UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2002
Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

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

Registrant's Telephone Number, including area code: (262)638-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered:
Common stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common stock, no par value

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

At August 30, 2002, the aggregate market value of the common stock held by non-affiliates of the registrant was $38,607,690. Determination of stock ownership by affiliates was made solely for the purpose of responding to this requirement and registrant is not bound by this determination for any other purpose.

At August 30, 2002, the registrant had 2,807,832 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held October 18, 2002 are incorporated by reference into Part III.

PART I

Item 1. Business

Twin Disc was incorporated under the laws of the state of Wisconsin in 1918. Twin Disc designs, manufactures and sells heavy duty off-highway power transmission equipment. Products offered include: 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 products 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. Primary competitive factors for the Company's products are performance, price, service and availability. Ten customers accounted for approximately 44% of the Company's consolidated net sales during the year ended June 30, 2002. Sewart Supply, Inc., an independent distributor of Twin Disc products, accounted for approximately 11% of consolidated net sales in 2002.

Unfilled open orders for the next six months of $31,484,000 at June 30, 2002 compares to $39,405,000 at June 30, 2001. Since orders are subject to cancellation and rescheduling by the customer, the six-month order backlog is considered more representative of operating conditions than total backlog. However, as procurement and manufacturing "lead times" change, the backlog will increase or decrease; and thus it does not necessarily provide a valid indicator of the shipping rate. Cancellations are generally the result of rescheduling activity and do not represent a material change in backlog.

Management recognizes that there are attendant risks that foreign governments may place restrictions on dividend payments and other movements of money, but these risks are considered minimal due to the political relations the United States maintains with the countries in which the Company operates or the relatively low investment within individual countries. The Company's business is not subject to renegotiation of profits or termination of contracts at the election of the Government.

Engineering and development costs include research and development expenses for new product development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled $1,887,000, $1,929,000 and $1,852,000 in 2002, 2001 and 2000, respectively. Total engineering and development costs were $6,569,000, $5,791,000 and $6,322,000 in 2002, 2001 and 2000, respectively.

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

The number of persons employed by the Company at June 30, 2002 was 936.

A summary of financial data by segment and geographic area for the years ended June 30, 2002, 2001 and 2000 appears in Note K to the consolidated financial statements on pages 21 through 23 of this form.

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

Pursuant to the terms of the Joint Venture Agreement, the Company contributed $0.7 million in exchange for a controlling 66% ownership interest in NTC and Niigata contributed $0.3 million for a 34% ownership interest. NTC contributed $12.2 million in net sales and $0.3 million in net earnings to the Company in 2002. See Item 8 and Note F to the consolidated financial statements.

Item 2. Properties

The Company owns two manufacturing, assembly and office facilities in Racine, Wisconsin, U.S.A. and one in Nivelles, Belgium. The aggregate floor space of these three plants approximates 677,000 square feet. One of the Racine facilities includes office space which is the location of the Company's corporate headquarters. The Company leases additional manufacturing, assembly and office facilities in Decima, Italy.

The Company also has operations in the following locations, all of which are used for sales offices, warehousing and light assembly or product service. The following properties are leased:

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

The properties are generally suitable for operations and are utilized in the manner for which they were designed. Manufacturing facilities are currently operating at less than 65% capacity and are adequate to meet foreseeable needs of the Company.

Item 3. Legal Proceedings

Twin Disc is a defendant in several product liability or related claims considered either adequately covered by appropriate liability insurance or involving amounts not deemed material to the business or financial condition of the Company.

The Company has joined with a group of potentially responsible parties in signing a consent decree with the Illinois Environmental Protection Agency ("IEPA") to conduct a remedial investigation and feasibility study at the Interstate Pollution Control facility in Rockford, Illinois. The IEPA issued its record of decision in September 1999, selecting a remedy with an estimated cost of $2.4 million (in year 1999 dollars), but the United States Environmental Protection Agency ("USEPA") has not formally approved that decision. The actual remedy cost may be higher due to additional monitoring that may be required by the USEPA. The Company's total potential liability on the site cannot be estimated with particularity until a final decision is reached on that aspect of the remedy, and until an allocation scheme is adopted by the parties. Based upon current assumptions, however, the Company anticipates potential liability of approximately $200,000.

The Company has also joined with a group of potentially responsible parties in signing a consent decree with the Illinois Environmental Protection Agency to conduct a remedial investigation and feasibility study at the MIG\DeWane Landfill in Rockford, Illinois. The consent decree was signed on March 29, 1991, and filed with the federal court in the Northern District of Illinois. The IEPA issued its record of decision for the site in April 2000, selecting a remedy with an estimated cost of $18 million (in year 2000 dollars). The Company's total potential liability on the site cannot be estimated with particularity until an allocation scheme is adopted by the parties. Based upon current assumptions, however, the Company anticipates potential liability of approximately $300,000.

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

None.

Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 18, 2002.

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer since 1983	62
Michael H. Joyce	President - Chief Operating Officer since 1995	61
James O. Parrish	Vice President - Finance and Treasurer since 1982	62
Lance J. Melik	Vice President and General Manager - Transmission And Industrial Products since October 2001; formerly Vice President - Transmission and Industrial Products since 1999 and Vice President - Corporate Development since September 1995	59
Paul A. Pelligrino	Vice President - Engineering since 1996	63
Henri Claude Fabry	Vice President - Global Distribution since October 2001; formerly Vice President Marine and Distribution since 1999; formerly Director of Marketing and Sales, Twin Disc International S.A. since February 1997	56
James E. Feiertag	Executive Vice President since October 2001: formerly Vice President - Manufacturing since November 2000; formerly Vice President of Manufacturing for the Drives and Systems Group, Rockwell Automation Group since 1999; formerly Director of Manufacturing for the Drives Group, Rockwell Automation Group	45
Fred H. Timm	Vice President - Administration and Secretary since October 2001, formerly Corporate Controller And Secretary since 1995	56
John H. Batten	Vice President and General Manager - Marine since October 2001; formerly Commercial Manager - Marine and Propulsion since 1998, formerly Application Engineer since 1997	37

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

PART II

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

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

Fiscal Year Ended June 30, 2002	High	Low	Fiscal Year Ended June 30, 2001	High	Low
First Quarter	16.20	14.16	First Quarter	17.81	15.75
Second Quarter	14.55	12.25	Second Quarter	17.31	14.25
Third Quarter	16.75	14.00	Third Quarter	15.09	13.06
Fourth Quarter	16.95	14.00	Fourth Quarter	17.30	14.25

Quarterly dividends of $0.175 per share were declared and paid for each of the quarters above. As of June 30, 2002 there were 1,003 shareholder accounts. The sales price of Twin Disc common stock as of August 30, 2002 was 13.75.

