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, 2000
Commission File Number 1-7635
TWIN DISC, INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Wisconsin	39-0667110
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1328 Racine Street, Racine, Wisconsin	53403
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including area code (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 September 1, 2000, the aggregate market value of the common stock held by non-affiliates of the registrant was $36,294,186. 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 September 1, 2000, the registrant had 2,809,890 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

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

Portions of the Annual Report to Shareholders for the year ended June 30, 2000 are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held October 20, 2000 are incorporated by reference into Parts I, III and IV.

PART I

Item 1. Business

Twin Disc designs, manufactures and sells heavy duty off-highway power transmission equipment. Products offered include: hydraulic torque converters; power-shift transmissions; marine transmissions and surface drives; universal joints; gas turbine starting drives; power take-offs and reduction gears; industrial clutches; fluid couplings and control systems. The Company sells its product to customers primarily in the construction equipment, industrial equipment, government, marine, 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. Ten customers accounted for approximately 45% of the Company's consolidated net sales during the year ended June 30, 2000. Two customers, Caterpillar Inc. and Sewart Supply, Inc., accounted for approximately 6% and 10%, respectively, of consolidated net sales in 2000.

Unfilled open orders for the next six months of $52,991,000 at June 30, 2000 compares to $39,892,000 at June 30, 1999. 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 $1,852,000, $2,505,000 and $3,104,000 in 2000, 1999, and 1998, respectively. Total engineering and development costs were $6,322,000, $7,829,000 and $8,833,000 in 2000, 1999 and 1998, respectively.

Item 1. Business (continued)

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

The number of persons employed by the Company at June 30, 2000 was 999.

A summary of financial data by segment for the years ended June 30, 2000, 1999 and 1998 appears in Note I to the consolidated financial statements on pages 31 through 33 of the 2000 Annual Report to Shareholders, which financial statements are incorporated by reference in this Form 10-K Annual Report in Part II.

Item 2.Properties

The Company owns two manufacturing, assembly and office facilities in Racine, Wisconsin, U.S.A. and one in Nivelles, Belgium. The aggregate floor space of these three plants approximates 677,000 square feet. 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. Brisbane, Queensland, Australia

Miami, Florida, U.S.A. Perth, Western Australia, Australia

Loves Park, Illinois, U.S.A. Auckland, New Zealand

Coburg, Oregon, U.S.A. Singapore

Kent, Washington, U.S.A. Shanghai, China

Portland, Oregon, U.S.A. Viareggio, Italy

Edmonton, Alberta, CanadaChambery, France

Vancouver, British Columbia, Canada

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 68% 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.

The Company has joined with a group of potentially responsible parties in signing a consent decree with the Illinois Environmental Protection Agency ("IEPA") to conduct a remedial investigation and feasibility study at the Interstate Pollution Control facility in Rockford, Illinois. The consent decree was signed on October 17, 1991, and filed with the federal court in the Northern District of Illinois. The Company's total potential liability on the site cannot be estimated with particularity until a final remedy is selected by the IEPA and an allocation scheme is adopted by the parties. The IEPA is expected to issue its decision by early fall, 2000. Based upon current assumptions, however, the Company anticipates potential liability of approximately $100,000.

The Company has also joined with a group of potentially responsible parties in signing a consent decree with the Illinois Environmental Protection Agency to conduct a remedial investigation and feasibility study at the MIG\DeWane Landfill in Rockford, Illinois. The consent decree was signed on March 29, 1991, and filed with the federal court in the Northern District of Illinois. The IEPA issued its record of decision for the site in April 2000, selecting a remedy with an estimated cost of $18 million. The Company's total potential liability on the site cannot be estimated with particularity until an allocation scheme is adopted by the parties. Based upon current assumptions, however, the Company anticipates potential liability of approximately $600,000.

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

None.

Executive Officers of the Registrant

(Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 20, 2000.)

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer	60
Michael H. Joyce	President-Chief Operating Officer	59
James O. Parrish	Vice President-Finance and Treasurer	60
Lance J. Melik	Vice President-Transmission and Industrial products since June 1999 and Vice President-Corporate Development since September 1995	57
Paul A. Pelligrino	Vice President-Engineering since April 1996; formerly Chief Engineer of Corporate Engineering	61

Item 4. Executive Officers of the Registrant (continued)

Name	Principal Occupation Last Five Years	Age
Henri Claude Fabry	Vice President-Marine and Distribution since June 1999; formerly Director of Marketing and Sales, Twin Disc International S.A. since February 1997; formerly Managing Director of Marine Power Europe since 1985	54
Arthur A. Zintek	Vice President-Human Resources since January 1998; formerly Vice President Human Resources, Mitsubishi Motor Manufacturing of North America since April 1997; formerly Director of Human Resources, Harley Davidson, Inc. since September 1992	53
Fred H. Timm	Corporate Controller and Secretary	54

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.

PART II

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

The dividends per share and stock price range information set forth under the caption "Sales and Earnings by Quarter" on page 1 of the Annual Report for the year ended June 30, 2000 are incorporated into this Report by reference.

As of June 30, 2000 there were 1,480 shareholder accounts. The Company's stock is traded on the New York Stock Exchange. The market price of the Company's common stock as of the close of business on September 1, 2000 was $16.81 per share.

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 antidilution adjustments. The Company will generally be entitled to redeem the Rights at $.05 per Right at any time prior to 10 business days after a public announcement of the

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

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.

Item 6.Selected Financial Data

The information set forth under the caption "Ten-Year Financial Summary" on pages 42 and 43 of the Annual Report to Shareholders for the year ended June 30, 2000 is incorporated into this report by reference.

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

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 of Notes to Consolidated Financial Statements on pages 27 and 28 of the 2000 Annual Report to Shareholders, Item 7.Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

which financial statements are incorporated into this report by reference.

Interest rate risk - The Company currently has lines of credit bearing interest predominantly at the LIBOR interest rate plus 1.25%. Due to the relative stability of interest rates, the Company does not utilize any financial instruments to manage interest rate risk exposure.

Commodity price risk - The Company is exposed to the 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. 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 transactions denominated in foreign currencies. Gains and losses from foreign currency transactions are included in earnings. At June 30, 2000 and 1999, the Company had outstanding forward exchange contracts to purchase 189,972,000 and 76,040,000 Belgian francs at a cost of $4,500,000 and $2,000,000, respectively. The contracts have a weighted average maturity of 40 days and 33 days, respectively.

The information set forth under the caption "Management's Discussion and Analysis" on pages 19 through 22 of the Annual Report to Shareholders for the year ended June 30, 2000 is incorporated into this report by reference.

Item 8.Financial Statements and Supplementary Data

The following Consolidated Financial Statements of Twin Disc, Incorporated and Subsidiaries set forth on pages 23 through 41 of the Annual Report to Shareholders for the year ended June 30, 2000 are incorporated into this report by reference:

Consolidated Balance Sheets, June 30, 2000 and 1999

Consolidated Statements of Operations for the years ended June 30, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended June 30, 2000, 1999 and 1998

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended June 30, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

Report of Independent Accountants

The supplementary data regarding quarterly results of operations set forth under the caption "Sales and Earnings by Quarter" on page 1 of the Annual Report to Shareholders for the year ended June 30, 2000 is incorporated into this report by reference.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

For information with respect to the executive officers of the Registrant, see "Executive Officers of the Registrant" at the end of Part I of this report. For information with respect to the Directors of the Registrant, see "Election of Directors" on pages 5 through 6 of the Proxy Statement for the Annual Meeting of Shareholders to be held October 20, 2000, 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" on page 13 of the Proxy Statement for the Annual Meeting of Shareholders to be held October 20, 2000, 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" and "Supplemental Retirement Benefit Plan" on pages 8 through 10 of the Proxy Statement for the Annual Meeting of Shareholders to be held on October 20, 2000 is incorporated into this report by reference. Discussion in the Proxy Statement under the captions "Board Executive Selection and Salary Committee Report on Executive Compensation" and "Corporate Performance Graph" is not incorporated by reference and shall not be deemed "filed" as part of this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain beneficial owners and management is set forth on pages 3 and 4 of the Proxy Statement for the Annual Meeting of Shareholders to be held on October 20, 2000 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.

