). NTC is an engineering and marketing company supporting the Company's expanding

global marine product line as well as a distribution company for Niigata's family of transmission products. Pursuant to the terms of the Joint Venture Agreement, the Company contributed $0.7 million in exchange for a controlling 66% ownership interest in NTC and Niigata contributed $0.3 million for a 34% ownership interest. Effective April 1, 2003, Niigata Engineering Co. LTD's ownership interest was transferred to Hitachi Nico Transmission Co. LTD. and NTC was renamed Twin Disc Nico Co. LTD (TDN). TDN contributed $13.7 million and $12.2 million in net sales and $0.0 million and $0.3 million in net earnings to the Company in 2003 and 2002, respectively. See Item 8 and Note F to the consolidated financial statements.

Item 2. Properties

The Company owns 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. One of the Racine facilities includes office space which is the location of the Company's corporate headquarters. The Company leases additional manufacturing, assembly and office facilities in Decima, Italy.

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:

Jacksonville, Florida, U.S.A.	Chambery, France
Miami, Florida, U.S.A.	Brisbane, Queensland, Australia
Coburg, Oregon, U.S.A.	Perth, Western Australia, Australia
Kent, Washington, U.S.A.	Singapore
Edmonton, Alberta, Canada	Shanghai, China
Vancouver, British Columbia, Canada	Capezzano Planore, Italy

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 65% capacity and are adequate to meet foreseeable needs of the Company.

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.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended June 30, 2003.

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 17, 2003.

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer since 1983	63
Michael H. Joyce	President - Chief Operating Officer since 1995	62
James E. Feiertag	Executive Vice President since October 2001: formerly Vice President - Manufacturing since November 2000; formerly Vice President of Manufacturing for the Drives and Systems Group, Rockwell Automation Group since 1999; formerly Director of Manufacturing for the Drives Group, Rockwell Automation Group	46
Christopher J. Eperjesy	Vice President - Finance and Treasurer since November 2002: formerly Divisional Vice President - Financial Planning & Analysis, Kmart Corporation since 2001; formerly Senior Manager - Corporate Finance, Daimler Chrysler AG since 1999, formerly Senior Financial Analyst - Corporate Finance Group, Daimler Chrysler AG since 1997	35
Lance J. Melik	Vice President and General Manager - Transmission And Industrial Products since October 2001; formerly Vice President - Transmission and Industrial Products since 1999 and Vice President - Corporate Development since September 1995	60

Henri Claude Fabry	Vice President - Global Distribution since October 2001; formerly Vice President Marine and Distribution since 1999; formerly Director of Marketing and Sales, Twin Disc International S.A. since February 1997	57
Fred H. Timm	Vice President - Administration and Secretary since October 2001, formerly Corporate Controller And Secretary since 1995	57

John H. Batten	Vice President and General Manager - Marine and Propulsion since October 2001; formerly Commercial Manager - Marine and Propulsion since 1998, formerly Application Engineer since 1997	38

Officers are elected annually by the Board of Directors at the Board meeting held preceding each Annual Meeting of the Shareholders. Each officer holds office until his successor is duly elected, or until he resigns or is removed from office. John H. Batten is the son of Michael E. Batten.

PART II

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

The Company's common stock is traded on the New York Stock Exchange under the symbol TDI. The price information below represents the high and low sales prices for each period:

Fiscal Year Ended June 30, 2003	High	Low	Fiscal Year Ended June 30, 2002	High	Low
First Quarter	15.14	12.90	First Quarter	16.20	14.16
Second Quarter	13.25	11.90	Second Quarter	14.55	12.25
Third Quarter	13.35	9.90	Third Quarter	16.75	14.00
Fourth Quarter	14.35	10.70	Fourth Quarter	16.95	14.00

Quarterly dividends of $0.175 per share were declared and paid for each of the quarters above. As of June 30, 2003 there were 955 shareholder accounts. The sales price of Twin Disc common stock as of August 29, 2003 was 16.55.

Pursuant to a shareholder rights plan (the "Rights Plan"), on April 17, 1998, the Board of Directors declared a dividend distribution, payable to shareholders of record at the close of business on June 30, 1998, of one Preferred Stock Purchase Right ("Rights") 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 15% or more of the Common Stock (or 25% in the case of any person or group which currently owns 15% or more of the shares or who shall become the Beneficial Owner of 15% 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) (an "Acquiring Person"), or 10 business days following the commencement of a tender or exchange offer that would result in the offeror beneficially owning 25% 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 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 who received the Rights to buy one newly issued unit of one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of $160, subject to certain anti-dilution 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 25% 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 the 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 may 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 acquirer 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 after the public announcement of the existence of an Acquiring Person.

The news release announcing the declaration of the Rights dividend, dated April 17, 1998, filed as Item 14(a)(3), Exhibit 4(b) of Part IV of the Annual Report on Form 10-K for the year ended June 30, 1998 is hereby incorporated by reference.

Recent Sales of Unregistered Securities

During the period covered by this report, the Company offered participants in the Twin Disc, Incorporated B The Accelerator 401(k) Savings Plan (the "Plan") the option to invest their Plan accounts in a fund comprised of Company stock. Participation interests of Plan participants in the Plan, which may be considered securities, were not registered with the SEC. During the fiscal year ended June 30, 2002, 68 Plan participants allocated an aggregate of $81,000 toward this investment option. Participant accounts in the Plan consist of a combination of employee deferrals, Company matching contributions, and, in some cases, additional Company profit-sharing contributions. No underwriters were involved in these transactions. On September 6, 2002, the Company filed a Form S-8 to register 100,000 shares of Company common stock offered through the Plan, as well as an indeterminate amount of Plan participation interests.

Item 6. Selected Financial Data

Financial Highlights
(dollars in thousands, except per share amounts and shares outstanding)

	For the years ended June 30,				
Statement of Operations Data:	2003	2002	2001	2000	1999
Net sales	$179,591	$179,385	$180,786	$177,987	$168,142
Net earnings (loss)	(2,368)	2,058	6,169	3,773	(1,018)
Basic earnings (loss) per share	(.84)	.732	.201	.34	(.36)
Diluted earnings (loss) per share	(.84)	.732	.201	.34	(.36)
Dividends per share	.70	.70	.70	.70	.805
Balance Sheet Data (at end of period):					
Total assets	$170,358	$157,280	$156,734	$174,190	$176,900
Total long-term debt	16,584	18,583	23,404	31,524	17,112

During the third quarter of 2001, the Company sold its investment in Niigata Converter Company, Ltd., resulting in a net gain of $2,288,000 or $.81 per share. See Note D to the consolidated financial statements.

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. which subsequently changed to Twin Disc Nico Co. LTD. (TDN). TDN's balance sheet and statement of operations as of and for the years ended March 31, 2003 and 2002 are consolidated with the Company's balance sheet and statement of operations as of and for the years ended June 30, 2003 and 2002. TDN contributed the following for the years ended June 30 (dollars in thousands, except per share amounts):

	2003	2002
Net sales	$13,708	$12,217
Net earnings	23	263
Basic and diluted earnings per share	.01	.09
Total assets	6,076	6,169
Total long-term obligations	0	0

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

Note on Forward-Looking Statements

Statements in this report (including but not limited to certain statements in Items 1, 3 and 7) and in other Company communications that are not historical facts are forward-looking statements, which are based on management's current expectations. These statements involve risks and uncertainties that could cause actual results to differ materially from what appears here.

Forward-looking statements include the Company's description of plans and objectives for future operations and assumptions behind those plans. The words "anticipates," "believes," "intends," "estimates," and "expects," or similar anticipatory expressions, usually identify forward-looking statements. In addition, goals established by Twin Disc, Incorporated should not be viewed

as guarantees or promises of future performance. There can be no assurance the Company will be successful in achieving its goals.

In addition to the assumptions and information referred to specifically in the forward-looking statements, other factors could cause actual results to be materially different from what is presented here.

Results of Operations

(In thousands, except per share data)	2003	%	2002	%	2001	%
Net sales	$179,591		$179,385		$180,786	
Cost of goods sold	144,575		139,146		137,091	
Gross profit	35,016	19.5%	40,239	22.4%	43,695	24.2%
Marketing, engineering and administrative expenses	34,790	19.4%	34,638	19.3%	31,716	17.5%
Restructuring of operations	2,042	1.1%	-	0.0%	1,453	0.8%
(Loss) earnings from operations	(1,816)	(1.0)%	5,601	3.1%	10,526	5.8%

Net Sales, New Orders and Backlog

Net sales for the last three fiscal years have been relatively flat, increasing by less than one percent in 2003 and declining by less than one percent between 2001 and 2002. However, as a result of the strong Euro and Asian currencies versus the dollar, foreign currency exchange had a net favorable impact on sales of over $11 million in fiscal 2003, compared to fiscal 2002.

Our domestic operations experienced a decline in sales in all market segments except for Propulsion, which had a very strong year, in fiscal 2003. After adjusting for the impact of foreign exchange rate changes, sales for overseas operations were slightly higher in fiscal 2003. Overall, the Company's three major markets, marine, transmission and industrial products, all continued to be impacted by global economic conditions. However, the second half of the current fiscal year saw significant contributions from new-product introductions, such as our high-performance QuickShift(tm) marine transmissions and the 8500 series transmissions for oilfield applications, which supplemented improving core business strength. Our continuing ability to compete successfully for defense applications was underscored by the $14.8 million contract for transmission systems announced in June, augmenting recently awarded U.S. defense contracts for other land-based transmissions. Sales from this contract will first be realized in fiscal year 2004.

