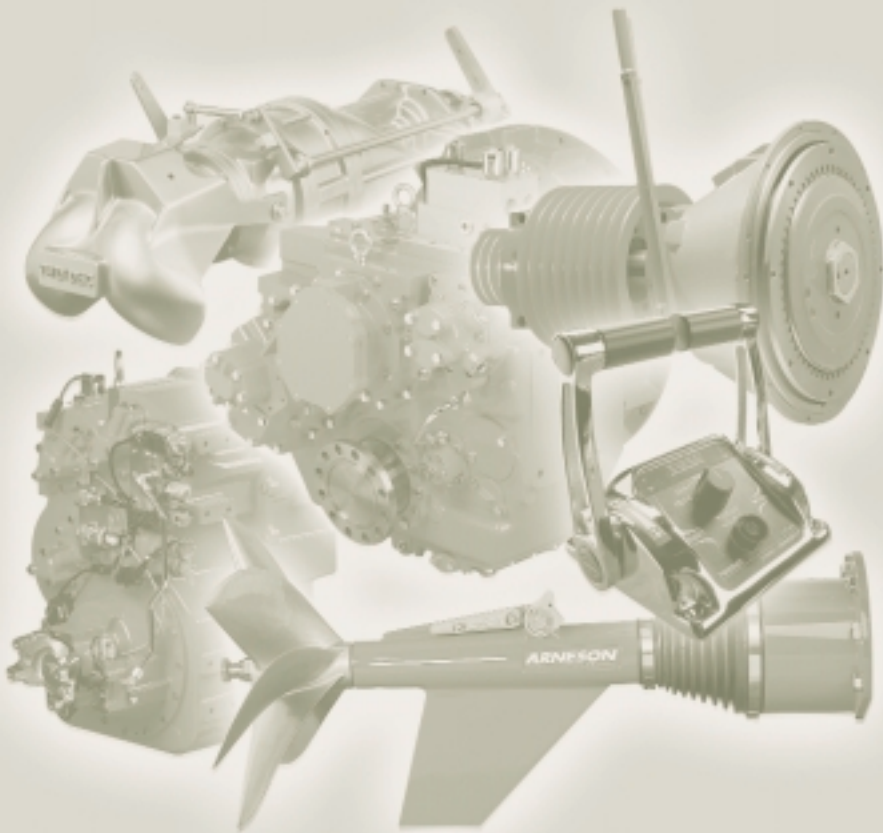


Twin Disc, Incorporated
Annual Report 2001

TWIN DISC, INCORPORATED is an international manufacturer and distributor of heavy-duty off-highway power transmission equipment. Company engineers work hand-in-hand with customers and engine manufacturers to design products with characteristics unique to their specific applications. Twin Disc supplies the commercial, pleasure craft and military segments of the marine market with transmissions, surface and waterjet drives and electronic controls. Its off-highway transmission products are used in agricultural, all-terrain specialty vehicle and military applications. Twin Disc also sells industrial products such as power take-offs, mechanical, hydraulic, and modulating clutches and control systems to the agricultural, environmental and energy and natural resources markets. The Corporation, which is a multinational organization headquartered in Racine, Wisconsin, currently has a diverse shareholder base with approximately one-third of the outstanding shares held by management, active and retired employees and other long-term investors.



Twin Disc, Incorporated
Financial Highlights

	2001	2000	1999
Net Sales	\$180,786	\$177,987	\$168,142
Net Earnings (Loss)	6,169	3,773	(1,018)
Basic Earnings (Loss) Per Share	2.20	1.34	(0.36)
Diluted Earnings (Loss) Per Share	2.20	1.34	(0.36)
Dividends Per Share	0.70	0.70	0.805
Average Shares Outstanding For The Year	2,807,832	2,820,534	2,834,909
Fully Diluted Shares Outstanding For The Year	2,807,955	2,820,730	2,843,877

Sales and Earnings by Quarter

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 (Loss)	906	960	4,033	270	6,169
Basic Earnings (Loss) Per Share	0.32	0.34	1.44	0.10	2.20
Diluted Earnings (Loss) Per Share	0.32	0.34	1.44	0.10	2.20
Dividends Per Share	0.175	0.175	0.175	0.175	0.700
Stock Price Range (High-Low)	17 ¹³ / ₁₆ - 15 ³ / ₄	17 ⁵ / ₁₆ - 14 ¹ / ₄	15 ³ / ₃₂ - 13 ¹ / ₁₆	17 ¹⁹ / ₆₄ - 14 ¹ / ₄	17 ¹³ / ₁₆ - 13 ¹ / ₁₆

