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, 1998
Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

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

Registrant's Telephone Number, including area code (414) 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 2, 1998, the aggregate market value of the common stock held by non-affiliates of the registrant was $51,020,893. 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 2, 1998, the registrant had 2,835,184 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, 1998 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 16, 1998 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 47% of the Company's consolidated net sales during the year ended June 30, 1998. Two customers, Caterpillar Inc. and Sewart Supply, Inc., each accounted for approximately 11% of consolidated net sales in 1998.

Unfilled open orders for the next six months of $54,225,000 at June 30, 1998 compares to $76,429,000 at June 30, 1997. 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 $3,104,000, $3,050,000 and $2,457,000 in 1998, 1997 and 1996, respectively. Total engineering and development costs were $8,833,000, $8,288,000 and $6,998,000 in 1998, 1997 and 1996, 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, 1998 was 1,078.

A summary of financial data by geographic area for the years ended June 30, 1998, 1997 and 1996 appears in Note I to the consolidated financial statements on pages 35 through 36 of the 1998 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 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
Seattle, Washington, U.S.A.	Johannesburg, South Africa
	Vancouver, British Columbia, Canada
	Madrid, Spain
	Edmonton, Alberta, Canada
	Viareggio, Italy
	Shanghai, China

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 79% 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 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 completion of the remedial investigation. Based upon current assumptions, however, the Company anticipates potential liability of approximately $535,000.

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 Company's total potential liability on the site cannot be estimated with particularity until completion of the remedial investigation. Based upon current assumptions, however, the Company anticipates potential liability of approximately $126,000.

The Company also is involved with other potentially responsible parties in various stages of investigation and remediation relating to other hazardous waste sites, some of which are on the United States EPA National Priorities List (Superfund sites). While it is impossible at this time to determine with certainty the ultimate outcome of such environmental matters, they are not expected to materially affect the Company's financial position, operating results or cash flows.

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 16, 1998.)

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer	58
Michael H. Joyce	President-Chief Operating Officer	57
James O. Parrish	Vice President - Finance and Treasurer	58
Philippe O. Pecriaux	Vice President - Europe	60
Lance J. Melik	Vice President - Corporate Development since September 1995; formerly Vice President - Marketing	55

Executive Officers of the Registrant (continued)

Name	Principal Occupation Last Five Years	Age
James McIndoe	Vice President - International Marketing	59
Paul A. Pelligrino	Vice President - Engineering since April 1996; formerly Chief Engineer of Corporate Engineering	59
John W. Spano	Vice President - Sales and Marketing since September 1995; formerly Director Mobile Market Group, Trinova Corporation since June 1993	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	51
Fred H. Timm	Corporate Controller and Secretary since August 1994; formerly Controller and Secretary	52

Officers are elected annually by the Board of Directors at the first meeting of the Board held after each Annual Meeting of the Shareholders. Each officer shall hold office until his successor has been duly elected, or until he shall resign or shall have been 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, 1998 are incorporated into this Report by reference.

As of June 30, 1998 there were 774 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 2, 1998 was $23.38 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 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 acquiror 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), Exhibits 4(b) of Part IV of the Annual Report on Form 10-K for the year ended June 30, 1998 are hereby incorporated by reference.

Item 6. Selected Financial Data

The information set forth under the caption "Ten-Year Financial Summary" on pages 44 and 45 of the Annual Report to Shareholders for the year ended June 30, 1998 is incorporated into this report by reference.

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

The information set forth under the caption "Management's Discussion and Analysis" on pages 23 through 25 of the Annual Report to Shareholders for the year ended June 30, 1998 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 26 through 43 of the Annual Report to Shareholders for the year ended June 30, 1998 are incorporated into this report by reference:

Consolidated Balance Sheets, June 30, 1998 and 1997

Consolidated Statements of Operations for the years ended June 30, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the years ended June 30, 1998, 1997 and 1996

Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 1998, 1997 and 1996

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, 1998 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 16, 1998, 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 16, 1998, 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 16, 1998 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 16, 1998 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 26 through 43 of the Annual Report to Shareholders for the year ended June 30, 1998 are incorporated by reference into this report in Part II:

Consolidated Balance Sheets, June 30, 1998 and 1997

Consolidated Statements of Operations for the years ended June 30, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the years ended June 30, 1998, 1997 and 1996

Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 1998, 1997 and 1996

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, 1998 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, 1998:

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

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

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

3 a) 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).

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).

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

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

* Denotes management contract or compensatory plan or arrangement.

11 Not applicable

12 Not applicable

13 Annual Report of the Registrant for the year ended June 30, 1998 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, 1998 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

99 Foreign Affiliate Separate Financial Statements

a) Niigata Converter Co., Ltd. financial statements for the year ended March 31, 1995 prepared in accordance with Japanese Commercial Code (Incorporated by reference to Exhibit 99(a) of the Company's Form 10-K for the year ended June 30, 1995).

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

b) Niigata Converter Co., Ltd. financial statements for the year ended March 31, 1994 prepared in accordance with Japanese Commercial Code (Incorporated by reference to Exhibit 99(b) of the Company's Form 10-K for the year ended June 30, 1995).

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 21, 1998

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 21, 1998	(	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)
September 21, 1998	(	Paul J. Powers, Director Richard T. Savage, Director David L. Swift, Director Stuart W. Tisdale, Director George E. Wardeberg, Director David R. Zimmer, 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 24, 1998 appearing on page 43 of the 1998 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 page 8 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 24, 1998

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
for the years ended June 30, 1998, 1997 and 1996
(In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at end of Period
1998:				
Allowance for losses on accounts receivable	$ 538	$ 355	$ 246	$ 647
Reserve for inventory obsolescence	1,013	893	781	1,125
1997:				
Allowance for losses on accounts receivable	$ 372	$ 267	$ 101	$ 538
Reserve for inventory obsolescence	926	1,770	1,683	1,013
1996:				
Allowance for losses on accounts receivable	$ 408	$ 41	$ 77	$ 372
Reserve for inventory obsolescence	1,581	845	1,500	926

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).	17
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 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).	29
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 3(b)

RESTATED BYLAWS
OF
TWIN DISC, INCORPORATED

(Adopted April 19, 1991)
(Amended July 28, 1995)
(Amended October 18, 1996)
(Amended June 22, 1998)

ARTICLE I. OFFICE

The principal office of the Corporation in the State of Wisconsin shall be located in the City of Racine, Racine County. The Corporation may have such other offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the Corporation may require.

The registered office of the Corporation required by the Wisconsin Business Corporation Law to be maintained in the State of Wisconsin may be, but need not be, identical with the principal office in the State of Wisconsin, and the address of the registered office may be changed from time to time by the Board of Directors.

ARTICLE II. SHAREHOLDERS

(1) ANNUAL MEETING. The Annual Meeting of the Shareholders, for the purpose of electing directors and for the transaction of such other business as may come before the meeting, shall be held during the months of September or October in each year at such place, on such date and at such time as the Board of Directors may designate, written notice of the place, date and time of such meeting to be given each Shareholder not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting. If the place, date and time of the Annual Shareholders Meeting for any year shall not have been designated by the Board of Directors at least thirty (30) days prior to the first day of September of such year, then the Annual Meeting of the Shareholders shall be held at the registered office of the Corporation on the third Friday of October in such year at 2 o'clock p.m., if not a legal holiday, but if a legal holiday, then on the next business day following.

(2) SPECIAL MEETINGS. Special Meetings of the Shareholders may be called by the Chairman and Chief Executive Officer, the President and Chief Operating Officer or the Secretary, and shall be called by the President and Chief Operating Officer or Secretary at the request in writing of a majority of the Board of Directors, or at the request of Shareholders owning not less than twenty-five percent (25%) of the outstanding shares of stock of the Corporation entitled to vote at the meeting. Any such request shall state the purpose, or purposes, of the proposed meeting. At any Special Meeting, the order of business thereat shall be determined by the Chairman and Chief Executive Officer, the President and Chief Operating Officer of the Company.

(3) PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Wisconsin, as the place of meeting for any Annual Meeting, or for any Special Meeting called by the Board of Directors. If no designation is made, or if a Special Meeting be otherwise called, the place of the meeting shall be the registered office of the Corporation, but any meeting may be adjourned to reconvene at any place designated by a vote of a majority of the shares represented at such meeting.

(4) NOTICE OF MEETING. Written notice stating the place, date and time of the meeting, and in case of a Special Meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman and Chief Executive Officer, President and Chief Operating Officer, Secretary, the Board of Directors, or other person or persons calling the meeting, to each Shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States

mail, addressed, to the Shareholder at his address as it appears on the stock record book or similar records of the Corporation, with postage thereon prepaid. Notice of any meeting of the Shareholders shall clearly state that proxy appointments will be ruled invalid unless received by the Secretary before the deadlines prescribed in these By-Laws.

(5) RECORD DATE. The Board of Directors may fix in advance a record date to determine the Shareholders entitled to notice of a Shareholders meeting, which record date shall be not more than seventy (70) nor less than five (5) days prior to the meeting or action requiring a determination of the Shareholders. A determination of the Shareholders entitled to notice of or to vote at a Shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new date, which it shall be required to do only if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

(6) SHAREHOLDERS LIST. After fixing a record date for a Shareholders meeting, the Secretary shall prepare a list of names of all its Shareholders who are entitled to notice of the Shareholders meeting. The Secretary shall make the list available for inspection by any Shareholder, beginning two (2) days after notice of the meeting is given for which the list was prepared, at the Corporation's principal place of business, or at a place designated in the meeting notice. During the period specified in this By-Law, a Shareholder or such Shareholder's agent may inspect the list during regular business hours on written notice to the Secretary stating the date upon which the inspection is requested to take place, which date shall be not less than five (5) days from the date the request is made. The Corporation shall make the list available at the meeting, and any Shareholder or his agent may inspect the list at any time during the meeting or any adjournment thereof. Refusal or failure to prepare or make available the Shareholders' list pursuant to this Bylaw shall not affect the validity of any action taken at the meeting.

(7) QUORUM. Except as otherwise provided by law, these By-laws or the Articles of Organization, a majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders, and a majority of votes cast at any meeting at which a quorum is present shall be decisive of any motion or election, unless a greater number is required by law, by these By-laws or by the Articles of Organization. The meeting may be adjourned from time to time by a majority of the votes cast. The Secretary must give proper notice of the time, date, or place unless the new time, date, or place is announced at the meeting. Once a share is represented for any purpose at a meeting other than for the purpose of objecting to the holding of the meeting or the transaction of business at the meeting, such share is considered present for the purpose of determining whether a quorum exists for any adjournment of that meeting, unless a new record date is set for that adjourned meeting.

(8) PROXIES. At any meetings of the Shareholders, any Shareholder is entitled to vote by proxy. A Shareholder may appoint a person to vote or otherwise act for him by signing an appointment form, either personally or by his authorized agent. Such a proxy appointment form shall be delivered to the Secretary of the Corporation in person, by mail or by messenger, not less than forty-eight (48) hours

prior to the date of any Shareholder meeting. No proxy shall be valid after eleven (11) months from the date of its execution unless otherwise provided conspicuously on the face of the appointment form. Appointment forms or revocations transmitted by facsimile, telex, telegram, or electronic means shall not be accepted.