Pursuant to a shareholder rights plan (the "Rights Plan"), on April 17, 1998, the Board of Directors declared a dividend distribution, payable to shareholders of record at the close of business on June 30, 1998, of one Preferred Stock Purchase Right ("Rights") for each outstanding share of Common Stock. The Rights will expire 10 years after issuance, and will be exercisable only if a person or group becomes the beneficial owner of 15% or more of the Common Stock (or 25% in the case of any person or group which currently owns 15% or more of the shares or who shall become the Beneficial Owner of 15% or more of the shares as a result of any transfer by reason of the death of or by gift from any other person who is an Affiliate or an Associate of such existing holder or by succeeding such a person as trustee of a trust existing on the record date) (an "Acquiring Person"), or 10 business days following the commencement of a tender or exchange offer that would result in the offeror beneficially owning 25% or more of the Common Stock. A person who is not an Acquiring Person will not be deemed to have become an Acquiring Person solely as a result of a reduction in the number of shares of Common Stock outstanding due to a repurchase of Common Stock by the Company until such person becomes beneficial owner of any additional shares of Common Stock. Each Right will entitle shareholders who received the Rights to buy one newly issued unit of one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of $160, subject to certain anti-dilution adjustments. The Company will generally be entitled to redeem the Rights at $.05 per Right at any time prior to 10 business days after a public announcement of the existence of an Acquiring Person. In addition, if (i) a person or group accumulates more than 25% of the Common Stock (except pursuant to an offer for all outstanding shares of Common Stock which the independent directors of the Company determine to be fair to and otherwise in the best interests of the Company and its shareholders and except solely due to a reduction in the number of shares of Common Stock outstanding due to the repurchase of Common Stock by the Company), (ii) a merger takes place with an Acquiring Person where the Company is the surviving corporation and its Common Stock is not changed or exchanged, (iii) an Acquiring Person engages in certain self-dealing transactions, or (iv) during such time as there is an Acquiring Person, an event occurs which results in such Acquiring Person's ownership interest being increased by more than 1% (e.g., a reverse stock split), each Right (other than Rights held by the Acquiring Person and certain related parties which become void) will represent the right to purchase, at the exercise price, Common Stock (or in certain circumstances, a combination of securities and/or assets) having a value of twice the exercise price. In addition, if following the public announcement of the existence of an Acquiring Person the Company is acquired in a merger or other business combination transaction, except a merger or other business combination transaction that takes place after the consummation of an offer for all outstanding shares of Common Stock that the independent directors of the Company have determined to be fair, or a sale or transfer of 50% or more of the Company's assets or earning power is made, each Right (unless previously voided) will represent the right to purchase, at the exercise price, common stock of the acquiring entity having a value of twice the exercise price at the time.

The Rights may have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of Rights being acquired. However, the Rights are not intended to prevent a take-over, but rather are designed to enhance the ability of the Board of Directors to negotiate with an acquirer on behalf of all of the shareholders. In addition, the Rights should not interfere with a proxy contest.

The Rights should not interfere with any merger or other business combination approved by the Board of Directors since the Rights may be redeemed by the Company at $.05 per Right prior to 10 business days after the public announcement of the existence of an Acquiring Person.

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

Recent Sales of Unregistered Securities

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

Item 6. Selected Financial Data

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

	For the years ended June 30,				
Statement of Operations Data:	2002	2001	2000	1999	1998
Net sales	$179,385	$180,786	$177,987	$168,142	$202,643
Net earnings (loss)	2,058	6,169	3,773	(1,018)	9,363
Basic earnings (loss) per share	.73	2.20	1.34	(.36)	3.30
Diluted earnings (loss) per share	.73	2.20	1.34	(.36)	3.24
Dividends per share	.70	.70	.70	.805	.76
Balance Sheet Data (at end of period):					
Total assets	157,280	156.734	174,190	176,900	160,954
Total Long-Term Obligations	18,583	23,404	31,254	17,112	19,949

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. (NTC). NTC's balance sheet and statement of operations as of and for the year ended March 31, 2002 is consolidated with the Company's balance sheet and statement of operations as of and for the year ended June 30, 2002. NTC contributed $12,217 in net sales, $263 in net earnings, $.09 in both basic and diluted earnings per share, $6,169 in assets and $0 in long-term obligations to the Company in 2002 (dollars in thousands, except per share amounts).

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

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

Forward-looking statements include the Company's description of plans and objectives for future operations and assumptions behind those plans. The words "anticipates," "believes," "intends," "estimates," and "expects," or similar anticipatory expressions, usually identify forward-looking statements. In addition, goals established by Twin Disc, Incorporated should not be viewed as guarantees or promises of future performance. There can be no assurance the Company will be successful in achieving its goals. In addition to the assumptions and information referred to specifically in the forward-looking statements, other factors could cause actual results to be materially different from what is presented here.

Results of Operations

Net Sales, New Orders and Backlog

Net sales for the last three fiscal years have been very stable. Sales of $181 million in fiscal 2001 were 2 percent ahead of the previous fiscal year and then declined by a lesser amount to $179 million in fiscal 2002. However, the drop in fiscal 2002 would have been about 8 percent were it not for the addition of first-year revenues from NICO Transmission Company (NTC), a Japanese marketing and engineering joint venture established at the end of fiscal 2001, that offsets declines in our continuing core business. Order rates for most of our products were down throughout much of the past two fiscal years, contributing, along with improved deliveries, to a steady decline in backlog. The backlog of orders scheduled for shipment during the next six months (six-month backlog) dropped 26 percent to $39 million between June 2000 and June 2001 and another 20 percent, to $31 million at end of fiscal 2002.

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

The contraction in global economic activity continued into fiscal 2002 and was most significantly reflected in the declining shipments of pleasure craft marine transmissions. Marine market softness persisted throughout the year and was the largest single factor in the lower core business sales. While there were minor upturns in demand for most products, there also were unanticipated declines that resulted in overall relatively soft demand and reduced shipments across the board. The exception to that was a modest increase in propulsion product sales.

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

The U.S. dollar strengthened against most currencies in fiscal years 2000 and 2001 and maintained that edge until the final months of fiscal 2002. As a result, through most of the past three fiscal years there has been increased pricing pressure from non-dollar based competition, and sales from our offshore subsidiaries have been reported at lower levels when translated into U.S. dollars. Until the fiscal 2002 drop in shipments from our Belgian subsidiary, there was an offsetting favorable impact caused by higher margins realized on dollar-denominated sales. Price increases, implemented selectively in each year, generated revenues about equal to the rate of inflation.

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

Margins, Costs and Expenses

A strong focus on continuous improvement in manufacturing methods and processes enabled us to improve domestic manufacturing margins throughout the past three fiscal years. With the exception of our Belgian operation, which was hampered by reduced volume during the past year, similar efforts in Europe have led to better margins in that area as well. We also have maintained pressure on fixed costs to help sustain our profitability during cyclical downturns.

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

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

Marketing, engineering, and administrative (ME&A) expense declined four percent in fiscal 2000 as a result of previous-year staff reductions, continued attention to cost, and closure of our South African distribution operation. In fiscal 2001, ME&A was virtually unchanged from the previous year. Approximately one-half of the $2.9 million increase in fiscal 2002 spending was due to the first-year expenses of NTC, and the balance consisted of added marketing and engineering expenses related to the development and introduction of new marine and electronic controls products.

Early in fiscal 2001, we closed our wholly owned distribution company in Spain and engaged an independent company to represent Twin Disc in that market. The impact on revenues and profitability was not significant. During the third fiscal quarter, we sold our minority interest in Niigata Converter Company to our joint-venture partner and recorded a gain of $3.9 million in Other income. Most of the proceeds were applied to the outstanding debt, but a portion was used to capitalize a new marketing and engineering joint venture that will support our global marine product line. Recognizing the reduced order activity in the latter half of fiscal 2001, severance and voluntary separation programs to reduce the domestic manufacturing workforce were implemented in the fourth quarter. In addition, representing about one-third of the $1.5 million fourth quarter restructuring charge (see Footnote Q to the consolidated financial statements), reserves were taken for the closure of two sales offices and one assembly facility whose activities will continue to be handled from other locations. The facilities were closed in fiscal 2001 and early fiscal 2002. In addition, there were manpower adjustments at several other facilities. It is anticipated that the restructuring will result in annual pretax savings of approximately $1,600,000 when fully effective in fiscal 2003. The savings are generated primarily by the reduction in manpower.

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

Interest, Taxes and Net Earnings

Interest expense declined in fiscal 2001 as debt was reduced by $8 million and, although a large portion of our debt is in fixed-rate notes, we benefited from the drop in U.S. interest rates. Additionally, settlement of a federal tax issue in the fiscal fourth quarter allowed the reversal of previously accrued interest expense. In fiscal 2002, rates remained low and debt was reduced a further $8 million, resulting in another large drop in interest expense.

In each of the past three fiscal years, limitations on foreign tax credit utilization, the relatively high proportion of foreign earnings, and settlement of some state tax issues resulted in an unusually high effective tax rate. The effective rate in fiscal 2002 was increased further by two third-quarter adjustments totaling about $300,000. A tax incentive provided by the Belgian government several years ago was disallowed by the European Commission and was repaid, and the United States tax provision was adjusted upward for the taxes due on an asset sale gain recorded in last year's third quarter. Statutory rates generally have not changed.