Item 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a)(1) The following Consolidated Financial Statements of Twin Disc, Incorporated and Subsidiaries set forth on pages 23 through 41 of the Annual Report to Shareholders for the year ended June 30, 2000 are incorporated by reference into this report in Part II:

Consolidated Balance Sheets, June 30, 2000 and 1999

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

Consolidated Statements of Operations for the years ended June 30, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended June 30, 2000, 1999 and 1998

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended June 30, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

Report of Independent Accountants

The supplementary data regarding quarterly results of operations under the caption "Sales and Earnings by Quarter" on page 1 of the Annual Report to Shareholders for the year ended June 30, 2000 is incorporated by reference into this Form in Part II.

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 Schedule (numbered in accordance with Regulation S-X) for the 3 years ended June 30, 2000:

	Page
Report of Independent Accountants	13
Schedule II-Valuation and Qualifying Accounts	14

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.

The Report of the Independent Accountants of the Registrant with respect to the above-listed consolidated financial statement schedule appears on page 13 of this Form.

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

2 Not applicable

3a) Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10-K for the year ended June 30, 1989).

b) Corporate Bylaws, amended through June 22, 1998 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10-K for the year ended June 30, 1998).

4 Instruments defining the rights of security holders, including indentures

a) 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).

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

b) Announcement of Shareholder Rights Plan per news release dated April 17, 1998 (Incorporated by reference to Exhibit 99, of the Company's Form 10-Q dated May 4, 1998).

9 Not applicable

10 Material Contracts

a) * The 1988 Incentive Stock Option Plan (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 21, 1988).

b) * The 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors (Incorporated by reference to Exhibit C of the Proxy Statement for the Annual Meeting of Shareholders held on October 21,1988).

c) * Amendment to 1988 Incentive Stock Option Plan of Twin Disc, Incorporated (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).

d) * Amendment to 1988 Non-Qualified Incentive Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).

e) * Form of Severance Agreement for Senior Officers and form of Severance Agreement for Other Officers (Incorporated by reference to Exhibit 10(c) and (d), respectively, of the Company's Form 10-K for the year ended June 30, 1989).

f) *Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K 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 10-K for the year ended June 30, 1993).

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

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).

* Denotes management contract or compensatory plan or arrangement.

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

11 Not applicable

12 Not applicable

13 Annual Report of the Registrant for the year ended June 30, 2000 is separately filed as Exhibit 13 to this Report (except for those portions of such Annual Report separately incorporated by reference into this Report, such Annual Report is furnished for the information of the Securities and Exchange Commission and shall not be deemed "filed" as part of this Form).

18 Not applicable

21 Subsidiaries of the Registrant

22 Not applicable

23 Consent of Independent Accountants

24 Power of Attorney

27 Financial Data Schedule for the year ended June 30, 2000 is separately filed as Exhibit 27 to this report. (This schedule is furnished for the information of the Securities and Exchange Commission and shall not be deemed "filed" for purposes of Section 11 of the Securities Act or Section 18 of the Exchange Act.)

28 Not applicable

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TWIN DISC, INCORPORATED

By FRED H. TIMM
- - - - - - - - - - - - - - - - - - -
Fred H. Timm, Corporate Controller and Secretary (Chief Accounting Officer)

September 22, 2000

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

	(	By MICHAEL E. BATTEN
		- -
	(	Michael E. Batten, Chairman,
	(	Chief Executive Officer and Director
	(	
	(	
	(	
September 22, 2000	(	By MICHAEL H. JOYCE
		- -
	(	Michael H. Joyce, President,
	(	Chief Operating Officer and Director
	(	
	(	
	(	
	(	By JAMES O. PARRISH
		- -
	(	James O. Parrish, Vice President-
	(	Finance, Treasurer and Director
	(	(Chief Financial Officer)
	(	Paul J. Powers, Director
	(	Richard T. Savage, Director
September 22, 2000	(	David L. Swift, Director
	(	John A. Mellowes, Director
	(	George E. Wardeberg, Director
	(	David R. Zimmer, Director
	(	David B. Rayburn, Director
	(	
	(	
	(	By JAMES O. PARRISH
		- -
	(	James O. Parrish, Attorney in Fact

REPORT OF INDEPENDENT ACCOUNTANTS
(See Item 14)

Consolidated Financial Statement Schedule of
Twin Disc, Incorporated and Subsidiaries

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

Our audits of the consolidated financial statements referred to in our report dated July 21, 2000 appearing on page 41 of the 2000 Annual Report to Shareholders of Twin Disc, Incorporated and Subsidiaries (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial schedule listed in the index on pages 8 and 9 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.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
July 21, 2000

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
for the years ended June 30, 2000, 1999 and 1998
(In thousands)

Description	Balance at Beginning of Period	Additions Charged To Costs and Expenses	Deductions	Balance at end of Period
2000:				
Allowance for losses on accounts receivable	$ 534	$ 371	$ 201	$ 704
Reserve for inventory obsolescence	1,161	1,212	1,002	1,371
1999:				
Allowance for losses on accounts receivable	$ 647	$ 170	$ 283	$ 534
Reserve for inventory obsolescence	1,125	779	743	1,161
1998:				
Allowance for losses on accounts receivable	$ 538	$ 355	$ 246	$ 647
Reserve for inventory obsolescence	1,013	893	781	1,125

Accounts receivable written-off and inventory disposed of during the year and other adjustments.

EXHIBIT INDEX

Exhibit	Description	Page
3a)	Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10-K for the year ended June 30, 1989).	-
b)	Corporate Bylaws, as amended through June 22, 1998 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10-K 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 10-Q 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 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors (Incorporated by reference to Exhibit C of the Proxy Statement for the Annual Meeting of Shareholders held on October 21,1988).	-
c)	Amendment to 1988 Incentive Stock Option Plan of Twin Disc, Incorporated (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).	-
d)	Amendment to 1988 Non-Qualified Incentive Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).	-
e)	Form of Severance Agreement for Senior Officers and form of Severance Agreement for Other Officers (Incorporated by reference to Exhibit 10(c) and (d), respectively, of the Company's Form 10-K for the year ended June 30, 1989).	-
f)	Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K 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 10-K for the year ended June 30, 1993).	-
h)	Form of Twin Disc, Incorporated Corporate Short Term Incentive Plan (Incorporated by reference to Exhibit 10(g) of the Company's Form 10-K for the year ended June 30, 1993).	-

EXHIBIT INDEX
(Continued)

EXHIBIT 13

FINANCIAL HIGHLIGHTS

	2000	1999	1998
Net Sales	$177,987	$168,142	$202,643
Net Earnings (Loss)	3,773	(1,018)	9,363
Basic Earnings (Loss) Per Share	1.34	(.36)	3.30
Diluted Earnings (Loss) Per Share	1.34	(.36)	3.24
Dividends Per Share	.70	.805	.76
Average Shares Outstanding For The Year	2,820,534	2,834,909	2,833,663
Diluted Shares Outstanding For The Year	2,820,730	2,843,877	2,886,209

Sales and Earnings by Quarter

2000	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net Sales	$35,277	$44,342	$49,467	$48,901	$177,987
Gross Profit	6,856	9,952	11,590	12,960	41,358
Net Earnings	(897)	693	1,726	2,251	3,773
Basic Earnings Per Share	(.32)	.25	.61	.80	1.34
Diluted Earnings Per Share	(.32)	.25	.61	.80	1.34
Dividends Per Share	.175	.175	.175	.175	.70
Stock Price Range:					
High	20 3/8	16 5/8	18 5/16	17 9/16	20 3/8
Low	16 1/2	11	11 7/8	15 7/16	11

Sales and Earnings by Quarter

1999	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net Sales	$40,625	$40,108	$41,139	$46,270	$168,142
Gross Profit	9,220	9,275	7,316	10,270	36,081
Net Earnings (Loss)	588	(291)	(1,782)	467	(1,018)
Basic Earnings (Loss) Per Share	.21	(.10)	(.63)	.16	(.36)
Diluted Earnings (Loss) Per Share	.21	(.10)	(.63)	.16	(.36)
Dividends Per Share	.21	.21	.21	.175	.805
Stock Price Range:					
High	37 3/4	24 1/4	22 3/16	20 3/16	37 3/4
Low	23 3/8	20 1/4	19	18 9/16	18 9/16

Based on average shares outstanding for the period.