(8.25) REVOKING PROXIES. A Shareholder may revoke a proxy appoint-

ment form signed by him by:

(a) openly stating the revocation at the Shareholders meeting;

(b) voting at the Shareholders meeting in person;

(c) submitting a proxy appointment form bearing a later date to the corporate Secretary pursuant to the provisions of these Bylaws; or

(d) delivering a signed written statement revoking the proxy to the corporate Secretary prior to the date of the meeting.

(8.50) PROXY VALIDATION. Any valid proxy appointment form must meet the following standards:

(a) The proxy appointment form must be delivered to the Secretary of the Corporation pursuant to the provisions of these Bylaws;

(b) The appointment form shall bear a signature in handwriting sufficiently legible to allow the inspector to distinguish it as representing the name of a registered Shareholder, or be accompanied by a rubber stamp facsimile or hand-printed name, including the Shareholder's surname, and either the Shareholder's first or middle name as represented on the corporate records, and any titles, offices or words indicating agency which appear in the corporate records;

(c) If the name appearing on the appointment form does not correspond with the Shareholder's name in the corporate records, the signature on the appointment form must then include some indication of the signator's agency, office or authority allowing them to represent these Shareholder in this particular matter;

(d) If the Shareholder is an entity, the person signing the form must demonstrate their authority as officer or agent;

(e) If the person signing the appointment form purports to be a personal representative, administrator, executor, guardian or conservator, the person signing the form must demonstrate their authority to represent the Shareholder in this matter; or

(f) If two or more persons are Shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners, the person signing the form must demonstrate their authority to act on behalf of the other co-owners(s).

The inspector shall in good faith, considering the facts and circumstances, determine whether each proxy appointment satisfies these standards. In making his determination the inspector shall be entitled to rely upon the genuineness of all signatures and purported authority of persons designated as officers, agents, representatives or co-owners. The inspector's determination shall be final.

(9) VOTING. Each outstanding share entitled to vote shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of Shareholders. Upon demand of any Shareholder, the vote for Directors shall be by ballot.

(10) VOTING OF SHARES BY CERTAIN SHAREHOLDERS. Shares standing in the name of another Corporation may be voted either in person or by proxy, by the President of such Corporation or any other officer appointed by such President. Shares held by an administrator, executor, guardian, conservator, trustee in bankruptcy, receiver, or assignee for creditors may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a fiduciary may be voted by him, either in person or by proxy. A Shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter, the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the Corporation shall not be voted, directly or indirectly at any meeting, and shall not be counted in determining the total number of outstanding shares entitled to vote at any given time, but shares of its own stock held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares at any given time.

(11) INSPECTORS OF ELECTION. Prior to the meeting, the Board of Directors may appoint no fewer than one (1) but no more than seven (7) inspectors to serve at any meeting of the Shareholders. The inspectors may be selected from among the employees of the Corporation or any individuals not affiliated with the Corporation. The inspectors shall determine the number of shares outstanding and the voting power of each share, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxy appointments. The inspectors shall also receive votes, ballots and consents, hear and determine challenges and questions in connection with the right to vote, decide all questions relating to the qualifications of voters and the validity of proxy appointments pursuant to the provisions of these Bylaws, count and tabulate all votes, ballots or consents, and do such acts as are proper to conduct the election with fairness to all Shareholders. In the event the Board of Directors does not appoint any

inspector, the Secretary of the Corporation shall perform any duties and exercise any authority provided to the inspector under these By-Laws.

(11.5) PROCEDURES AT THE SHAREHOLDER MEETING. The Chairman of the meeting shall follow the order of business prepared by the Secretary of the Corporation pursuant to the provisions of these By-laws. The Chairman of the meeting may rule out of order any motion from the floor to consider a matter not appearing on the agenda. All matters on the agenda may be combined on a single ballot, and in the case of an election for the Board of Directors, all names of those candidates properly nominated under these By-laws may appear together on a single ballot. The Chairman shall announce the outcome following each vote, however the final count may be completed after the meeting provided the inspectors of the election sign a supplemental certification of election specifying the final count. The inspectors shall determine that each individual admitted to the meeting is a Shareholder on or prior to the record date, and no other individual shall participate in or observe the meeting, otherwise than by direction of the Chairman. The Board of Directors may provide for security to maintain reasonable decorum and ensure the safety of the participants.

The Chairman of the meeting is responsible for enforcing the rules of procedure on the floor of the meeting. Statements by Shareholders may not exceed two (2) minutes, or three (3) minutes in the case of the proponent's initial remarks on a matter before the Shareholders. The Chairman of the meeting may rule out of order any statement that exceeds the allotted time, goes beyond the matter before the Shareholders, repeats earlier statements at the meeting, or relates to subject matters beyond the general interest of the Shareholders. The Chairman of the meeting shall have the power to rule on any other points of order and his decision shall be final.

(4)

(12) WAIVER OF NOTICE BY SHAREHOLDERS. Whenever any notice whatever is required to be given to any Shareholder of the Corporation under the Articles of Incorporation or By-laws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the Shareholder entitled to such notice, shall be deemed equivalent to the giving of such notice, provided that such waiver in respect to any matter of which notice is required under any provision of Wisconsin law, shall contain the same information as would have been required to be included in such notice, except the time and place of meeting.

(13) INFORMAL ACTION BY SHAREHOLDERS. Any action required or permitted by the Articles of Incorporation or By-laws or any provision of law to be taken at a meeting of the Shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken shall be signed by all of the Shareholders entitled to vote with respect to the subject matter thereof.

(14) BUSINESS CONDUCTED AT THE MEETING.

(a) At any Annual Meeting or Special Meeting of Shareholders, only such business shall be conducted, and only such proposals shall be acted as shall have been properly brought before the meeting in accordance with these By-Laws. To be properly brought before any Annual Meeting or Special Meeting, any proposed business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors; (ii) otherwise brought before the meeting by or at the direction of the Board of Directors; or (iii) properly brought before the meeting by a shareholder. For a proposal to be properly brought before a meeting by a shareholder (other than a shareholder proposal specified in the notice of the meeting given by or at the direction of the Board of Directors and included in the Corporation's proxy statement pursuant to Rule 14(a)-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation (a) not less than sixty (60) days before the anniversary date of the date on which the Corporation first mailed its proxy materials for the immediately preceding Annual Meeting, or (b) in the case of a Special Meeting or in the event the date of the Annual Meeting has changed more than thirty (30) days from the prior year, notice by the shareholder to be timely must be given so as to be received not later than the close of business on the tenth (10th) day following the earlier of the day on which notice of the date of such meeting was mailed or public disclosure of the date of such meeting was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting, (i) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and record address, as they appear on the Corporation's books, of the shareholder proposing such business and any other shareholders known by such shareholder to be supporting such proposal; (iii) the class and number of shares of the Corporation's stock which are beneficially owned by the shareholder on the date of such shareholder notice and by any other shareholders known by such shareholder to be supporting such proposal on the date of such shareholder notice; and (iv) any financial interest of the shareholder in such proposal.

(b) The Secretary shall compose an agenda prescribing the order of business for the meeting, which shall include all matters properly submitted under these By-Laws and provide the agenda to the Chairman of the meeting. The Secretary shall also deliver to the Chairman of the meeting a list of those matters not properly submitted, and the chairman shall so declare at the meeting and state that any such business shall not be transacted.

(5)

(c) This provision shall not prevent the consideration and approval or disapproval at the meeting of matters properly brought before the meeting nor of reports of officers, directors and committees of the Board of Directors; however, in connection with such reports, no business shall be acted upon at such meeting unless properly submitted as herein provided.

ARTICLE III. BOARD OF DIRECTORS

(1) GENERAL POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors.

(2) SPECIFIC POWERS. Without prejudice to such general powers and subject to the laws of Wisconsin and the Articles of Organization, it is hereby expressly declared that the Directors shall have the following powers, to-wit: to adopt and alter a common seal of the Corporation; to make and change regulations not inconsistent with these By-Laws, for the management of the Corporation's business and affairs; to purchase or otherwise acquire for the Corporation any property, rights or privileges which the Corporation is authorized to acquire; to pay for any property purchased for the Corporation either wholly or partly in money, stock, bonds, debentures or other securities of the Corporation; to borrow money and to make and issue notes, bonds, and other negotiable and transferable instruments, mortgages, necessary to effectuate the same; to appoint and remove or suspend such subordinate officers, agents or factors as they may deem necessary and to determine their duties, and fix and from time to time change their salaries or renumeration, and to require security as and when they think fit; to confer upon any officer of the company the power to appoint, remove and suspend subordinate officers, agents and factors; to determine who shall be authorized on the Corporation's behalf to make and sign bills, notes, acceptances, endorsements, checks, releases, contracts and other instruments.

(3) NUMBER, TENURE, RESIGNATION AND QUALIFICATIONS. The number of directors of the Corporation shall be nine (9). Directors need not be residents of the State of Wisconsin nor Shareholders of the Corporation.

The Board of Directors shall be divided into three classes, consisting of three, three and three Directors. The term of office of each Director elected for a full term shall be the period of three years to expire at the Annual Meeting of Shareholders three years after the date of his election. The number of Directors to be elected at such meeting shall be equal to the number whose term expires at the time of such meeting. Each Director shall hold office for the term for which he is elected and until the next Annual Meeting of Shareholders at which his successor shall be elected, or until his death, or until he shall resign or shall have been removed in a manner provided in these By-Laws.

(4) REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after and at the same place as the Annual Meeting of Shareholders and each adjournment thereof. The Board of Directors may provide by resolution the time and place, either within or without the State of Wisconsin, for the holding of additional regular meetings without other notice to Directors than such resolution.

(5) SPECIAL MEETINGS. Special Meetings of the Board of Directors may be called by or at the request of the Chairman, President, Secretary, or any five (5) Directors. Special Meetings of the Board of Directors shall be held at such place, either within or without the State of Wisconsin, as the majority of the members of the Board of Directors may from time to time appoint.

(6)

(6) NOTICE. Notice of any Special Meeting shall be given at least forty-eight (48) hours previously thereto by written notice, delivered personally or mailed to each Director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Whenever any notice whatever is required to be given to any Director of the Corporation under the Articles of Incorporation or By-Laws, or any provision of law, a waiver thereof in writing, signed at any time whether before or after the time of meeting, by the Director entitled to such notice, shall be deemed equivalent to the giving of such notice. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting and objects thereat to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or Special Meeting of the Board of Directors need to be specified in the notice or waiver of notice of such meeting.

(7) QUORUM. Except as otherwise provided by law or by these By-Laws, a majority of the number of Directors fixed by Section (3) of this Article III shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but a majority of the Directors present (though less than such quorum) may adjourn the meeting from time to time without further notice.

(8) MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law by the Articles of Organization or by these By-Laws.

(8.5) CONDUCTING MEETINGS. Any or all directors may participate in or conduct a regular or Special Meeting of the Board of Directors through the use of any means of communication by which all participating directors may simultaneously hear each other during the meeting, and all communication during the meeting is immediately transmitted to each participating director and each participating director is able to send immediately messages to all participating directors. If any means of communication as described above is to be utilized at a meeting of the Board of Directors, all participating directors must be informed that a meeting is taking place at which official business may be transacted.

(9) VACANCIES. Any vacancy in the Board of Directors, including a vacancy created by an increase in the number of Directors, may be filled until the next succeeding annual election by the affirmative vote of a majority of the Directors then in office, though less than a quorum of the Board of Directors. In the event of removal of one or more Directors as provided by these By-Laws, a new Director or Directors to fill such vacancy or vacancies, as the case may be, may be elected at the same meeting of Shareholders at which such action of removal is taken.