Liquidity and Capital Resources

The net cash provided by operating activities in fiscal 2001 remained at about the same $7 million level as the previous year. In both years, positive cash flows from earnings, depreciation, and working capital reductions were partially offset by taxes and by increased contributions to the Company pension fund. In fiscal 2002, operating cash flows increased to $13 million with the favorable impact of inventory reductions and reduced pension contributions.

Expenditures for capital equipment for the past three fiscal years have been held to a level of about one-half depreciation. While the desire to conserve cash has been one consideration, we also have been more selective in adding major machine tools and have focused on our core competency manufacturing cells. Plans are for increased spending in the coming year to provide for further development of key cells.

Liquidity has improved in each of the last two years. Cash balances have risen, debt has been reduced, working capital has remained at about $50 million, and the current ratio has been unchanged at 2.2. The Company's balance sheet is strong, there are no off-balance sheet arrangements, and we continue to have sufficient liquidity for near-term needs.

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

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Short-term debt	$ 1,708	$ 1,708	-	-	-
Revolving loan borrowing	$10,000	-	$10,000	-	-
Long-term debt	$11,440	$ 2,857	$ 5,726	$ 2,857	-
Operating leases	$ 7,890	$ 2,605	$ 2,981	$ 1,152	$ 1,152

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

Other Matters

Environmental Matters

The Company 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 P to the consolidated financial statements, they are not expected to affect materially the Company's operations, financial position, or cash flows.

Critical Accounting Policies

The preparation of this Annual Report requires management's judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Twin Disc's significant accounting policies are described in Note A to the consolidated financial statements on pages 16 and 17 of this form. Not all of these significant accounting policies require management to make difficult, subjective, or complex judgments or estimates. However, the policies management considers most critical to understanding and evaluating our reported financial results are the following:

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

Accounts Receivable

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

Inventory

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

Warranty

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

Income Taxes

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

Recently Issued Accounting Standards

During fiscal 2002, the Financial Accounting Standards Board issued several statements of accounting standards that are discussed in Note A to the consolidated financial statements on pages 16 and 17 of this form.

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

The Company is exposed to market risks from changes in interest rates, commodities and foreign exchange. To reduce such risks, the Company selectively uses financial instruments and other pro-active management techniques. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for trading or speculative purposes. Discussions of the Company's accounting policies and further disclosure relating to financial instruments is included in Note A to the consolidated financial statements on pages 16 and 17 of this form.

Interest rate risk - The Company's earnings exposure related to adverse movements of interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to the prime and LIBOR interest rates. Those debt facilities bear interest predominantly at the prime interest rate minus .5% or LIBOR plus 1%. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at June 30, 2002 to manage interest rate risk exposure. A 10 percent increase or decrease in the applicable interest rate would result in a change in pretax interest expense of approximately $30,000.

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

Currency risk - The Company has exposure to foreign currency exchange fluctuations. Approximately one-third of the Company's revenues in the years ended June 30, 2002 and 2001 were denominated in currencies other than the U.S. dollar. Of that total, approximately two-thirds was denominated in euros with the balance composed of Japanese yen and the Australian and Singapore dollars. The Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Forward foreign exchange contracts are used to hedge the currency fluctuations on significant transactions denominated in foreign currencies.

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

In the first quarter of fiscal 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and No. 138. The statement requires all derivative instruments to be recorded in the statement of financial position at fair value. The change in the fair value of a derivative is required to be recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designed as part of a hedge transaction and, if so, the type of hedge transaction. Initial adoption and subsequent application of SFAS No. 133 did not have a material effect on the Company's statement of financial position or results of operations.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other income (expense), net in the Consolidated Statement of Operations as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2002 was the Euro. At June 30, 2002 the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,053,000 with a weighted average maturity of 40 days. The fair value of the Company's contracts was approximately $0.2 million at June 30, 2002. The primary currencies to which the Company was exposed in 2001 were the Belgian Franc and the Italian Lira. The fair value of the Company's contracts to purchase Belgian Francs and sell Italian Lira was approximately $0.1 million and $0.0 million, respectively at June 30, 2001.

Item 8. Financial Statements and Supplementary Data

See consolidated financial statements and Financial Statement Schedule on Pages 10 through 28 of this form.

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

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

2001	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	$41,349	$44,025	$47,642	$47,770	$180,786
Gross profit	9,744	10,456	11,878	11,617	43,695
Net earnings	906	960	4,033	270	6,169
Basic earnings per share	.32	.34	1.44	.10	2.20
Diluted earnings per share	.32	.34	1.44	.10	2.20
Dividends per share	.175	.175	.175	.175	.70

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

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. (NTC). See Note F to the consolidated financial statements. NTC's balance sheet and statement of operations as of and for the year ended March 31, 2002 is consolidated with the Company's balance sheet and statement of operations as of and for the year ended June 30, 2002. The impact of NTC on the Company in 2002 (dollars in thousands, except per share amounts) is as follows:

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	$2,609	$3,058	$2,881	$3,669	$12,217

Net earnings	45	22	94	102	263
Basic earnings per share	.01	.01	.03	.04	.09
Diluted earnings per share	.01	.01	.03	.04	.09

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" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 18, 2002, which is incorporated into this report by reference.

For information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, see "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 18, 2002, which is incorporated into this report by reference.

Item 11. Executive Compensation

The information set forth under the captions "Compensation of Executive Officers", "Stock Options","Retirement Income Plan", "Supplemental Retirement Benefit Plan", "Compensation of Directors" and "Employment Contracts" in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 18, 2002 is incorporated into this report by reference. Discussion in the Proxy Statement under the captions "Board Executive Selection and Salary Committee Report on Executive Compensation" and "Corporate Performance Graph" is not incorporated by reference and shall not be deemed "filed" as part of this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain beneficial owners and management is set forth in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 18, 2002 under the caption "Principal Shareholders, Directors and Executive Officers" and incorporated into this report by reference.

There are no arrangements known to the Registrant, the operation of which may at a subsequent date result in a change in control of the Registrant.

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

Plan Category	# of securities to be issued upon exercise of options, warrants and rights	Weighted average price of outstanding options, warrants and rights	# of securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans Approved by Shareholders	248,350	$20.63	$76,950
Equity Compensation Plans Not Approved By Shareholders	0	N/A	0
TOTAL	248,350	$20.63	$76,950

Item 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a)(1) Consolidated Financial Statements

See "Index to Consolidated Financial Statements and Financial Statement

Schedule" on page 10, the Report of Independent Accountants on page 11 and the Consolidated Financial Statements on pages 12 to 28, all of which are incorporated by reference.

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

(a)(2) Consolidated Financial Statement Schedules

See "Index to Consolidated Financial Statements and Financial Statement Schedule" on page 10, the Report of Independent Accountants on Financial Statement Schedule on page 29 and the Consolidated Financial Statement Schedule on page 29, all of which are incorporated by reference.

