TWIN DISC, INCORPORATED

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON
Form 10-Q

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

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

TWIN DISC, INCORPORATED

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

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

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31 2001	June 30 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 6,618	$ 5,651
Trade accounts receivable, net	27,298	28,828
Inventories, net	52,933	50,190
Other	5,122	7,374
Total current assets	91,971	92,043
Property, plant and equipment, net	31,959	34,303
Investments in affiliates	3,013	6,968
Deferred income taxes	6,426	4,416
Prepaid pension asset	14,328	14,335
Other assets	22,058	24,166
	$169,755	$176,231
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 7,673	$ 7,428
Accounts payable	12,789	11,571
Accrued liabilities	26,845	23,950
Total current liabilities	47,307	42,949
Long-term debt	26,259	31,254
Accrued retirement benefits	18,885	23,795
	92,451	97,998
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	87,653	83,228
Accumulated other comprehensive(loss)income	(4,521)	799
	94,785	95,680
Less treasury stock, at cost	17,481	17,447
Total shareholders' equity	77,304	78,233
	$169,755	$176,231

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

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2001	2000	2001	2000
Net sales	$47,642	$49,467	$133,016	$129,087
Cost of goods sold	35,764	37,877	100,938	100,688
	11,878	11,590	32,078	28,399
Marketing, engineering and administrative expenses	8,376	8,034	23,954	23,918
Interest expense	675	777	2,118	2,261
Gain on sale of affiliate	(3,935)	0	(3,935)	0
Other income, net	(159)	(542)	(390)	(894)
	4,957	8,269	21,747	25,285
Earnings before income taxes	6,921	3,321	10,331	3,114
Income taxes	2,888	1,595	4,432	1,592
Net earnings	$ 4,033	$ 1,726	$ 5,899	$ 1,522
Dividends per share	$ 0.175	$ 0.175	$ 0.525	$ 0.525
Earnings per share data:				
Basic earnings per share	$ 1.44	$ 0.61	$ 2.10	$ 0.54
Diluted earnings per share	$ 1.44	$ 0.61	$ 2.10	$ 0.54
Shares outstanding data:				
Average shares outstanding	2,808	2,811	2,808	2,824
Dilutive stock options	0	0	0	0
Diluted shares outstanding	2,808	2,811	2,808	2,824
Comprehensive income (loss):				
Net earnings	$ 4,033	$ 1,726	$ 5,899	$ 1,522
Other comprehensive loss:				
Foreign currency translation adjustment	(3,525)	(1,326)	(5,320)	(2,196)
Comprehensive income (loss)	$ 508	$ 400	$ 579	($ 674)

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

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

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

	Nine Months Ended March 31 2001	Nine Months Ended March 31 2000
Cash flows from operating activities:		
Net earnings	$5,899	$1,522
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	4,801	5,120
Gain on sale of affiliate	(3,935)	0
Equity in earnings of affiliates	(652)	(701)
Dividends received from affiliate	463	500
Net change in working capital, excluding cash and debt, and other	(4,077)	(719)
	2,499	5,722
Cash flows from investing activities:		
Acquisitions of fixed assets	(2,107)	(1,679)
Proceeds from sales of fixed assets	6	90
Proceeds from sale of affiliate	7,173	0
Investment in joint venture	(654)	0
	4,418	(1,589)
Cash flows from financing activities:		
Increase (decrease) in notes payable, net	(4,300)	2,308
Treasury stock activity	(34)	(340)
Dividends paid	(1,474)	(1,488)
	(5,808)	480
Effect of exchange rate changes on cash	(142)	(268)
Net change in cash and cash equivalents	967	4,345
Cash and cash equivalents:		
Beginning of period	5,651	4,136
End of period	$6,618	$8,481

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. Basis of Presentation

The unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of the Company, include all adjustments, consisting only of normal recurring items, necessary for a fair statement of results for each period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with financial statements and the notes thereto included in the Company's latest Annual Report. The year end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

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

B. Inventory

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

	March 31 2001	June 30 2000
Inventories:		
Finished parts	$42,830	$40,313
Work in process	5,524	5,880
Raw materials	4,579	3,997
	$52,933	$50,190

C. Contingencies

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

At March 31, 2001 the Company has accrued approximately $1,042,000, which represents management's best estimate available for possible losses related to these contingencies. This amount has been provided over the past several years. Based on the information available, the Company does not expect that any unrecorded liability related to these matters would materially affect the consolidated financial position, results of operations or cash flows.