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

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

Results of Operations

Net Sales, New Orders and Backlog

Revenues increased in fiscal 2000 as our distribution operations and domestic manufacturing rebounded from the previous year's downturn. Order rates were weak throughout fiscal 1999 and the backlog of orders scheduled for shipment during the next six months (six-month backlog) dropped 26 percent to $40 million by year-end. Improvement in demand began early in fiscal 2000 and resulted in the six-month backlog rising to $55 million in March 2000 before easing to end the year at $53 million - a 32 percent increase from the previous year.

Net sales of $168 million in fiscal 1999 were down 17 percent from fiscal 1998 but rose to $178 million, an increase of six percent, in fiscal 2000. The 1999 sales decline resulted from weak demand in many markets, customer inventory reductions adversely affecting replacement part sales, and the absence of the truck transmission contract completed in fiscal 1998. Most significantly, lower demand from the commercial marine market led to a 34 percent drop in domestic manufacturing sales. Other important factors in the sales decline were low oil prices; prices for commodities such as lumber and food, which were adversely affected by the Asian economic crisis; and reduced capital spending in the agricultural and construction equipment markets. Sales of lower-horsepower marine transmissions for pleasure craft also were down, causing a modest decline in sales from our Belgian plant. On the positive side, the acquisition of an Italian manufacturing company and purchase of a domestic product line, completed early in the second half of the fiscal year, provided a sales boost and slight incremental earnings in the last five months of fiscal 1999. Both acquisitions provided products that strengthen our global market position in industrial products. Technodrive S.p.A adds to the lower-horsepower end of our marine transmission line and provides several complementary industrial products. We also broadened our industrial product offerings with the mechanical power take-off product line acquired from Rockford Powertrain, Inc.

While order rates improved early in fiscal year 2000, year-to-year improvements in shipments began in the second fiscal quarter. The most significant components of the improvement were registered within our domestic manufacturing operation. Shipments of power take-offs, attributable to the product line purchased in the prior year; higher-horsepower marine transmissions used in commercial boats; power-shift transmissions for construction applications; and aftermarket parts sales all contributed to the increase. Shipments from our Belgian plant of lower-horsepower marine transmissions also increased slightly as demand for their use in pleasure craft applications remained steady, and shipments from the recently acquired Italian manufacturing subsidiary contributed for the full year.

Sales at our wholly owned distribution companies varied by global region, but generally rebounded in fiscal 2000 after the modest decline in 1999. Domestic declines in 1999 were related to low oil and commodity prices, which recovered and provided some improvement during the recently completed year. Although sales from our wholly owned European distributors were affected by changes we made in market representation, demand from the markets served trended upward in both years, and shipments were up materially in fiscal 2000. Sales in the Pacific Rim generally mirrored the economies in which they operate and were down in fiscal 1999 but began to improve in the year just completed.

The U.S. dollar strengthened against most currencies in each of the last two fiscal years, particularly Asian currencies in fiscal 1999 and the Euro in fiscal 2000. As a result, pricing pressure increased, but the effects were partially offset by sales to U.S. customers from our Belgian operation. Although the general effect has been a reduction of reported dollar sales, the impact has not been significant. Price increases, implemented selectively in each year, generated revenues about equal to the rate of inflation.

At the end of fiscal 1999, the backlog of orders scheduled for shipment during the next six months was $40 million. As the new fiscal year began, order rates improved in both commercial marine and certain industrial markets. There were further improvements as the year progressed and the six-month backlog rose to $53 million at year-end, an increase of 32 percent for the year. Although somewhat higher at the end of the third fiscal quarter, backlog declined due to normal seasonal influences in the fourth quarter.

Margins, Costs and Expenses

Manufacturing method and process improvements, cellular layout of machine tools, and cost control have all played critical roles in efforts to improve margins. But, as fixed costs are a large component of manufacturing expense, production volume is an important element in gross margin fluctuations.

In fiscal 1999, the gross margin was more than three percentage points below that of fiscal 1998, primarily because of the reduced domestic sales volume, lower productivity, and unusual separation costs in the second and third quarters. During the 1999 second fiscal quarter, there was a domestic salaried staff reduction, and in the following period, a similar program was implemented overseas along with a voluntary separation program for domestic hourly associates. In Belgium, the workweek was shortened utilizing a government-supported layoff program. In addition to the one-time expenses, an adverse productivity impact, primarily in the third quarter, was associated with these actions.

The gross margin increased by almost two percentage points in fiscal 2000 with all manufacturing operations showing improvement. Domestically, higher production volume, a favorable product mix, and strict control of general manufacturing costs were the most significant factors, while productivity improvements, expansion of the workweek, and the favorable impact of sales denominated in the relatively strong dollar boosted margins overseas.

Marketing, engineering, and administrative (ME&A) expense declined four percent in fiscal 1999, but increased sharply as a percent of the reduced sales volume. Included in the expenses for the year were severance costs associated with the second- and third-quarter reductions in domestic and Belgian salaried staff. The total pre-tax impact of approximately $350,000 was recovered within one year.

In fiscal 2000, ME&A expense dropped a further four percent as a result of previous-year staff reductions, continued attention to cost control, and closure of our South African distribution operation.

In March 1999, we sold a portion of the investment in our Japanese affiliate, Niigata Converter Company (NICO), which resulted in a pre-tax gain of $1.4 million (discussed further in Footnote D to the consolidated financial statements), and reduced our ownership interest in NICO from 25.0 percent to 19.5 percent. Our share of NICO losses for fiscal 1999 versus modest earnings in fiscal 1998 was the cause of the year-to-year decline in the earnings of affiliates. Those earnings rebounded in fiscal 2000 with a strong performance from our U.S. distribution affiliate. At fiscal 1999 year-end, we announced the closure of our South African distribution subsidiary and recorded a provision to cover anticipated losses from that action.

Interest, Taxes and Net Earnings

Short-term borrowing increased in fiscal 1999 as significant additional debt was incurred to finance acquisitions, and interest expense increased by almost 40 percent. During the recently completed year, debt was reduced slightly, but a higher average outstanding balance and higher interest rates caused interest expense to increase.

The effective income tax rate in fiscal 1998 was above normal due to relatively higher foreign earnings, generally taxed at a higher rate. The substantial tax provision on almost-breakeven pre-tax earnings in fiscal 1999 was caused by: lower tax rates on losses domestically, offset by higher rates on income overseas; and by the lack of a recordable tax benefit on the provision for loss on the closure of our South African distribution subsidiary. In fiscal 2000, limitations on foreign tax credit utilization and a continued high proportion of foreign earnings resulted in a sharp increase in the effective tax rate. Statutory rates generally have remained unchanged.

Liquidity and Capital Resources

The net cash provided by operating activities in fiscal 1999 was $9 million, up $2 million from the previous year. Despite operating losses for the year, reductions in both accounts receivable and inventory generated solid positive cash flows. In fiscal 2000, cash provided by operations dipped to $7 million. Positive cash flows from earnings, depreciation, and working capital reductions were partially offset by increased contributions to Company pension funds.