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

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

(b) No reports on Form 8-K were filed during the last quarter of fiscal 2002.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Schedules, other than those listed, are omitted for the reason that they are inapplicable, are not required, or the information required is shown in the financial statements or the related notes.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders
Twin Disc, Incorporated
Racine, Wisconsin

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of Twin Disc, Incorporated and Subsidiaries at June 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
July 19, 2002

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2002 and 2001

(Dollars in thousands)	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,313	$ 5,961
Trade accounts receivable, net	29,006	27,058
Inventories, net	44,504	46,492
Deferred income taxes	4,505	5,689
Other	4,126	3,925
Total current assets	89,454	89,125
Property, plant and equipment, net	29,549	31,584
Investment in affiliate	2,439	2,358
Goodwill, net	12,311	13,719
Deferred income taxes	12,246	8,943
Intangible pension asset	1,383	1,988
Other assets	9,898	9,017
	$157,280	$156,734
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,708	$ 4,797
Current maturities on long-term debt	2,857	2,857
Accounts payable	13,042	10,368
Accrued liabilities	22,312	23,428
Total current liabilities	39,919	41,450
Long-term debt	18,583	23,404
Accrued retirement benefits	39,797	33,121
	98,299	97,975
Minority interest	472	337
Shareholders' equity:		
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	87,524	87,431
Accumulated other comprehensive loss	(23,187)	(23,181)
	75,990	75,903
Less treasury stock, at cost	17,481	17,481
Total shareholders' equity	58,509	58,422
	$157,280	$156,734

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, 2002, 2001 and 2000

(In thousands, except per share data)

	2002	2001	2000
Net sales	$179,385	$180,786	$177,987
Cost of goods sold	139,146	137,091	136,629
Gross profit	40,239	43,695	41,358
Marketing, engineering and administrative expenses	34,638	31,716	31,476
Restructuring of operations	-	1,453	-
Earnings from operations	5,601	10,526	9,882
Other income (expense):			
Interest income	294	262	244
Interest expense	(1,700)	(2,194)	(2,979)
Equity in net earnings (loss) of affiliate	526	820	906
Gain on sale of affiliate	-	3,935	-
Other, net	422	(258)	14
	(458)	2,565	(1,815)
Earnings before income taxes and minority interest	5,143	13,091	8,067
Income taxes	2,950	6,922	4,294
Earnings before minority interest	2,193	6,169	3,773
Minority interest	(135)	-	-
Net earnings	$ 2,058	$ 6,169	$ 3,773
Earnings per share data:			
Basic earnings per share	$ 0.73	$ 2.20	$ 1.34
Diluted earnings per share	0.73	2.20	1.34
Weighted average shares outstanding data:			
Basic shares outstanding	2,808	2,808	2,821
Dilutive stock options	-	-	-
Diluted shares outstanding	2,808	2,808	2,821

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, 2002, 2001 and 2000

(In thousands)	2002	2001	2000
Cash flows from operating activities:			
Net earnings	$ 2,058	$ 6,169	$ 3,773
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	5,709	6,392	6,980
(Gain)loss on sale of plant assets	90	10	(3)
Gain on sale of affiliate	-	(3,935)	-
Minority interest	135	-	-
(Gain)loss on restructuring of operations	(53)	1,262	-
Equity in net earnings of affiliate	(526)	(820)	(906)
Provision for deferred income taxes	378	(4,680)	(284)
Dividends received from affiliate	400	632	600
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(1,082)	672	(2,922)
Inventories, net	3,724	1,483	3,211
Other assets	112	3,535	(770)
Accounts payable	2,456	(1,677)	2,402
Accrued liabilities	(3,702)	1,210	168
Accrued/prepaid retirement benefits	3,375	(2,869)	(5,364)
Net cash provided by operating activities	13,074	7,384	6,885
Cash flows from investing activities:			
Proceeds from sale of plant assets	25	52	92
Proceeds from sale of affiliate	-	7,173	-
Acquisitions of plant assets	(2,063)	(3,492)	(2,134)
Investment in joint venture	-	(654)	-
Net cash (used) provided by investing activities	(2,038)	3,079	(2,042)
Cash flows from financing activities:			
Decreases in notes payable, net	(3,082)	-	(15,000)
Proceeds from long-term debt	-	-	18,000
Payments of long-term debt	(4,857)	(7,857)	(3,857)
Acquisition of treasury stock	-	(34)	(343)
Proceeds from exercise of stock options	-	-	2
Dividends paid	(1,965)	(1,966)	(1,974)
Net cash used by financing activities	(9,904)	(9,857)	(3,172)
Effect of exchange rate changes on cash	220	(296)	(156)
Net change in cash and cash equivalents	1,352	310	1,515
Cash and cash equivalents:			
Beginning of year	5,961	5,651	4,136
End of year	$ 7,313	$ 5,961	$ 5,651
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 1,882	$ 2,078	$ 3,008
Income taxes	1,908	5,155	4,401

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

TWIN DISC, INCORPORATED and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
for the years ended June 30, 2002, 2001 and 2000

(In thousands)	2002	2001	2000
Common stock			
Balance, June 30	$ 11,653	$ 11,653	$ 11,653
Retained earnings			
Balance, July 1	87,431	83,228	81,430
Net earnings	2,058	6,169	3,773
Cash dividends	(1,965)	(1,966)	(1,974)
Stock options exercised	-	-	(1)
Balance, June 30	87,524	87,431	83,228
Accumulated other comprehensive (loss)income			
Balance, July 1	(23,181)	799	(8,516)
Foreign currency translation adjustment			
Balance, July 1	(5,420)	799	3,288
Current adjustment	3,900	(6,219)	(2,489)
Balance, June 30	(1,520)	(5,420)	799
Minimum pension liability adjustment, net			
Balance, July 1	(17,761)	-	(11,804)
Current adjustment, net of related income taxes ($2,497 in 2002, $11,356 in 2001 and ($7,547) in 2000)	(3,906)	(17,761)	11,804
Balance, June 30	(21,667)	(17,761)	-
Accumulated other comprehensive (loss)income			
Balance, June 30	(23,187)	(23,181)	799
Treasury stock, at cost			
Balance, July 1	(17,481)	(17,447)	(17,107)
Shares acquired	-	(34)	(343)
Stock options exercised	-	-	3
Balance, June 30	(17,481)	(17,481)	(17,447)
Shareholders' equity balance, June 30	$ 58,509	$ 58,422	$ 78,233
Comprehensive income (loss)			
Net earnings	$ 2,058	$ 6,169	$ 3,773
Other comprehensive income (loss)			
Foreign currency translation adjustment	3,900	(6,219)	(2,489)
Minimum pension liability adjustment	(3,906)	(17,761)	11,804
Other comprehensive (loss)income	(6)	(23,980)	9,315
Comprehensive income (loss)	$ 2,052	$ (17,811)	$ 13,088

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

A. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

Consolidation Principles--The consolidated financial statements include the accounts of Twin Disc, Incorporated and its wholly and partially owned domestic and foreign subsidiaries. Certain foreign subsidiaries are included based on fiscal years ending March 31 or May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

Translation of Foreign Currencies--The financial statements of the Company's non-U.S. subsidiaries are translated using the current exchange rate for assets and liabilities and the weighted average exchange rate for the year for revenues and expenses. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) of the consolidated statement of operations are foreign currency transaction (gains) losses of ($170,000), $145,000 and $144,000 in 2002, 2001 and 2000, respectively.

Cash Equivalents--The Company considers all highly liquid marketable securities purchased with a maturity date of three months or less to be cash equivalents.

Receivables--Trade accounts receivable are stated net of an allowance for doubtful accounts of $782,000 and $699,000 at June 30, 2002 and 2001, respectively.

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

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

In the first quarter of 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and No. 138. The statement requires all derivative instruments to be recorded in the statement of financial position at fair value. The change in the fair value of a derivative is required to be recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designed as part of a hedge transaction and if so, the type of hedge transaction. Initial adoption and subsequent application of SFAS No. 133 did not have a material effect on the Company's statement of financial position or results of operations.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other income (expense), net in the Consolidated Statement of Operations as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2002 was the Euro. At June 30, 2002, the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,053,000 with a weighted average maturity of 40 days. The fair value of the Company's contracts was approximately $0.2 million at June 30, 2002. The primary currencies to which the Company was exposed in 2001 were the Belgian Franc and the Italian Lira. At June 30, 2001, the Company had outstanding forward foreign exchange contracts to purchase $4,500,000 of Belgian Francs with a weighted average maturity of 48 days and contracts to sell $345,000 of Italian Lira with a weighted average maturity of 21 days. The fair value of the Company's contracts to purchase Belgian Francs and sell Italian Lira was approximately $0.1 million and $0.0 million, respectively at June 30, 2001.

Inventories--Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for parent company inventories, and by the first-in, first-out (FIFO) method for all other inventories.

Property, Plant and Equipment and Depreciation--Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and amortized by depreciation charges. Depreciation is provided on the straight-line method over the estimated useful lives of the assets for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physically disposed.

