

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON
Form 10-Q

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

For the quarter ended March 31, 1996 Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of Incorporation or organization)	39-0667110 (I.R.S Employer Identification No.)
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1328 Racine Street, Racine, Wisconsin (Address of principal executive offices)	53403 (Zip Code)
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Registrant's telephone number, including area code (414) 638-4000

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

At March 31, 1996, the registrant had 2,774,374 shares of its common stock outstanding.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31 1996 ----	June 30 1995 ----
Assets		
Cash and cash equivalents	\$ 2,438	\$ 3,741
Accounts and notes receivable	31,785	29,247
Inventories	58,459	47,157
Deferred income taxes	3,865	3,865
Other current assets	7,744	6,480
	-----	-----
Total current assets	104,291	90,490
Property, plant and equipment	109,745	109,447
Accumulated depreciation	73,668	72,099
	-----	-----
Net property, plant and equipment	36,077	37,348
Deferred income taxes	4,697	4,119
Intangible pension asset	8,293	8,293
Other assets	18,865	18,051
	-----	-----
	\$172,223	\$158,301
	-----	-----
Liabilities		
Notes payable	\$ 4,711	\$ 2,415
Accounts payable	14,556	12,395
Accrued liabilities	25,252	22,042
	-----	-----
Total current liabilities	44,519	36,852
Long-term debt	20,032	14,000
Accrued postretirement benefits	32,750	32,827
	-----	-----
Total liabilities	97,301	83,679
Shareholders' Equity		
Common stock	11,653	11,653
Retained earnings	68,878	67,054
Translation component	12,232	13,797
	-----	-----
Treasury stock	92,763	92,504
	17,841	17,882
	-----	-----
	74,922	74,622
	-----	-----
	\$172,223	\$158,301
	-----	-----
	-----	-----

Unaudited. Amounts in thousands.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	1996	1995	1996	1995
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Net sales	\$47,209	\$42,946	\$125,747	\$115,648
Cost of goods sold	35,869	33,444	98,019	90,456
	-----	-----	-----	-----
	11,340	9,502	27,728	25,192
Marketing, engineering and administrative expenses	7,934	6,746	21,196	19,542
Interest expense	399	359	1,099	939
Other (income)and expense, net	6	76	(117)	(236)
	-----	-----	-----	-----
	8,339	7,181	22,178	20,245
Earnings before income tax	3,001	2,321	5,550	4,947
Income taxes	1,193	916	2,258	1,975
	-----	-----	-----	-----
Net Earnings	\$ 1,808	\$ 1,405	\$ 3,292	\$ 2,972
	-----	-----	-----	-----
Earnings per share	\$ 0.65	\$ 0.50	\$ 1.18	\$ 1.06
	-----	-----	-----	-----
Dividends per share	\$.175	\$.175	\$.525	\$.525
Average shares outstanding	2,777	2,787	2,777	2,795
Translation component of equity				
Balance - beginning of the period	\$12,818	\$ 8,420	\$ 13,797	\$ 7,778
Translation adjustment	(586)	2,410	(1,565)	3,052
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Balance - end of the period	\$12,232	\$10,830	\$ 12,232	\$ 10,830
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Unaudited. Amounts in thousands except per share data.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31	
	1996	1995
	----	----
Cash flows from operating activities:		
Net earnings	\$ 3,292	\$ 2,972
Non-cash adjustments to net earnings:		
Depreciation	3,789	3,133
Net change in working capital, excluding cash and debt	(11,800)	(838)
	-----	-----
	(4,719)	5,267
	-----	-----
Cash flows from investing activities:		
Acquisitions of fixed assets	(2,887)	(2,748)
Proceeds from sale of fixed assets	3	29
Investments in affiliates	-	(3,168)
Investments in licenses	(1,238)	-
Dividends received	548	-
	-----	-----
	(3,574)	(5,887)
	-----	-----
Cash flows from financing activities:		
Increase (decrease) in notes payable, net	2,391	(615)
Proceeds from long-term debt	6,010	2,510
Dividend payments	(1,458)	(1,465)
Treasury stock activity	-	(524)
Proceeds from exercise of stock options	31	-
	-----	-----
	6,974	(94)
	-----	-----
Effect of exchange rate changes on cash	16	174
	-----	-----
Net change in cash and cash equivalents	(1,303)	(540)
	-----	-----
Cash and cash equivalents:		
Beginning of period	3,741	4,166
	-----	-----
End of period	\$ 2,438	\$ 3,626
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Unaudited. In thousands of dollars.

NOTES TO 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 account 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.

B. Inventory

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

	March 31	June 30
	1996	1995
	-----	-----
Inventories:		
Finished parts	\$46,423	\$32,887
Work in process	7,162	11,036
Raw materials	4,874	3,234
	-----	-----
	\$58,459	\$47,157
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C. Contingencies

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

At March 31, 1996, the Company has accrued approximately \$1,200,000, which represents the best estimate available for the possible losses. This amount has been accrued 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Stable order rates continued to provide the foundation for year-to-year improvements in sales volume. Consolidated sales were up 10 percent from the third quarter last year and are about 9 percent ahead for the nine months. Net earnings were almost 30% higher than last year's third quarter as a result of the higher sales and improved manufacturing productivity overseas.