(10) COMPENSATION. The Board of Directors, by affirmative vote of a majority of the Directors then in office, and irrespective of any personal interest of any of its members, may establish reasonable compensation of all Directors for services to the Corporation as Directors, officers or otherwise. The Board of Directors also shall have authority to provide for reasonable pensions, disability or death benefits, and other benefits or payments, to Directors, officers and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered by such Directors, officers and employees to the Corporation. Each Director shall also be reimbursed for his necessary expenses in connection with attending meetings of the Board of Directors.

(11) PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

(12) INFORMAL ACTION BY DIRECTORS. Any action required or permitted by the Articles of Incorporation, By-Laws, or other provision of law, which might be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Directors.

(12.5) EMERGENCY BY-LAWS. In the event of an emergency, which, for purposes of this By-Law, is defined as a catastrophic event including but without limitation to, a fire, plane crash, tornado, flood, or snow storm, preventing a quorum of the Board of Directors from being assembled, the following emergency By-Law provisions shall become and remain effective until such time as it is practicable for a normally constituted Board of Directors to resume management of the business of the Corporation.

(a)Those members of the Board of Directors who are available during the emergency shall continue to manage the business of the Corporation. A director is unavailable under this By-Law if such director is unable to receive notice of a Board of Directors meeting as provided in Article III, Section (6) of the By-Laws, or having received notice is by reason of the emergency unable to participate in the meeting so noticed.

(b)Three (3) directors shall constitute a quorum of the Board of Directors during an emergency. If the number of available directors should drop below three (3), additional directors may be appointed by the remaining directors from the officers or employees of the Corporation. Not more than three (3) directors shall be appointed under this provision.

(c)Meetings during an emergency may be called by any available director, using any reasonable means of communication in an effort to contact or give notice to each remaining director.

(d)During an emergency, any director may participate in or conduct a meeting of the Board of Directors through any available means of communication which allows all directors participating to simultaneously hear each other, and such communication is immediately transmitted to each director.

(e)The provisions of the Corporation's regular By-laws shall remain effective during the emergency period except to the extent inconsistent therewith.

(f)The emergency By-laws shall no longer be effective after the emergency ceases and the term of any Director appointed to serve during such emergency shall end.

(13) RESIGNATION AND REMOVAL FOR CAUSE. Any Director, member of a committee or other officer may resign at any time. Such resignation shall be made in writing, and shall take effect at the time specified therein, and if no time be specified, at the time of its receipt by the President or Secre tary. The acceptance of a resignation shall not be necessary to make it effective.

A Director may be removed from office during the term of such office but only upon a showing of good cause, such removal to be by affirmative vote of a majority of the outstanding shares entitled to vote for the election of such Director and which action may only be taken at a Special Meeting of stockhold ers called for that purpose.

A Special Meeting of the stockholders as herein referred to may only be held after a hearing on the matter of cause claimed to exist has been held by the full Board of Directors of the company at which hearing the Director or Directors proposed for removal shall be given an adequate opportunity for preparation and attendance in person (together with representation by coun sel); provided, however, that such hearing shall be held only after written notice has been given to said Director or Directors proposed for removal specifying the matters of cause claimed to exist. The conclusions of said hearing shall be reported by the Board of Directors in writing accompanying the notice of the special stockholders' meeting sent to each stockholder eligible to vote at said Special Meeting.

(14) DIRECTORS EMERITUS. The Board of Directors may from time to time name Directors Emeritus of the Board of Directors of the Corporation who shall be entitled to receive notice of all meetings of the Board and to attend thereat, provided that they shall not be entitled to a vote upon any proposi tion to be voted by said Board of Directors. Director Emeritus shall serve at the pleasure of the Board.

ARTICLE IV. OFFICERS

(1) NUMBER AND QUALIFICATION. The principal officers of the Corpora tion shall be a Chairman and Chief Executive Officer, at the option of the Board, a President and Chief Operating Officer, an Executive Vice President, one or more other Vice Presidents as the Board may choose to select, a Secretary, a Treasurer, and at the option of the Board, a President of North American Operations. The Chairman and Chief Executive Officer and the President and Chief Operating Officer shall be selected from among the membership of the Board of Directors and shall hold office until their successors are elected and qualified notwithstanding any earlier termination of their office as director, other than their removal for cause. Such other officers and assistant officers that may be deemed necessary may be elected or appointed by the Board and any two or more offices may be held by the same person except the offices of President and Chief Operating Officer and Vice President.

(2) ELECTION AND TERM OF OFFICE. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each Annual Meeting of the Shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected, or until his death, or until he shall resign, or shall have been removed in a manner hereinafter provided.

(3) REMOVAL. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment shall not of itself create contract rights. The Chairman and Chief Executive Officer or President and Chief Operating Officer may suspend any officer until the next Board meeting.

(4) VACANCIES. A vacancy in any principal office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

(5) CHAIRMAN AND CHIEF EXECUTIVE OFFICER. The Chairman and Chief Executive Officer shall preside at all meetings of the Board of Directors, and shall have the general powers and duties of supervision and management of the business of the Corporation, its officers and agents. He shall have authority to sign certificates for shares of the Corporation as provided in ARTICLE VII hereof. He shall have authority, subject to such agents and employees of the Corporation as he shall deem necessary, to prescribe their powers, duties and compensation and to delegate authority to them. Such agents and employees shall hold office at the discretion of the Chairman and Chief Executive Officer. In his capacity as Chairman and Chief Executive Officer, he shall also appoint all Board committees and their chairmen and he shall have such other power and duties as may from time to time be prescribed by the Board of Directors.

(6) PRESIDENT AND CHIEF OPERATING OFFICER. The President and Chief Operating Officer shall, in general, supervise, direct and control the operations and business of the Corporation subject to the supervision and direction of the Chairman and Chief Executive Officer and the Board of Directors and the provisions of these By-Laws. The President and Chief Operating Officer shall also, subject to such rules as may be prescribed by these By-laws, the Chairman and Chief Executive Officer, or the Board of Directors, have the authority to sign, execute and acknowledge on behalf of the Corporation all deeds, mortgages, contracts, leases, reports and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, including certificates for shares of the Corporation. In the absence of the Chairman and Chief Executive Officer, he shall preside at all meetings of the Shareholders and Board of Directors.

(7) VICE PRESIDENTS. In the absence of the President and Chief Operating Officer, or in the event of his death, inability or refusal to act, the Executive Vice President or in his absence the Vice President-Finance (or should neither be available then the other Vice Presidents in the order designated at the time of their election or in the absence of any designation, then in the order of their election) shall perform the duties of the President and Chief Operating Officer, and when so acting shall have all the powers of and be subject to all the restrictions upon the President and Chief Operating Officer. Any Vice President may sign, with the Chairman and Chief Executive Officer and with the Secretary or Assistant Secretary, certificates for shares of the Corporation; and shall perform such other duties and have such author ity as from time to time may be assigned to him by the Chairman and Chief Executive Officer or President and Chief Operating Officer or by the Board of Directors. Any Vice President is authorized to affix the seal of the Corpora tion to any document which requires the same.

(8) SECRETARY. The Secretary shall: (a) keep the minutes of the Shareholders' and of the Board of Directors' Meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accor dance with the provisions of these By-laws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents which require the same, the execution of which on behalf of the Corporation under its seal is duly authorized by another officer hereunder or by the Board of Directors; (d) keep a register of the post office addresses of each Shareholder which shall be furnished to the Secretary by such Shareholders; (e) sign with the Chairman and with the President or a Vice President certificates for shares of the Cor-

poration, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general, perform all duties incident to the office of Secretary and have such other duties, and exercise such authority as from time to time may be delegated or assigned to him by the Chairman and Chief Executive Officer or President and Chief Operating Officer or by the Board of Directors.

(9) TREASURER. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for monies due and payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VI of these By-Laws; and (b) in general, perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned to him by the Chairman or President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. The Treasurer is authorized to affix the seal of the Corporation to any document which requires the same.

(10) ASSISTANT AND ACTING OFFICERS. The Board of Directors shall have the power to appoint any person to act as assistant to any officers when deemed desirable, or to perform the duties of such officer whenever for any reason it is impractical for such officer to act personally, and such assis tant or acting officer so appointed by the Board of Directors shall have the power to perform all the duties of the office to which he is so appointed to be assistant, or as to which he is so appointed to act, except as such power may be otherwise defined, conditioned or restricted by the Board of Directors.

(11) SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary by the reason of the fact that he is also a Director of the Corporation.

ARTICLE V. INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

To the fullest extent allowed by law, this Corporation shall indemnify its directors and officers against expenses (including attorney's fees, court costs, and disbursements) and liabilities (including ERISA excise taxes, judgments, fines and amounts paid in settlement) incurred in connection with any actual or threatened action, suit or proceeding to which such person is made or threatened to be made a party by reason of being, or having been, a director or officer or, upon written request of the Corporation pursuant to a resolution of its Board of Directors, serving or having served any other entity, including any benefit plan of the Corporation.

Prior to the final disposition of an action, the Corporation may advance expenses for the defense thereof, provided it has received adequate assurances of repayment if it is ultimately determined that the individual is not entitled to repayment.

The Corporation shall have the power and authority to purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation in such capacity in any other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such whether or not the Corporation itself would have the power to indemnify him against such liability under the remaining provisions of this By-Law.

Indemnification pursuant to this By-Law shall not be exclusive and shall be in addition to that granted from time to time by operation of law, agree ment, or vote of the Corporation's directors or Shareholders. With respect to liabilities and/or expenses arising from or incurred in connection with an individual serving, at the Corporation's request, any other entity, indemni-

fication by the Corporation shall be deemed to be excess and any indemnifica tion or insurance provided by such other entity shall be deemed to be primary.

(11)

ARTICLE VI. CONTRACTS, LOANS, CHECKS AND DEPOSITS

(1) CONTRACTS. To the extent not otherwise authorized by these By-Laws, the Board of Directors may authorize any officer or officers, or agent or agents, or the Corporation to enter into any contract or execute and deliver any instrument in the names of and on behalf of the Corporation, and such authorization may be general or confined to specific instances.

(2) LOANS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by or under the authority of a resolution of the Board of Directors. Such authorization may be general or confined to specific instances.

(3) CHECKS, DRAFTS, AND OTHER EVIDENCES OF INDEBTEDNESS. All checks, drafts, or other orders for the payment of money issued in the name of the Company shall be signed by such employee or employees, agent or agents, of the Company as are appointed by the President, and in such manner, including facsimile and printed signatures, as may be designed by the President. In connection with the furnishing of authorizing resolution and signature card forms needed by commercial banks, the Corporate Secretary, or any Assistant Secretary, is authorized to execute and certify to such forms as he may deem appropriate as adopted under the authority of this By-Law and as binding upon the Company in acceptance therewith, thereby empowering employees or agents appointed by the President to sign checks, drafts, or other orders for the payment of money in the name of the Company.

(4) DEPOSITS. All funds of the Corporation, not otherwise employed, shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as may be selected by or under the authority of the Board of Directors.

ARTICLE VII. CERTIFICATES FOR SHARES AND THEIR TRANSFER

(1) CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such Certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary and may be signed by the Chairman of the Board and may be sealed with the seal of the Corporation or a facsimile thereof. Signatures of the Chairman of the Board, the Presi dent, the Vice President, the Secretary or Assistant Secretary on a certifi cate may be facsimiles if the certificate is countersigned by a transfer agent

or registered by a registrar other than the Corporation or an employee of the Corporation. In the event any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if such person were such officer at the date of issue of such certificate. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corpora tion as the Board of Directors may prescribe.