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

Investments in Affiliates--The Company's investments in 20% to 50%-owned affiliates in which they have significant influence are accounted for using the equity method. Investments in less than 20%-owned affiliates are accounted for using the cost method.

Revenue Recognition--Revenue is recognize by the Company when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred and ownership has transferred to the customer; the price to the customer is fixed or determinable; and collectability is reasonably assured. In December 1999, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 was effective for the Company in the fourth quarter of 2001 and did not have a material effect on the Company's financial statements.

Goodwill and Other Intangibles--In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," to establish accounting and reporting standards for goodwill and intangible assets. According to SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized. Other intangible assets will continue to be amortized over their useful lives. The Company adopted the new rules for accounting for goodwill and other intangible assets on July 1, 2001.

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

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

The Company does not provide for taxes which would be payable if undistributed earnings of its foreign subsidiaries or its foreign affiliate were remitted because the Company either considers these earnings to be invested for an indefinite period or anticipates that if such earnings were distributed, the U.S. income taxes payable would be substantially offset by foreign tax credits.

Management Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates.

Shipping and Handling Fees and Costs--The Company adopted the provisions of the Emerging Issues Task Force (EITF) Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs". EITF 00-10 was effective for the Company in the fourth quarter of 2001 and did not have a material effect on the Company's financial statements.

Reclassification-Certain amounts in the 2001 financial statements have been reclassified to conform to the presentation in the 2002 financial statements.

Recently Issued Accounting Standards-In August 2001, the FASB issued SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation. SFAS No. 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, superceding SFAS No. 121 and Accounting Principles Board Opinion No. 30. SFAS No. 143 and No. 144 are effective for the Company in the first quarter of 2003. The Company does not believe that the implementation of these statements will have a material effect on its consolidated financial statements.

In May 2002, the FASB issued SFAS No. 145 "Rescission of FAS Nos. 4,44 and 64, Amendment of FAS 13 and Technical corrections as of April 2002." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and amends SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also rescinds SFAS No. 44 "Accounting for Intangible Assets of Motor Carriers." This statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this statement related to SFAS 13 are effective for transactions occurring after May 15, 2002 with early application encouraged. All other provisions of this statement are effective for the Company in 2003 with early application encouraged. The Company does not believe that the implementation of this statement will have a material effect on its consolidated financial statements.

On July 29, 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities." SFAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. Early application is encouraged. The Company does not believe that the implementation of this statement will have a material effect on its consolidated financial statements.

B. INVENTORIES

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

	2002	2001
Finished parts	$35,485	$37,711
Work-in-process	5,668	4,931
Raw materials	3,351	3,850
	$44,504	$46,492

Inventories stated on a LIFO basis represent approximately 22% and 29% of total inventories at June 30, 2002 and 2001, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by $20,776,000 and $20,565,000 at June 30, 2002 and 2001, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

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

	2002	2001
Land	$ 1,407	$ 1,403
Buildings	23,428	22,407
Machinery and equipment	89,086	91,773
	113,921	115,583
Less accumulated depreciation	84,372	83,999
	$ 29,549	$ 31,584

D. INVESTMENT IN AFFILIATE

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

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

	2002	2001
Current assets	$ 11,070	$ 11,485
Other assets	5,457	5,458
	$ 16,527	$ 16,943
Current liabilities	$ 6,673	$ 7,363
Other liabilities	97	149
Shareholders' equity	9,757	9,431
	$ 16,527	$ 16,943

	2002	2001	2000
Net sales	$ 23,774	$ 27,516	$23,866
Gross profit	8,300	9,832	9,813
Net earnings	1,925	3,281	3,624

At June 30, 2002 and 2001, trade receivables from the 25% owned distributor were $1,147,000 and $1,565,000, respectively.

Sales to the Company's 25% owned domestic distributor are the same terms and conditions as sales to independent distributors. Sales to this distributor were $9,250,000, $11,259,000 and $11,159,000 in fiscal 2002, 2001 and 2000, respectively.

E. GOODWILL AND OTHER INTANGIBLES

In June 2001, the FASB issued SFAS 141, "Business Combinations", which requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. SFAS 141 also sets forth guidelines for applying the purchase method of accounting in the determination of intangible assets, including goodwill acquired in a business combination and expands financial disclosures concerning business combinations consummated after June 30, 2001. On July 1, 2001, the Company transferred $1,600,000 of finite lived intangible assets from goodwill to other assets in accordance with the provisions of this statement.

Goodwill is tested for impairment at least annually and more frequently if an event occurs which indicates the goodwill may be impaired. The Company performed impairment tests of its goodwill at July 1, 2001 and June 30, 2002 and determined that no impairment of the recorded goodwill existed. Goodwill at June 30, 2002 and 2001 of $12,311,000 and $13,719,000, respectively, is net of accumulated amortization of $1,017,000 and $1,397,000, respectively. There were no other indefinite lived intangible assets identified by the Company at June 30, 2002 or 2001. Included in Other assets on the Company's Consolidated Balance Sheet as of the end of June 30, 2002 and 2001, respectively, are the following acquired intangible assets (in thousands):

	2002	2001
Intangible assets with finite lives:		
Licensing agreements	$ 5,490	$ 5,490
Other	1,259	1,259
	6,749	6,749
Accumulated amortization	3,611	2,885
Total	$ 3,138	$ 3,864

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

Fiscal Year	
2003	$ 726
2004	667
2005	482
2006	214
2007	60
Thereafter	989
	$3,138

The following proforma information reconciles the net income and earnings per share reported for the fiscal year ended June 30, 2001 and June 30, 2000 to adjusted net income and earnings per share to reflect the adoption of SFAS No. 142 (in thousands except earnings per share data):

	2001	2000
Net income, as reported	$6,169	$3,773
Goodwill amortization (net of tax)	171	168
Net income, as adjusted	$6,340	$3,941
Basic earnings per share, as reported	$ 2.20	$ 1.34
Goodwill amortization (net of tax)	.06	0.06
Basic earnings per share, as adjusted	$ 2.26	$ 1.40
Diluted earnings per share, as reported	$ 2.20	$ 1.34
Goodwill amortization (net of tax)	.06	0.06
Diluted earnings per share, as adjusted	$ 2.26	$ 1.40

F. JOINT VENTURE

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

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

In 2002, Niigata filed for creditor protection in Japan under the local bankruptcy code. The bankruptcy trustee is currently negotiating with another company to assume the operations of Niigata. Based upon current information, management believes that Niigata will continue to participate in the joint venture. During 2002 the Company fully reserved for its receivable from Niigata in the amount of $237,000 as a result of this filing.

G. ACCRUED LIABILITIES

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

	2002	2001
Salaries and wages	$ 4,875	$ 4,533
Retirement benefits	4,666	4,944
Warranty	5,582	4,604
Other	7,189	9,347
	$ 22,312	$ 23,428

H. DEBT

Notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total $23,195,000 at June 30, 2002. These lines of credit are available predominantly at the prime interest rate minus 0.5% and may be withdrawn at the option of the banks. The weighted average interest rate of the lines outstanding at June 30, 2002 and 2001 was 4.6% and 5.6%, respectively.

Included in long-term debt is $11,429,000 and $14,286,000 of 7.37% ten-year unsecured notes at June 30, 2002 and 2001, respectively. These notes contain certain covenants, including the maintenance of a current ratio of not less than 1.5 and consolidated net worth must be at least equal to the sum of $61,810,000 plus 35% of consolidated net earnings for each quarter from July 1, 1996. As of June 30, 2002, the Company was in compliance with all debt covenants.

During 2000, the Company entered into a $20,000,000 revolving loan agreement which expires on September 30, 2003. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. As of June 30, 2002, the Company was in compliance with all debt covenants. The outstanding balance of $10,000,000 and $12,000,000 at June 30, 2002 and 2001, respectively, is classified as long-term debt. Notes under this agreement bear interest on a schedule determined by the Company's leverage ratio and the LIBOR interest rate. The rate was 2.9% and 4.9% at June 30, 2002 and 2001, respectively.