Quarterly net sales from domestic manufacturing operations were about 18 percent higher than a year ago. That increase does not include much recovery of the sales lost to disruptions in the second quarter. The business system implementation problems causing that shortfall have been corrected, but full recovery of those sales will extend into the next quarter. The largest component of the sales increase was marine transmission shipments for use in fishing boats and other commercial applications. Shipments of transmissions for large farm tractors and specialty vehicles and torque converters for gas turbine starting drives also were up from last year.

Sales from our Belgian manufacturing subsidiary increased by more than 10 percent over last year. Most of the growth was in shipments of marine transmissions for pleasure craft applications and mobile torque converters for construction equipment.

Most of our marketing operations, both domestic and overseas, showed improvement over earlier quarters this year and reported double digit increases over last year's third quarter.

The gross margin for the three months was ahead of last year and compared favorably with previous quarters this fiscal year. As in earlier periods, the improvement was due primarily to increased production volume, greater productivity in Europe, and a favorable product mix. Domestic manufacturing margins improved from the first half of the year but were about the same as a year ago. Additional expense was incurred during the quarter as temporary workers were needed to facilitate our transition to the new business systems. That added cost will be eliminated during the fourth quarter.

Marketing, engineering and administrative expenses increased by almost 18 percent compared with last year's third quarter and were well ahead as a percent of sales. There were a number of causes, and approximately one-quarter of the increase was for non-recurring items. Marketing and engineering staffing increases, higher expense associated with new product promotion and other marketing expenses, and additional fixed costs associated with new computer systems were the more significant items and accounted for about half of the increase. Interest expense rose by 11 percent as the cost of carrying a higher debt level was mitigated by domestic interest rate declines.

Working capital increased by \$6 million during the quarter, about the same as the change since the beginning of the fiscal year. However, the current ratio, at 2.3, has had only minor changes in the first nine months. The cash flow from earnings and depreciation covered investment in fixed assets and dividends but was not sufficient to fund the growth in working capital. A significant increase in current assets, primarily domestic inventory, required additional borrowing. Although inventory change for the quarter was in line with the higher sales, domestic manufacturing inventories have grown by more than 20 percent since year-end. Much of the increase early in the year was caused by an increase in past due orders; and while that situation has improved, the resultant inventory reduction has been offset by material purchases to serve production requirements of the Czech contract. Programs to reduce inventory to an acceptable turnover level are in place and should provide positive results in the coming quarter. While the additional borrowing has increased our leverage, we continue to maintain a strong balance sheet. Liquidity is sufficient to cover our near-term needs.

OTHER INFORMATION

There were no reports on Form 8-K during the three months ended March 31, 1996. The financial statements included herein have been subjected to a limited review by Coopers & Lybrand L.L.P., the registrant's independent public auditors, in accordance with professional standards and procedures for such review.

There were no securities of the Company sold by the Company during the three months ended March 31, 1996, 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.

SIGNATURE

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

TWIN DISC, INCORPORATED
(Registrant)

May 13, 1996

(Date)

/s/ Fred H. Timm

Fred H. Timm
Corporate Controller/Secretary
(Chief Accounting Officer)

Report of Independent Accountants

Board of Directors
Twin Disc, Incorporated
Racine, Wisconsin

We have reviewed the condensed consolidated balance sheet of Twin Disc, Incorporated and subsidiaries as of March 31, 1996, and the related condensed consolidated statements of operations and cash flows for the three and six-month periods ended March 31, 1996 and 1995. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of June 30, 1995, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated July 28, 1995, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 1995, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/

Coopers & Lybrand

Milwaukee, Wisconsin
April 11, 1996

EXHIBIT 15

Awareness Letter of Independent Accountants

Securities and Exchange Commission
Washington, D.C.

RE: Twin Disc, Incorporated

We are aware that our report dated April 11, 1996 on our review of interim financial information of Twin Disc, Incorporated for the three and nine-month periods ended March 31, 1996 and 1995 and included in the Company's quarterly report on Form 10-Q for the quarter then ended, is incorporated by reference in the registration statements of Twin Disc, Incorporated on Form S-8 (Twin Disc, Incorporated 1988 Incentive Stock Option Plan and Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors). Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

/S/

Coopers & Lybrand

Milwaukee, Wisconsin
April 11, 1996

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE TWIN DISC, INCORPORATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SET FORTH IN THE THIRD QUARTER REPORT TO SHAREHOLDERS FOR THE NINE MONTHS ENDED MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS			
	JUN-30-1995		
	MAR-31-1996		
		2,438	
		0	
		32,144	
		359	
		58,459	
	43,464		109,745
		73,668	
	172,223		
44,519		20,032	
		11,653	
	0		
		0	
		63,269	
172,223		125,747	
	125,747		98,019
		98,019	
		0	
		0	
	1,099		
	5,550		
		2,258	
1,484			
		0	
		0	
			0
		1,484	
		1.18	
		1.18	