2000					
Net Sales	\$35,277	\$44,342	\$49,467	\$48,901	\$177,987
Gross Profit	6,856	9,952	11,590	12,960	41,358
Net Earnings (Loss)	(897)	693	1,726	2,251	3,773
Basic Earnings (Loss) Per Share	(0.32)	0.25	0.61	0.80	1.34
Diluted Earnings (Loss) Per Share	(0.32)	0.25	0.61	0.80	1.34
Dividends Per Share	0.175	0.175	0.175	0.175	0.700
Stock Price Range (High-Low)	20 ³ / ₈ - 16 ¹ / ₂	16 ⁵ / ₈ - 11	18 ⁵ / ₁₆ - 11 ⁷ / ₈	17 ⁹ / ₁₆ - 15 ⁷ / ₁₆	20 ³ / ₈ - 11

In thousands of dollars except per share and stock price range statistics.

Twin Disc, Incorporated
To Our Shareholders
2001

Fiscal 2001 net earnings improved to \$6.2 million, or \$2.20 per share, from \$3.8 million, or \$1.34 per share, a year ago. Net sales increased modestly to \$181 million from \$178 million last year.

We recorded two significant one-time events in fiscal 2001. In the third quarter the company reported a one-time pre-tax gain of \$3.9 million, or \$.81 per share after tax, reflecting the sale of our investment in Niigata Converter Company (NICO). In the fourth quarter restructuring and other one-time pre-tax charges were taken in the amount of \$3.4 million, or \$.75 per share after tax.

Operations Review] The robust demand levels established in fiscal 2000 continued in the current fiscal year until easing in the second half. Shipments of pleasure craft marine transmissions, surface drives and certain vehicular transmissions were steady, while commercial marine transmissions saw some improvement. Shipments of industrial power take-offs were strong through the first quarter, but moderated during the balance of the year.

The strengthening U.S. dollar, especially against the Euro during the past two years had mixed effects on orders and profitability. Domestically produced goods experienced strong pricing pressures from European-based competition, while our overseas manufacturing operations benefited from the same competitive posture. On balance, operating income improved.

Domestic operations implemented aggressive cost-reduction and margin-enhancement activities during the year and benefited from a more favorable mix of sales, resulting in increased domestic margins despite a modest improvement in sales.

Results of our wholly owned distribution companies were affected by restructuring costs, other one-time charges and the effect of currency translation. Excluding the effect of these items, performance improved year over year.

Cash Flow and Financial Condition] The company continues to maintain good cash flows and a strong financial condition. Cash flows from operations totaled \$7.4 million—up slightly from the \$6.9 million in fiscal 2000. Capital expenditures were \$3.5 million compared with \$2.1 million last year and dividends of almost \$2.0 million were paid in both fiscal years.

Using the proceeds from the sale of our investment in NICO and the cash flows generated by the reduction in

receivables and inventory, debt was reduced by \$8 million during the year. At June 30, 2001 total debt stood at \$31 million or 35 percent of total capitalization.

Our defined benefit pension plans are well funded on a cash basis, but the weak equity markets last spring caused asset values to decline to a level that required a sizeable accounting adjustment. The adjustment did not affect primary earnings but was reflected in comprehensive income and several balance sheet items. The most significant impact of the non-cash charge was the reduction of equity by \$17.8 million, somewhat larger than a similar adjustment made in fiscal 1999, which was subsequently reversed a year later.

Strategic Initiatives] Growth Our Growth Challenge is to attain \$300 million in revenues by fiscal 2003.