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

Fiscal Year	
2003	$ 2,857,000
2004	12,869,000
2005	2,857,000
2006	2,857,000
	$21,440,000

I. LEASE COMMITMENTS

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

Fiscal Year	
2003	$2,605
2004	1,912
2005	1,069
2006	653
2007	499
Thereafter	1,152
	$7,890

Total rent expense for operating leases approximated $ 3,135,000, $3,444,000 and $3,023,000 in 2002, 2001 and 2000 respectively.

J. SHAREHOLDERS' EQUITY

At June 30, 2002 and 2001, treasury stock consisted of 835,788 shares of common stock. The Company issued 150 shares of treasury stock in 2000 to fulfill its obligations under stock option plans. The difference between the cost of treasury shares issued and the option price is recorded in retained earnings. The Company acquired 2,058 shares of treasury stock in 2001.

Cash dividends per share were $.70 in 2002, 2001 and 2000.

In 1998, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders one preferred stock purchase right for each outstanding share of common stock. Under certain circumstances, a right may be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of $160, subject to certain anti-dilution adjustments. The rights become exercisable ten (10) days after a public announcement that a party or group has either acquired at least 15% (or at least 25% in the case of existing holders who currently own 15% or more of the common stock), or commenced a tender offer for at least 25% of the Company's common stock. Generally, after the rights become exercisable, if the Company is a party to certain merger or business combination transactions, or transfers 50% or more of its assets or earnings power, or certain other events occur, each right will entitle its holders, other than the acquiring person, to buy a number of shares of common stock of the Company, or of the other party to the transaction, having a value of twice the exercise price of the right. The rights expire June 30, 2008, and may be redeemed by the Company for $.05 per right at any time until ten (10) days following the stock acquisition date. The Company is authorized to issue 200,000 shares of preferred stock, none of which have been issued. The Company has designated 50,000 shares of the preferred stock for the purpose of the Shareholder Rights Plan.

K. BUSINESS SEGMENTS AND FOREIGN OPERATIONS

The Company and its subsidiaries are engaged in the manufacture and sale of power transmission equipment. Principal products include industrial clutches, hydraulic torque converters, fluid couplings, power-shift transmissions, marine transmissions, universal joints, power take-offs and reduction gears. The Company sells to both domestic and foreign customers in a variety of market areas, principally construction, industrial, energy and natural resources and marine and agricultural.

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

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

2002	Manufacturing	Distribution	Total
Net sales	$155,730	$61,848	$217,578
Intra-segment sales	6,696	1,870	8,566
Inter-segment sales	22,784	6,843	29,627
Interest income	468	43	511
Interest expense	1,783	131	1,914
Income taxes	1,940	1,362	3,302
Depreciation and amortization	5,409	210	5,619
Segment earnings	2,247	2,366	4,613
Segment assets	139,810	30,275	170,085
Expenditures for segment assets	1,851	212	2,063
2001			
Net sales	$171,439	$45,337	$216,776
Intra-segment sales	7,953	304	8,257
Inter-segment sales	27,009	724	27,733
Interest income	393	76	469
Interest expense	2,796	107	2,903
Income taxes	4,072	851	4,923
Depreciation and amortization	5,997	269	6,266
Segment earnings	5,562	1,365	6,927
Segment assets	141,737	24,822	166,559
Expenditures for segment assets	3,245	247	3,492
2000			
Net sales	$166,067	$46,726	$212,793
Intra-segment sales	7,176	613	7,789
Inter-segment sales	26,327	690	27,017
Interest income	321	73	394
Interest expense	3,159	125	3,284
Income taxes	3,904	916	4,820
Depreciation and amortization	6,589	264	6,853
Segment earnings	3,464	1,587	5,051
Segment assets	154,971	24,518	179,489
Expenditures for segment assets	1,766	368	2,134

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

	2002	2001	2000
Net sales			
Total net sales from reportable segments	$217,578	$216,776	$212,793
Elimination of inter-company sales	(38,193)	(35,990)	(34,806)
Total consolidated net sales	$179,385	$180,786	$177,987
Earnings			
Total earnings from reportable segments	$ 4,613	$ 6,927	$ 5,051
Other corporate expenses	(2,555)	(758)	(1,278)
Total consolidated net earnings	$ 2,058	$ 6,169	$ 3,773
Assets			
Total assets for reportable segments	$170,085	$166,559	
Elimination of inter-company assets	(18,831)	(16,802)	
Corporate assets	6,026	6,977	
Total consolidated assets	$157,280	$156,734	

Other significant items:

2002	Segment Totals	Adjustments	Consolidated Totals
Interest income	$ 511	$ (217)	$ 294
Interest expense	1,914	(214)	1,700
Income taxes	3,302	(352)	2,950

Depreciation and amortization	5,619	90	5,709
Expenditures for segment assets	2,063	-	2,063

2001

Interest income	$ 469	$ (207)	$ 262
Interest expense	2,903	(709)	2,194
Income taxes	4,923	1,999	6,922
Depreciation and amortization	6,266	126	6,392
Expenditures for segment assets	3,492	-	3,492

2000

Interest income	$ 394	$ (150)	$ 244
Interest expense	3,284	(305)	2,979
Income taxes	4,820	(526)	4,294
Depreciation and amortization	6,853	127	6,980
Expenditures for segment assets	2,134	-	2,134

All adjustments represent inter-company eliminations and corporate amounts.

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

	2002	2001	2000
Net sales			
United States	$108,288	$120,522	$113,377
Other countries	71,097	60,264	64,610
Total	$179,385	$180,786	$177,987
Long-lived assets			
United States	$ 59,530	$ 59,249	
Belgium	10,596	8,221	
Other countries	5,178	5,078	
Elimination of inter-company assets	(7,478)	(4,939)	
Total	$ 67,826	$ 67,609	

One customer accounted for approximately 11%, 11% and 10% of consolidated net sales in 2002, 2001 and 2000, respectively.

L. STOCK OPTION PLANS

During fiscal 1999, the Company adopted the Twin Disc, Incorporated 1998 Stock Option Plan for Non-Employee Directors, a non-qualified plan for non-employee directors to purchase up to 35,000 shares of common stock, and the Twin Disc, Incorporated 1998 Incentive Compensation Plan, a plan where options are determined to be non-qualified or incentive at the date of grant, for officers and key employees to purchase up to 165,000 shares of common stock. The plans are administered by the Executive Selection and Compensation Committee of the Board of Directors which has the authority to determine which officers and key employees will be granted options. The grant of options to non-employee directors is fixed at options to purchase 1,000 shares of common stock per year or 600 at time of appointment. Except as described in the following sentence, all options allow for exercise prices not less than the grant date fair market value, immediately vest and expire ten years after the date of grant. For options under the Incentive Compensation Plan, if the optionee owns more than 10% of the total combined voting power of all classes of the Company's stock, the price will be not less than 110% of the grant date fair market value and the options expire five years after the grant date. In addition, the Company has 69,550 incentive stock option plan options and 55,750 non-qualified stock option plan options outstanding at June 30, 2002 under the Twin Disc, Incorporated 1988 Incentive Stock Option plan and the Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors, respectively. The plans terminated during 1999.