For fiscal 2003, the Company's wholly owned distribution companies posted a 9% improvement in sales, of which 6% can be attributed to the favorable impact of exchange rate fluctuations versus fiscal 2002. In particular, we saw strong sales for Arneson Surface Drives and the Italian Luxury Yacht industry weathered the pleasure craft downturn better than any other segment. Our distribution offices in Italy and the Pacific Rim continued to show strength in spite of weak global market conditions.

We had mixed results in our manufacturing operations in fiscal 2003. Our Italian operations posted another strong sales year with an increase of 18.4% versus fiscal 2002. However, the majority of this increase was caused by the strengthening Euro. Although our Belgian operations got off to a slow start in fiscal 2003, the second half of the year saw some recovery as we began to produce and see the effects of our new QuickShift(tm) marine transmissions. After adjusting for the impact of a strengthening Euro in fiscal 2003, our Belgian operations posted a slight increase in sales, primarily driven by a very strong fourth quarter. In the U.S., our domestic operations were faced with a number of challenges early in fiscal 2003. In the first quarter, quality problems necessitated downtime in order to segregate non-conforming parts received from two of the Company's vendors. By the end of the second quarter, the disruption of production flow as a result of these vendor-supplied off-spec parts was normalized. In the second quarter, the Company announced restructuring actions that impacted both our U.S. and Belgian manufacturing operations (see Footnote R to the consolidated financial statements). These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. In addition to these challenges, the Company continued to be confronted with softness in many of its key markets. However, propulsion products continued to be a strong area for the Company in fiscal 2003, increasing over 30% versus the prior year (almost half of this increase is attributable to exchange rate changes versus fiscal 2002).

Order rates for most of our products were down throughout much of the past three fiscal years, contributing along with improved deliveries, to a steady decline in backlog. The backlog of orders scheduled for shipment during the next six months (six-month backlog) remained relatively flat at $31 million at the end of fiscal 2003. However, the year-over-year change in foreign exchange rates resulted in an approximately $2.1 million increase in the backlog at June 30, 2003 versus June 30, 2002. From June 2001 to June 2002,

the six-month backlog declined 26 percent from $39 million to $31 million. The year-over-year change in foreign exchange rates resulted in an approximately $1.0 million increase in the backlog at June 30, 2002 versus June 30, 2001. With the addition of the new $14.8 million transmission contract discussed above, we expect the six-month backlog to grow in fiscal 2004.

Net sales of $181 million in fiscal 2001 were two percent ahead of the previous fiscal year and then declined by a lesser amount to $179 million in fiscal 2002. Demand continued at a steady pace for the first part of fiscal 2001, but eased somewhat by mid-year. Shipments in fiscal 2001 followed the same pattern with favorable year-to-year comparisons during the first half in all forward-market product lines as well as aftermarket service parts. As fiscal 2001 progressed, we experienced softening demand for power-shift transmissions and torque converters and for power take-offs used in irrigation and waste recycling applications. These declines were partially offset by the increased volume of shipments for military applications, surface drive marine propulsion units, and the continuing steady demand for marine transmissions produced overseas. Indicative of a modest recovery in certain of the Company's markets, fourth quarter shipments of power take-offs in fiscal 2001 were approximately equal to year ago levels.

Shipments from our wholly owned distribution companies, primarily those offshore, continued to register sales gains in fiscal 2001 as recovering economies, particularly in the Pacific Rim, were a positive influence. In fiscal 2002, shipments declined as a result of weak market conditions and stronger foreign competition caused by the continuing strength of the U.S. dollar.

At the end of fiscal 2001, the six-month backlog was $39 million, a substantial reduction from the prior year-end. The decline was due primarily to reduced orders for marine and industrial products. As fiscal 2002 opened, order rates generally remained weak but longer-term military orders rolling into the six-month window and irregular order peaks helped to stabilize the six-month backlog through most of the year. During the fourth quarter, those contracts were completed and weaker seasonal order patterns were seen. In addition, customers continued to adjust to the shorter lead times achieved over the past two years. As a result, the six-month backlog at the end of fiscal 2002 had declined to $31 million, 20 percent below the prior year-end.

The U.S. dollar weakened against most currencies in fiscal year 2003. On the other hand, the U.S. dollar strengthened against most currencies in fiscal year 2001 and maintained that edge until the final months of fiscal 2002. As a result, through most of these two fiscal years there had been increased pricing pressure from non-dollar based competition, and sales from our offshore subsidiaries had been reported at lower levels when translated into U.S. dollars. As a result of the significantly weaker dollar in 2003, particularly against the Euro, the opposite was true in fiscal 2003. However, pricing pressure from non-dollar based competition does continue. Until the fiscal 2002 drop in shipments from our Belgian subsidiary, there was an offsetting favorable impact caused by higher margins realized on dollar-denominated sales. Price increases, implemented selectively in each year, generated revenues about equal to the rate of inflation.

Margins, Costs and Expenses

Gross profit as a percentage of sales declined in fiscal 2003 to 19.5%, compared to 22.4% and 24.2% in fiscal 2002 and 2001, respectively. Almost half of the current year deterioration can be attributed to increased pension and medical costs of nearly $1.6 million, and a $0.8 million impairment charge taken in the second quarter (see Footnote E to the consolidated financial statements). The remaining deterioration is due to unfavorable volume and mix in the current fiscal year as well as supplier quality issues the Company experienced in the first and second quarters of fiscal 2003. The latter was somewhat offset by ongoing productivity and cost improvement initiatives in our manufacturing operations. Despite early setbacks caused by the supplier quality issues and restructuring actions taken in the first half of the fiscal year, the second half of the year was much stronger. For example, fourth quarter gross profit as a percentage of sales of 22.7% compared favorably with fiscal 2002 at 22.9% and 2001 at 22.5%.

On July 15, 2003, the Company announced a number of actions to address rising pension and retiree healthcare costs, meant to ensure both the future strength of our pension fund and the Company's ability to remain globally competitive. In addition to changes to both the pension and post-retirement healthcare plans (see Footnote O to the consolidated financial statements), the Company announced across-the-board wage reductions for corporate officers, and most domestic salaried and hourly employees. Domestic employee groups, including officers, also will forego performance bonuses in both fiscal 2003 and 2004. The 401(k) company match also has been reduced from 75 percent to 50 percent on the first six percent of employees' contributions. The combined effect of these actions will approximately offset projected increases for both pension and post-retirement healthcare costs in fiscal 2004.

Despite declining production volume in fiscal 2002, domestic manufacturing margins improved due to a more favorable product mix and the increased efficiencies mentioned below. However, we were unable to overcome the volume induced margin declines at our principal plant in Europe and the lower margins on NTC sales into its home market. As a result, the consolidated gross margin declined by almost two percentage points in fiscal 2002.

In fiscal 2001, incremental improvements in all aspects of our manufacturing operations from on-time delivery to inventory reduction and cellular layout led the way to higher gross margins than in fiscal 2000. During the fourth quarter of fiscal 2001, we provided for approximately $1 million of inventory obsolescence and $500,000 for a marine transmission warranty program. Although the fourth-quarter margin was down somewhat from the comparable period a year earlier, it was consistent with previous fiscal 2001 quarters.

Marketing, engineering, and administrative (ME&A) expense remained flat in

fiscal 2003 versus the prior year, in spite of an almost $1.4 million increase attributable to the unfavorable exchange rate impact of the weakening dollar on our overseas operations. This was achievable primarily as a result of ongoing cost reduction initiatives, including the restructuring actions announced in the 2nd quarter. For the year, total engineering related expenses were approximately $1 million higher than the prior year as the Company continued to invest in engineering projects related to the development of new marine, industrial, surface drive and electronic control products. This increase was more than offset by reductions in marketing and administrative expenses, even with the negative foreign exchange impact. For fiscal 2002, ME&A increased $2.9 million, with approximately one-half of the $2.9 million increase in fiscal 2002 spending was due to the first-year expenses of NTC, and the balance consisted of added marketing and engineering expenses related to a new product introduction. In fiscal 2001, ME&A was virtually unchanged from the previous year.

During the second quarter of 2003, the Company recorded a pre-tax restructuring charge of $2.0 million in connection with the reduction of its workforce. These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. The charge consists of employee termination and severance benefits for a total of 58 employees; 48 production employees and 10 salaried employees. During 2003 the Company made cash payments of $0.6 million. As of June 30, 2003, a remaining balance in accrued liabilities of $1.3 million remains.

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 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 pre-existing leases, $0.1 million for the estimated loss on fixed assets, which were held for disposal, and $0.1 million in miscellaneous costs. Approximately $0.7 million of the charge for employee termination and severance benefits was classified to cost of goods sold with the remaining $0.3 million charged to marketing, engineering and administrative expenses. A total of 46 employees were terminated; 22 production employees and 24 salaried employees. In 2001, the Company made cash payments of $0.1 million and also charged the $0.1 million loss on fixed assets against the reserve. As of June 30, 2001, the reserve had a balance of $1.3 million. In 2002, cash payments of $1.1 million were charged against the reserve and $0.1 million was reversed against cost of goods sold. In 2003, the remaining reserve of $0.1 million was reversed against administrative expenses.

The Company adopted the Statement of Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets," at the beginning of fiscal 2002. On review, it was determined that there was no impairment in these assets. The favorable after-tax impact on earnings due to discontinuing the amortization of goodwill and other intangible assets was $171,000, or $.06 per share for the 2003 fiscal year.

Interest, Taxes and Net Earnings

Interest expense declined for the fourth straight year in fiscal 2003 as debt was further reduced by $2 million-excluding the impact of foreign exchange-and the company continued to pay down its senior notes, which carry a significantly higher interest rate than its revolver facility. In fiscal 2002, debt was reduced by nearly $8 million, resulting in a nearly $0.5 million decline in interest expense versus the prior year.