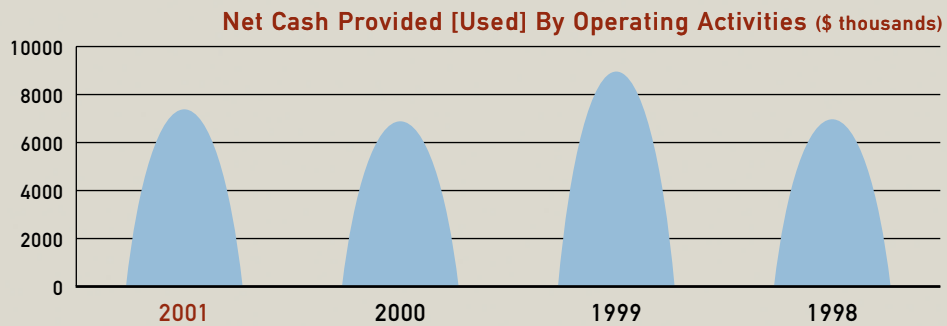
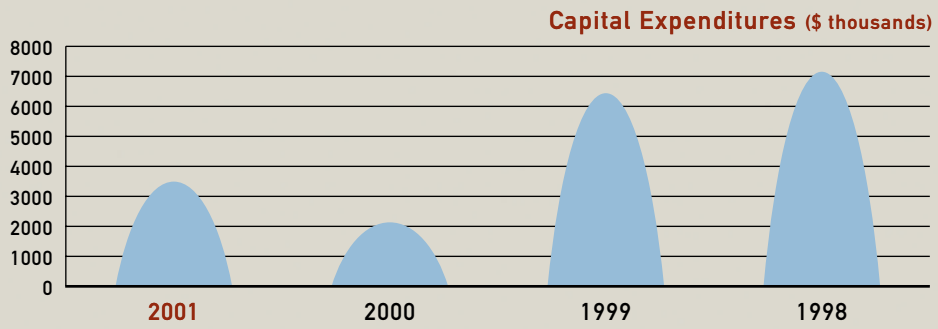
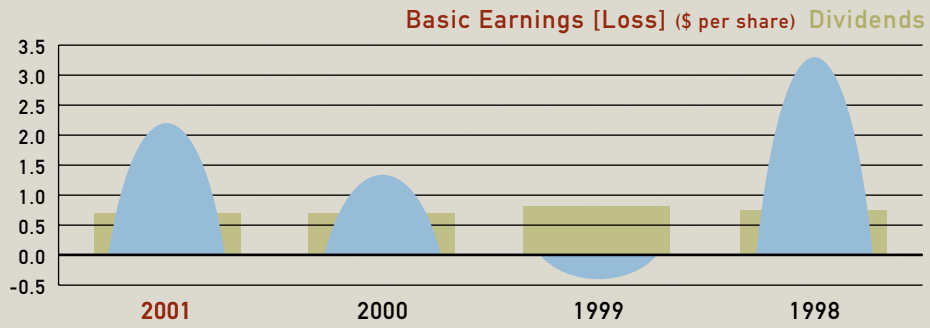
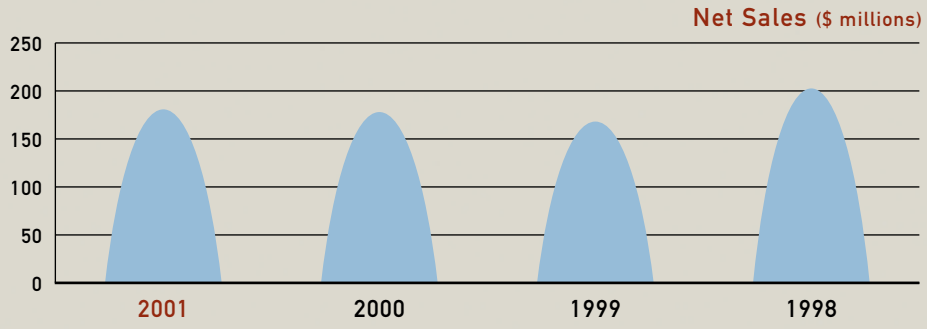
In pursuit of this objective, we concluded negotiations with our joint-venture partner, Niigata Engineering Company, to sell our minority investment in Niigata Converter Company and to form a new majority-owned joint-venture partnership—NICO Transmission Co. Inc. (NTC). The establishment of NTC continues a 48-year relationship with Niigata Engineering.

The new agreement provides Twin Disc with exclusive distribution rights for NICO transmissions up to 4,000 horsepower outside of Japan and Korea as well as the capability of rationalizing NICO's and Twin Disc's marine product lines in the future. The objective will be to reduce product overlap and migrate to a single integrated marine transmission product line to serve our global market. NTC also will represent NICO's remaining product line on a global basis.

We continue to seek a balance of growth through internal development and acquisition. However, in order to reach our Challenge we will need more emphasis on external growth.

People We continue to devote significant attention to developing our human resources with very encouraging results. During the past year we initiated a program to manage personal growth designed to align individual career and corporate objectives. About 40 percent of our employees have been introduced to the program to date, and we intend to have all employees participating by the end of fiscal 2002.

In today's global economy we find that more and more of our employees are required to have a broader range of skills in their jobs, including interfacing with other cultures and languages, managing global business systems and dealing with multiple currencies. It also means manufacturing at a



faster throughput with lower inventory and fewer people. We are proud of all of our associates and staff for the way they are stepping up to the challenges of learning to do business in this increasingly competitive environment.

