TWIN DISC, INCORPORATED

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON
Form 10-Q

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

For the quarter ended December 31, 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 No.)
1328 Racine Street, Racine, Wisconsin	53403
(Address of principal executive offices)	(Zip Code)

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

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

At December 31 2002, the registrant had 2,807,832 shares of its common stock outstanding.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31 2002	June 30 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 8,628	$ 7,313
Trade accounts receivable, net	27,337	29,006
Inventories, net	45,554	44,504
Deferred income taxes	4,505	4,505
Other	6,922	4,126
Total current assets	92,946	89,454
Property, plant and equipment, net	29,310	29,549
Investment in affiliate	2,477	2,439
Goodwill	12,453	12,311
Deferred income taxes	12,365	12,246
Prepaid pension asset	1,383	1,383
Other assets	7,982	9,898
	$158,916	$157,280
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 1,093	$ 1,708
Current maturities on long-term debt	2,857	2,857
Accounts payable	15,196	13,042
Accrued liabilities	24,695	22,312
Total current liabilities	43,841	39,919
Long-term debt	18,584	18,583
Accrued retirement benefits	41,862	39,797
	104,287	98,299
Minority Interest	471	472
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	81,723	87,524
Accumulated other comprehensive loss	(21,737)	(23,187)
	71,639	75,990
Less treasury stock, at cost	17,481	17,481
Total shareholders' equity	54,158	58,509
	$158,916	$157,280

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

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

	Three Months Ended December 31 2002	Three Months Ended December 31 2001	Six Months Ended December 31 2002	Six Months Ended December 31 2001
Net sales	$42,794	$43,986	$79,315	$84,617
Cost of goods sold	36,114	34,024	66,705	66,109
	6,680	9,962	12,610	18,508
Marketing, engineering and administrative expenses	8,971	8,698	17,290	16,546
Restructuring of operations	2,042	-	2,042	-
Interest expense	325	444	633	932
Other(income)expense	(64)	14	(105)	(291)
	11,274	9,156	19,860	17,187
(Loss) earnings before income taxes and minority interest	(4,594)	806	(7,250)	1,321
Income taxes	(1,536)	372	(2,431)	592
(Loss) earnings before minority interest	(3,058)	434	(4,819)	729
Minority interest	(29)	(11)	1	(34)
Net (loss) earnings	($ 3,087)	$ 423	($ 4,818)	$ 695
Dividends per share	$ 0.175	$ 0.175	$ 0.35	$ 0.35
(Loss) earnings per share data:				
Basic (loss) earnings per share	($ 1.10)	$ 0.15	($ 1.72)	$ 0.25
Diluted(loss)earnings per share	($ 1.10)	$ 0.15	($ 1.72)	$ 0.25
Shares outstanding data:				
Average shares outstanding	2,808	2,808	2,808	2,808
Dilutive stock options	-	-	-	-
Diluted shares outstanding	2,808	2,808	2,808	2,808
Comprehensive income:				
Net (loss)earnings	($ 3,087)	$ 423	($ 4,818)	$ 695
Foreign currency translation adjustment	1,487	(935)	1,450	882
Comprehensive (loss) income	($ 1,600)	($ 512)	($ 3,368)	$ 1,577

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

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

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

	Six Months Ended December 31 2002	2001
Cash flows from operating activities:		
Net (loss) earnings	($4,818)	$ 695
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	2,774	2,802
Equity in earnings of affiliate	(223)	(261)
Dividends received from affiliate	185	180
Minority interest	(1)	34
Restructuring of operations	2,042	-
Write-off of impaired asset	773	-
Net change in working capital, excluding cash and debt, and other	3,617	4,571
	4,349	8,021
Cash flows from investing activities:		
Acquisitions of fixed assets	(1,764)	(758)
Proceeds from sales of fixed assets	-	19
	(1,764)	(739)
Cash flows from financing activities:		
Decrease in notes payable, net	(687)	(981)
Dividends paid	(983)	(983)
	(1,670)	(1,964)
Effect of exchange rate changes on cash	400	118
Net change in cash and cash equivalents	1,315	5,436
Cash and cash equivalents:		
Beginning of period	7,313	5,961
End of period	$ 8,628	$11,397

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. BASIS OF PRESENTATION

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

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

B. INVENTORY

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

	December 31, 2002	June 30 2002
Inventories:		
Finished parts	$35,528	$35,485
Work in process	6,038	5,668
Raw materials	3,988	3,351
	$45,554	$44,504

C. DEBT

The Company was in violation of the fixed charge coverage ratio (earnings to fixed charges) under its revolving line of credit and senior notes facilities for the quarter ended September 30, 2002. The violation under the line of credit facility was waived and borrowings under this facility, approximating $10 million were classified as long term. The Company reflected the entire $11.4 million outstanding principal balance of the senior notes, with a final maturity of June 2006, as a current liability pending a waiver and subsequent amendment of this facility.