Expenditures for capital equipment exceeded depreciation by about $2 million in fiscal 1998 as experience helped identify the equipment needed to further improve cell performance. Due to the downturn and a desire to conserve cash, fiscal 1999 and 2000 capital expenditures were reduced from plan, and in the most recently completed year, were well below depreciation. As conditions improve, we expect the level of capital spending will rise to provide for more efficient machinery and to allow further refinement of individual manufacturing cells.

Working capital and the current ratio dropped significantly in fiscal 1999 due to the large increase in short-term debt incurred to finance acquisitions. Early in fiscal 2000, the short-term borrowings were replaced with a term revolver. The current ratio of 1.8 at June 30, 1999, rose to 2.2 at the end of fiscal 2000.

The book value of the Company, and thus its reported capital structure, changed significantly at both fiscal 1999 and 2000 year-ends. It was reduced by a non-cash charge to equity of $11.1 million at June 30, 1999. The charge was caused primarily by using a more conservative mortality table to estimate pension liabilities and generally reflects the amount by which those liabilities exceed plan assets. In fiscal 2000, principally as a result of good market return on plan assets, the charge was reversed, resulting in a similar increase in equity. In accordance with applicable accounting standards, the after-tax effects of the changes were charged directly to equity and shown in comprehensive income but did not affect reported primary earnings.

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

Other Matters

Environmental Matters

The Company is involved in various stages of investigation relative to hazardous waste sites on the United States EPA National Priorities List. It is not possible at this time to determine the ultimate outcome of those matters; but, as discussed further in Footnote N to the consolidated financial statements, they are not expected to affect materially the Company's operations, financial position, or cash flows.

Note on Forward-Looking Statements

Information in this report 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.

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2000 and 1999

(Dollars in thousands)	2000	1999
Current assets:		
Cash and cash equivalents	$ 5,651	$ 4,136
Trade accounts receivable, net	28,828	27,201
Inventories, net	50,190	54,500
Deferred income taxes	-	6,004
Other	5,333	5,906
Total current assets	90,002	97,747
Property, plant and equipment, net	34,303	38,935
Investments in affiliates	6,968	6,663
Goodwill, net	14,401	15,235
Deferred income taxes	4,416	4,349
Intangible pension asset	-	3,385
Prepaid pension asset	14,335	-
Other assets	9,765	10,586
	$174,190	$176,900

LIABILITIES and SHAREHOLDERS' EQUITY

	2000	1999
Current liabilities:		
Notes payable	$ 4,571	$ 20,158
Current maturities on long-term debt	2,857	2,857
Accounts payable	11,571	10,724
Deferred income taxes	1,157	-
Accrued liabilities	20,752	21,022
Total current liabilities	40,908	54,761
Long-term debt	31,254	17,112
Accrued retirement benefits	23,795	37,567
	95,957	109,440
Shareholders' equity:		
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	83,228	81,430
Accumulated other comprehensive income (loss)	799	(8,516)
	95,680	84,567
Less treasury stock, at cost	17,447	17,107
Total shareholders' equity	78,233	67,460
	$174,190	$176,900

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, 2000, 1999 and 1998

(In thousands, except per share data)

	2000	1999	1998
Net sales	$177,987	$168,142	$202,643
Cost of goods sold	136,629	132,061	152,515
Gross profit	41,358	36,081	50,128
Marketing, engineering and administrative expenses	31,476	32,755	34,092
Earnings from operations	9,882	3,326	16,036
Other income (expense):			
Interest income	244	237	550
Interest expense	(2,979)	(2,070)	(1,505)
Equity in net earnings (loss) of affiliates	906	(945)	651
Gain on partial sale of affiliate	-	1,355	-
Loss on closure of subsidiary	-	(1,140)	-
Other, net	14	(749)	313
	(1,815)	(3,312)	9
Earnings before income taxes	8,067	14	16,045
Income taxes	4,294	1,032	6,682
Net earnings (loss)	$ 3,773	$ (1,018)	$ 9,363
Earnings (loss) per share data:			
Basic earnings (loss) per share	$ 1.34	$ (.36)	$ 3.30
Diluted earnings (loss) per share	1.34	(.36)	3.24
Shares outstanding data:			
Average shares outstanding	2,821	2,835	2,834
Dilutive stock options	-	9	52
Diluted shares outstanding	2,821	2,844	2,886

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, 2000, 1999 and 1998

(In thousands)	2000	1999	1998
Cash flows from operating activities:			
Net earnings (loss)	$ 3,773	$ (1,018)	$ 9,363
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	6,980	6,454	5,607
(Loss) gain on sale of plant assets	(3)	38	(402)
Gain on partial sale of affiliate	-	(1,355)	-
Loss on closure of subsidiary	-	1,140	-
Equity in net (earnings) loss of affiliates	(906)	945	(651)
Provision for deferred income taxes	(284)	-	2,873
Dividends received from affiliate	600	625	495
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(2,922)	3,898	3,361
Inventories, net	3,211	3,468	(5,673)
Other assets	(770)	(1,757)	(7,842)
Accounts payable	2,402	(1,360)	(2,695)
Accrued liabilities	168	(759)	2,777
Accrued/prepaid retirement benefits	(5,364)	(1,361)	(244)
Net cash provided by operating activities	6,885	8,958	6,969
Cash flows from investing activities:			
Proceeds from sale of plant assets	92	24	574
Acquisitions of plant assets	(2,134)	(6,439)	(7,154)
Acquisitions of businesses	-	(16,785)	(1,021)
Payment for license agreement	-	-	(1,515)
Net cash used by investing activities	(2,042)	(23,200)	(9,116)
Cash flows from financing activities:			
Increases (decreases) in notes payable, net	(15,000)	15,000	112
Proceeds from long-term debt	18,000	-	-
Payments of long-term debt	(3,857)	-	-
Acquisition of treasury stock	(343)	-	(1,314)
Proceeds from exercise of stock options	2	38	1,904
Dividends paid	(1,974)	(2,282)	(2,160)
Net cash provided (used) by financing activities	(3,172)	12,756	(1,458)
Effect of exchange rate changes on cash	(156)	535	(291)
Net change in cash and cash equivalents	1,515	(951)	(3,896)
Cash and cash equivalents:			
Beginning of year	4,136	5,087	8,983
End of year	$ 5,651	$ 4,136	$ 5,087
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$3,008	$ 2,037	$ 1,505
Income taxes	4,401	127	4,698

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, 2000, 1999 and 1998

(In thousands)	2000	1999	1998
Common stock			
Balance, June 30	$ 11,653	$ 11,653	$ 11,653
Retained earnings			
Balance, July 1	81,430	84,738	77,424
Net earnings (loss)	3,773	(1,018)	9,363
Cash dividends	(1,974)	(2,282)	(2,160)
Stock options exercised	(1)	(8)	111
Balance, June 30	83,228	81,430	84,738
Accumulated other comprehensive income (loss)			
Balance, July 1	(8,516)	2,757	2,352
Foreign currency translation adjustment			
Balance, July 1	3,288	3,418	6,060
Current adjustment	(2,489)	(130)	(2,642)
Balance, June 30	799	3,288	3,418
Minimum pension liability adjustment, net			
Balance, July 1	(11,804)	(661)	(3,708)
Current adjustment, net of related income taxes ($(7,547)in 2000, $7,125 in 1999 and $(1,948) in 1998)	11,804	(11,143)	3,047
Balance, June 30	-	(11,804)	(661)
Accumulated other comprehensive income (loss)			
Balance, June 30	799	(8,516)	2,757
Treasury stock, at cost			
Balance, July 1	(17,107)	(17,153)	(17,632)
Shares acquired	(343)	-	(1,314)
Stock options exercised	3	46	1,793
Balance, June 30	(17,447)	(17,107)	(17,153)
Shareholders' equity balance, June 30	$ 78,233	$ 67,460	$ 81,995
Comprehensive income (loss)			
Net earnings (loss)	$ 3,773	$ (1,018)	$ 9,363
Other comprehensive income (loss)			
Foreign currency translation adjustment	(2,489)	(130)	(2,642)
Minimum pension liability adjustment	11,804	(11,143)	3,047
Other comprehensive income (loss)	9,315	(11,273)	405
Comprehensive income (loss)	$ 13,088	$(12,291)	$ 9,768

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 subsidiaries, all of which are wholly owned. Certain foreign subsidiaries are included based on fiscal years ending May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

Translation of Foreign Currencies--Substantially all foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange prevailing at year-end. Revenues and expenses are translated at average rates of exchange in effect during the year. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) of the consolidated statement of operations are foreign currency transaction losses of $144,000, $682,000 and $343,000 in 2000, 1999 and 1998, 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 $704,000 and $534,000 at June 30, 2000 and 1999, respectively.