(2) TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall if so required furnish proper evidence of incumbency or appointment and of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation is to be the owner thereof for all purposes.

(3) LOST CERTIFICATES. A new certificate of stock may be issued in the place of any certificate theretofore issued by the Corporation, alleged to have been lost or destroyed, and the Board of Directors may, in their discre tion, require the owner of the lost or destroyed certificate or his legal representatives to give the Corporation a bond, in such sum as they may direct, not exceeding double the value of the stock evidenced by such certifi-

cate, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate, or the issuance of any such new certificate.

(4) STOCK REGULATIONS. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with the statutes of the State of Wisconsin as they may deem expedient concerning the issue, transfer and registration of certificates representing shares of the Corporation.

ARTICLE VIII. FISCAL YEAR

The fiscal year of the Corporation shall begin on the 1st day of July in each year and shall end on the 30th day of June in the following year.

ARTICLE IX. DIVIDENDS

The Board of Directors may from time to time declare, and the Corpora tion pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law. Before declaring any dividends, there may be set apart out of any funds of the Corporation available for dividends, such sum or sums as the Board of Directors from time to time in their discretion deem proper for working capital or as a reserve fund to meet contingencies or for equalizing dividends, or for such other purposes as the Board of Directors shall deem conducive to the best interest of the Corporation.

ARTICLE X. SEAL

The corporate seal shall be a round metallic disk with the words "TWIN DISC, INCORPORATED, Racine, Wisconsin" around the circumference, and the words "Corporate Seal" in the center. If a facsimile or printed seal is used on stock certificates, it shall be similar in content and design to the above.

ARTICLE XI. AMENDMENTS

These By-laws may be amended, repealed or altered in whole or in part by the affirmative vote of not less than two-thirds (2/3rds) of the shares of the company entitled to vote thereon or by the affirmative vote of not less than two-thirds (2/3rds) of the full Board of Directors of the Company at any regular meeting of the Shareholders or Board of Directors, or at any Special Meeting of the Shareholders or Board of Directors provided that such action has been specified in the notice of any such Special Meeting.

EXHIBIT 10(f)

TWIN DISC, INCORPORATED

SUPPLEMENTAL RETIREMENT PLAN

(As Amended and Restated Effective January 1, 1998)

July 1998

TWIN DISC, INCORPORATED
SUPPLEMENTAL RETIREMENT PLAN
(as amended and restated effective January 1, 1998)

PREAMBLE

Effective January 1, 1984, the Company adopted the Twin Disc, Incorporated Supplemental Retirement Plan to ensure the payment of a competitive level of retirement income in order to retain and motivate selected executives. The Plan was amended effective January 1, 1985 for executives named to the Plan on or after January 1, 1985. Effective as of January 1, 1998, the Plan is hereby amended and restated as set forth herein to, among other things, change the formula for calculating the amount of benefits payable to executives who were participants in the Plan as of December 31, 1997 but who had not yet terminated employment as of such date.

The rights and benefits, if any, of a Participant who terminated employment prior to January 1, 1998, shall be determined in accordance with the provisions of the Plan as in effect on the date his employment terminated.

SECTION I - DEFINITIONS

1.1 "Actuarial Equivalent" means equality in value of the aggregate amounts expected to be received under different forms of payment, based on the 1983 Group Annuity Mortality Table (male table only), with interest at 8.0%.

1.2 "Average Annual Earnings" means the average compensation used in benefit calculations, determined in accordance with the Schedule applicable to such Participant.

1.3 "Basic Plan" means the Twin Disc, Incorporated Retirement Plan for Salaried Employees (amended and restated effective January 1, 1997), as amended from time to time.

1.4 "Basic Qualified Plan Benefit" means twelve times the amount defined in Section 1.2 ("Accrued Benefit") of the Basic Plan.

1.5 "Committee" means the Compensation Committee of the Board of Directors of the Company, which has been given complete and discretionary authority by the Board of Directors to administer and interpret this Plan.

1.6 "Company" means Twin Disc, Incorporated.

1.7 "Disabled" means that a Participant should cease to be an Employee because of an illness or physical disability that will entitle him to receive monthly disability income benefits under the Company's long term disability plan.

1.8 "Earnings" means total compensation used in the calculation of Average Annual Earnings, which is determined in accordance with the Schedule applicable to such Participant.

1.9 "Employee" means any person in the employ of the Company.

1.10 "Participant" means an employee of the Company designated as a Participant by the Committee. An employee shall become a Participant in the Plan as of the date he is individually selected by, and specifically named in the resolutions of, the Committee for inclusion in the Plan. A Participant shall cease to be an active Participant in this Plan and he shall not be entitled to receive benefits hereunder if he ceases to be an Employee of the Company for any reason other than Early Retirement or disability as defined in Section 3.4 prior to his sixty-fifth (65th) birthday.

1.11 "Plan" means the Company's Supplemental Retirement Plan.

1.12 "Plan Year" means the twelve (12) consecutive month period ending June 30.

1.13 "Prior Plan" means the Twin Disc, Incorporated Supplemental Retire ment Plan in effect immediately prior to January 1, 1998.

1.14 "Retirement" means the termination of a Participant's employment with the Company on one of the retirement dates specified in Section 2.1.

1.15 "Service" means the aggregate of all periods of employment of an Employee by the Company, including full and partial years, calculated from his date of employment. Service will include the period of time, if any, during which a Participant received disability income benefits under the Company's long term disability plan.

1.16 "Surviving Spouse" means an individual who is a surviving spouse of a Participant as defined under the Basic Plan.

The masculine gender, where appearing in the Plan will be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates the contrary.

SECTION II - ELIGIBILITY FOR BENEFITS

2.1 Each Participant is eligible to retire and receive a benefit under this Plan beginning on one of the following dates:

(a) "Normal Retirement Date," which is the first day of the month coinciding with or next following a Participant's sixty-fifth (65th) birthday with at least five (5) years of Service.

(b) "Early Retirement Date," which is the first day of any month following the month in which the Participant reaches the age and service requirement set forth in the attached Schedule for each Participant.

(c) "Postponed Retirement Date," which is the first day of the month following the Participant's Normal Retirement Date in which the Participant terminates employment with the Company.

2.2 If a Participant should become Disabled, he shall be entitled to receive retirement benefits after cessation of his disability income benefits, as described in Section 3.4 of the Plan.

2.3 Anything herein to the contrary notwithstanding, if any Participant (including a Participant that has terminated employment with the Company) engages in competition with the Company (without prior authorization given by the Committee in writing) or is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Company, all rights to any benefits payable under this Plan thereafter (whether payable to such Participant or such Participant's Surviving Spouse) shall, at the discretion of the Committee, be forfeited and the Company will have no further obligation hereunder to such Participant or Surviving Spouse.

SECTION III - AMOUNT AND FORM OF RETIREMENT BENEFIT

Amount of Benefit
- - - - - - - - - - -

3.1 The annual benefit payable at a Normal Retirement Date will equal the amount determined in accordance with the Schedule applicable to such Participant.

3.2 The annual benefit payable at an Early Retirement Date will equal the benefit determined in accordance with the Schedule applicable to such Participant.

3.3 The annual benefit payable at a Postponed Retirement Date will be equal to the benefit determined in accordance with Section 3.1 as of the Participant's Postponed Retirement Date.

3.4 A Participant who becomes Disabled shall receive no benefits under this Plan while he is entitled to receive disability income benefits under the Company's long term disability plan. If payment of disability income ceases before the Participant has attained either his Early Retirement Date or his Normal Retirement Date and if he does not then return to active employment with the Company he shall not be entitled to receive any benefits under the Plan. If the Participant does not return to active employment but payment of disability income ceases on or after the Participant has attained his Early Retirement Date or Normal Retirement Date, he shall be entitled to retire on an Early or Normal Retirement Date, as the case may be. In either case his Retirement Benefit shall be calculated and paid as described in Section 3.1 or 3.2 of the Plan, whichever may be applicable, based on Average Annual Earnings calculated at the time of his initial disablement and Service calculated including the period of time he was receiving benefits under the Company's long term disability plan plus the elimination period, if any.

3.5 In no event will the annual benefit calculated under Sections 3.1, 3.2 or 3.3 of this Plan be less than the Actuarial Equivalent of the benefit calculated under the Prior Plan, which is the benefit the Participant could have received on December 31, 1997 if he had attained either his Early Retirement Date or his Normal Retirement Date, had elected to retire, and started receiving an immediate benefit in accordance with the terms of the Prior Plan. For this purpose, the Actuarial Equivalent adjustment requires converting the benefit from the ten-year temporary form defined in the Prior Plan to the single life annuity form defined in this Plan. The amount calculated under this Section 3.5 and payable at January 1, 1998 in the ten-year temporary form is shown on the Schedule applicable to such Participant.

Form of Benefit
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3.6 The benefit determined under this Plan in accordance with Section 3.1, 3.2 or 3.3 is calculated in the form of a single life annuity, providing benefits for the life of the Participant with no benefits payable to any beneficiary. The benefit determined under Section 3.7 is calculated in the form of a single life temporary annuity, providing benefits for the shorter of the life of the Participant or 120 monthly payments.

Any benefits payable under this Plan will automatically be paid as a lump sum equal to the Actuarial Equivalent of the annual benefit payable under both the single life annuity form and the single life temporary annuity form. If the lump sum is equal to or less than $500,000, the lump sum will be paid in a single payment. In the event that the lump sum is in excess of $500,000, then the first payment will be limited to $500,000, with the unpaid balance increasing with interest at 8% per year, and additional payments (also limited to no more than $500,000 each) will be made on each twelve month anniversary of the first payment until the balance is paid. If the Participant dies after the first payment but prior to the time when the balance has been fully discharged, the Surviving Spouse (or the named beneficiary) shall receive the subsequent payment(s) at the same time and in the same amount as if the Participant was alive to receive the payments.

Payments of the benefits, if any, calculated under Section 3.7 may only be paid in the form of a single life temporary annuity or a lump sum. Payments of the benefits calculated under Sections 3.1, 3.2, or 3.3 may be paid under one of the following optional forms of payment if the Participant files an election in writing at least twelve (12) calendar months in advance of the date his benefit payments begin.

The annual benefit payable under any optional form shall be determined as the Actuarial Equivalent of the annual benefit payable under the Single Life Annuity Form. A Participant may elect any optional form of payment listed below:

(a) Single Life Annuity Form, under which monthly payments are made to the Participant during his lifetime, with no further payments from the Plan on his behalf after his death. This is the calculated form of benefit and does not require an Actuarial Equivalent adjustment.

(b) Contingent Annuitant Form, under which reduced monthly payments are made to the Participant during his lifetime, with payments from the Plan on his death equal to 50% of the rate previously payable to the Participant to be continued to and for the lifetime of his Surviving Spouse. The reduced payments under this option shall be the Actuarial Equivalent of the annual benefit payable under the Single Life Annuity Form. In the event the Surviving Spouse dies prior to the time his first payment commences, the form of benefit shall automatically revert to the Single Life Annuity Form and there shall be no reduction of his benefit.

(c) Ten Year Temporary Annuity Form, under which increased monthly payments are made to the Participant for a ten year period as long as the Participant is alive. Payments cease at the earlier of the completion of the ten year period or the death of the Participant. The increased payments under this option shall be the Actuarial Equivalent of the annual benefit payable under the Single Life Annuity Form.