The low effective tax rate in fiscal 2003 results from the benefit of domestic losses partially offset by taxes incurred on foreign earnings, the inability to utilize foreign tax credits and a reduction in statutory rates at some foreign locations. In fiscal years 2002 and 2001, limitations on foreign tax credit utilization, the relatively high proportion of foreign earnings and settlement of some state tax issues resulted in an unusually high tax rate. The effective rate in fiscal 2002 was increased further by two third-quarter adjustments totaling about $300,000. In fiscal 2002, a tax incentive provided by the Belgian government several years ago was disallowed by the European Commission and was refunded to the government, and the United States tax provision was adjusted upward for the taxes due on an asset sale gain recorded in the prior year's third quarter. Statutory rate changes at European operations reduced taxes in 2003 by approximately $100,000.

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit carryforwards for which a valuation allowance has been recorded.

Liquidity and Capital Resources

The net cash provided by operating activities in fiscal 2003 totaled $6.7 million versus $13.2 million in the prior year. This decline was primarily driven by the net loss experienced in the current year. In addition, the net change in operating assets and liabilities contributed $2.8 million to operating cash flow in fiscal 2003, compared to nearly $5 million in the prior year. While the continued reduction of inventories contributed $3.7 million to operating cash flow in both 2003 and 2002, accounts receivable t June 30, 2003 were approximately $3 million higher, adjusted for the impact of exchange rate changes, than at June 30, 2002. While fourth quarter sales were flat year-over-year, there was a significant shift from domestic to overseas sales in the current quarter. In general, customer credit terms in both our European and Asian markets are longer, partially explaining this increase. Additionally, our domestic operations had a past due balance of $0.6 million from one overseas customer, of which $0.5 million has been collected subsequent to year-end.

The net change in accounts payable at June 30, 2003 compared to June 30, 2002 was primarily due to the timing of payments at our domestic operations at the end of fiscal 2002. From a balance sheet perspective, the net increase in accounts payable from June 30, 2002 to June 30, 2003 of just over $3 million includes an approximately $1.5 million impact of changes in foreign exchange rates year-over-year.

The almost $8 million increase in deferred income taxes as of June 30, 2003 versus the prior year was primarily caused by a year-end adjustment to the minimum pension liability adjustment of $15.9 million (or 9.7 million net of related income taxes).

In fiscal 2002, operating cash flows increased to $13 million from $7.4 million in fiscal 2001 with the favorable impact of inventory reductions and reduced pension contributions. In fiscal 2001, positive cash flows from earnings, depreciation, and working capital reductions were partially offset by taxes and by increased contributions to the Company pension fund.

Expenditures for capital equipment for the prior two fiscal years had been held to a level of about one-half depreciation. While the desire to conserve cash had been one consideration, we also had been more selective in adding major machine tools and had focused on our core competency manufacturing cells. In fiscal 2003, we increased capital spending by $2.3 million compared to fiscal 2002 as the Company further developed its key manufacturing cells in both our domestic and European operations. We expect this trend to continue in fiscal 2004.

The overall liquidity of the Company remains strong. We continue to reduce total borrowings, have over $9 million of available borrowings on our $20 million revolving loan agreement, and continue to generate enough cash from operations to meet our operating and investing needs. Working capital increased slightly to about $51 million, and the current ratio has been unchanged at between 2.1 and 2.2 for the past four fiscal years. The Company's balance sheet is strong, there are no off-balance sheet arrangements, and we continue to have sufficient liquidity for near-term needs.

The Company's existing $20 million unsecured revolving loan agreement expires in October 2005. It is the Company's intention to have a new loan agreement negotiated prior to that date.

Off-balance Sheet Arrangements

The Company had no off-balance arrangements, guarantees or obligations except for normal open purchase orders and operating leases as of June 30, 2003 and 2002. Obligations for operating leases are listed in the table below.

The Company has obligations under non-cancelable operating lease contracts and loan and senior note agreements for certain future payments. A summary of those commitments follows (in thousands):

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Short-term debt	$ 2,429	$ 2,429	-	-	-
Revolving loan borrowing	$10,865	-	$10,865	-	-
Long-term debt	$ 8,576	$ 2,857	$ 5,719	-	-
Operating leases	$11,061	$ 2,868	$ 3,762	$2,213	$2,218

The Company believes the capital resources available in the form of existing cash, lines of credit (see Footnote I to the consolidated financial statements), and funds provided by operations will be adequate to meet anticipated capital expenditures and other foreseeable future business requirements.

Other Matters

Environmental Matters

The Company has been involved in various stages of investigation relative to hazardous waste sites, two of which were on the United States EPA National Priorities List (Superfund sites). The Company's involvement in one of the Superfund sites was settled in 2003 for approximately $191,000. The Company has made a $117,000 payment in trust in settlement of its exposure related to the second Superfund site and anticipates that no further payments will be required. The excess reserve for these sites of $300,000 was reversed against cost of sales in 2003.

Critical Accounting Policies

The preparation of this Annual Report requires management's judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of

the financial statements, and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Twin Disc's significant accounting policies are described in Note A to the consolidated financial statements on pages 19 through 21 of this form. Not all of these significant accounting policies require management to make difficult, subjective, or complex judgments or estimates. However, the policies management considers most critical to understanding and evaluating our reported financial results are the following:

Revenue Recognition

Twin Disc recognizes revenue from product sales at the time of shipment and passage of title. While we respect the customer's right to return products that were shipped in error or do not function properly, historical experience shows those types of adjustments have been immaterial and thus no provision is made. With respect to other revenue recognition issues, management has concluded that its policies are appropriate and in accordance with the guidance provided by Securities and Exchange Commissions' Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition".

Accounts Receivable

Twin Disc performs ongoing credit evaluations of our customers and adjusts credit limits based on payment history and the customer's credit-worthiness as determined by review of current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer-collection issues. In addition, senior management reviews the accounts receivable aging on a monthly basis to determine if any receivable balances may be uncollectible. Although our accounts receivable are dispersed among a large customer base, a significant change in the liquidity or financial position of any one of our largest customers could have a material adverse impact on the collectability of our accounts receivable and future operating results.

Inventory

Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for the majority of the inventories located in the United States, and by the first-in, first-out (FIFO) method for all other inventories. Management specifically identifies obsolete products and analyzes historical usage, forecasted production based on future orders, demand forecasts, and economic trends when evaluating the adequacy of the reserve for excess and obsolete inventory. The adjustments to the reserve are estimates that could vary significantly, either favorably or unfavorably, from the actual requirements if future economic conditions, customer demand or competitive conditions differ from expectations.

Warranty

Twin Disc engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends. While we believe the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires.

Income Taxes

As part of the process of preparing our consolidated financial statements, income taxes in each of the jurisdictions in which we operate must be estimated. This process involves estimating the actual current tax exposure and assessing the realizability of temporary differences. If it is deemed more likely than not that a temporary difference will be realized, a valuation allowance is recorded.

Recently Issued Accounting Standards

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements of FAS 5, "Accounting for Contingencies," relating to guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Interpretation's provisions for initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of annual periods that end after December 15, 2002. The adoption of the accounting and disclosure provisions of this Interpretation did not have a significant impact on the Company's financial statements for the year ending June 30, 2003.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of the provisions of this Statement to have a significant impact on its financial statements.

Item 7(a). Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risks from changes in interest rates, commodities and foreign exchange. To reduce such risks, the Company selectively uses financial instruments and other pro-active management techniques. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for trading or speculative purposes. Discussions of the Company's accounting policies and further disclosure relating to financial instruments is included in Note A to the consolidated financial statements on pages 19 through 21 of this form.

Interest rate risk - The Company's earnings exposure related to adverse movements of interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to the prime and LIBOR interest rates. During 2003, the Company entered into a $20,000,000 revolving loan agreement, which expires on October 31, 2005. In accordance with the loan agreement, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On", between 1% and 2.75%, depending on the Company's Total Funded Debt to EBITDA ratio. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at June 30, 2003 to manage interest rate risk exposure. A 10 percent increase or decrease in the applicable interest rate would result in a change in pretax interest expense of approximately $45,000.

Commodity price risk - The Company is exposed to fluctuation in market prices for such commodities as steel and aluminum. Due to the relative stability of these commodities, the Company does not utilize commodity price hedges to manage commodity price risk exposure.

Currency risk - The Company has exposure to foreign currency exchange fluctuations. Approximately one-third of the Company's revenues in the years ended June 30, 2003 and 2002 were denominated in currencies other than the U.S. dollar. Of that total, approximately two-thirds was denominated in euros with the balance composed of Japanese yen and the Australian and Singapore dollars. The Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Forward foreign exchange contracts are used to hedge the currency fluctuations on significant transactions denominated in foreign currencies.

Derivative Financial Instruments - The Company has written policies and procedures that place all financial instruments under the direction of the company corporate treasury and restrict derivative transactions to those intended for hedging purposes. The use of financial instruments for trading purposes is prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other Income (Expense), net in the Consolidated Statement of Operations as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2003 and 2002 was the Euro. At June 30, 2003, the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,701,000 with a weighted average maturity of 50 days. The fair value of the Company's contracts was approximately zero at June 30, 2003. At June 30, 2002, the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,053,000 with a weighted average maturity of 40 days. The fair value of the Company's contracts was approximately $0.2 million at June 30, 2002.

Item 8. Financial Statements and Supplementary Data

See consolidated financial statements and Financial Statement Schedule on Pages 13 through 33 of this form.