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

Derivative Financial Instruments--Derivative financial instruments (primarily forward foreign exchange contracts) may be utilized by the Company to hedge foreign exchange rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. For financial reporting purposes, forward foreign exchange contracts used to hedge the currency fluctuations on transactions denominated in foreign currencies are marked-to-market and the resulting gains and losses, together with the offsetting losses and gains on hedged transactions, are recorded in the "Other income (expense)" caption in the statement of operations. At June 30, 2000 and 1999, the Company had outstanding forward foreign exchange contracts to purchase $4,500,000 and $2,000,000, respectively, of Belgian francs with a weighted average maturity of 40 days and 33 days, respectively.

Inventories--Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for parent company inventories, and by the first-in, first-out (FIFO) method for 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 amortized by depreciation charges. Depreciation is provided on the straight-line method over the estimated useful lives of the assets for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physically disposed.

The Company reviews the carrying value of property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets.

Investments in Affiliates--The majority of the Company's investments in 20% to 50%-owned affiliates are accounted for using the equity method. Investments in less than 20%-owned affiliates are accounted for using the cost method.

Revenue Recognition--Revenues are recognized when products are shipped and title has transferred to the customer.

Goodwill--Goodwill consists of costs in excess of net assets of businesses acquired. Goodwill is amortized using the straight-line method over its estimated beneficial lives, not to exceed 40 years. Subsequent to an acquisition, the Company continually evaluates whether later events and circumstances have occurred that indicate whether the goodwill should be evaluated for possible impairment. Goodwill at June 30, 2000 and 1999 of $14,401,000 and $15,235,000, respectively, are net of accumulated amortization of $1,542,000 and $839,000, respectively.

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

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.

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.

Recently Issued Accounting Standards-During 1998, the Financial Accounting Standards Board (FASB) issued FAS 133 "Accounting for Derivative Instruments and Hedging Activities" which establishes standards for accounting for derivatives and hedging activities. In July 1999, the FASB issued FAS 137, "Deferral of the Effective Date of FAS 133", which delays the effective date of FAS 133 one year. As a result, FAS 133 will be effective for the Company's 2001 fiscal year. The adoption of FAS 133 is not anticipated to have a significant impact on the Company's earnings or financial position.

Reclassification--Certain reclassifications have been made to the financial statements of prior years to conform to the presentation for 2000.

B. INVENTORIES

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

	2000	1999
Finished parts	$40,313	$42,405
Work-in-process	5,880	6,385
Raw materials	3,997	5,710
	$50,190	$54,500

Inventories stated on a LIFO basis represent approximately 35% of total inventories at June 30, 2000 and 1999. The approximate current cost of the LIFO inventories exceeded the LIFO cost by $20,549,000 and $17,936,000 at June 30, 2000 and 1999, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

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

	2000	1999
Land	$ 1,406	$ 1,409
Buildings	22,582	22,698
Machinery and equipment	92,715	95,579
	116,703	119,686
Less accumulated depreciation	82,400	80,751
	$34,303	$38,935

D. INVESTMENTS IN AFFILIATES

The Company's investments in affiliates consists of a 25% interest in a domestic distributor of Twin Disc products and an investment in Negate Converter Company, LTD., Japan ("Negate"), a manufacturer of power transmission equipment. In March of 1999, the Company sold a portion of its investment in Negate in exchange for a $1.7 million note receivable due in various annual amounts commencing December 31, 2002 through December 31, 2008. The sale was a non-cash transaction for purposes of the consolidated statement of cash flows. As a result, a pre-tax gain of $1,355,000 was recognized in 1999.

Prior to the sale the Company accounted for its 25% interest in Negate using the equity method. The Company recognized its share of Negate's loss from April 1, 1998 through the date of sale of $1.5 million. After the sale, the Company accounted for its 19.5% interest using the cost method.

Combined condensed financial data for investments in affiliates accounted for under the equity method of accounting are summarized below (in thousands). The balance sheet information for 2000 and 1999 includes the domestic distributor balances only. The statement of operations information for 2000 includes the results of operation of the domestic distributor from June 1, 1999 through May 31, 2000. The statement of operations information for 1999 includes the domestic distributor results from June 1, 1998 through May 31, 1999 and Negate results from April 1, 1998 through the date of sale; the 1998 information includes the domestic distributor results from June 1, 1997 through May 31, 1998 and Negate results from April 1, 1997 through March 31, 1998.

	2000	1999
Current assets	$ 10,145	$ 8,734
Other assets	5,452	5,463
	$ 15,597	$ 14,197
Current liabilities	$ 6,681	$ 6,530
Other liabilities	235	210
Shareholders' equity	8,681	7,457
	$ 15,597	$ 14,197

	2000	1999	1998
Net sales	$ 23,866	$116,115	$152,558
Gross profit	9,813	13,008	20,897
Net earnings (loss)	3,624	(3,780)	2,606

E. ACCRUED LIABILITIES

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

	2000	1999
Salaries and wages	$ 3,989	$ 4,522
Retirement benefits	4,024	3,362
Other	12,739	13,138
	$ 20,752	$ 21,022

F. DEBT

Notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total $19,488,000 at June 30, 2000. These lines of credit are available predominantly at the LIBOR interest rate plus 1.25% and may be withdrawn at the option of the banks. The weighted average interest rate of the lines outstanding at June 30, 2000 and 1999 was 5.26% and 5.88%, respectively.

Included in long-term debt is $17,142,000 and $20,000,000 on 7.37% ten-year unsecured notes, net of $51,000 and 60,000 unamortized debt issuance costs at June 30, 2000 and 1999, respectively. These notes contain certain covenants, including the maintenance of a current ratio of not less than 1.5. Principal payments of $2,857,000 are due in the years 2000 through 2005, with the remaining balance due on June 1, 2006. During 2000 the Company entered into a $20,000,000 revolving loan agreement. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. The outstanding balance of $17,000,000 at June 30, 2000 is classified as a long-term liability as repayment is not expected within the next year. Notes under this agreement bear interest on a schedule determined by the Company's leverage ratio. The rate was 7.9% at June 30, 2000. Also included in long-term debt is $20,000 and $29,000 of debt related to a foreign subsidiary at June 30, 2000 and 1999, respectively.

G. LEASE COMMITMENTS

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

Fiscal Year	
2001	$2,628
2002	2,103
2003	1,429

2004	651
2005	510
Thereafter	1,246

	$8,567
	=====

Total rent expense for operating leases approximated $3,023,000, $2,941,000 and $2,571,000 in 2000, 1999 and 1998, respectively.

H. SHAREHOLDERS' EQUITY

At June 30, 2000 and 1999, treasury stock consisted of 833,740 and 808,446 shares of common stock, respectively. The Company issued 150 and 2,200 shares of treasury stock in 2000 and 1999, respectively, to fulfill its obligations under the stock option plans. The difference between the cost of treasury shares issued and the option price is recorded in retained earnings. The Company acquired 25,444 shares of treasury stock in 2000.