Additional Basic Plan Benefit
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3.7 Upon Retirement, a Participant who elects to receive any or all of their monthly benefits from the Basic Plan immediately in the form of a Joint and Survivor Annuity for Married Participant

(5)

(Section 5.1(b) of the Basic Plan) will receive an additional benefit from this Plan. This benefit is intended to make-up for the reduction in monthly Basic Plan benefits due to Joint and Survivor coverage and is equal to the difference, if any, between the monthly Basic Plan benefit payable immediately in the single life form and the monthly Basic Plan benefit payable immediately in the Joint and Survivor Annuity for Married Participant form. In the event the Participant elects to receive all or a part of the Basic Plan benefit as a single life annuity or as a lump sum, the additional benefit calculated in this Section 3.7 will not be based on the portion of the Basic Plan benefit that is paid in a form other than the Joint and Survivor Annuity for Married Participant.

The benefit determined under this Section 3.7 is calculated in the form of a single life temporary annuity, providing benefits for the shorter of the life of the Participant or 120 monthly payments.

No additional benefit under this Section 3.7 shall be paid if the Participant does not elect to receive Basic Plan benefits commencing at the same time as any other benefits payable under this Plan.

(6)

SECTION IV - PAYMENT OF RETIREMENT BENEFITS

4.1 Benefits payable in accordance with Section III will commence on first day of the month following the Participant's date of Retirement, or as soon thereafter as administratively practical.

If the Participant elected an optional form of payment, payments will continue to be paid on the first day of each succeeding month. The last payment will be on the first day of the month in which the retired Participant dies unless otherwise elected in accordance with Section 3.6.

4.2 No benefits are payable under this Plan if a Participant terminates employment for any reason other than Retirement, disability or death.

SECTION V - DEATH BENEFITS PAYABLE

5.1 If a Participant should die after attaining either his Early Retirement Date or his Normal Retirement Date and before Retirement, the Surviving Spouse will receive, in the form of a lump sum, a benefit equal to the Participant's benefit determined in accordance with Section III as if the Participant had retired and commenced receiving a benefit on the first of the month following the date of his death. If the lump sum is equal to or less than $500,000, the lump sum will be paid in a single payment. In the event that the lump sum is in excess of $500,000, then the first payment will be limited to $500,000, with the unpaid balance increasing with interest at 8%per year, and additional payments (also limited to no more than $500,000) made on each twelve month anniversary of the first payment until the balance is paid. If the Surviving Spouse dies after the first payment but prior to the time when the balance has been fully discharged, a named beneficiary shall receive the subsequent payment(s) at the same time and in the same amount as if the Surviving Spouse was alive to receive the payments.

5.2 The initial payment under this Section V will be paid within 60 days following the month in which the Participant dies. If additional payments are required, each such payment will be made on the date which follows the prior payment by twelve months.

5.3 If a Participant should die prior to attaining his Early Retirement Date or his Normal Retirement Date, no benefits will be payable from this Plan. If a Participant should die without a Surviving Spouse, no benefit under this Section V is payable.

SECTION VI - MISCELLANEOUS

6.1 The Committee may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part. However, no amendment or suspension of the Plan will affect any of the following:

(a) a retired Participant's right or the right of such retired Participant's Surviving Spouse to continue to receive a benefit in accordance with the terms of the Plan as in effect on the date in effect on the date such Participant commenced to receive a benefit under the Plan; and

(b) the right of any Participant not covered under Section 6.1(a) above to receive benefits that have been earned (with the amount of earned benefit determined in accordance with Section 3 based on Earnings and Service as of the date of the amendment or suspension) payable on the date they would have been paid if the Plan had not been amended or suspended, all in accor dance with the Plan in effect on the date of such amendment or suspension.

In the event the Plan is terminated, any earned benefits (whether or not in pay status) will be nonforfeitable and the Company shall pay the Actuarial Equivalent of the annual benefit earned to date in a lump sum to each Partici pant within sixty (60) days following such termination.

6.2 Nothing contained herein will confer upon any Participant the right to be retained in the service of the Company, nor will it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.

6.3 This Plan is unfunded, and the Company will make Plan benefit payments solely on a current disbursement basis from its general assets.

6.4 To the maximum extent permitted by law, no benefit under this Plan shall be assignable or subject in any manner to alienation, sale, transfer, claims of creditors, pledge, attachment or encumbrances of any kind.

6.5 The Committee may adopt rules and regulations to assist it in the administration of the Plan. The Committee shall have complete and discretion ary authority to determine eligibility, the amount of benefits payable under the Plan and to otherwise interpret the provisions of the Plan.

6.6 Each Participant shall receive a copy of this Plan, and the Committee will make available for inspection by any Participant a copy of the rules and regulations used by the Committee in administering the Plan. Not withstanding the immediately preceding sentence, to the extent any Participants are named in Schedules to this Plan only those Participants shall receive a copy of such Schedule.

6.7 This Plan is established under, and will be construed according to, the laws of the State of Wisconsin, except to the extent preempted by ERISA or other federal law.

EXHIBIT 13

FINANCIAL HIGHLIGHTS

	1998	1997	1996
Net Sales	$202,643	$189,942	$176,657
Net Earnings	9,363	7,729	6,559
Basic Earnings Per Share	3.30	2.78	2.36
Diluted Earnings Per Share	3.24	2.75	2.34
Dividends Per Share	.76	.70	.70
Average Shares Outstanding For The Year	2,833,663	2,781,174	2,776,805
Diluted Shares Outstanding For The Year	2,886,209	2,808,226	2,805,123

Sales and Earnings by Quarter

1998	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net Sales	$47,880	$53,994	$49,029	$51,740	$202,643
Gross Profit	9,936	12,250	12,810	15,132	50,128
Net Earnings	1,356	2,116	2,384	3,507	9,363
Basic Earnings Per Share	.48	.75	.84	1.23	3.30
Diluted Earnings Per Share	.47	.73	.82	1.21	3.24
Dividends Per Share	.19	.19	.19	.19	.76
Stock Price Range:					
High	30 5/8	34 1/8	33 3/8	33 1/8	34 1/8
Low	28 1/8	29 3/8	29 15/16	32 7/16	28 1/8

Sales and Earnings by Quarter

1997	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net Sales	$40,941	$45,496	$49,204	$54,301	$189,942
Gross Profit	8,687	10,980	11,724	12,428	43,819
Net Earnings	1,132	1,742	1,916	2,939	7,729
Basic Earnings Per Share	.41	.63	.69	1.05	2.78
Diluted Earnings Per Share	.40	.62	.68	1.04	2.75
Dividends Per Share	.175	.175	.175	.175	.70
Stock Price Range:					
High	23 5/8	22 5/8	25 1/8	28 3/4	28 3/4
Low	21 3/4	21 3/8	21 3/8	23 3/8	21 3/8

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 both fiscal 1997 and 1998; fiscal 1998 represented the sixth consecutive year of higher sales. Greater demand for our traditional products, which was relatively stable during fiscal 1997, provided most of the improvement in the recently completed year. Order rates softened in selected markets as the year progressed, and this trend, combined with the completion of a major truck transmission contract, led to a 29 percent decline in backlog by year-end.

Net sales for fiscal 1998 were $203 million, an increase of 7 percent over the $190 million reported in fiscal 1997, and 14 percent above the $177 million for fiscal 1996. Most of the fiscal 1997 improvement resulted from a new business opportunity with the initial shipments of automatic transmissions for a major vehicle contract. Though some softness in demand for the lower horsepower marine transmissions occurred at the middle of fiscal 1997, shipments to our principal markets for the twelve months generally were good and provided a solid base of sales comparable with the previous year. The transmission contract was completed in January, but growth in other product markets provided the bridge to another year of sales improvement in fiscal 1998. The markets providing most of the growth were the pleasure craft marine market, supplied primarily from our Belgian operation, and a variety of applications for power take-offs and clutches such as irrigation, recycling, and oilfield.

The changes in shipping levels of our distribution companies, marketing and service subsidiaries around the world varied by region; in most cases fiscal 1998 differed from fiscal 1997. Domestic distribution sales, which were off in fiscal 1997, recovered in fiscal 1998 as a result of greater demand for marine transmissions, general industrial products, and service work. European distribution shipments increased between 15 and 20 percent each year, with Arneson surface drives representing the major component of the improvements. Elsewhere in the world, primarily the Pacific Basin, the fiscal 1997 sales increase, spurred by boat building activity, was reversed in fiscal 1998 because of the declining Asian economy and the strong U.S. dollar.

The U.S. dollar, after a year of relative stability in 1996, strengthened in 1997 and 1998. The currencies of the countries in which Twin Disc operates on average were off approximately 6 percent in fiscal 1997 and an additional 10 percent in fiscal 1998. Overall, the impact of currency translation on revenues was a relatively minor reduction of 2 percent and 3 percent in fiscal 1997 and fiscal 1998, respectively. Price increases, implemented selectively in each year, raised revenues by approximately the rate of inflation.

At the beginning of fiscal 1997, the backlog of orders scheduled for shipment during the next six months was $66 million, 10 percent of which was attribut able to the automatic truck transmission contract that extended through the first half of fiscal 1998. Order rates improved early in fiscal 1997 and, although modest softening was experienced in selected markets by mid-year, the backlog at June 30, 1997 was up 16 percent from the prior year. Despite stable-to-improved order rates for pleasure craft marine transmissions and most other products, the completion of the previously mentioned transmission contract resulted in a 10 percent decline in six-month backlog at December 31, 1997. By fiscal 1998 year-end, backlog was off 29 percent from a year earlier as demand slowed in many product lines, particularly the higher horsepower marine transmissions used in commercial boats.

MARGINS, COSTS AND EXPENSES

Manufacturing operations have been cellularized and improvements in process time, machine capability, and utilization continue to be provided by evolu tionary refinements to the cells. In 1996, we also initiated a pay-for-skills program in our domestic plant that motivated manufacturing associates to learn new machine operating skills and increase production flexibility and effi ciency. Delivery times were reduced, particularly during the latter half of fiscal 1998, as the Company has more fully utilized the scheduling capabili ties of recently installed computer systems.

The steady improvement in gross margin that began in fiscal 1991 was main tained in fiscal 1997 with a minimal increase. Solid year-to-year increases in domestic gross margins through each of the quarters were countered by lower profitability at the Belgian operation in the second half of the year. That decline in Europe was caused by a temporary drop in orders, leading to short workweeks and reduced productivity.

In fiscal 1998, improved productivity at our domestic plant, coupled with greater volume in the first half of the year, provided for higher domestic margins. Production volume at our Belgian subsidiary rose during the second quarter with the increased demand for marine transmissions, favorably impact ing productivity and margins. Additionally, with sales denominated in the strong U.S. dollar, the Belgian margin showed a significant increase for the year.

Marketing, engineering, and administrative (MEA) expense in terms of dollars increased by almost 9 percent for fiscal 1997 but rose only slightly as a percentage of sales. The increase occurred at the Company's domestic opera tions and consisted mainly of salary expense for an added number of marketing and engineering personnel, a one-time expense associated with an accelerated product development program, and a salaried associate bonus payment not made in the previous year. A propulsion products marketing group also was estab lished in 1997 to focus on development of markets for a full line of marine propulsion products - transmissions, Arneson drives, water jets, and elec tronic controls.