Quality As we often have stated, we view our commitment to quality in terms of total customer satisfaction, which is embodied in two simple directives. Our products must meet the highest standards of technical excellence, and our customers must receive exemplary service and support.

Everything we do is targeted at achieving total customer satisfaction. On-time delivery has been a top priority and significant progress has been made in shortening lead-times and meeting customer demands. In addition, new initiatives to improve our field service support have been implemented with positive customer feedback.

Performance Our Corporate Challenge is to maintain at least a 10 percent average compound growth rate in earnings over a three-year period and to earn a return on net assets employed (RONAE) of at least 18 percent. Excluding the effect of one-time gains or charges in fiscal 2001, net earnings increased 55 percent from fiscal 2000 continuing the favorable earnings trend reestablished last year. We are benefiting from aggressive programs to source components globally, restructure product lines and reduce fixed costs for greater efficiency.

RONAE increased to 10.9 percent from 8.2 percent last year reflecting improved margins as well as lower asset

investment. During the year inventories were reduced \$3.7 million, reinforcing initiatives already undertaken.

Outlook] As we enter fiscal 2002, our outlook is mixed. Given the ongoing economic softness and a seasonally weak first quarter, business in the short-term will be difficult, leading to unfavorable year-to-year comparisons early in the new fiscal year. Twin Disc's backlog of new orders to be shipped in the next six months now stands at \$39 million, down 19 percent from the \$48 million reported at the end of the third quarter. We recently have been awarded two military contracts, the majority of which is not reflected in this backlog. The contracts have a combined value of \$10 million and will commence in November 2001 with production scheduled through the fall of 2002.

We are further encouraged by evolving trends that we believe will lead to an improving scenario through the balance of the year. Our land-based industries appear to have weathered the worst of the softness, as exemplified by the interest in our new 8500 and revamped 2400 Series transmissions used in the oil-extraction industry. Demand for industrial power take-offs also has begun to show signs of recovery, and orders for propulsion products are holding up better than expected.

While the near-term outlook is guarded, we believe demand will stabilize and strengthen as we move through the new year.



Michael H. Joyce
President, Chief Operating Officer

Michael E. Batten
Chairman, Chief Executive Officer



MARINE PRODUCTS



Pleasure Craft Market

Twin Disc sales of marine transmissions into the North American pleasure craft market increased in FY 2001 over strong sales in FY 2000. Our overall strong sales in this sector

were a result of a growing market, our ability to take advantage of the weak European currency and supply product from our facilities in Belgium and Italy and the introduction of new competitive products.

The introduction of new marine transmission models contributed to increased sales to European OEMs and distributors compared to FY 2000. The markets in the Pacific Basin, especially

Australia, also benefited from improved demand.

While the first three quarters produced new orders beyond our forecasted level of business, we finished the year with a weaker backlog of business going into FY 2002. The significant reversal in fortunes in the global technology sector and its impact on the various stock exchanges have led to a sharp softening in demand for pleasure craft.

By the end of the year, only the largest sport fishing boats and yachts still had healthy backlogs of orders.



Work Boat Market

In North America, the commercial marine market remained steady at a moderate level of activity throughout the year.

New construction of fishing trawlers and crew boats required to support offshore drilling and production platforms continued to be the strongest segments of the work boat business. Higher oil and gas prices have spurred demand in the crew and supply boat markets around the world.

Because production of these higher horsepower marine transmissions is centered at our American facility, the continuing strength of the U.S. dollar hampered our ability to grow export markets. These products faced stiff competition not only in the U.S. market but also in Europe and the Pacific Basin.

As noted elsewhere, during the fiscal year we restructured our joint venture with Niigata Engineering Co. of Japan. The new venture – NICO Transmissions Co. – gives Twin Disc, among other things, the ability to rationalize the primarily commercial marine product lines up to 4,000 horsepower and thereby eliminate duplicate

models, engineering and manufacturing investment. As a result, we will have a more competitive offering while retaining the capability of manufacturing in three economic zones to serve customers worldwide.

MARINE PROPULSION PRODUCTS



Sales of propulsion products were up over the previous year, primarily due to aggressive marketing of Arneson Surface Drives for military and pleasure craft applications. Improved sales were also seen in our Marine Jets and Electronic Controls.

Twin Disc Italy showed improved sales this year to European boat builders who produce luxury cruisers for the European and American markets. In addition, we made a significant new application with an American boat builder who had entered production with

an Arneson Drive on a new series of high performance Poker Run boats.