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

	2002	2001
1998 Stock Option Plan for Non-Employee Directors	14,650	20,650
1998 Incentive Compensation Plan	62,300	100,350

Stock option transactions under the plans during 2002, 2001 and 2000 were as follows:

	2002	Weighted Average Price	2001	Weighted Average Price	2000	Weighted Average Price
Non-qualified stock options:						
Options outstanding at beginning of year	88,350	$21.31	83,600	$22.06	84,600	$22.55
Granted	14,500	15.05	15,750	17.47	12,000	19.94
Canceled	(500)	14.00	(11,000)	21.47	(13,000)	23.31
Options outstanding at June 30	102,350	$20.46	88,350	$21.31	83,600	$22.06

Options price range ($15.05 - $20.00)

Number of shares	66,650
Weighted average price	$ 18.07
Weighted average remaining life	6.25 years

Options price range ($21.875 - $28.75)

Number of shares	35,700
Weighted average price	$ 24.93
Weighted average remaining life	5.84 years

	2002	Weighted Average Price	2001	Weighted Average Price	2000	Weighted Average Price
Incentive stock options:						
Options outstanding at beginning of year	125,650	$22.29	119,400	$23.24	132,250	$23.70
Granted	30,200	15.25	26,800	17.81	22,800	20.20
Canceled	(9,850)	23.47	(20,550)	21.95	(35,500)	23.25
Exercised	-	-	-	-	(150)	14.00
Options outstanding at June 30	146,000	$20.75	125,650	$22.29	119,400	23.24

Options price range ($15.05 - $20.00)

Number of shares	92,700
Weighted average price	$ 17.70
Weighted average remaining life	7.53 years

Options price range ($21.875 - $31.625)

Number of shares	53,300
Weighted average price	$ 26.07
Weighted average remaining life	6.05 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):

	2002	2001	2000
Net earnings			
As reported	$ 2,058	$ 6,169	$ 3,773
Pro forma	1,954	6,028	3,648
Basic earnings per share			
As reported	$ 0.73	$ 2.20	$ 1.34
Pro forma	0.70	2.15	1.29
Diluted earnings per share			
As reported	$ 0.73	$ 2.20	$ 1.34
Pro forma	0.70	2.15	1.29

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: 23% volatility, 4.5% annual dividend yield, risk free interest rate of 4.53%, 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 2002, 2001 and 2000 with exercise prices equal to the grant date fair market value, the exercise prices and weighted average fair values of the options were $15.05 and $2.37 in 2002, $17.54 and $3.38 in 2001 and $19.94 and $3.70 in 2000, 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 $16.56 and $1.83 in 2002, $19.59 and $2.50 in 2001 and $21.93 and $2.43 in 2000, respectively.

M. ENGINEERING AND DEVELOPMENT COSTS

Engineering and development costs include research and development expenses for new products, development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled $1,887,000, $1,929,000 and $1,852,000 in 2002, 2001 and 2000 respectively. Total engineering and development costs were $6,569,000, $5,791,000 and $6,322,000 in 2002, 2001 and 2000 respectively.

N. RETIREMENT PLANS

The Company has non-contributory, qualified defined benefit pension plans covering substantially all domestic employees and certain foreign employees. Domestic plan benefits are based on years of service, and, for salaried employees, on average compensation for benefits earned prior to January 1, 1997 and on a cash balance plan for benefits earned after January 1, 1997. The Company's funding policy for the plans covering domestic employees is to contribute an actuarially determined amount which falls between the minimum and maximum amount that can be contributed for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

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

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain domestic retirees. All employees retiring after December 31, 1992, and electing to continue coverage through the Company's group plan, are required to pay 100% of the premium cost.

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

	Pension Benefits		Other Post Retirement Benefits	
	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation, beginning of year	$114,025	$109,087	$ 31,967	$ 30,227
Service cost	1,361	1,284	17	16
Interest cost	8,203	8,333	2,281	2,298
Actuarial loss	908	4,094	2,277	3,110
Benefits paid	(9,350)	(8,773)	(3,543)	(3,684)
Benefit obligation, end of year	$115,147	$114,025	$ 32,999	$ 31,967
Change in plan assets:				
Fair value of assets, beginning of year	$ 98,352	$112,689	$ -	$ -
Actual return on plan assets	1,209	(11,560)	-	-
Employer contribution	2,194	5,996	3,543	3,684
Benefits paid	(9,350)	(8,773)	(3,543)	(3,684)
Fair value of assets, end of year	$ 92,405	$ 98,352	$ -	$ -
Funded status	$(22,742)	$(15,673)	$(32,999)	$(31,967)
Unrecognized net transition obligation	388	375	-	-
Unrecognized actuarial loss	36,339	30,008	11,279	9,582
Unrecognized prior service cost	1,178	1,823	-	-
Net amount recognized	$ 15,163	$ 16,533	$(21,720)	$(22,385)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	$ -	$ 6	$ -	$ -
Accrued benefit liability	(21,739)	(14,578)	(21,720)	(22,385)
Intangible asset	1,383	1,988	-	-
Deferred tax asset	13,852	11,356	-	-
Minimum pension liability adjustment	21,667	17,761	-	-
Net amount recognized	$ 15,163	$ 16,533	$(21,720)	$(22,385)
Weighted average assumptions as of June 30:				
Discount rate	7.50%	7.50%	7.50%	7.50%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	5.00%	5.00%		

	Pension Benefits		
	2002	2001	2000
Service cost	$ 1,361	$ 1,284	$ 1,518
Interest cost	8,203	8,333	8,028
Expected return on plan assets	(8,476)	(9,837)	(8,532)
Amortization of prior service cost	124	151	672
Amortization of transition obligation	49	181	179
Unrecognized net loss	1,802	-	-
Recognized net actuarial loss	501	456	699
Net periodic benefit cost	$ 3,564	$ 568	$ 2,564

	Postretirement Benefits		
	2002	2001	2000
Service cost	$ 17	$ 16	$ 19
Interest cost	2,281	2,298	2,265
Recognized net actuarial loss	580	345	457
Net periodic benefit cost	$ 2,878	$ 2,659	$ 2,741

The pension plans held 62,402 shares of Company stock with a fair market value of $873,000 and $989,000 at June 30, 2002 and 2001, respectively.

The assumed weighted average health care cost trend rate was 10% in 2002, declining to 6% in 2006. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately $2.2 million and the service and interest cost by approximately $160,000. A 1% decrease in the assumed health care cost trend would decrease the accumulated postretirement benefit obligation by approximately $2.0 million and the service and interest cost by approximately $150,000.

The Company sponsors defined contribution plans covering substantially all domestic employees and certain foreign employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was $1,780,000, $1,591,000 and $1,699,000 in 2002, 2001, and 2000 respectively.

O. INCOME TAXES

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

	2002	2001	2000
United States	$ 568	$ 3,457	$ 367
Foreign	4,440	9,634	7,700
	$ 5,008	$13,091	$ 8,067

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

	2002	2001	2000
Currently payable:			
Federal	$ 168	$ 2,552	$ 664
State	70	101	6
Foreign	2,334	4,455	3,908
	2,572	7,108	4,578
Deferred:			
Federal	441	(564)	(137)
State	(83)	494	220
Foreign	20	(116)	(367)
	378	(186)	(284)
	$ 2,950	$ 6,922	$ 4,294

The components of the net deferred tax asset as of June 30 are summarized in the table below (in thousands).

	2002	2001
Deferred tax assets:		
Retirement plans and employee benefits	$16,371	$13,241
Alternative minimum tax credit carryforwards	690	1,453
Foreign tax credit carryforwards	920	2,414
State net operating loss and other state credit carryforwards	519	531
Other	3,791	4,124
	22,291	21,763
Deferred tax liabilities:		
Property, plant and equipment	4,620	5,631
Other	-	-
	4,620	5,631
Valuation allowance	(920)	(1,500)
Total net deferred tax assets	$16,751	$14,632

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit carryforwards. Of the $920 in foreign tax credit carryforwards at June 30, 2002, $146 will expire in 2003, $258 will expire in 2005, $223 will expire in 2006 and $293 will expire in 2007. The alternative minimum tax credit carryforwards will be carried forward indefinitely. Of the $467 of state net operating loss carryforwards at June 30, 2002, $444 will expire in 2014 and $23 will expire in 2015. Of the $52 of state credit carryforwards, $18 will expire in 2014, $17 will expire in 2015 and $17 will expire in 2016.

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

	2002	2001	2000
U.S. federal income tax at 34%	$ 1,749	$ 4,451	$2,743
Increases (reductions) in tax resulting from:			
Foreign tax items	144	234	1,387
State taxes	(298)	351	149
Valuation allowance	920	1,500	-
Disposition of investment in subsidiary	522	286	-
Other, net	(87)	100	15
	$ 2,950	$ 6,922	$4,294

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. The undistributed earnings amount to approximately $16.8 million at June 30, 2002. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

P. 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 3%. The Company has also been requested to provide administrative information related to two other potential Superfund sites but has not yet been identified as a potentially responsible party. Additionally, the Company is subject to certain product liability matters in the normal course of business.