Sales and Earnings by Quarter (dollars in thousands, except per share amounts)

2003	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	$36,521	$42,794	$47,177	$53,099	$179,591
Gross profit	5,930	6,680	10,425	11,981	35,016
Net earnings (loss)	(1,731)	(3,087)	509	1,941	(2,368)
Basic earnings per share	(.62)	(1.10)	.18	.70	(.84)
Diluted earnings per share	(.62)	(1.10)	.18	.70	(.84)
Dividends per share	.175	.175	.175	.175	.70

2002	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	$40,631	$43,986	$41,928	$52,840	$179,385
Gross profit	8,546	9,962	9,614	12,117	40,239
Net earnings	272	423	(37)	1,400	2,058
Basic earnings per share	.10	.15	(.01)	.49	.73
Diluted earnings per share	.10	.15	(.01)	.49	.73
Dividends per share	.175	.175	.175	.175	.70

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

None.

Item 9(a). Disclosure Controls and Procedures.

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as of the end of the period covered by this report and under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated the effectiveness of he design and operation of its disclosure controls and procedures. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to the certifying officers by others within the Company and its consolidated subsidiaries during the period covered by this report.

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" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 17, 2003, which is incorporated into this report by reference. For information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, see "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 17, 2003, 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", "Retirement Income Plan", "Supplemental Retirement Benefit Plan", "Compensation of Directors" and "Employment Contracts" in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 17, 2003 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 in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 17, 2003 under the caption "Principal Shareholders, 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.

The following table summarizes certain information regarding the Company's equity-based compensation plans:

Plan Category	# of securities to be issued upon exercise of options, warrants and rights	Weighted average price of outstanding options, warrants and rights	# of securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans Approved by Shareholders	236,350	$19.70	$53,650
Equity Compensation Plans Not Approved By Shareholders	0	N/A	0
Total	236,350	$19.70	$53,650

Item 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a)(1) Consolidated Financial Statements
See "Index to Consolidated Financial Statements and Financial Statement Schedule" below, the Report of Independent Auditors on page 14 and the Consolidated Financial Statements on pages 15 to 32, all of which are incorporated by reference.

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

(a)(2) Consolidated Financial Statement Schedules

See "Index to Consolidated Financial Statements and Financial Statement Schedule" below, the Report of Independent Auditors on Financial Statement Schedule on page 33 and the Consolidated Financial Statement Schedule on page 33, all of which are incorporated by reference.

(a)(3) Exhibits. See Exhibit Index included as the last page of this form, which is incorporated by reference.

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.

(b) A Form 8-K was filed on April 21, 2003 announcing the financial results for the third fiscal quarter of 2003.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULE

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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.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders
Twin Disc, Incorporated
Racine, Wisconsin

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of Twin Disc, Incorporated and Subsidiaries at June 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
July 25, 2003

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2003 and 2002

(Dollars in thousands)	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 5,908	$ 7,400
Trade accounts receivable, net	35,367	29,255
Inventories, net	47,247	44,504
Deferred income taxes	4,469	4,505
Other	4,104	4,126
Total current assets	97,095	89,790
Property, plant and equipment, net	30,210	29,549
Investment in affiliate	2,550	2,439
Goodwill, net	12,876	12,311
Deferred income taxes	20,164	12,246
Intangible pension asset	24	1,383
Other assets	7,439	9,562
	$170,358	$157,280
Liabilities And Shareholders' Equity		
Current liabilities:		
Notes payable	$ 2,429	$ 1,708
Current maturities on long-term debt	2,857	2,857
Accounts payable	16,115	13,042
Accrued liabilities	24,885	22,312
Total current liabilities	46,286	39,919
Long-term debt	16,584	18,583
Accrued retirement benefits	56,732	39,797
	119,602	98,299
Minority interest	485	472
Shareholders' equity:		
Preferred shares authorized: 200,000; issued: none; no par value	-	-
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	83,191	87,524
Accumulated other comprehensive loss	(26,978)	(23,187)
	67,866	75,990
Less treasury stock, at cost	17,595	17,481
Total shareholders' equity	50,271	58,509
	$170,358	$157,280

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

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2003, 2002 and 2001

(In thousands, except per share data)

	2003	2002	2001
Net sales	$179,591	$179,385	$180,786
Cost of goods sold	144,575	139,146	137,091
Gross profit	35,016	40,239	43,695
Marketing, engineering and administrative expenses	34,790	34,638	31,716
Restructuring of operations	2,042	-	1,453
(Loss) earnings from operations	(1,816)	5,601	10,526
Other income (expense):			
Interest income	167	294	262
Interest expense	(1,323)	(1,700)	(2,194)
Equity in net earnings of affiliates	402	481	820
Gain on sale of affiliate	-	-	3,935
Other, net	(69)	467	(258)
	(823)	(458)	2,565
(Loss) earnings before income taxes and minority interest	(2,639)	5,143	13,091
Income taxes	(283)	2,950	6,922
(Loss) earnings before minority interest	(2,356)	2,193	6,169
Minority interest	(12)	(135)	-
Net (loss) earnings	$ (2,368)	$ 2,058	$ 6,169
(Loss) earnings per share data:			
Basic earnings (loss) per share	$ (0.84)	$ 0.73	$ 2.20
Diluted earnings (loss) per share	(0.84)	0.73	2.20
Weighted average shares outstanding data:			
Basic shares outstanding	2,805	2,808	2,808
Dilutive stock options	-	-	-
Diluted shares outstanding	2,805	2,808	2,808

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

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2003, 2002 and 2001

(In thousands)	2003	2002	2001
Cash flows from operating activities:			
Net (loss) earnings	$ (2,368)	$ 2,058	$ 6,169
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	5,673	5,709	6,392
Write-off of impaired asset	773	-	-
Loss on sale of plant assets	105	90	10
Gain on sale of affiliate	-	-	(3,935)
Minority interest	12	135	-
(Gain) loss on restructuring of operations	1,278	(53)	1,262
Equity in net earnings of affiliate	(402)	(481)	(820)
Provision for deferred income taxes	1,424)	378	(4,680)
Dividends received from affiliate	303	400	632
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(2,977)	(995)	672
Inventories, net	3,725	3,724	1,483
Other assets	(1,205)	67	3,535
Accounts payable	1,489	2,456	(1,677)
Accrued liabilities	577	(3,702)	1,210
Accrued/prepaid retirement benefits	1,151	3,375	(2,869)
Net cash provided by operating activities	6,710	13,161	7,384
Cash flows from investing activities:			
Proceeds from sale of plant assets	20	25	52
Proceeds from sale of affiliate	-	-	7,173
Acquisitions of plant assets	(4,410)	(2,063)	(3,492)
Investment in joint venture	-	-	(654)
Net cash (used) provided by investing activities	(4,390)	(2,038)	3,079
Cash flows from financing activities:			
Decreases in notes payable, net	(23)	(3,082)	-
Payments of long-term debt	(1,992)	(4,857)	(7,857)
Acquisition of treasury stock	(114)	-	(34)
Dividends paid	(1,965)	(1,965)	(1,966)
Net cash used by financing activities	(4,094)	(9,904)	(9,857)
Effect of exchange rate changes on cash	282	220	(296)
Net change in cash and cash equivalents	(1,492)	1,439	310
Cash and cash equivalents:			
Beginning of year	7,400	5,961	5,651
End of year	$ 5,908	$ 7,400	$ 5,961
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 1,870	$ 1,882	$ 2,078
Income taxes	1,675	1,908	5,155

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

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
for the years ended June 30, 2003, 2002 and 2001

(In thousands)	2003	2002	2001
Common stock			
Balance, June 30	$ 11,653	$ 11,653	$ 11,653
Retained earnings			
Balance, July	187,524	87,431	83,228
Net (loss) earnings	(2,368)	2,058	6,169
Cash dividends	(1,965)	(1,965)	(1,966)
Balance, June 30	83,191	87,524	87,431
Accumulated other comprehensive (loss) income			
Balance, July 1	(23,187)	(23,181)	799
Foreign currency translation adjustment			
Balance, July 1	(1,520)	(5,420)	799
Current adjustment	5,929	3,900	(6,219)
Balance, June 30	4,409	(1,520)	(5,420)
Minimum pension liability adjustment, net			
Balance, July 1	(21,667)	(17,761)	-
Current adjustment, net of related income Taxes ($6,215 in 2003, $2,497 in 2002, and $11,356 in 2001)	(9,720)	(3,906)	(17,761)
Balance, June 30	(31,387)	(21,667)	(17,761)
Accumulated other comprehensive (loss) income			
Balance, June 30	(26,978)	(23,187)	(23,181)
Treasury stock, at cost			
Balance, July 1	(17,481)	(17,481)	(17,447)
Shares acquired	(114)	-	(34)
Balance, June 30	(17,595)	(17,481)	(17,481)
Shareholders' equity balance, June 30	$ 50,271	$ 58,509	$ 58,422
Comprehensive income (loss)			
Net (loss) earnings	$ (2,368)	$ 2,058	$ 6,169
Other comprehensive income (loss)			
Foreign currency translation adjustment	5,929	3,900	(6,219)
Minimum pension liability adjustment, net	(9,720)	(3,906)	(17,761)
Other comprehensive (loss) income	(3,791)	(6)	(23,980)
Comprehensive (loss) income	$ (6,159)	$ 2,052	$(17,811)

The notes to consolidated financial statements are an integral part of these 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 wholly and partially owned domestic and foreign subsidiaries. Certain foreign subsidiaries are included based on fiscal years ending March 31 or May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

Translation of Foreign Currencies-The financial statements of the Company's non-U.S. subsidiaries are translated using the current exchange rate for assets and liabilities and the weighted average exchange rate for the year for revenues and expenses. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) are foreign currency transaction losses (gains) of $123,000, $(170,000), and $145,000 in 2003, 2002 and 2001, respectively.