During the second fiscal quarter, the Company obtained a waiver from the senior note holder and negotiated an amendment to future covenants. As a result of the waiver and amendment, the Company has classified the senior notes with a maturity of greater than 1 year, approximately $8.5 million, as long-term debt. In addition, the Company finalized a new three-year, $20 million revolving line of credit facility which matures on October 31, 2005. In accordance with the loan agreement, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On", between 1% and 2.75%, depending on the Company's Total Funded Debt to EBITDA ratio. As of December 31, 2002, the Company had $10 million outstanding under the facility, borrowed at LIBOR plus 2.75%. For the quarter ended December 31, 2002, the Company was in compliance with all of its financial covenants under both agreements.

D. 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 December 31, 2002 the Company has accrued approximately $632,000, which represents management's best estimate available for possible losses related to these contingencies. This amount has been provided over the past several years. Based on the information available, the Company does not expect that any unrecorded liability related to these matters would materially affect the consolidated financial position, results of operations or cash flows.

E. 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.

The Following is a listing of the activity in the warranty reserve during the period ended December 31, 2002.

	Three Months Ended December 31, 2002	Six Months Ended December 31, 2002
Reserve balance, beginning of period	$5,171,000	$5,294,000
Current period expense	1,042,000	1,702,000
Payments or credits to customers	(874,000)	(1,657,000)
Adjustment to preexisting warranties	206,000	206,000
Reserve balance, end of period	$5,545,000	$5,545,000

F. BUSINESS SEGMENTS

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

	Three Months Ended December 31		Six Months Ended December 31	
	2002	2001	2002	2001
Manufacturing segment sales	$36,428	$38,358	$66,892	$73,116
Distribution segment sales	15,671	15,673	29,520	29,808
Inter/Intra segment sales	(9,305)	(10,045)	(17,097)	(18,307)
Net sales	$42,794	$43,986	$79,315	$84,617
Manufacturing segment(loss)earnings	$(4,516)	$ 673	$(6,993)	$ 786
Distribution segment earnings	710	717	1,165	1,736
Inter/Intra segment loss	(788)	(584)	(1,422)	(1,201)
(Loss) earnings before income taxes and minority interest	$(4,594)	$ 806	$(7,250)	$ 1,321

Assets	December 31, 2002	June 30, 2002
Manufacturing segment assets	$140,878	$139,810
Distribution segment assets	30,276	30,275
Corporate assets and elimination of inter-company assets	(12,238)	(12,805)
	$158,916	$157,280

G. RECENTLY ISSUED ACCOUNTING STANDARDS

The Company adopted Statement of Financial Accounting Standards (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 as of the beginning of the fiscal year. The adoption of these Statements did not have a significant impact on the Company's results of operations or its financial position.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," related to accounting for debt extinguishments, leases, and intangible assets of motor carriers. The provisions of SFAS No. 145 are effective for the Company on July 1, 2002, however the adoption of this Statement did not have a significant impact on the Company's results of operations or its financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (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)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, accordingly management will apply the provisions of SFAS No. 146 to costs incurred in conjunction with exit or disposal activities occurring in subsequent periods. The adoption of this Statement will not affect the accounting for costs previously recorded for exit or disposal activities.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this statement are effective for entities with a fiscal year ending after December 15, 2002. The new disclosure provisions for interim financial information will first be effective for the quarter ending March 31, 2003. The adoption of this Statement will not have a significant impact on the Company's results of operations or its financial position.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34)." FIN 45 clarifies the requirements of FAS 5, "Accounting for Contingencies," relating to guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Interpretation's provisions for initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of both interim and annual periods that end after December 15, 2002. The adoption of the disclosure provisions of this Interpretation did not have a significant impact on the Company disclosures for the second quarter and the adoption of the accounting provisions of this Interpretation are not expected to have a significant impact on the Company's results of operations or its financial position.

H. RESTRUCTURING OF OPERATIONS

During the second quarter of 2003, the Company recorded a pre-tax restructuring charge of $2.0 million in connection with the reduction of its workforce. These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. The charge consists of employee termination and severance benefits for a total of 58 employees; 48 production employees and 10 salaried employees. No cash payments of these charges were made as of December 31, 2002 leaving the entire $2.0 million in the reserve as of December 31, 2002.