Cash dividends per share were $.70 in 2000, $.805 in 1999 and $.76 in 1998.

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.

I. 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, 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):

2000	Manufacturing	Distribution	Total
Net sales	$166,067	$46,726	$212,793
Intra-segment sales	7,176	613	7,789
Inter-segment sales	26,327	690	27,017
Interest income	321	73	394
Interest expense	3,159	125	3,284
Income taxes	3,904	916	4,820
Depreciation and amortization	6,589	264	6,853
Segment earnings	3,464	1,587	5,051
Segment assets	154,971	24,518	179,489
Expenditures for segment assets	1,766	368	2,134

1999	Manufacturing	Distribution	Total
Net sales	$156,661	$41,426	$198,087
Intra-segment sales	7,235	439	7,674
Inter-segment sales	21,545	726	22,271
Interest income	350	92	442
Interest expense	2,134	228	2,362
Income taxes	519	1,036	1,555
Depreciation and amortization	6,062	291	6,353
Segment earnings	1,147	170	1,317
Segment assets	152,251	25,448	177,699
Expenditures for segment assets	6,017	422	6,439
1998			
Net sales	$206,812	$46,981	$253,793
Intra-segment sales	24,358	502	24,860
Inter-segment sales	25,959	331	26,290
Interest income	626	129	755
Interest expense	1,481	229	1,710
Income taxes	6,246	1,649	7,895
Depreciation and amortization	5,244	274	5,518
Segment earnings	9,196	2,051	11,247
Segment assets	134,870	27,705	162,575
Expenditures for segment assets	6,626	528	7,154

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

	2000	1999	1998
Net sales			
Total net sales from reportable segments	$212,793	$198,087	$253,793
Elimination of inter-company sales	(34,806)	(29,945)	(51,150)
Total consolidated net sales	$177,987	$168,142	$202,643
Earnings (loss)			
Total earnings (loss) from reportable segments	$ 5,051	$ 1,317	$ 11,247
Other corporate expenses	(1,278)	(2,335)	(1,884)
Total consolidated net earnings (loss)	$ 3,773	$ (1,018)	$ 9,363
Assets			
Total assets for reportable segments	$179,489	$177,699	
Elimination of inter-company assets	(18,120)	(15,871)	
Corporate assets	12,821	15,072	
Total consolidated assets	$174,190	$176,900	

Other significant items:

2000	Segment Totals	Adjustments	Consolidated Totals
Interest income	$ 394	$ (150)	$ 244
Interest expense	3,284	(305)	2,979
Income taxes	4,820	(526)	4,294
Depreciation and amortization	6,853	127	6,980
Expenditures for segment assets	2,134	-	2,134
1999			
Interest income	$ 442	$ (205)	$ 237
Interest expense	2,362	(292)	2,070
Income taxes	1,555	(523)	1,032
Depreciation and amortization	6,353	101	6,454
Expenditures for segment assets	6,439	-	6,439

1998			
Interest income	$ 755	$ (205)	$ 550
Interest expense	1,710	(205)	1,505
Income taxes	7,895	(1,213)	6,682
Depreciation and amortization	5,518	89	5,607
Expenditures for segment assets	7,154	-	7,154

All adjustments represent inter-company eliminations and corporate amounts.

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

	2000	1999	1998
Net sales			
United States	$113,377	$106,051	$133,193
Other countries	64,610	62,091	69,450
Total	$177,987	$168,142	$202,643
Long-lived assets			
United States	$ 70,831	$ 65,540	
Belgium	8,291	10,362	
Other countries	5,306	6,086	
Elimination of inter-company assets	(4,656)	(7,184)	
Total	$ 79,772	$ 74,804	

One customer accounted for approximately 10%, 8% and 11% of consolidated net sales in 2000, 1999 and 1998, respectively. Another customer accounted for approximately 6%, 8% and 11% during those years.

J. 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, immediately vest 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 95,300 incentive stock option plan options and 63,450 non-qualified stock option plan options outstanding at June 30, 2000 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:

	2000	1999
1998 Stock Option Plan for Non-Employee Directors	23,000	29,000
1998 Incentive Compensation Plan	132,750	159,500

Stock option transactions under the plans during 2000, 1999 and 1998 were as follows:

	2000	Weighted Average Price	1999	Weighted Average Price	1998	Weighted Average Price
Non-qualified stock options:						
Options outstanding at beginning of year	84,600	$22.55	80,500	$22.50	94,150	$21.71
Granted	12,000	19.94	19,000	24.69	13,100	28.75
Canceled	(13,000)	23.31	(14,700)	25.08	-	-
Exercised	-	-	(200)	26.00	(26,750)	22.81
Options outstanding at June 30	83,600	$22.06	84,600	$22.55	80,500	$22.50

Options price range ($14.00 - $20.00)	
Number of shares	40,800
Weighted average price	$19.36
Weighted average remaining life	5.70 years
Options price range ($20.875 - $28.75)	
Number of shares	42,800
Weighted average price	$24.63
Weighted average remaining life	7.39 years

	2000	Weighted Average Price	1999	Weighted Average Price	1998	Weighted Average Price
Incentive stock options:						
Options outstanding at beginning of year	132,250	$23.70	124,300	$23.57	161,550	$21.60
Granted	22,800	20.20	33,900	25.80	29,900	29.18
Canceled	(35,500)	23.25	(23,950)	26.58	(7,050)	20.15
Exercised	(150)	14.00	(2,000)	16.63	(60,100)	21.53
Options outstanding at June 30	119,400	$23.24	132,250	$23.70	124,300	$23.57

Options price range ($14.00 - $20.00)	
Number of shares	46,050
Weighted average price	$19.26
Weighted average remaining life	6.24 years
Options price range ($20.875 - $28.75)	
Number of shares	67,850
Weighted average price	$25.24
Weighted average remaining life	7.44 years

Options price range
($31.625 - $32.25)

Number of shares	5,500
Weighted average price	$31.74
Weighted average remaining life	8.00 years

The Company accounts for its stock option plans under the guidelines of Accounting Principles Board Opinion No. 25. Accordingly, no compensation cost has been recognized in the statement of operations. Had the Company recognized compensation expense determined based on the fair value at the grant date for awards under the plans, consistent with the method prescribed by FAS 123, the net earnings and earnings per share would have been as follows (in thousands, except per share amounts):

	2000	1999	1998
Net earnings (loss)			
As reported	$ 3,773	$(1,018)	$9,363
Pro forma	3,648	(1,277)	9,125
Basic earnings (loss) per share			
As reported	$ 1.34	$ (.36)	$ 3.30
Pro forma	1.29	(.45)	3.22
Diluted earnings (loss) per share			
As reported	$ 1.34	$ (.36)	$ 3.24
Pro forma	1.29	(.45)	3.16

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: 21% volatility, 3.8% annual dividend yield, interest rates based on expected terms and grant dates, 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 2000, 1999 and 1998 with exercise prices equal to the grant date fair market value, the exercise prices and weighted average fair values of the options were $19.94 and $3.70 in 2000, $25.26 and $5.02 in 1999 and $28.75 and $5.81 in 1998, 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 $21.93 and $2.43 in 2000, $28.08 and $2.71 in 1999, $31.63 and $3.26 in 1998, respectively.

K. ENGINEERING AND DEVELOPMENT COSTS

Engineering and development costs include research and development expenses for new products, development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled $1,852,000, $2,505,000 and $3,104,000 in 2000, 1999 and 1998, respectively. Total engineering and development costs were $6,322,000, $7,829,000 and $8,833,000 in 2000, 1999 and 1998, respectively.