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 $502,000 and $756,000 at June 30, 2003 and 2002, respectively.

Fair Value of Financial Instruments-The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate fair value because of the immediate short-term maturity of these financial instruments. The fair value of long-term debt exceeds its carrying amount by $438 and $328 at June 30, 2003 and 2002, respectively, based on the current rates that would be offered to the Company for debt with the same remaining maturity.

Derivative Financial Instruments-The Company has written policies and procedures that place all financial instruments under the direction of the Company's corporate treasury and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for trading purposes is prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in other income (expense), net as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2003 and 2002 was the Euro. At June 30, 2003, the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,701,000 with a weighted average maturity of 50 days. The fair value of the Company's contracts was approximately zero at June 30, 2003. At June 30, 2002, the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,053,000 with a weighted average maturity of 40 days. The fair value of the Company's contracts was approximately $0.2 million at June 30, 2002.

Inventories-Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for the majority of inventories located in the United States, and by the first-in, first-out (FIFO) method for all 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 depreciated. 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 physically disposed.

Impairment of Long-lived Assets-On July 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment of Long-lived Assets," which supercedes 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 Principles Board Opinion No. 30 related to the disposal of a segment of a business. The adoption of SFAS No. 144 did not have a significant impact in the Company's financial position or results of operations.

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. For property, plant and equipment and other long-lived assets, excluding indefinite lived intangible assets, the Company performs undiscounted operating cash flow analyses to determine if an impairment exists. If an impairment is determined to exist, any related impairment loss is calculated based on fair value.

Investments in Affiliates-The Company's investments in 20% to 50%-owned affiliates in which it has significant influence are accounted for using the equity method. Investments in affiliates where significant control does not exist are accounted for using the cost method.

Revenue Recognition--Revenue is recognized by the Company when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred and ownership has transferred to the customer; the price to the customer is fixed or determinable; and collectability is reasonably assured.

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," to establish accounting and reporting standards for goodwill and intangible assets. According to SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized. Other intangible assets will continue to be amortized over their useful lives. The Company adopted the new rules for accounting for goodwill and other intangible assets on July 1, 2001. Upon adoption of SFAS No. 142, it was determined that there was no impairment of the Company's existing goodwill and indefinite lived intangible assets.

Under SFAS No. 142, goodwill will be tested for impairment at least annually and more frequently if an event occurs which indicates the goodwill may be impaired. Impairment of goodwill is measured according to a two step approach. In the first step, the fair value of a reporting unit, as defined by the statement, is compared to the carrying value of the reporting unit, including goodwill. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. In the second step the implied value of the goodwill is estimated as the fair value of the reporting unit less the fair value of all other tangible and identifiable intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill.

Deferred 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.

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.

Stock-Based Compensation-At June 30, 2003, the Company has two stock-based compensation plans, which are described more fully in Note M, "Stock Option Plans." The Company accounts for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost related to stock options is reflected in earnings, as all option grants under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation is disclosed in Note M.

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.

Shipping and Handling Fees and Costs-The Company records revenue from shipping and handling costs in net sales. The cost associated with shipping and handling of products is reflected in cost of sales.

Reclassification-Certain amounts in the 2002 financial statements have been reclassified to conform to the presentation in the 2003 financial statements.

Recently Issued Accounting Standards- In November 2002, the FASB issued FASB

Interpretation No. 45 ("FIN 45"). Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements of FAS 5, "Accounting for Contingencies," relating to guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Interpretation's provisions for initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of annual periods that end after December 15, 2002. The adoption of the accounting and disclosure provisions of this Interpretation did not have a significant impact on the Company's financial statements for the year ending June 30, 2003.

In May 2003, the FASB issued SFAS No. 150. "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of the provisions of this Statement to have a significant impact on its financial statements.

B. Inventories

The major classes of inventories at June 30 were as follows (in thousands):

	2003	2002
Finished parts	$ 36,175	$ 35,485
Work-in-process	7,003	5,668
Raw materials	4,069	3,351
	$ 47,247	$ 44,504

Inventories stated on a LIFO basis represent approximately 43% and 47% of total inventories at June 30, 2003 and 2002, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by $20,542,000 and $20,776,000 at June 30, 2003 and 2002, respectively. Inventory quantities were reduced in 2003 resulting in a liquidation of LIFO inventory quantities carried at costs prevailing in prior years which were lower than current costs. The effect was to decrease the 2003 net loss by $70,000.

C. Property, Plant And Equipment

Property, plant and equipment at June 30 were as follows (in thousands):

	2003	2002
Land	$ 1,412	$ 1,407
Buildings	24,948	23,428
Machinery and equipment	92,371	89,086
	118,731	113,921
Less accumulated depreciation	88,521	84,372
	$ 30,210	$ 29,549

D. Investment In Affiliates

In January of 2001, the Company sold its remaining 19.5% investment in Niigata Converter Company, LTD., Japan (Niigata). The total proceeds from the transaction were $7.2 million, including the elimination of a $1.7 million note receivable, resulting in a pre-tax gain of $3.9 million recognized in 2001.

The Company's investment in affiliate consists of a 25% interest in a domestic distributor of Twin Disc products. Combined condensed financial data for the investment in affiliate accounted for under the equity method of accounting are summarized below (in thousands). The statement of operations information includes the results of operations of the domestic distributor from June 1 through May 31.

	2003	2002
Current assets	$ 12,792	$ 11,070
Other assets	2,125	5,457
	$ 14,917	$ 16,527
Current liabilities	$ 2,662	$ 6,673
Other liabilities	2,164	97
Shareholders' equity	10,091	9,757
	$ 14,917	$ 16,527

	2003	2002	2001
Net sales	$ 27,008	$ 23,774	$ 27,516
Gross profit	8,831	8,300	9,832
Net earnings	1,607	1,925	3,281

At June 30, 2003 and 2002, trade receivables from the 25% owned distributor were $1,719,000 and $1,147,000, respectively.

Sales to the Company's 25% owned domestic distributor are the same terms and conditions as sales to independent distributors. Sales to this distributor were $10,886,000, $9,250,000 and $11,259,000 in fiscal 2003, 2002 and 2001, respectively.

E. Goodwill And Other Intangibles

The Company performed impairment tests of its goodwill at June 30, 2003 and 2002 and at July 1, 2001 and determined that no impairment of goodwill existed. Goodwill at June 30, 2003 and 2002 of $12,876,000 and $12,311,000, respectively, is net of accumulated amortization of $997,000. There were no other indefinite lived intangible assets identified by the Company at June 30, 2003 or 2002.

In the second quarter of 2003, review of long-lived assets revealed a permanent impairment in the value of a license agreement to manufacture and distribute certain products. It was determined that this asset should be subjected to SFAS 144 impairment tests due to current period operating and cash flow losses generated on products sold under the agreement in conjunction with recent projections that these losses will continue. The fair value of the asset being held for use was determined based on discounted cash flows generated from the use of the asset using a discount rate reflecting the Company's average cost of funds, plus salvage value. It was determined that the carrying value of the license exceeded the fair value and a charge of $773,000 was recorded during the quarter ended December 31, 2002 to write-down this asset to its fair value. This charge was classified as a component of cost of sales pertaining to the Company's Manufacturing segment.

Included in Other assets on the Company's Consolidated Balance Sheet as of the end of June 30, 2003 and 2002, respectively, are the following acquired intangible assets (in thousands):

	2003	2002
Intangible assets with finite lives:		
Licensing agreements	$ 5,490	$ 5,490
Other	1,259	1,259
	$ 6,749	$ 6,749
Accumulated amortization	$ 4,211	$ 3,611
Write off or impaired asset	773	-
Total	$ 1,765	$ 3,138

The weighted average remaining useful life of the intangible assets included in the table above is approximately 16 years.

Intangible amortization expense for the year ended June 30, 2003 and 2002 was $601,000 and $726,000, respectively. Estimated intangible amortization expense for each of the subsequent five fiscal years is as follows (in thousands):

Fiscal Year	
2004	$ 416
2005	231
2006	68
2007	60
2008	60
Thereafter	930
	$ 1,765

The following proforma information reconciles the net income and earnings per share reported for the fiscal year ended June 30, 2001 to adjusted net income and earnings per share to reflect the adoption of SFAS No. 142 (in thousands except earnings per share data):

	2001
Net income, as reported	$ 6,169
Goodwill amortization (net of tax)	171

Net income, as adjusted	$ 6,340
	=======
Basic earnings per share, as reported	$ 2.20
Goodwill amortization (net of tax)	.06

Basic earnings per share, as adjusted	$ 2.26
	========
Diluted earnings per share, as reported	$ 2.20
Goodwill amortization (net of tax)	.06

Diluted earnings per share, as adjusted	$ 2.26
	=======

F. Joint Venture

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. (NTC). NTC is an engineering and marketing company supporting the Company's expanding global marine product line as well as a distribution company for Niigata's family of transmission products.

Pursuant to the terms of the Joint Venture Agreement, the Company contributed 0.7 million in exchange for a controlling 66% ownership interest in NTC and Niigata contributed $0.3 million for a 34% ownership interest. NTC's balance sheet and statement of operations as of and for the years ended March 31, 2003 and 2002 are consolidated with the Company's balance sheet and statement of operations as of and for the years ended June 30, 2003 and 2002, respectively.

In 2002, Niigata filed for creditor protection in Japan under the local bankruptcy code. Niigata was acquired out of bankruptcy in 2003 and the acquiring company is participating in the joint venture under the original terms of the joint agreement. Subsequent to the acquisition of Niigata, the name of the Joint Venture was changed to Twin Disc Nico Co. LTD.. During 2002 the Company fully reserved for its receivable from Niigata in the amount of $237,000 as a result of this filing and wrote off this amount in 2003.