At June 30, 2002 and June 30, 2001, the Company has accrued approximately $632,000 and $1,050,000, respectively 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.

Q. RESTRUCTURING OF OPERATIONS

During the fourth quarter of 2001, the Company recorded a pre-tax restructuring charge of $1.5 million in connection with the reduction of its workforce and consolidation of facilities. These actions were taken in an effort to streamline the Company's cost structure and utilization of available capacity at other locations. The charge included $1.0 million in employee termination and severance benefits, $0.3 million for remaining costs related to pre-existing leases, $0.1 million for the estimated loss on fixed assets which were held for disposal, and $0.1 million in miscellaneous costs. Approximately $0.7 million of the charge for employee termination and severance benefits was classified to cost of goods sold with the remaining $0.3 million charged to marketing, engineering and administrative expenses. A total of 46 employees were terminated; 22 production employees and 24 salaried employees. In 2001, the Company made cash payments of $0.1 million and also charged the $0.1 million loss on fixed assets against the reserve. As of June 30, 2001, the reserve had a balance of $1.3 million. In 2002, cash payments of $1.1 million were charged against the reserve and $0.1 million was reversed against cost of goods sold. As of June 30, 2002, a balance of $0.1 million remains, consisting primarily of reserves for idle leased facilities.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated July 19, 2002 appearing on page 11 of this form 10-K also included an audit of the information set forth in the Financial Statement Schedule listed in Item 14(a)(2)of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
- ------------------------------
PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
July 19, 2002

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
for the years ended June 30, 2002, 2001 and 2000
(In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at end of Period
2002:				
Allowance for losses on accounts receivable	$ 699	$ 336	$ 253	$ 782
Reserve for inventory obsolescence	3,346	2,178	931	4,593
2001:				
Allowance for losses on accounts receivable	$ 704	$ 157	$ 162	$ 699
Reserve for inventory obsolescence	1,371	2,470	495	3,346
2000:				
Allowance for losses on accounts receivable	$ 534	$ 371	$ 201	$ 704
Reserve for inventory obsolescence	1,161	1,212	1,002	1,371

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

SIGNATURES

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

TWIN DISC, INCORPORATED

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

September 18, 2002

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

	(By /s/ MICHAEL E. BATTEN
	(Michael E. Batten, Chairman,
	(Chief Executive Officer and Director
	(
	(
	(
September 18, 2002	(By /s/ MICHAEL H. JOYCE
	(Michael H. Joyce, President,
	(Chief Operating Officer and Director
	(
	(
	(
	(By /s/ JAMES O. PARRISH
	(James O. Parrish, Vice President-
	(Finance, Treasurer and Director
	(Chief Financial Officer)
	(Paul J. Powers, Director
September 18, 2002	(David L. Swift, Director
	(John A. Mellowes, Director
	(George E. Wardeberg, Director
	(David R. Zimmer, Director
	(David B. Rayburn, Director
	(
	(
	(By /s/ JAMES O. PARRISH
	(James O. Parrish, Attorney in Fact

CERTIFICATIONS

I, Michael E. Batten, certify that:

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

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

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

September 18, 2002

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

I, James O. Parrish, certify that:

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

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

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

September 18, 2002

/s/ JAMES O. PARRISH
James O. Parrish, Vice President-
Finance, Treasurer and Director
Chief Financial Officer

EXHIBIT INDEX
TWIN DISC, INCORPORATED
10-K for Year Ended June 30, 2002

Exhibit	Description	Filed Herewith
3a)	Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10-K for the year ended June 30, 1989).	
b)	Corporate Bylaws, as amended through June 22, 1998 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10-K for the year ended June 30, 1998).	
4a)	Form of Rights Agreement dated as of April 17, 1998 by and between the Company and the Firstar Trust Company, as Rights Agent, with Form of Rights Certificate (Incorporated by reference to Exhibits 1 and 2 of the Company's Form 8-A dated May 4, 1998).	
b)	Announcement of Shareholder Rights Plan per news release dated April 17, 1998 (Incorporated by reference to Exhibit 6(a), of the Company's Form 10-Q dated May 4, 1998).	
Material Contracts		
10a)	The 1988 Incentive Stock Option Plan (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 21, 1988).	
b)	The 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors (Incorporated by reference to Exhibit C of the Proxy Statement for the Annual Meeting of Shareholders held on October 21,1988).	
c)	Amendment to 1988 Incentive Stock Option Plan of Twin Disc, Incorporated (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).	
d)	Amendment to 1988 Non-Qualified Incentive Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 1993).	
e)	Form of Severance Agreement for Senior Officers and form of Severance Agreement for Other Officers (Incorporated by reference to Exhibit 10(c) and (d), respectively, of the Company's Form 10-K for the year ended June 30, 1989).	
f)	Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K for the year ended June 30, 1998).	
g)	Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K for the year ended June 30, 1993).	
10h)	Form of Twin Disc, Incorporated Corporate Short Term Incentive Plan (Incorporated by reference to Exhibit 10(g) of the Company's Form 10-K for the year ended June 30, 1993).	
i)	The 1998 Incentive Compensation Plan (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998).	
j)	The 1998 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998).	
21	Subsidiaries of the Registrant	X
23	Consent of Independent Accountants	X
24	Power of Attorney	X
99a	Certification pursuant to 18 U.S.C. Section 1350	X

99b	Certification pursuant to 18 U.S.C. Section 1350	X

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

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

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

2. Twin Disc Technodrive Srl (an Italian corporation)

3. Twin Disc Srl (an Italian corporation)

4. Twin Disc (Pacific) Pty. Ltd. (an Australian corporation)

5. Twin Disc (Far East) Ltd. (a Delaware corporation operating in Singapore and Hong Kong)

6. TD Electronics, Inc. (a Wisconsin corporation, dissolved as of July 1, 2002; now operating as a division of the Company.)

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

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

9. Technodrive SARL (A French corporation)

Twin Disc, Incorporated also owns 66% of NICO Transmissions Co., Inc.

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

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Twin Disc, Incorporated on Form S-8 (Twin Disc, Incorporated 1988 Incentive Stock Option Plan , Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors, Twin Disc, Incorporated 1998 Incentive Compensation Plan and Twin Disc, Incorporated 1998 Stock Option Plan for Non-Employee Directors, Twin Disc, Incorporated - The Accelerator 401K Savings Plan) of our reports dated July 19, 2002, on our audits of the consolidated financial statements and Financial Statement Schedule of Twin Disc, Incorporated as of June 30, 2002 and 2001 and for the years ended June 30, 2002, 2001 and 2000, which reports are included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
September 18, 2002

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, 2002 pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, and generally do all such things in our names and behalf as directors to enable Twin Disc, Incorporated to comply with the provisions of the Securities and Exchange Act of 1934 and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures so they may be signed by our attorneys, or either of them, as set forth below.

/s/ JOHN A. MELLOWES	)	
John A. Mellowes, Director	)	
	)	
	)	
/s/ PAUL J. POWER	)	
Paul J. Powers, Director	)	
	)	
	)	
/s/ DAVID B. RAYBURN	)	
David B. Rayburn, Director	)	
	)	
	)	July 26, 2002
/s/ DAVID L. SWIFT	)	
David L. Swift, Director	)	
	)	
	)	
/s/ GEORGE E. WARDEBERG	)	
George E. Wardeberg, Director	)	
	)	
	)	
/s/ DAVID R. ZIMMER	)	
David R. Zimmer, Director	)	

EXHIBIT 99a

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

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

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

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

September 18, 2002

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

EXHIBIT 99b

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

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

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

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

September 18, 2002

/s/ James O. Parrish
James O. Parrish
Vice President--Finance/Treasurer
Chief Financial Officer