In fiscal 1998, MEA rose 9 percent, again slightly outpacing the sales increase. The principal components of the increase were the write-off of a loss on the bankruptcy restructuring of a customer in South Africa, marketing and domestic engineering personnel additions, and the expenses associated with a mid-year acquisition.

INTEREST, TAXES AND NET EARNINGS

Virtually all of the short-term debt required to finance working capital needs in fiscal 1996 was repaid by the end of fiscal 1997, and interest expense declined by about 8 percent in that year. Short-term borrowings remained very low in fiscal 1998 and, as a result, interest expense declined about 15 percent from the prior year.

The effective income tax rates have remained relatively consistent throughout the three-year period with minor variations between years caused by a fluctuation in the proportion of foreign earnings which are generally taxed at a higher rate. Also, in fiscal 1998, an additional accrual of taxes for prior years added to the effective rate.

LIQUIDITY AND CAPITAL RESOURCES

The net cash provided by operating activities in fiscal 1997 was a record $20.5 million. Higher earnings and depreciation were supplemented by reduc tions in accounts receivable and inventory as receivable days outstanding (DSO) and inventory turnover ended fiscal 1997 at their best levels since 1990. After lowering the rate on most of the Company's debt through a private placement in 1996, the Company focused on improving cash flow in fiscal 1997 and reduced short-term borrowings, primarily domestic, by $7 million. In fiscal 1998,the positive cash flows from earnings, depreciation, and a further reduction in accounts receivable DSO were partially offset by inventory increases necessary to satisfy the level of

demand at our Belgian subsidiary and by the prepayment of the current year domestic pension contribution. The result was a $7 million operating cash flow after the $8 million reduction for prepaid pension expense.

For several years prior to fiscal 1998, fixed asset purchases were less than depreciation as manufacturing cells were established and existing machinery was rearranged. 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. We expect capital spending will continue to exceed depreciation as individual cell structures are refined.

Working capital and the current ratio declined in fiscal 1998 after increasing during both of the preceding two years. In fiscal 1997 working capital increased $5.7 million, reflecting higher balances of cash and short-term investments and reduced short-term borrowings. The decline in working capital of $4.3 million at the end of fiscal 1998 was nearly equivalent to the reduction in accounts receivable, as the inventory increase was offset by a decline in cash. The current ratio of 3.2 at June 30, 1998 was down slightly from the 3.3 reported at the previous year-end.

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

OTHER MATTERS

YEAR 2000 READINESS

The Company has assessed the potential impact of the Year 2000 date change on its business systems and operations. With the change to a new information system for domestic operations in late 1995 and a similar update currently being implemented at its Belgian manufacturing subsidiary, the Company's systems will be prepared to handle the century date change. Testing of these systems will occur in fiscal year 1999. Network systems and other affected equipment throughout the Company and its subsidiaries either are already capable of handling the date change or will be as updates are completed during the next six months. In addition, suppliers and service providers are being contacted to ensure they are actively involved in a program to address the Year 2000 issue and provide uninterrupted service to Twin Disc. The remaining costs of complying with the Year 2000 requirements are not expected to be significant. The Company believes, based on currently available information, that it will be able to manage its Year 2000 transition without material adverse effect on the Company's future consolidated results of operations, liquidity and capital resources.

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 opera tions, financial position or cash flows.

RECENT FINANCIAL REPORTING PRONOUNCEMENTS

The Financial Accounting Standards Board recently issued Statement of Finan cial Accounting Standards (FAS) 130, "Comprehensive Income," FAS 131, "Disclo sures about Segments of an Enterprise and Related Information," FAS 132, "Employers' Disclosure about Pensions and Other Post-retirement Benefits" and FAS 133, "Accounting for Derivative Instruments and Hedging Activities," which are addressed in Footnote A to the consolidated financial statements.

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 1998 and 1997

(Dollars in thousands)	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,087	$ 8,983
Trade accounts receivable, net	28,320	32,428
Inventories	53,280	47,844
Deferred income taxes	1,987	3,491
Other	4,906	5,216
Total current assets	93,580	97,962
Property, plant and equipment, net	35,728	34,249
Investments in affiliates	10,356	10,880
Deferred income taxes	1,241	4,559
Intangible pension asset	4,082	4,779
Other assets	15,967	6,326
	$160,954	$158,755
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 276	$ 169
Accounts payable	9,917	12,834
Accrued liabilities	19,360	16,618
Total current liabilities	29,553	29,621
Long-term debt	19,949	19,944
Accrued retirement benefits	29,457	35,393
	78,959	84,958
Shareholders' equity:		
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	84,738	77,424
Foreign currency translation adjustment	3,418	6,060
Minimum pension liability adjustment	(661)	(3,708)
	99,148	91,429
Less treasury stock, at cost	17,153	17,632
Total shareholders' equity	81,995	73,797
	$160,954	$158,755

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, 1998, 1997 and 1996
(In thousands, except per share data)

	1998	1997	1996
Net sales	$202,643	$189,942	$176,657
Cost of goods sold	152,515	146,123	135,780
Gross profit	50,128	43,819	40,877
Marketing, engineering and administrative expenses	34,092	31,219	28,706
Earnings from operations	16,036	12,600	12,171
Other income (expense):			
Interest income	550	1,335	121
Interest expense	(1,505)	(1,781)	(1,942)
Equity in earnings of affiliates	651	307	45
Other, net	313	219	512
	9	80	(1,264)
Earnings before income taxes	16,045	12,680	10,907
Income taxes	6,682	4,951	4,348
Net earnings	$ 9,363	$ 7,729	$ 6,559
Earnings per share data:			
Basic earnings per share	$ 3.30	$ 2.78	$ 2.36
Diluted earnings per share	3.24	2.75	2.34
Shares outstanding data:			
Average shares outstanding	2,834	2,781	2,777
Dilutive stock options	52	27	28
Diluted shares outstanding	2,886	2,808	2,805

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, 1998, 1997 and 1996

(In thousands)	1998	1997	1996
Cash flows from operating activities:			
Net earnings	$ 9,363	$ 7,729	$ 6,559
Adjustments to reconcile to net cash provided (used) by operating activities:			
Depreciation and amortization	5,607	5,489	5,233
Gain on sale of plant assets	(402)	(127)	(26)
Equity in earnings of affiliates	(651)	(307)	(45)
Provision for deferred income taxes	2,873	1,481	1,646
Dividends received from affiliate	495	300	548
Changes in operating assets and liabilities:			
Trade accounts receivable, net	3,361	1,267	(6,055)
Inventories	(5,673)	2,882	(3,926)
Other assets	(7,842)	(954)	(987)
Accounts payable	(2,695)	3,463	(3,513)
Accrued liabilities	2,777	(391)	(3,982)
Deferred retirement plan	(244)	(345)	415
Net cash provided (used) by operating activities	6,969	20,487	(4,133)
Cash flows from investing activities:			
Proceeds from sale of plant assets	574	501	18
Acquisitions of plant assets	(7,154)	(4,734)	(4,140)
Investment in subsidiary	(1,021)	-	-
Payment for license agreement	(1,515)	-	(2,402)
Net cash used by investing activities	(9,116)	(4,233)	(6,524)
Cash flows from financing activities:			
Increases (decreases) in notes payable, net	112	(7,182)	5,076
Proceeds from long-term debt	-	4	19,914
Principal payments on long-term debt	-	-	(14,000)
Acquisition of treasury stock	(1,314)	-	-
Proceeds from exercise of stock options	1,904	188	35
Dividends paid	(2,160)	(1,947)	(1,943)
Net cash provided (used) by financing activities	(1,458)	(8,937)	9,082
Effect of exchange rate changes on cash	(291)	(377)	(123)
Net change in cash and cash equivalents	(3,896)	6,940	(1,698)
Cash and cash equivalents:			
Beginning of year	8,983	2,043	3,741
End of year	$ 5,087	$ 8,983	$ 2,043
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 1,505	$ 1,822	$ 1,802
Income taxes	4,698	3,318	4,946

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
for the years ended June 30, 1998, 1997 and 1996

(In thousands)	1998	1997	1996
Common stock			
Balance, June 30	$ 11,653	$ 11,653	$ 11,653
Retained earnings			
Balance, July 1	77,424	71,658	67,054
Net earnings	9,363	7,729	6,559
Cash dividends	(2,160)	(1,947)	(1,943)
Stock options exercised	111	(16)	(12)
Balance, June 30	84,738	77,424	71,658
Foreign currency translation adjustment			
Balance, July 1	6,060	10,326	14,081
Current adjustment	(2,642)	(4,266)	(3,755)
Balance, June 30	3,418	6,060	10,326
Minimum pension liability adjustment, net			
Balance, July 1	(3,708)	(620)	(284)
Current adjustment, net of related income taxes ($(1,948)in 1998, $1,975 in 1997 and $215 in 1996)	3,047	(3,088)	(336)
Balance, June 30	(661)	(3,708)	(620)
Treasury stock, at cost			
Balance, July 1	(17,632)	(17,836)	(17,882)
Shares acquired	(1,314)	-	-
Stock options exercised	1,793	204	46
Balance, June 30	(17,153)	(17,632)	(17,836)
Shareholders' equity balance, June 30	$ 81,995	$ 73,797	$ 75,181

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

NOTES TO CONSOLIDATED FINANCIAL 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 inter-company 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.

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 $647,000 and $538,000 at June 30, 1998 and 1997, respectively.

Fair Value of Financial Instruments--The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximates fair value because of the immediate short-term maturity of these financial instruments. The carrying amount reported for long-term debt approximates fair value because the underlying instrument bears interest at 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, 1998 and 1997, the Company had outstanding forward foreign exchange contracts to purchase $5,000,000 and $3,000,000, respectively, of Belgian francs with a weighted average maturity of 56 days and 34 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 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 physical disposition.

Investments in Affiliates--The Company's 25% investments in affiliates are stated at cost, adjusted for equity in undistributed earnings since acquisi tion.

Revenue Recognition--Revenues are recognized when products are shipped.

Income Taxes--The Company recognizes deferred tax liabilities and assets for the expected future income tax consequences of events that have been recog nized 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 the second quarter of 1998, the Company adopted Statement of Financial Accounting Standards (FAS) 128 "Earn ings Per Share", which establishes new standards for reporting earnings per share. The earnings per share computations for prior periods have been restated to conform with the provisions of FAS 128.

During 1997, the Financial Accounting Standards Board (FASB) issued FAS 130 "Comprehensive Income" and FAS 131 "Disclosures about Segments of an Enter prise and Related Information", and during 1998 the FASB issued FAS 132 "Employers' Disclosure about Pensions and Other Postretirement Benefits" and FAS 133 "Accounting for Derivative Instruments and Hedging Activities". FAS 130, 131, and 132 are effective for the Company's 1999 fiscal year and FAS 133 is effective for the Company's 2000 fiscal year. A brief description of each standard and the potential effect on the Company's financial statements follows:

FAS 130 establishes standards for reporting and display of comprehensive income and its components in the financial statements. FAS 130 requires financial statement disclosures for prior periods to be restated. The Company is in the process of determining its preferred disclosure format.

FAS 131 establishes new standards for the way that public companies report information about operating segments in annual financial statements. FAS 131 also establishes standards for related disclosures about products and services geographic areas, and major customers and requires financial statement disclosure for prior periods to be restated. The Company's reporting under FAS 131 will disclose required information about two operating segments, Manufac turing and Distribution.

FAS 132 establishes standards for disclosing information about pensions and other postretirement benefits in the financial statements and requires disclosure for prior periods to be restated. The Company is evaluating the extent to which its disclosures may be affected by FAS 132.