L. RETIREMENT PLANS

The Company has noncontributory, qualified defined benefit pension plans covering substantially all domestic employees 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 contributed for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

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

The following table sets forth the Company's defined benefit pension plans' and other postretirement 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	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation, beginning of year	$115,865	$104,156	$ 32,749	$ 28,619
Service cost	1,518	1,517	19	23
Interest cost	8,028	7,254	2,265	1,978
Actuarial (gain) loss	(6,806)	11,384	(1,481)	4,548
Benefits paid	(9,518)	(8,446)	(3,325)	(2,419)
Benefit obligation, end of year	$109,087	$115,865	$ 30,227	$ 32,749
Change in plan assets:				
Fair value of assets, beginning of year	$ 98,283	$100,265	$ -	$ -
Actual return on plan assets	16,876	4,279	-	-
Employer contribution	7,048	2,185	3,325	2,419
Benefits paid	(9,518)	(8,446)	(3,325)	(2,419)
Fair value of assets, end of year	$112,689	$ 98,283	$ -	$ -
Funded status	$ 3,602	$(17,582)	$(30,227)	$(32,749)
Unrecognized net transition obligation	606	836	-	-
Unrecognized actuarial loss	4,398	19,972	6,817	8,755
Unrecognized prior service cost	2,495	3,167	-	-
Net amount recognized	$ 11,101	$ 6,393	$(23,410)	$(23,994)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	$ 14,335	$ -	$ -	$ -
Accrued benefit liability	(3,234)	(16,343)	(23,410)	(23,994)
Intangible asset	-	3,385	-	-
Deferred tax asset	-	7,547	-	-
Minimum pension liability adjustment	-	11,804	-	-
Net amount recognized	$ 11,101	$ 6,393	$(23,410)	$(23,994)

Weighted average assumptions as of June 30:				
Discount rate	8.00%	7.25%	8.00%	7.25%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	5.00%	5.00%		

	Pension Benefits		
	2000	1999	1998
Service cost	$ 1,518	$ 1,517	$ 1,328
Interest cost	8,028	7,254	7,235
Expected return on plan assets	(8,532)	(8,617)	(6,750)
Amortization of prior service cost	672	672	672
Amortization of transition obligation	179	183	185
Recognized net actuarial loss	699	102	92
Net periodic benefit cost	$ 2,564	$ 1,111	$ 2,762

	Postretirement Benefits		
	2000	1999	1998
Service cost	$ 19	$ 23	$ 21
Interest cost	2,265	1,978	2,153
Recognized net actuarial loss	457	399	205
Net periodic benefit cost	$ 2,741	$ 2,400	$ 2,379

Effective January 1, 1998, the Company changed certain of its actuarial assumptions including the mortality table used and the assumed retirement age for the defined benefit plans and the postretirement plan. The changes resulted in an increase to the benefit obligation and unrecognized actuarial loss of approximately $10 million.

The pension plans held 62,402 shares of Company stock with a fair market value of $1,065,000 and $1,252,000 at June 30, 2000 and 1999, respectively.

The assumed weighted average health care cost trend rate was 6% in fiscal year 2000 and 1999. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately $2.0 million and the interest cost by approximately $140,000. A 1% decrease in the assumed health care cost trend would decrease the accumulated postretirement benefit obligation by approximately $1.9 million and the interest cost by approximately $130,000.

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 $1,699,000, $1,572,000 and $1,582,000 in 2000, 1999 and 1998, respectively.

M. INCOME TAXES

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

	2000	1999	1998
United States	$ 367	$(3,555)	$ 7,944
Foreign	7,700	3,569	8,101
	$ 8,067	$ 14	$16,045

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

	2000	1999	1998
Currently payable:			
Federal	$ 664	$(1,376)	$ 154
State	6	49	114
Foreign	3,908	2,359	3,541
	4,578	1,032	3,809
Deferred:			
Federal	(137)	402	2,582
State	220	(292)	183
Foreign	(367)	(110)	108
	(284)	-	2,873
	$ 4,294	$ 1,032	$ 6,682

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

	2000	1999
Deferred tax assets:		
Retirement plans and employee benefits	$ 4,852	$12,826
Alternative minimum tax credit carryforwards	301	599
Foreign tax credit carryforwards	1,933	1,968
State net operating loss and other state credit carryforwards	771	1,075
Research credit carryforwards	-	135
Other	3,950	2,581
	11,807	19,184
Deferred tax liabilities:		
Property, plant and equipment	5,744	6,182
Other	2,804	2,649
	8,548	8,831
Total net deferred tax assets	$ 3,259	$10,353

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

	2000	1999	1998
U.S. federal income tax at 34%	$ 2,743	$ 5	$5,455
Increases (reductions) in tax resulting from:			
Foreign tax items	1,387	463	173
Accrual for prior years	150	74	705
Other, net	14	490	349
	$ 4,294	$1,032	$6,682

N. CONTINGENCIES

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

At June 30, 2000, the Company has accrued approximately $1,050,000, which represents management's best estimate available for possible losses related to these contingencies. This amount has been provided over the past several years. Based on the information available, the Company does not expect that any unrecorded liability related to these matters would materially affect the consolidated financial position, results of operations or cash flows.

O. ACQUISITIONS

In January 1999, the Company purchased the mechanical power take-off product business from Rockford Powertrain, Inc. for approximately $13.5 million. This transaction was accounted for using the purchase method of accounting and resulted in goodwill of approximately $11 million which is being amortized over 30 years. In February 1999, the Company purchased Technodrive S.p.A of Decima, Italy for approximately $3.9 million, net of cash acquired of $700,000. This transaction was accounted for using the purchase method of accounting and resulted in goodwill of approximately $2.9 million which is being amortized over 25 years. Technodrive manufactures industrial power take-offs, clutches, hydraulic pump mount drives and marine transmissions. The pro forma affects of the acquisitions are not significant to the net sales, net (loss) earnings, and earnings per share amounts reported in the financial statements.

P. CLOSURE OF SUBSIDIARY

In June 1999, the Company approved a plan to terminate operations at its South African subsidiary, Twin Disc (South Africa) Pty. Ltd, early in fiscal 2000. The Company recorded a loss of $1,140,000 in 1999 related to the termination of operations, which consists primarily of the recognition of cumulative translation losses of $829,000 with the remaining amounts related to disposals of inventories and fixed assets, and severance benefits. The results of the subsidiary's operations through June 30, 1999 are included in the consolidated financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States. 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 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 21, 2000

FINANCIAL SUMMARY

(In thousands of dollars, except where noted)

	2000	1999	1998	1997	1996
Statement of Operations					
Net sales	$177,987	$168,142	$202,643	$189,942	$176,657
Costs and expenses, including marketing, engineering and administrative	168,105	164,816	186,607	177,342	164,486
Earnings from operations	9,882	3,326	16,036	12,600	12,171
Other income (expense)	(1,815)	(3,312)	9	80	(1,264)
Earnings before income taxes	8,067	14	16,045	12,680	10,907
Income taxes	4,294	1,032	6,682	4,951	4,348
Net earnings (loss)	3,773	(1,018)	9,363	7,729	6,559
Balance Sheet					
Assets					
Cash and equivalents	5,651	4,136	5,087	8,983	2,043
Receivables, net	28,828	27.201	28,320	32,428	34,917
Inventories	50,190	54,500	53,280	47,844	51,083
Other current assets	5,333	11,910	6,893	8,707	8,597
Total current assets	90,002	97,747	93,580	97,962	96,640
Investments and other assets	49,885	40,218	31,646	26,544	30,344
Fixed assets less accumulated depreciation	34,303	38,935	35,728	34,249	35,715
Total assets	174,190	176,900	160,954	158,755	162,699
Liabilities and Shareholders' Equity					
Current liabilities	40,908	54,761	29,553	29,621	34,002
Long-term debt	31,254	17,112	19,949	19,944	19,938
Deferred liabilities	23,795	37,567	29,457	35,393	33,578
Shareholders' equity	78,233	67,460	81,995	73,797	75,181
Total liabilities and shareholders' equity	174,190	176,900	160,954	158,755	162,699