D. BUSINESS SEGMENTS

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2001	2000	2001	2000
Manufacturing segment sales	$45,591	$48,026	$126,745	$120,239
Distribution segment sales	12,219	12,052	34,395	34,300
Inter/Intra segment sales	(10,168)	(10,611)	(28,124)	(25,452)
Net sales	$47,642	$49,467	$133,016	$129,087
Manufacturing segment earnings(loss)	$ 2,827	$ 2,855	$ 6,069	$ 1,840
Distribution segment earnings	946	727	2,376	2,120
Inter/Intra segment loss	3,148	(261)	1,886	(846)
Pretax earnings (loss)	$ 6,921	$ 3,321	$10,331	$ 3,114

Assets	March 31, 2001	June 30, 2000
Manufacturing segment assets	$153,106	$154,971
Distribution segment assets	26,535	24,518
Corporate assets and elimination of inter-company assets	(9,886)	(3,258)
	$169,755	$176,231

E. SALE OF INVESTMENT IN AFFILIATE

During the third quarter of fiscal 2001 the Company sold its 19.5% investment in Niigata Converter Company, LTD., Japan (Niigata), a manufacturer of power transmission equipment. The total proceeds from the transaction was $7.2 million, including the elimination of a $1.7 million note receivable, and resulted in a pre-tax gain of $3.9 million. The Company accounted for its 19.5% interest in Niigata using the cost method.

F. NEW ACCOUNTING PRONOUNCEMENT

In December 1999, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." This bulletin summarizes certain views of the SEC staff on applying generally accepted accounting principles to revenue recognition in financial statements. The SEC staff expressed its view that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured. The Company expects that SAB 101 will not have a material effect on its financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues for the first nine months of the fiscal year were ahead of last year, but for the current quarter, sales were slightly off year-ago levels. Net earnings for both the three- and nine-month periods were well above the comparable prior-year periods, but there was a significant one-time gain posted in the recently completed third fiscal quarter.

Mixed signals from our various markets led to a four percent decline in net sales compared with last year's third fiscal quarter, while year-to-date sales comparisons remained positive with a three percent increase for the nine months. For our manufacturing operations, overseas gains in marine transmissions for the pleasure craft market offset declines in sales of domestically produced products. The most significant declines were in power take-offs for irrigation and waste recycling applications and power transmission systems for airport rescue and fire-fighting vehicles and agricultural tractors. There also was some softness in sales of marine transmissions for commercial boats. Shipping volumes of our distribution operations varied by region, but sales in the aggregate from this group continued to show a modest year-to-year quarterly improvement. Although the U.S. dollar weakened somewhat during the quarter, its strength relative to a year ago continues to have a dampening effect on sales reported by our offshore operations.

The gross margin improvements reported in previous quarters continued, reaching their highest quarterly level of the current fiscal year. For the nine months, the gross margin is more than two percentage points ahead of last year. While greater production volume stimulated some of the improvement in earlier quarters of the fiscal year, sales of a favorable product mix, greater manufacturing productivity, and more effective material procurement contributed to the improvement of 1.5 percentage points in the recently completed quarter.

Marketing, engineering and administrative spending increased modestly compared with the third quarter last year, but for the nine-months, was virtually unchanged. The decline in interest expense reflects lower rates and lower debt levels, with most of the reduction coming as a result of the recent sale of our shares in a joint venture. During the quarter, Twin Disc sold its minority interest in Niigata Converter Company to its joint-venture partner and recorded again of $3.9 million. Most of the proceeds were applied to the outstanding debt, but a portion was used to capitalize a new marketing and engineering joint-venture that will support our global marine product line.

Working capital, at $45 million, was about $3-4 million below the previous quarter and the prior fiscal year-end. Most of the reduction was caused by an increase in income taxes accrued at our principal manufacturing operations in the U.S. and Belgium. Accounts receivable were up from the previous quarter as a result of increased sales, while inventory declined by more than $1 million. For the nine months, cash flows from operating activities were supplemented by a positive flow from investing activities which enabled the aforementioned repayment of $4.3 million of debt. While debt levels continue to be high compared with historic levels, our balance sheet is strong, and we continue to have sufficient liquidity for near-term needs.

OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 2. Changes in Securities and Use of Proceeds.

There were no securities of the Company sold by the Company during the three months ended March 31, 2001 which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4 (2) of the Act.

Item 5. Other Information.

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TWIN DISC, INCORPORATED
(Registrant)

May 10, 2001	/S/ FRED H. TIMM
(Date)	Fred H. Timm Corporate Controller and Secretary