G. Accrued Liabilities

Accrued liabilities at June 30 were as follows (in thousands):

	2003	2002
Salaries and wages	$ 4,756	$ 4,875
Retirement benefits	6,309	4,666
Warranty	6,070	5,294
Other	7,750	7,477
	$ 24,885	$ 22,312

H. Warranty

The Company warrants all assembled products and parts (except component products or parts on which written warranties are issued by the respective manufacturers thereof and are furnished to the original customer, as to which the Company makes no warranty and assumes no liability) against defective materials or workmanship. Such warranty generally extends from periods ranging from 12 months to 24 months.

The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on the Company's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends. While the Company believes the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires.

The following is a listing of the activity in the warranty reserve during the year ended June 30, 2003 (in thousands):

	Year Ended June 30, 2003
Reserve balance, July 1, 2003	$ 5,294
Current period expense	4,417
Payments or credits to customers	(3,766)
Adjustment to preexisting warranties	125
Reserve balance, June 30, 2003	$ 6,070

I. Debt

Notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total $8,577,378 at June 30, 2003. These lines of credit may be withdrawn at the option of the banks. The weighted average interest rate of the lines outstanding at June 30, 2003 and 2002 was 3.4% and 4.6%, respectively.

Included in long-term debt is $8,571,000 and $11,429,000 of 7.37% ten-year unsecured notes at June 30, 2003 and 2002, respectively. These notes contain certain covenants, including the maintenance of a current ratio of not less than 1.5 and the maintenance of an EBITDA to interest charges ratio greater than 2.3. Consolidated net worth must be at least equal to the sum of $60,310,000 plus 35% of consolidated net earnings for each quarter from July 1, 1996, however the Company may exclude up to $34,000,000 of net worth adjustments that result from changes to the assumptions used by the Company in determining its pension liability or changes in the market value of plan assets. As of June 30, 2003, the Company was in compliance with all debt covenants.

During 2003, the Company entered into a $20,000,000 revolving loan agreement which expires on October 31, 2005. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. Financial covenants include a minimum consolidated net worth calculated consistently with the net worth covenant discussed in the above paragraph, minimum EBITDA of 6,000,000 at June 30, 2003 and a maximum total funded debt to EBITDA ratio of 3.75 at June 30, 2003. As of June 30, 2003, the Company was in compliance with all debt covenants. The outstanding balance of $10,865,000 and $10,000,000 at June 30, 2003 and 2002, respectively, is classified as long-term debt. Notes under this agreement bear interest on a schedule determined by the Company's leverage ratio and the LIBOR interest rate (LIBOR plus 2.75% and 1.00% at June 30, 2003 and 2002, respectively). The rate was 4.07% and 3.9% at June 30, 2003 and 2002, respectively.

The aggregate scheduled maturities of outstanding long term debt obligations in subsequent years are as follows (in thousands):

Fiscal Year	
2004	$ 2,857
2005	13,727
2006	2,857
	$ 19,441

J. Lease Commitments

Approximate future minimum rental commitments under noncancellable operating leases are as follows (in thousands):

Fiscal Year	
2004	$ 2,868
2005	2,117
2006	1,645
2007	1,184
2008	1,029
Thereafter	2,218
	$ 11,061

Total rent expense for operating leases approximated $3,320,000, $3,135,000 and $3,444,000 in 2003, 2002 and 2001 respectively

K. Shareholders' Equity

At June 30, 2003 and 2002, treasury stock consisted of 845,788 and 835,788 shares of common stock, respectively. The Company acquired 10,000 shares of treasury stock in 2003 for $114,000.

Cash dividends per share were $.70 in 2003, 2002 and 2001.

In 1998, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders 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 $160, 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 15% (or at least 25% in the case of existing holders who currently own 15% or more of the common stock), or commenced a tender offer for at least 25% 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, 2008, 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 is authorized to issue 200,000 shares of preferred stock, none of which have been issued. The Company has designated 50,000 shares of the preferred stock for the purpose of the Shareholder Rights Plan.

L. Business Segments And Foreign Operations

The Company and its subsidiaries are engaged in the manufacture and sale of power transmission equipment. 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 construction, industrial, energy and natural resources and marine and agricultural.

The Company has two reportable segments: manufacturing and distribution. These segments are managed separately because each provides different services and requires different technology and marketing strategies. The accounting practices of the segments are the same as those described in the summary of significant accounting policies. Transfers among segments are at established inter-company selling prices.

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

	Manufacturing	Distribution	Total
2003			
Net sales	$153,713	$63,413	$217,126
Intra-segment sales	6,587	2,890	9,477
Inter-segment sales	25,848	2,210	28,058
Interest income	470	254	95
Interest expense	1,480	137	1,617
Income taxes	(1,054)	1,073	19
Depreciation and amortization	5,2912	92	5,583
Segment (loss) earnings	(1,866)	1,943	77
Segment assets	152,093	32,7611	84,854
Expenditures for segment assets	3,882	528	4,410
2002			
Net sales	$155,730	$ 61,848	$217,578
Intra-segment sales	6,696	1,870	8,566
Inter-segment sales	22,784	6,843	29,627
Interest income	468	43	511
Interest expense	1,783	131	1,914
Income taxes	1,940	1,362	3,302
Depreciation and amortization	5,409	210	5,619
Segment earnings	2,247	2,366	4,613
Segment assets	139,810	30,275	170,085
Expenditures for segment assets	1,851	212	2,063
2001			
Net sales	$171,439	$ 45,337	$216,776
Intra-segment sales	7,953	304	8,257
Inter-segment sales	27,009	724	27,733
Interest income	393	76	469
Interest expense	2,796	107	2,903
Income taxes	4,072	851	4,923
Depreciation and amortization	5,997	269	6,266
Segment earnings	5,562	1,365	6,927
Segment assets	141,737	24,822	166,559
Expenditures for segment assets	3,245	247	3,492

The following is a reconciliation of reportable segment net sales, earnings (loss) and assets, to the Company's consolidated totals (in thousands):

	2003	2002	2001
Net sales			
Total net sales from reportable segments	$217,126	$217,578	$216,776
Elimination of inter-company sales	(37,535)	(38,193)	(35,990)
Total consolidated net sales	$179,591	$179,385	$180,786
(Loss) earnings:			
Total earnings from reportable segments	$ 77	$ 4,613	$ 6,927
Other corporate expenses	(2,445)	(2,555)	(758)
Total consolidated net (loss) earnings	$(2,368)	$ 2,058	$ 6,169
Assets			
Total assets for reportable segments	$184,854	$170,085	
Elimination of inter-company assets	(19,402)	(18,831)	
Corporate assets	4,906	6,026	
Total consolidated assets	$170,358	$157,280	

Other significant items:

2003	Segment Totals	Adjustments	Consolidated Totals
Interest income	$ 495	$ (328)	$ 167
Interest expense	1,617	(294)	1,323
Income taxes	19	(302)	(283)
Depreciation and amortization	5,583	90	5,673
Expenditures for segment assets	4,410	-	4,410
2002			
Interest income	$ 511	$ (217)	$ 294
Interest expense	1,914	(214)	1,700
Income taxes	3,302	(352)	2,950
Depreciation and amortization	5,619	90	5,709
Expenditures for segment assets	2,063	-	2,063
2001			
Interest income	$ 469	$ (207)	$ 262
Interest expense	2,903	(709)	2,194
Income taxes	4,923	1,999	6,922
Depreciation and amortization	6,266	126	6,392
Expenditures for segment assets	3,492	-	3,492

All adjustments represent inter-company eliminations and corporate amounts.

Geographic information about the Company is summarized as follows (in thousands):

	2003	2002	2001
Net sales			
United States	$ 95,813	$108,288	$120,522
Other countries	83,778	71,097	60,264
Total	$179,591	$179,385	$180,786
Long-lived assets United States	$ 63,865	$ 59,530	
Belgium	11,228	10,596	
Other countries	6,646	4,842	
Elimination of inter-company assets	(8,476)	(7,478)	
Total	$ 73,263	$ 67,490	

One customer accounted for approximately 10%, 11% and 11% of consolidated net sales in 2003, 2002 and 2001, respectively.

M. Stock Option Plans

During fiscal 1999, the Company adopted the Twin Disc, Incorporated 1998 Stock Option Plan for Non-Employee Directors, a non-qualified plan for non-employee directors to purchase up to 35,000 shares of common stock, and the Twin Disc, Incorporated 1998 Incentive Compensation Plan, a plan where options are determined to be non-qualified or incentive at the date of grant, for officers and key employees to purchase up to 165,000 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 will be granted options. The grant of options to non-employee directors is fixed at options to purchase 1,000 shares of common stock per year or 600 at time of appointment. Except as described in the following sentence, all options allow for exercise prices not less than the grant date fair market value, vest immediately and expire ten years after the date of grant. For options under the Incentive Compensation Plan, if the optionee owns more than 10% of the total combined voting power of all classes of the Company's stock, the price will be not less than 110% of the grant date fair market value and the options expire five years after the grant date. In addition, the Company has 44,450 incentive stock option plan options and 46,050 non-qualified stock option plan options outstanding at June 30, 2003 under the Twin Disc, Incorporated 1988 Incentive Stock Option plan and the Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors, respectively. The plans terminated during 1999.