FINANCIAL SUMMARY (CONTINUED)

(In thousands of dollars, except where noted)

	2000	1999	1998	1997	1996
Comparative Financial Information					
Per share statistics					
Basic earnings (loss)	1.34	(.36)	3.30	2.78	2.36
Diluted earnings (loss)	1.34	(.36)	3.24	2.75	2.34
Dividends	.70	.805	.76	.70	.70
Shareholders' equity	27.87	23.79	28.94	26.48	27.07
Return on equity	4.8%	(1.5%)	11.4%	10.5%	8.7%
Return on assets	2.2%	(.6%)	5.8%	4.9%	4.0%
Return on sales	2.1%	(.6%)	4.6%	4.1%	3.7%
Average shares outstanding	2,820,534	2,834,909	2,833,663	2,781,174	2,776,805
Diluted shares outstanding	2,820,730	2,843,877	2,886,209	2,808,226	2,805,123
Number of shareholder accounts	1,480	1,138	774	845	913
Number of employees	999	1,029	1,078	1,081	1,080
Additions to plant and equipment	2,134	6,439	7,154	4,734	4,140
Depreciation	5,766	5,648	5,205	5,141	5,071
Net working capital	49,094	42,986	64,027	68,341	62,638

DIRECTORS

MICHAEL E. BATTEN
Chairman, Chief Executive Officer

MICHAEL H. JOYCE
President, Chief Operating Officer

JAMES O. PARRISH
Vice President-Finance & Treasurer

JOHN A. MELLOWS
Chairman and Chief Executive Officer, Charter Manufacturing Co., (A privately held producer of bar, rod wire and wire parts), Maccan, Wisconsin

PAUL J. POWERS
Retired Chairman, President-Chief Executive Officer, Commercial Interject Corp., (Manufacturer of Hydraulic Components, Fluid Purification Products, Pre-Engineered Buildings and Stamped Metal Products), Youngstown, Ohio

RICHARD T. SAVAGE
Retired Chairman, President-Chief Executive Officer, Moline Manufacturing Company, (Manufacturer of Heat Exchange Equipment), Racine, Wisconsin

DAVID L. SWIFT
Retired Chairman, President-Chief Executive Officer, Acme-Cleveland Corporation, (Manufacturer of Diversified Industrial Products), Pepper Pike, Ohio

GEORGE E. WARDEBERG
Vice Chairman, Wisconsin Energy Corp. (A holding company with subsidiaries in electric, natural gas, energy services and manufacturing), Milwaukee, Wisconsin

DAVID R. ZIMMER
Former Executive Vice President, United Dominion Industries, (Manufacturer of Diversified Engineered Products), Charlotte, North Carolina

DAVID R. RAYBURN
Executive Vice President of Operations, Moline Manufacturing Company, (Manufacturer of Heat Exchange Equipment), Racine, Wisconsin

OFFICERS

MICHAEL E. BATTEN
  Chairman, Chief Executive Officer
MICHAEL H. JOYCE
  President, Chief Operating Officer
JAMES O. PARRISH
  Vice President-Finance & Treasurer
HENRI-CLAUDE FABRY
  Vice President-Marine and Distribution
LANCE J. MELIK
  Vice President-Corporate Development
  Vice President-Transmission and Industrial Products
FRED H. TIMM
  Corporate Controller & Secretary
PAUL A. PELLIGRINO
  Vice President-Engineering
ARTHUR A. ZINTEK
  Vice President-Human Resources

CORPORATE DATA

ANNUAL MEETING

Twin Disc Corporate Offices, Racine, WI, 2:00 PM, October 20, 2000

SHARES TRADED

New York Stock Exchange: Symbol TDI

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K

SINGLE COPIES OF THE COMPANY'S 2000 ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K WILL BE PROVIDED WITHOUT CHARGE TO SHAREHOLDERS AFTER SEPTEMBER 30, 2000, UPON WRITTEN REQUEST DIRECTED TO THE SECRETARY, TWIN DISC, INCORPORATED, 1328 RACINE STREET, RACINE, WISCONSIN 53403.

TRANSFER AGENT & REGISTRAR

Firstar Trust Company, Milwaukee, Wisconsin

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP, Milwaukee, Wisconsin

GENERAL COUNSEL

von Briesen, Purtell, & Roper,s.c., Milwaukee, Wisconsin

CORPORATE OFFICES

Twin Disc, Incorporated, Racine, Wisconsin 53403, Telephone: (414) 638-4000

WHOLLY OWNED SUBSIDIARIES

Twin Disc International S.A., Nivelles, Belgium
Twin Disc Italia S.R.L., Viareggio, Italy
Technodrive S.p.A, Decima, Italy
Twin Disc (Pacific) Pty. Ltd., Brisbane, Queensland, Australia
Twin Disc (Far East) Ltd., Singapore
Mill-Log Equipment Co., Inc., Coburg, Oregon
Southern Diesel Systems Inc., Miami, Florida
TD Electronics, Inc., Loves Park, Illinois

MANUFACTURING FACILITIES

Racine, Wisconsin; Nivelles, Belgium; Decima, Italy; Loves Park, Illinois

SALES OFFICES

DOMESTIC

Racine, Wisconsin; Coburg, Oregon; Portland, Oregon; Kent, Washington; Miami, Florida; Jacksonville, Florida; Loves Park, Illinois

FOREIGN

Nivelles, Belgium; Brisbane and Perth Australia; Singapore; Viareggio, Italy; Decima, Italy; Chambery, France; Edmonton, Canada; Vancouver, Canada

MANUFACTURING LICENSES

Negate Converter Company, Ltd., Tokyo, Japan

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

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

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

2.Twin Disc 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.TD Electronics, Inc. (a Wisconsin corporation)

7.Mill-Log Equipment Co., Inc. (an Oregon corporation)

8.Southern Diesel Systems Inc. (a Florida corporation)

9. Technodrive SARL (A French corporation)

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

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Twin Disc, Incorporated on Form S-8 (Twin Disc, Incorporated 1988 Incentive Stock Option Plan , 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) of our reports dated July 21, 2000, on our audits of the consolidated financial statements and financial statement schedule of Twin Disc, Incorporated as of June 30, 2000 and 1999 and for the years ended June 30, 2000, 1999 and 1998, which reports are included (or incorporated by reference) in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
September 22, 2000

EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute Michael E. Batten and James O. Parrish , and each of them singly, true and lawful attorneys with full power to them, and each of them, singly, to sign for us and in our names as directors the Form 10-K Annual Report for the fiscal year ended June 30, 2000 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.

JOHN A. MELLOWES)
\- -
John A. Mellowes, Director)

PAUL J. POWERS)
\- -
Paul J. Powers, Director)

DAVID B. RAYBURN)
\- -
David B. Rayburn, Director)

RICHARD T. SAVAGE)
\- -
Richard T. Savage, Director)

) July 28, 2000

DAVID L. SWIFT)
\- -
David L. Swift, Director)

GEORGE E. WARDEBERG)
\- -
George E. Wardeberg, Director)

DAVID R. ZIMMER)
\- -
David R. Zimmer, Director)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM
THE CONSOLIDATED FINANCIAL STATEMENTS OF TWIN DISC, INCORPORATED
AND
SUBSIDIARIES SET FORTH IN THE ANNUAL REPORT TO SHAREHOLDERS FOR THE
YEAR ENDED
JUNE 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL
STATEMENTS.

1,000

YEAR
JUN-30-2000
JUN-30-2000
5,651
0
29,532
704
50,190
90,002
116,703
82,400
174,190
40,908
31,254
11,653
0
0
66,580
174,190
177,987
177,987
136,629
136,629
31,476
0
2,979
8,067
4,294
3,773
0
0
0
3,773
1.34
1.34