FAS 133 establishes standards for accounting for derivatives and hedging activities. The Company is evaluating the extent to which its accounting for derivative and hedging activities may be affected by FAS 133.

B. INVENTORIES

The major classes of inventories at June 30 were as follows:

(In thousands)	1998	1997
Finished parts	$43,848	$38,713
Work-in-process	5,524	5,997
Raw materials	3,908	3,134
	$53,280	$47,844

Inventories stated on a LIFO basis represent approximately 33% and 42% of total inventories at June 30, 1998 and 1997, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by $18,252,000 and $17,526,000 at June 30, 1998 and 1997, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30 were as follows:

(In thousands)	1998	1997
Land	$ 1,295	$ 1,335
Buildings	19,065	18,708
Machinery and equipment	92,309	87,832
	112,669	107,875
Less accumulated depreciation	76,941	73,626
	$35,728	$34,249

D. INVESTMENTS IN AFFILIATES

The Company's investments in affiliates consists of 25% interests in Niigata Converter Company, Ltd., Japan (a manufacturer of power transmission equipment), and Palmer Johnson Distributors, LLC (a domestic distributor of Twin Disc products).

Undistributed earnings of the affiliates included in consolidated retained earnings approximated $3,283,000 and $3,127,000 at June 30, 1998 and 1997, respectively.

Combined condensed financial data of the above-listed affiliates are summarized as follows:

(In thousands)	1998	1997
Current assets	$ 78,214	$ 87,375
Other assets	40,171	43,582
	$118,385	$130,957
Current liabilities	$ 83,066	$ 85,479
Other liabilities	412	8,479
Shareholders' equity	34,907	36,999
	$118,385	$130,957

	1998	1997	1996
Net sales	$152,558	$166,171	$183,487
Gross profit	20,897	19,911	23,436
Net earnings	2,606	1,228	181

E. ACCRUED LIABILITIES

Accrued liabilities at June 30 were as follows:

(In thousands)	1998	1997
Salaries and wages	$ 6,871	$ 5,983
Retirement benefits	2,930	2,150
Other	9,559	8,485
	$ 19,360	$ 16,618

F. DEBT

Short-term notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total $18,370,000 at June 30, 1998. These lines of credit are available predominately at the LIBOR interest rate and may be withdrawn at the option of the banks. The weighted average interest rate of short-term lines outstanding at June 30, 1998 and 1997 was 6.8% and 7.3%, respectively.

Included in long term debt is $20 million of 7.37% ten-year unsecured notes, net of $69,000 unamortized debt issuance costs at June 30, 1998. 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. Also included in long-term debt is $18,000 of debt related to a foreign subsidiary.

G. LEASE COMMITMENTS

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

Fiscal Year	
1999	$2,414
2000	1,736
2001	1,260
2002	925
2003	596
Thereafter	241
	$7,172

Total rent expense for operating leases approximated $2,571,000, $2,254,000 and $2,109,000 in 1998, 1997 and 1996, respectively.

H. SHAREHOLDERS' EQUITY

At June 30, 1998 and 1997, treasury stock consisted of 810,646 and 856,456 shares of common stock, respectively. The Company issued 86,850 and 9,900 shares of treasury stock in 1998 and 1997, respectively, to fulfill its obligations under the stock option plans. The difference between the cost of treasury shares issued and the option price is credited to retained earnings. The Company acquired 41,040 shares of treasury stock in 1998.

Cash dividends per share were $.76 in 1998 and $.70 in 1997 and 1996.

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 trans fers 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 one line of business, the manufacture and sale of power transmission equipment. Transfers among geographic areas are made at established intercompany selling prices. 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, government, marine, energy and natural resources and agricultural.

Two customers each accounted for approximately 11%, 11% and 10% of consoli dated net sales in 1998, 1997 and 1996, respectively.

Information about the Company's operations in different geographic areas is summarized as follows:

(In thousands)	1998	1997	1996
Sales to unaffiliated customers:			
United States	$147,819	$131,844	$120,137
Foreign:			
Europe	35,418	34,332	34,206
Other	19,406	23,766	22,314
Total	$202,643	$189,942	$176,657
Transfers between geographic areas:			
United States	$ 28,994	$ 28,716	$ 30,230
Foreign:			
Europe	21,778	16,398	23,130
Other	378	415	322
Total	$ 51,150	$ 45,529	$ 53,682
Net sales:			
United States	$176,813	$160,560	$150,367
Foreign:			
Europe	57,196	50,730	57,336
Other	19,784	24,181	22,636
Eliminations	(51,150)	(45,529)	(53,682)
Total	$202,643	$189,942	$176,657

Earnings before income taxes:			
United States	$ 7,944	$ 6,009	$ 2,821
Foreign:			
Europe	7,000	4,378	6,126
Other	1,101	2,293	1,960
Total	$ 16,045	$ 12,680	$ 10,907

Identifiable assets at June 30:			
United States	$117,024	$115,973	$117,552
Foreign:			
Europe	37,125	33,329	36,356
Other	11,438	12,947	12,794
Eliminations	(4,633)	(3,494)	(4,003)
Total	$160,954	$158,755	$162,699

Net earnings of the foreign subsidiaries were $4,428,000, $3,840,000 and $4,758,000 in 1998, 1997 and 1996, respectively. The net assets of the foreign subsidiaries were $31,515,000 and $31,517,000 at June 30, 1998 and 1997, respectively. Undistributed earnings of foreign subsidiaries, on which no provisions for United States income taxes have been made, aggregated approximately $21,335,000 (including $54,000 translation component) at June 30, 1998. Included in earnings are foreign currency transaction gains (losses) of $(343,000), $334,000 and $409,000 in 1998, 1997 and 1996, respectively.

J. STOCK OPTION PLANS

The Company has a non-qualified stock option plan for officers, key employees and directors to purchase up to 125,000 shares of common stock, and an incentive stock option plan for officers and key employees to purchase up to 225,000 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 and based on such directors' seniority. Except as described in the following sentence, all options allow for exercise prices not less than the grant date fair market value, immediate vesting and expire ten years after the date of grant. For options under the incentive stock option 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.

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

	1998	1997
Non-qualified stock option plan	10,850	23,950
Incentive stock option plan	30,550	53,400

Stock option transactions under the plans during 1998 and 1997 were as follows:

	1998	Weighted Average Price	1997	Weighted Average Price	1996	Weighted Average Price
Non-qualified stock option plan:						
Options outstanding at beginning of year	94,150	$21.71	95,350	$21.69	81,450	$21.21
Granted	13,100	28.75	15,100	21.88	13,900	24.50
Cancelled	-	-	(10,400)	23.32	-	-
Exercised ($14.00-$29.63 per share)	(26,750)	22.81	(5,900)	19.03	-	-
Options outstanding at June 30	80,500	$22.50	94,150	$21.71	95,350	$21.69

Options price range ($14.00 - $20.00)

Number of shares	34,300
Weighted average price	$19.06
Weighted average remaining life	5.91 years

Options price range ($20.01 - $29.63)

Number of shares	46,200
Weighted average price	$25.05
Weighted average remaining life	6.33 years

	1998	Weighted Average Price	1997	Weighted Average Price	1996	Weighted Average Price
Incentive stock option plan:						
Options outstanding at beginning of year	161,550	$21.60	151,450	$21.52	132,050	$20.78
Granted	29,900	29.18	24,250	22.05	25,050	24.89
Canceled	(7,050)	20.15	(10,150)	22.57	(3,400)	23.60
Exercised ($14.00-$19.50 per share)	(60,100)	21.53	(4,000)	18.81	(2,250)	15.29
Options outstanding at June 30	124,300	$23.57	161,550	$21.60	151,450	$21.52

Options price range ($14.00 - $20.00)

Number of shares	36,600
Weighted average price	$18.71
Weighted average remaining life	5.63 years

Options price range
($20.01 - $29.63)

Number of shares	87,700
Weighted average price	$25.59
Weighted average remaining life	6.18 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):

	1998	1997	1996
Net earnings			
As reported	$9,363	$7,729	$6,559
Pro forma	9,125	7,554	6,365
Basic earnings per share			
As reported	$ 3.30	$ 2.78	$ 2.36
Pro forma	3.22	2.72	2.29
Diluted earnings per share			
As reported	$ 3.24	$ 2.75	$ 2.34
Pro forma	3.16	2.69	2.27

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: 20% volatility, 3% 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 1998, 1997 and 1996 with exercise prices equal to the grant date fair market value, the exercise prices and weighted average fair values of the options were $28.75 and $5.81 in 1998, $21.88 and $4.61 in 1997 and $24.50 and $5.23 in 1996, 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 $31.63 and $3.26 in 1998, $24.06 and $2.69 in 1997 and $26.95 and $3.04 in 1996, 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 $3,104,000, $3,050,000 and $2,457,000 in 1998, 1997 and 1996, respectively. Total engineering and development costs were $8,833,000, $8,288,000 and $6,998,000 in 1998, 1997 and 1996, respectively.

L. RETIREMENT PLANS

The Company has noncontributory, qualified defined benefit pension plans covering substantially all domestic employees and plans covering 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 at retirement from the Company.

Net pension expense for the Company's domestic defined benefit plans consists of the following components:

(In thousands)	1998	1997	1996
Service cost-benefits earned during the year	$ 1,248	$ 1,636	$ 1,529
Interest cost on projected benefit obligation	7,056	7,056	6,823
Actual return on plan assets	(20,405)	(5,198)	(9,956)
Net amortization and deferral	14,548	(188)	5,304
Net pension cost	$ 2,447	$ 3,306	$ 3,700

The following table sets forth the Company's domestic defined benefit plans' funded status and the amounts recognized in the Company's balance sheets as of June 30:

(In thousands)	1998		1997
	Plan Assets Exceed Obligations	Obligations Exceed Plan Assets	Obligations Exceed Plan Assets
Actuarial present value of benefit obligations:			
Vested benefit obligation	$ 49,932	$ 37,940	$ 76,030
Non-vested benefit obligation	3,048	7,592	12,451
Accumulated benefit obligation	52,980	45,532	88,481
Effect of projected future compensation levels	-	2,963	552
Projected benefit obligation	52,980	48,495	89,033
Plan assets at fair value	(55,845)	(42,477)	(76,097)
Plan assets (less than) in excess of projected benefit obligations	(2,865)	6,018	12,936
Unrecognized net loss	(3,094)	(955)	(7,012)
Unrecognized prior service cost	1,007	(4,846)	(3,427)
Unrecognized transitional net asset (liability)	73	(476)	(535)
Adjustment required to recognize additional minimum liability	-	5,165	10,858
(Prepaid) accrued retirement cost at June 30	$ (4,879)	$ 4,906	$ 12,820

Assumptions used in accounting for the retirement plans are as follows:

	1998	1997
Discount rate	7.25%	8.00%
Rate of increase in compensation levels	4.50%	4.50%
Expected long-term rate of return on plan assets	9.00%	9.00%

Total accrued (prepaid) retirement costs at June 30 are summarized as follows:

(In thousands)	1998	1997
Current:		
Domestic defined benefit plans	$ 179	$ (493)
Foreign benefit plans	315	446
	494	(47)
Long-term:		
Domestic defined benefit plans:		
Prepaid costs	(8,030)	-
Accrued costs	7,878	13,313
	(152)	13,313
	$ 342	$13,266

Effective as of January 1, 1997, the Twin Disc, Incorporated Retirement Plan for Salaried Employees was amended to freeze the benefit formula in effect prior to January 1, 1997 and to change the formula for benefit accruals to a cash balance pension plan. The effect of this change was to decrease the unrecognized prior service cost by $4.2 million.