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

	2003	2002
1998 Stock Option Plan for Non-Employee Directors	6,400	14,650
1998 Incentive Compensation Plan	47,250	62,300

Stock option transactions under the plans during 2003, 2003 and 2001 were as follows:

	2003	Weighted Average Price	2002	Weighted Average Price	2001	Weighted Average Price
Non-qualified stock options:						
Options outstanding at beginning of year	102,350	$20.46	88,350	$21.31	83,600	$22.06
Granted	40,800	14.39	14,500	15.05	15,750	17.47
Canceled	(18,000)	18.14	(500)	14.00	(11,000)	21.47
Options outstanding at June 30	125,150	$18.82	102,350	$20.46	88,350	$21.31

Options price range
($12.70 - $20.00)

Number of shares	92,450
Weighted average price	$ 16.30
Weighted average remaining life	7.36 years

Options price range ($21.875 - $28.75)

Number of shares	32,700
Weighted average price	$ 24.96
Weighted average remaining life	4.85 years

	2003	Weighted Average Price	2002	Weighted Average Price	2001	Weighted Average Price
Incentive stock options:						
Options outstanding at beginning of year	146,000	$20.75	125,650	$22.29	119,400	$23.24
Granted	-	-	30,200	15.25	26,800	17.81
Canceled	(39,300)	21.32	(9,850)	23.47	(20,550)	21.95
Options outstanding at June 30	106,700	$20.55	146,000	$20.75	125,650	$22.29
Options price range ($15.05 - $20.00)						
Number of shares	68,400					
Weighted average price	$ 17.66					
Weighted average remaining life	7.16 years					
Options price range ($21.875 - $28.75)						
Number of shares	38,300					
Weighted average price	$ 25.70					
Weighted average remaining life	5.13 years					

The Company accounts for its stock option plans under the guidelines of Accounting Principles Board Opinion No. 25. Had the Company recognized compensation expense determined based on the fair value at the grant date for awards under the plans, the net earnings and earnings per share would have been as follows (in thousands,
except per share amounts)

	2003	2002	2001
Net (loss) earnings			
As reported	$ (2,368)	$ 2,058	$ 6,169
Pro forma	(2,442)	1,954	6,028
Basic and diluted (loss) earnings per share			
As reported	$ (0.84)	$ 0.73	$ 2.20
Pro forma	(0.87)	0.70	2.15

The above pro forma net earnings and earnings per share were computed using the fair value of options at the date of grant (for options granted after June 1995) as calculated by the Black-Scholes option-pricing method and the following assumptions: 22% volatility, 4.8% annual dividend yield, risk free interest rates of 3.58% and 2.71% in 2003, 23% volatility, 4.5% annual dividend yield, risk free interest rate of 4.53% in 2002, 22% volatility, 4.2% annual dividend yield, risk free interest rate of 6.05% in 2001, a 5 year term and an exercise price equal to the fair market value on the date of grant except for incentive options granted to greater than 10% shareholders which are calculated using a 3 year term and an exercise price equal to 110% of the fair market value on the date of grant. For those options granted during 2003, 2002 and 2001 with exercise prices equal to the grant date fair market value, the exercise prices and weighted average fair values of the options were $14.34 and $1.83 in 2003, $15.05 and $2.37 in 2002 and $17.54 and $3.38 in 2001, respectively. For those options granted with exercise prices greater than the grant date fair market value, the exercise prices and weighted average fair values of the options were none in 2003, $16.56 and $1.83 in 2002 and $19.59 and $2.50 in 2001, respectively.

N. 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 totaled $2,220,000, $1,887,000 and $1,929,000 in 2003, 2002 and 2001 respectively. Total engineering and development costs were $7,190,000, $6,718,000 and $5,791,000 in 2003, 2002 and 2001 respectively.

O. Retirement Plans

The Company has non-contributory, qualified defined benefit pension plans covering substantially all domestic employees hired prior to October 1, 2003 and certain foreign employees. Domestic plan benefits are based on years of service, and, for salaried employees, on average compensation for benefits earned prior to January 1, 1997 and on a cash balance plan for benefits earned after January 1, 1997. 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 deducted for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

On June 20, 2003 the Board of Directors amended the defined benefit pension plans covering domestic salaried and hourly employees to exclude all employees hired after October 1, 2003 from the plans. In addition, a portion of the medical supplement for post-1992 retirees that is payable prior to Medicare eligibility has been removed from the plan. The $19.24 per month benefit times years of service has been reduced to $4.42 per month times years of service. This is effective October 1, 2003 for all participants. The $14.82 benefit removed is now provided through the retiree health plan discussed below. The remaining medical supplement will be calculated using service frozen as of October 1, 2003.

In addition, the Company has unfunded, non-qualified retirement plans for certain management employees and directors. Benefits are based on final average compensation and vest upon retirement from the Company.

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain domestic retirees. All employees retiring after December 31, 1992, and electing to continue coverage through the Company's group plan, are required to pay 100% of the premium cost. On June 20, 2003 the Board of Directors amended the coverage under the plans as follows:

- --Pre-1993 retirees are required to pay any cost increases after 2003 for retiree medical coverage.
- --Dental and vision coverage for Pre-1993 retirees was eliminated.
- --Life insurance coverage for individuals who retire on or after October 1, 2003 was eliminated.
- --Access to retiree medical coverage after age 65 for individuals who retire on or after October 1, 2003 and their spouses was eliminated.
- --Retiree medical coverage was eliminated for all employees hired on or after October 1, 2003.
- --A Healthcare Reimbursement Account ("HRA") program will be established for individuals who retire after January 1, 1993 but before age 65.

The following table sets forth the Company's defined benefit pension plans' and other post-retirement benefit plan's funded status and the amounts recognized in the Company's balance sheets and income statements as of June 30 (dollars in thousands):

	Pension Benefits		Other Post retirement Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation, beginning of year	$115,147	$114,025	$ 32,999	$ 31,967
Service cost	1,344	1,361	17	17
Interest cost	8,277	8,203	2,362	2,281
Amendments	(6,376)	-	(6,106)	-
Actuarial loss	7,034	908	6,678	2,277
Benefits paid	(9,466)	(9,350)	(3,581)	(3,543)
Benefit obligation, end of year	$115,960	$115,147	$ 32,369	$ 32,999
Change in plan assets:				
Fair value of assets, beginning of year	$ 92,405	$ 98,352	$ -	$ -
Actual return on plan assets	(9,403)	1,209	-	-
Employer contribution	1,742	2,194	3,581	3,543
Benefits paid	(9,466)	(9,350)	(3,581)	(3,543)
Fair value of assets, end of year	$ 75,278	$ 92,405	$ -	$ -
Funded status	$(40,682)	$(22,742)	$(32,369)	$(32,999)
Unrecognized net transition obligation	391	388	-	-
Unrecognized actuarial loss	58,128	36,339	17,159	11,279
Unrecognized prior service cost	(5,842)	1,178	(6,106)	-
Net amount recognized	$ 11,995	$ 15,163	$(21,316)	$(21,720)
Amounts recognized in the balance sheet consist of:				
Accrued benefit liability	(39,483)	(21,739)	(21,316)	(21,720)
Intangible asset	24	1,383	-	-
Deferred tax asset	20,067	13,852	-	-
Minimum pension liability adjustment	31,387	21,667	-	-
Net amount recognized	$ 11,995	$ 15,163	$(21,316)	$(21,720)
Weighted average assumptions as of March 31 measurement date:				
Discount rate	6.75%	7.50%	6.75%	7.50%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	5.00%	5.00%		

	Pension Benefits		
	2003	2002	2001
Service cost	$ 1,344	$ 1,361	$ 1,284
Interest cost	8,277	8,203	8,333
Expected return on plan assets	(7,883)	(8,476)	(9,837)
Amortization of prior service cost	624	625	607
Amortization of transition obligation	56	49	181
Unrecognized net loss	2,492	1,802	-
Net periodic benefit cost	$ 4,910	$ 3,564	$ 568

	Postretirement Benefits		
	2003	2002	2001
Service cost	$ 17	$ 17	$ 16
Interest cost	2,362	2,281	2,298
Recognized net actuarial loss	798	580	345

Net periodic benefit cost	$ 3,177	$ 2,878	$ 2,659
	=======	=======	=======

The pension plans held 62,402 shares of Company stock with a fair market value of $882,988 and $873,000 at June 30, 2003 and 2002, respectively.

The assumed weighted average health care cost trend rate was 9% in 2003 until October 1, 2003, the date from which Pre-1993 retirees are required to pay all costs increases. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately $460,000 and the service and interest cost by approximately $31,000. A 1% decrease in the assumed health care cost trend would decrease the accumulated postretirement benefit obligation by approximately $459,000 and the service and interest cost by approximately $31,000.

The Company sponsors defined contribution plans covering substantially all domestic employees and certain foreign employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was $1,568,000, $1,780,000 and $1,591,000 in 2003, 2002, and 2001 respectively..