I. IMPAIRMENT OF LONG-LIVED ASSET

A review of long-lived assets revealed a permanent impairment in the value of a license agreement to manufacture and distribute certain products. It was determined that these assets should be subjected to FAS 144 impairment tests due to current period operating and cash flow losses generated on products sold under the agreement in conjunction with recent projections that these losses will continue. The fair value of assets being held for use was determined based on discounted cash flows generated from the use of the asset using a discount rate reflecting the Company's average cost of funds, plus salvage value. It was determined that the carrying value of the license exceeded the fair value and a charge of $0.8 million was recorded during the quarter ended December 31, 2002 to write-down this asset to its fair value. This charge was classified as a component of cost of sales pertaining to the Company's Manufacturing segment.

Item 2. MANAGEMENT DISCUSSION AND ANALYSIS

In the financial review that follows, we discuss our results of operations, financial condition and certain other information. This discussion should be read in conjunction with our consolidated financial statements and related notes.

Net revenues for the second fiscal quarter were 3 percent below year-ago levels due to weak market demand, offset by the net favorable impact of a weaker dollar on the revenues of our overseas operations. The company incurred a net loss in the quarter of $3.1 million versus a profit of $0.4 million in the same quarter last year. The net loss in the quarter includes restructuring and SFAS 144 impairment charges totaling $1.7 million after-taxes. These charges are discussed in greater detail below. In addition to these charges, the results for the quarter were negatively impacted by continued weaker than expected market recovery and an unfavorable product mix.

The general weakness in global economic activity experienced in the last six months of fiscal 2002 continued into the second quarter of fiscal 2003. Almost all of our operations have been affected by the worldwide slowdown. The weakness in pleasure craft activity continues to be the largest single factor adversely affecting sales and that impact was felt most by our Belgian manufacturing operation. Entering the second fiscal quarter, the disruption of production flow, consequent to vendor-supplied off-spec parts in the fiscal year's opening months, was normalized and we were shipping according to the original schedule by quarter's end. Sales of Arneson surface drives, for which demand has remained relatively stable, continued to outpace year-ago levels. Shipments of industrial products and marine transmissions for commercial boats were well off the pace of the second quarter last year. As a whole, sales from our distribution subsidiaries throughout the world were slightly lower than in the comparable period last year.

Consistent with continuing cost reduction efforts, Twin Disc implemented severance and voluntary separation programs during the second fiscal quarter to align the workforce with market conditions. The after tax impact of this action was to reduce net income for the quarter by $1.2 million. Combined with the SFAS 144 impairment charge recorded in the quarter, non-recurring items totaled $1.7 million after taxes. This represents approximately half of the deterioration in net income versus the second quarter last year. Profitability was also hindered by adverse product mix in addition to generally lower sales volume levels.

Marketing, engineering, and administrative (ME&A) expenses increased by three percent from last year's second fiscal quarter with the majority of the increase due to engineering development of the new marine transmission line. With slightly lower interest rates and debt dropping by about 25 percent from a year ago, interest expense continued to decline. The average income tax rate was lower than a year ago due to a greater proportion of domestic losses incurred versus overseas earnings, which are taxed at a higher rate.

The Company adopted Statement of Financial Accounting Standards (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 as of the beginning of the fiscal year. The adoption of these Statements did not have a significant impact on the Company's results of operations or its financial position.

Financial Condition, Liquidity and Capital Resources

Working capital improved by over $8 million versus the end of the first fiscal quarter. This is primarily due to the reclassification of a portion of the Company's senior notes from current to long-term, offset by an increase in accrued liabilities primarily driven by the restructuring costs incurred in the quarter. This reclassification of debt is discussed in greater detail below. The current ratio closely approximated those of the previous year-end and the same fiscal quarter last year. Increased sales volume in the quarter was accompanied by an increase in accounts receivable of $0.4 million. Net cash flows from operations were $4.3 million for the first six months, and $2.2 million for the second fiscal quarter. That cash flow provided for our financing and investing needs. Our cash balance at the end of the quarter was relatively flat to the previous quarter end. The Company's balance sheet remains strong, there are no off-balance-sheet arrangements, and we continue to have sufficient liquidity for near-term needs.

The Company was in violation of the fixed charge coverage ratio (earnings to fixed charges) under its revolving line of credit and senior notes facilities for the quarter ended September 30, 2002. The violation under the line of credit facility was waived and borrowings under this facility, approximating $10 million were classified as long term. The Company reflected the entire $11.4 million outstanding principal balance of the senior notes, with a final maturity of June 2006, as a current liability pending a waiver and subsequent amendment of this facility.