Retirement plan expense for the Company's foreign plans was $661,000, $667,000 and $837,000 in 1998, 1997 and 1996, respectively.

The Company sponsors defined contribution plans covering substantially all domestic employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was $1,227,000, $1,023,000 and $903,000 in 1998, 1997 and 1996, respectively.

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 Company recognized $2,379,000, $2,293,000 and $2,680,000 in non-pension post-retirement benefit expense in 1998, 1997 and 1996, respectively, which consists primarily of interest cost.

The following table sets forth the status of the post-retirement benefit programs (other than pensions) and amounts recognized in the Company's consolidated balance sheet at June 30:

(In thousands)	1998	1997
Accumulated post-retirement benefit obligation:		
Retirees	$27,813	$25,998
Fully eligible active plan participants	423	440
Other active participants	383	504
	28,619	26,942
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	(4,397)	(2,665)
Accrued post-retirement benefit obligation	$24,222	$24,277

The current portion of the accumulated post-retirement benefit obligation of $2,643,000 and $2,197,000 is included in accrued liabilities at June 30, 1998 and 1997, respectively.

The assumed weighted average discount rate used in determining the actuarial present value of the accumulated post-retirement benefit obligation was 7.25% and 8.00% at June 30, 1998 and 1997, respectively. The assumed weighted average health care cost trend rate was 7% in fiscal year 1998 and will decrease to 6% in fiscal year 1999 and remain constant thereafter. A 1% increase in the assumed health care trend would increase the accumulated post-retirement benefit obligation by approximately $1.9 million and the interest cost by approximately $133,000.

M. INCOME TAXES

United States and foreign earnings before income taxes were as follows:

(In thousands)	1998	1997	1996
United States	$ 7,944	$ 6,009	$ 2,821
Foreign	8,101	6,671	8,086
	$16,045	$12,680	$10,907

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

(In thousands)	1998	1997	1996
Currently payable:			
Federal	$ 154	$ 913	$ 829
State	114	100	78
Foreign	3,541	2,457	1,925
	3,809	3,470	2,832
Deferred:			
Federal	2,582	1,559	388
State	183	(51)	(54)
Foreign	108	(27)	1,182
	2,873	1,481	1,516
	$ 6,682	$ 4,951	$ 4,348

The components of the net deferred tax asset as of June 30, were as follows:

(In thousands)	1998	1997
Deferred tax assets:		
Retirement plans and employee benefits	$ 8,074	$11,605
Other	3,039	3,078
Alternative minimum tax credit carryforwards	143	1,143
Foreign tax credit carryforwards	250	-
	11,506	15,826
Deferred tax liabilities:		
Property, plant and equipment	5,488	5,634
Other	2,790	2,142
	8,278	7,776
Total net deferred tax assets	$3,228	$ 8,050

Following is a reconciliation of the applicable U.S. federal income tax rate to the effective tax rates reflected in the statements of operations:

	1998	1997	1996
U.S. federal income tax rate	34.0%	34.0%	34.0%
Increases (reductions) in tax rate resulting from:			
Foreign tax items	1.2	.2	4.2
Accrual for prior years	4.4	3.7	-
Other, net	2.0	1.1	1.7
	41.6%	39.0%	39.9%

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.

At June 30, 1998, the Company has accrued approximately $1,350,000, 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.

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 cash flows present fairly, in all material respects, the financial position of Twin Disc, Incorporated and Subsidiaries at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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 24, 1998

FINANCIAL SUMMARY

(In thousands of dollars, except where noted)

	1998	1997	1996	1995	1994
Statement of Operations					
Net sales	$202,643	$189,942	$176,657	$164,232	$141,193
Costs and expenses, including marketing, engineering and administrative	186,607	177,342	164,486	154,347	136,244
Earnings from operations	16,036	12,600	12,171	9,885	4,949
Other income (expense)	9	80	(1,264)	(1,301)	18
Earnings before income taxes	16,045	12,680	10,907	8,584	4,967
Income taxes	6,682	4,951	4,348	2,912	578
Net earnings	9,363	7,729	6,559	5,672	4,389
Overseas operations					
Sales	54,824	58,098	56,520	55,625	45,862
Earnings (loss)	4,428	3,840	4,758	2,480	2,365
Balance Sheet					
Assets					
Cash and equivalents	5,087	8,983	2,043	3,741	4,166
Receivables, net	28,320	32,428	34,917	29,247	25,682
Inventories	53,280	47,844	51,083	47,157	41,569
Other current assets	6,893	8,707	8,597	10,345	8,993
Total current assets	93,580	97,962	96,640	90,490	80,410
Investments and other assets	31,646	26,544	30,344	30,463	26,830
Fixed assets less accumulated depreciation	35,728	34,249	35,715	37,348	36,676
Total assets	160,954	158,755	162,699	158,301	143,916
Net assets overseas	31,515	31,517	30,671	32,368	29,580
Liabilities and Shareholders' Equity					
Current liabilities	29,553	29,621	34,002	36,852	32,710
Long-term debt	19,949	19,944	19,938	14,000	11,500
Deferred liabilities	29,457	35,393	33,578	32,827	34,309
Shareholders' equity	81,995	73,797	75,181	74,622	65,397
Total liabilities and shareholders' equity	160,954	158,755	162,699	158,301	143,916

FINANCIAL SUMMARY (CONTINUED)

	1998	1997	1996	1995	1994
(In thousands of dollars, except where noted)					
Comparative Financial Information					
Per share statistics					
Basic earnings	3.30	2.78	2.36	2.03	1.57
Diluted earnings	3.24	2.75	2.34	2.02	1.56
Dividends	.76	.70	.70	.70	.70
Shareholders' equity	28.94	26.48	27.07	26.75	23.36
Return on equity	11.4%	10.5%	8.7%	7.6%	6.7%
Return on assets	5.8%	4.9%	4.0%	3.6%	3.0%
Return on sales	4.6%	4.1%	3.7%	3.5%	3.1%
Average shares outstanding	2,833,663	2,781,174	2,776,805	2,790,111	2,799,390
Diluted shares outstanding	2,886,209	2,808,226	2,805,123	2,812,703	2,809,390
Number of shareholder accounts	774	845	913	996	1,058
Number of employees	1,078	1,081	1,080	1,097	1,099
Additions to plant and equipment	7,154	4,734	4,140	4,290	4,216
Depreciation	5,205	5,141	5,071	4,792	4,670
Net working capital	64,027	68,341	62,638	53,638	47,700

DIRECTORS

MICHAEL E. BATTEN
Chaiman, Chief Executive Officer
MICHAEL H. JOYCE
President, Chief Operating Officer
JAMES O. PARRISH
Vice President-Finance & Treasurer
PAUL J. POWERS
Chairman, President-Chief Executive Officer, Commercial Intertech Corp., (Manufacturer of Hydraulic Components, Fluid Purification Products, Pre-Engineered Buildings and Stamped Metal Products), Youngstown, Ohio
RICHARD T. SAVAGE
Retired President-Chief Executive Officer, Modine 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
STUART W. TISDALE
Retired Chairman-Chief Executive Officer, WICOR, Inc. (Parent Company of Wisconsin Gas Company, Sta-Rite Industries, Shurflo Pump Manufacturing and Hypro Corporation), Milwaukee, Wisconsin
GEORGE E. WARDEBERG
Chairman, Chief Executive Officer, WICOR, Inc. (Parent Company of Wisconsin Gas Company, Sta-Rite Industries, Shurflo Pump Manufacturing and Hypro Corporation), Milwaukee, Wisconsin
DAVID R. ZIMMER
Executive Vice President-Operations, United Dominion Industries, (Manufacturer of Diversified Engineered Products), Charlotte, North Carolina

OFFICERS

MICHAEL E. BATTEN
Chairman, Chief Executive Officer
MICHAEL H. JOYCE
President, Chief Operating Officer
JAMES O. PARRISH
Vice President-Finance & Treasurer
PHILIPPE PECRIAUX
Vice President-Europe
JAMES MCINDOE
Vice President-International Marketing
LANCE J. MELIK
Vice President-Corporate Development
FRED H. TIMM
Corporate Controller & Secretary
PAUL A. PELLIGRINO
Vice President-Engineering
JOHN W. SPANO
Vice President-Sales and Marketing
ARTHUR A. ZINTEK
Vice President-Human Resources

CORPORATE DATA

ANNUAL MEETING
Roma Lodge, Racine, WI, 2:00 PM, October 16, 1998
SHARES TRADED
New York Stock Exchange: Symbol TDI
ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K
SINGLE COPIES OF THE COMPANY'S 1998 ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K WILL BE PROVIDED WITHOUT CHARGE TO SHAREHOLDERS AFTER SEPTEMBER 30, 1998, 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 Spain, S.A., Madrid, Spain
Twin Disc Italia S.R.L., Viareggio, Italy
Twin Disc (Pacific) Pty. Ltd., Brisbane, Queensland, Australia
Twin Disc (Far East) Ltd., Singapore
Twin Disc (South Africa) Pty. Ltd., Johannesburg, South Africa
Mill-Log Equipment Co., Inc., Coburg, Oregon
Southern Diesel Systems Inc., Miami, Florida
TD Electronics, Inc., Loves Park, Illinois
PARTIALLY OWNED AFFILIATES
Niigata Converter Company, Ltd., Kamo, Omiya and Tokyo, Japan
Palmer Johnson Distributors, LLC, Sturgeon Bay, Wisconsin
MANUFACTURING FACILITIES
Racine, Wisconsin; Nivelles, Belgium; Kamo and Omiya Japan
SALES OFFICES
DOMESTIC
Racine, Wisconsin; Coburg, Oregon; Seattle, Washington; Miami, Florida; Jacksonville, Florida
OVERSEAS
Nivelles, Belgium; Brisbane and Perth Australia; Singapore; Johannesburg, South Africa; Madrid, Spain; Viareggio, Italy
AFFILIATES
Tokyo, Japan; Sturgeon Bay, Wisconsin
MANUFACTURING LICENSES
Niigata Converter Company, Ltd., Tokyo, Japan; Transfluid S.R.L., Milan, Italy; Nakamura Jico Co. Ltd., Tokyo, Japan; Hindustan Motors, Ltd., Madras, India

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 Spain, S.A. (a Spanish corporation)

3. Twin Disc Italia S.R.L. (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. Twin Disc (South Africa) Pty. Ltd. (a South African corporation)

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

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

9. TD Electronics, Inc. (a Wisconsin 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 and Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors) of our reports dated July 24, 1998, on our audits of the consolidated financial statements and financial statement schedule of Twin Disc, Incorporated as of June 30, 1998 and 1997 and for the years ended June 30, 1998, 1997 and 1996, which reports are included (or incorporated by reference) in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
September 21, 1998

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, 1998 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.

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

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

July 31, 1998

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

STUART W. TISDALE
- ------------------------------------
Stuart W. Tisdale, Director

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

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

5
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, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL
STATEMENTS.

1,000

YEAR
JUN-30-1998
JUN-30-1998
5,087
0
28,967
647
53,280
93,580
112,669
76,941
160,954
29,553
19,949
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0
11,653
70,342
160,954
202,643
202,643
152,515
152,515
34,092
0
1,505
16,045
6,682
9,363
0
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0
9,363
3.30
3.24