P. Income Taxes

United States and foreign (loss) earnings before income taxes were as follows (in thousands):

	2003	2002	2001
United States	$ (6,820)	$ 568	$ 3,457
Foreign	4,169	4,440	9,634
	$ (2,651)	$ 5,008	$ 13,091

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

	2003	2002	2001
Currently payable:			
Federal	$ (176)	$ 168	$ 2,552
State	48	70	101
Foreign	1,269	2,334	4,455
	1,141	2,572	7,108
Deferred:			
Federal	(1,281)	441	(564)
State	(587)	(83)	494
Foreign	444	20	(116)
	(1,424)	378	(186)
	$ (283)	$2,950	$ 6,922

The components of the net deferred tax asset as of June 30, were as follows (in thousands):

	2003	2002
Deferred tax assets:		
Retirement plans and employee benefits	$ 23,571	$ 16,371
Alternative minimum tax credit Carryforwards	509	690
Foreign tax credit carryforwards	641	920
State net operating loss and other state credit carryforwards	553	519
Federal net operating loss carryforward	1,206	-
Other	3,610	4,386
	30,090	22,886
Deferred tax liabilities:		
Property, plant and equipment	4,222	4,620
Intangibles	594	595
	4,816	5,215
Valuation allowance	(641)	(920)

Total net deferred tax assets	$ 24,633	$ 16,751

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit carryforwards. Of the $641,000 in foreign tax credit carryforwards at June 30, 2003, $257,000 will expire in 2005, $223,000 will expire in 2006 and $161,000 will expire in 2007. The alternative minimum tax credit carryforwards will be carried forward indefinitely. Of the $507,000 of state net operating loss carryforwards at June 30, 2002, $444,000 will expire in 2014, $23,000 will expire in 2015 and $40,000 will expire in 2017. Of the $46,000 net of federal tax of state credit carryforwards, $12,000 will expire in 2014, $11,000 will expire in 2015, $11,000 will expire in 2016 and $12,000 will expire in 2017. The federal net operating loss carryforward of $1,206,000 will expire in 2023.

Following is a reconciliation of the applicable U.S. federal income taxes to the actual income taxes reflected in the statements of operations (in thousands):

	2003	2002	2001
U.S. federal income tax at 34%	$ (901)	$ 1,749	$ 4,451
Increases (reductions) in tax resulting from:			
Foreign tax items	291	144	234
State taxes	(366)	(298)	351
Valuation allowance	-	920	1,500
Disposition of investment in subsidiary	-	522	286
Statutory rate change	97	-	-
Other, net	596	(87)	100
	$ (283)	$ 2,950	$ 6,922

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. The undistributed earnings amount to approximately $20.8 million at June 30, 2003. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

Q. Contingencies

The Company has been involved in various stages of investigation relative to hazardous waste sites, two of which were on the United States EPA National Priorities List (Superfund sites). The Company's involvement in one of the Superfund sites was settled in 2003 for approximately $191,000. The Company has made a $117,000 payment in trust in settlement of its exposure related to the second Superfund site and anticipates that no further payments will be required. The excess reserve for these sites of $300,000 was reversed against cost of sales in 2003. Additionally, the Company is subject to certain product liability matters in the normal course of business.

At June 30, 2003 and 2002, the Company has accrued approximately $100,000 and $632,000, respectively which represents management's best estimate available for possible losses related to environmental and product liability 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.

R. Restructuring Of Operations

During the second quarter of 2003, the Company recorded a pre-tax restructuring charge of $2.0 million in connection with the reduction of its workforce. These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. The charge consists of employee termination and severance benefits for a total of 58 employees; 48 production employees and 10 salaried employees. During 2003 the Company made cash payments of $0.6 million. As of June 30, 2003, a remaining balance in accrued liabilities of $1.3 million remains.

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 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 pre-existing leases, $0.1 million for the estimated loss on fixed assets which were held for disposal, and $0.1 million in miscellaneous costs. Approximately $0.7 million of the charge for employee termination and severance benefits was classified to

cost of goods sold with the remaining $0.3 million charged to marketing, engineering and administrative expenses. A total of 46 employees were terminated; 22 production employees and 24 salaried employees. In 2001, the Company made cash payments of $0.1 million and also charged the $0.1 million loss on fixed assets against the reserve. As of June 30, 2001, the reserve had a balance of $1.3 million. In 2002, cash payments of $1.1 million were charged against the reserve and $0.1 million was reversed against cost of goods sold. In 2003, the remaining reserve of $0.1 million was reversed against administrative expenses.

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated July 25, 2003 appearing on page 14 of this form 10-K also included an audit of the information set forth in the Financial Statement Schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCooopers LLP
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PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
July 25, 2003

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
for the years ended June 30, 2003, 2002 and 2001
(In thousands)

Description	Balance at Beginning of Period	Additions Charged to costs and Expenses	Deductions	Balance at end of Period
2003:				
Allowance for losses on accounts receivable	$ 756	$ 135	$ 389	$ 502
Reserve for inventory Obsolescence	$4,593	$1,822	$1,002	$5,413
2002:				
Allowance for losses on accounts receivable	$ 699	$ 336	$ 279	$ 756
Reserve for inventory Obsolescence	$3,346	$2,178	$ 931	$4,593
2001:				
Allowance for losses on accounts receivable	$ 704	$ 157	$ 162	$ 699
Reserve for inventory Obsolescence	$1,371	$2,470	$ 495	$3,346

Accounts receivable written-off and inventory disposed of during the year and other adjustments (primarily foreign currency translation adjustments).

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 /s/ FRED H. TIMM
Fred H. Timm, Vice President -
Administration and Secretary
(Chief Accounting Officer)

September 17, 2003

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 /s/ MICHAEL E. BATTEN
Michael E. Batten, Chairman,
Chief Executive Officer and Director

September 17, 2003

By /s/ MICHAEL H. JOYCE
Michael H. Joyce, President,
Chief Operating Officer and Director

By /s/ CHRISTOPHER J. EPERJESY
Christopher J. Eperjesy, Vice President-
Finance, Treasurer and
Chief Financial Officer

September 17, 2003

Paul J. Powers, Director
David L. Swift, Director
John A. Mellowes, Director
George E. Wardeberg, Director
David R. Zimmer, Director
David B. Rayburn, Director
John H. Batten, Director

By /s/ CHRISTOPHER J. EPERJESY
Christopher J. Eperjesy,
Attorney in Fact

EXHIBIT INDEX
TWIN DISC, INCORPORATED
10-K for Year Ended June 30, 2003

Exhibit	Description	Filed Herewith
3a)	Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10K for the year ended June 30, 1989).	
b)	Corporate Bylaws, as amended through June 22, 1998 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10K for the year ended June 30, 1998).	
4a)	Form of Rights Agreement dated as of April 17, 1998 by and between the Company and the Firstar 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 May 4, 1998).	
b)	Announcement of Shareholder Rights Plan per news release dated April 17, 1998 (Incorporated by reference to Exhibit 6(a), of the Company's Form 10Q dated May 4, 1998).	
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 NonQualified 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 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 10K for the year ended June 30, 1989).	
f)	Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(f) of the Company's Form 10K for the year ended June 30, 1998).	
g)	Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10(f) of the Company's Form 10K for the year ended June 30, 1993).	
10h)	Form of Twin Disc, Incorporated Corporate Short Term Incentive Plan (Incorporated by reference to Exhibit 10(g) of the Company's Form 10K for the year ended June 30, 1993).	
i)	The 1998 Incentive Compensation Plan (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998).	
j)	The 1998 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998).	
k)	Retention and Non-Compete Agreement dated November 7, 2002.	
21	Subsidiaries of the Registrant	X
23	Consent of Independent Auditors	X
24	Power of Attorney	X
31a	Certification	X

31b	Certification	X
32a	Certification pursuant to 18 U.S.C. Section 1350	X
32b	Certification pursuant to 18 U.S.C. Section 1350	X

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

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

1. Twin Disc International, S.A. (a Belgian corporation)

2. Twin Disc Technodrive Srl (an Italian corporation)

3. Twin Disc Srl (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. Mill-Log Equipment Co., Inc. (an Oregon corporation)

7. Twin Disc South East, Inc. (a Florida corporation)

8. Technodrive SARL (A French corporation)

Twin Disc, Incorporated also owns 66% of Twin Disc Nico Co. LTD.

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 , 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, Twin Disc, Incorporated - The Accelerator 401K Savings Plan) of our reports dated July 25, 2003, on our audits of the consolidated financial statements and Financial Statement Schedule of Twin Disc, Incorporated as of June 30, 2003 and 2002 and for the years ended June 30, 2003, 2002 and 2001, which reports are included in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
September 17, 2003

EXHIBIT 31a
Certifications

I, Michael E. Batten, certify that:

1. I have reviewed this annual report on Form 10-K of Twin Disc, Incorporated;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
   c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 17, 2003

/s/ MICHAEL E. BATTEN
Michael E. Batten
Chairman, Chief Executive Officer

EXHIBIT 32a

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Twin Disc, Incorporated (the "Company") on Form 10-K for the fiscal year ending June 30, 2003, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Michael E. Batten, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with Section 13(a) of the Securities Exchange Act of 1934, and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 17, 2003

/s/ Michael E. Batten
Michael E. Batten
Chairman, Chief Executive Officer

EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute Michael E. Batten and Christopher J. Eperjesey, 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, 2003 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/ JOHN A. MELLOWES
John A. Mellowes, Director

/s/ PAUL J. POWER
Paul J. Powers, Director

/s/ DAVID B. RAYBURN
David B. Rayburn, Director

/s/ DAVID L. SWIFT
David L. Swift, Director

/s/ GEORGE E. WARDEBERG
George E. Wardeberg, Director

/s/ DAVID R. ZIMMER
David R. Zimmer, Director

July 25, 2003

EXHIBIT 31b
Certifications

I, Christopher J. Eperjesy, certify that:

1. I have reviewed this annual report on Form 10-K of Twin Disc, Incorporated;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
   c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 17, 2003

/s/ CHRISTOPHER J. EPERJSEY
Christopher J. Eperjesy
Vice President - Finance, Treasurer
Chief Financial Officer

EXHIBIT 32b

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Twin Disc, Incorporated (the "Company") on Form 10-K for the fiscal year ending June 30, 2003, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Christopher J. Eperjesy, Vice President - Finance, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with Section 13(a) of the Securities Exchange Act of 1934, and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 17, 2003

/s/ Christopher J. Eperjesy
Christopher J. Eperjesy
Vice President--Finance/Treasurer
Chief Financial Officer