During the second fiscal quarter, the Company obtained a waiver from the senior note holder and negotiated an amendment to future covenants. As a result of the waiver and amendment, the Company has classified the senior notes with a maturity of greater than 1 year, approximately $8.5 million, as long-term debt. In addition, the Company finalized a new three-year, $20 million revolving line of credit facility which matures on October 31, 2005. In accordance with the loan agreement, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On", between 1% and 2.75%, depending on the Company's Total Funded Debt to EBITDA ratio. As of December 31, 2002, the Company had $10 million outstanding under the facility, borrowed at LIBOR plus 2.75%. For the quarter ended December 31, 2002, the Company was in compliance with all of its financial covenants under both agreements.

The Company has obligations under non-cancelable operating lease contracts and a senior note agreement 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	$ 1,093	$ 1,093			
Revolver borrowing	$10,000		$10,000		
Long-term debt	$11,441	$ 2,857	$ 5,727	$2,857	
Operating leases	$ 7,890	$ 2,605	$ 2,981	$1,152	$1,152
Total obligations	$30,424	$ 6,555	$18,708	$4,009	$1,152

New Accounting Releases

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," related to accounting for debt extinguishments, leases, and intangible assets of motor carriers. The provisions of SFAS No. 145 are effective for the Company on July 1, 2002, however the adoption of this Statement did not have a significant impact on the Company's results of operations or its financial position.

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In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34)." FIN 45 clarifies the requirements of FAS 5, "Accounting for Contingencies," relating to guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Interpretation's provisions for initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of both interim and annual periods that end after December 15, 2002. The adoption of the disclosure provisions of this Interpretation did not have a significant impact on the Company disclosures for the second quarter and the adoption of the accounting provisions of this Interpretation are not expected to have a significant impact on the Company's results of operations or its financial position.

Critical Accounting Policies

The preparation of this Quarterly 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 in the Notes to Consolidated Financial Statements in the Annual Report for June 30, 2002. There have been no significant changes to those accounting policies subsequent to June 30, 2002 other than the required adoption of SFAS No. 143 and No. 144.

Item 3. 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.

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 LIBOR plus 2.75%. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at December 31, 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 $40,000.

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 six months ended December 31, 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.

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other income (expense), net in the Consolidated Statement of Operations as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2003 and 2002 was the Euro. At December 31, 2002 the Company had net outstanding forward exchange contracts to purchase Euros in the value of $1,063,000 with a weighted average maturity of 26 days. The fair value of the Company=s contracts was approximately $38,000 at December 31, 2002. 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 $230,000 at June 30, 2002.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

As required by new Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, within the 90-day period prior to the filing of this report and under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to the certifying officers by others within the Company and its consolidated subsidiaries during the period covered by this report.

(b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls for financial reporting or in other factors that could significantly affect such internal controls subsequent to the date of such evaluation. However, in connection with the new rules, the Company has been engaged in the process of further reviewing and documenting its disclosure controls and procedures, including its internal accounting controls. The Company may from time to time make changes aimed at enhancing the effectiveness of its disclosure controls and procedures, including its internal controls, to ensure that the Company's systems evolve with its business.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 2. Changes in Securities and Use of Proceeds.

There were no securities of the Company sold by the Company during the six months ended December 31, 2002, which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4 (2) of the Act.

During the period covered by this report, the Company offered participants in the Twin Disc, Incorporated B The Accelerator 401(k) Savings Plan (the APlan@) 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 5. Other Information.

At the Annual Meeting of Shareholders held October 18, 2002, the number of votes cast for, against or abstentions with respect to each matter were as follows:

1. Election of Directors:

a) To serve until Annual Meeting in 2005:

Michael E. Batten	For: 2,507,598	Authority withheld: 12,447
David L. Swift	For: 2,497,894	Authority withheld: 22,151
David R. Zimmer	For: 2,499,894	Authority withheld: 20,228

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

Item 6. Exhibits and Reports on Form 8-K.

There were no reports on Form 8-K during the six months ended December 31, 2002.

SIGNATURE

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

TWIN DISC, INCORPORATED
(Registrant)

February 14, 2003	/S/ FRED H. TIMM
(Date)	Fred H. Timm Vice President - Administration and Secretary

CERTIFICATIONS

I, Michael E. Batten, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

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

CERTIFICATIONS

I, Christopher J. Eperjesy, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

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

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 Quarterly Report of Twin Disc, Incorporated (the "Company") on Form 10-Q for the fiscal quarter ending December 31, 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.

February 14, 2003

/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 Quarterly Report of Twin Disc, Incorporated (the "Company") on Form 10-Q for the fiscal quarter ending December 31, 2002, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Christopher J. Eperjesy, Vice President - Finance, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

February 14, 2003

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