INDUSTRIAL PRODUCTS



Power Take-Offs, Pump Drives, Gas Turbine Starting Drives Twin Disc acquisitions made in 1999 continue to provide positive benefits to our industrial business. The clutch and power take-off group had good results, maintaining near record levels as a result of the irrigation, oilfield, construction and recycling markets. Pump drives manufactured by Twin Disc Technodrive are finding increased requirements in many industrial applications in Europe. They also are gaining a new customer base in North America.

Applications for gas turbine starting drives and Universal Control Drives (UCDs) are growing with

the increasing demand for new electrical energy supplies.



Transmissions Twin Disc automatic transmission systems are targeted at the global "All-Wheel-Drive" on/off-highway vehicle market. This last year evidenced new vehicle applications for Aircraft Rescue and Fire Fighting (ARFF) and military tactical vehicles that will develop into new future business and long-term contracts.

Our combat vehicle military business continues strong with ongoing contracts for transmission systems and fan drives.

During the last year we introduced our new 8500 Series transmission for the oil and natural gas markets. This transmission, rated at 3000 horsepower for fracturing service, is being well received by customers in our oilfield market, and we see good future demand.

**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, 2001**

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 Number)

1328 Racine Street, Racine, Wisconsin
(Address of Principal Executive Office)

53403
(Zip Code)

(262)638-4000

Registrant's Telephone Number, including area code

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 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.

At September 1, 2001, the aggregate market value of the common stock held by non-affiliates of the registrant was \$32,016,095. Determination of stock ownership by affiliates was made solely for the purpose of responding to this requirement and registrant is not bound by this determination for any other purpose.

At September 1, 2001, the registrant had 2,807,832 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The incorporated portions of such documents being specifically identified in the applicable Items of this Report.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held October 19, 2001 are incorporated by reference into Part III.

PART I

Item 1. Business

Twin Disc designs, manufactures and sells heavy duty off-highway power transmission equipment. Products offered include: hydraulic torque converters; power-shift transmissions; marine transmissions and surface drives; universal joints; gas turbine starting drives; power take-offs and reduction gears; industrial clutches; fluid couplings and control systems. The Company sells its product to customers primarily in the construction equipment, industrial equipment, government, marine, energy and natural resources and agricultural markets. The Company's worldwide sales to both domestic and foreign customers are transacted through a direct sales force and a distributor network. There have been no significant changes in products or markets since the beginning of the fiscal year. The products described above have accounted for more than 90% of revenues in each of the last three fiscal years.

Most of the Company's products are machined from cast iron, forgings, cast aluminum and bar steel which generally are available from multiple sources and which are believed to be in adequate supply.

The Company has pursued a policy of applying for patents in both the United States and certain foreign countries on inventions made in the course of its development work for which commercial applications are considered probable. The Company regards its patents collectively as important but does not consider its business dependent upon any one of such patents.

The business is not considered to be seasonal except to the extent that employee vacations are taken mainly in the months of July and August curtailing production during that period.

The Company's products receive direct widespread competition, including from divisions of other larger independent manufacturers. The Company also competes for business with parts manufacturing divisions of some of its major customers. Ten customers accounted for approximately 47% of the Company's consolidated net sales during the year ended June 30, 2001. Sewart Supply, Inc., an independent distributor of Twin Disc products, accounted for approximately 11% of consolidated net sales in 2001.

Unfilled open orders for the next six months of \$39,405,000 at June 30, 2001 compares to \$52,991,000 at June 30, 2000. 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 \$1,942,000, \$1,852,000 and \$2,505,000 in 2001, 2000, and 1999, respectively. Total engineering and development costs were \$6,309,000, \$6,322,000 and \$7,829,000 in 2001, 2000 and 1999, 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, 2001 was 986.

A summary of financial data by segment for the years ended June 30, 2001, 2000 and 1999 appears in Note J to the consolidated financial statements on pages 19 through 21 of this form.

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

Loves Park, Illinois, U.S.A.	Perth, Western Australia, Australia
Coburg, Oregon, U.S.A.	Singapore
Kent, Washington, U.S.A.	Shanghai, China
Edmonton, Alberta, Canada	Viareggio, Italy
Vancouver, British Columbia, Canada	

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 consent decree was signed on October 17, 1991, and filed with the federal court in the Northern District of Illinois. The Company's total potential liability on the site cannot be estimated with particularity until a final remedy is selected by the IEPA and an allocation scheme is adopted by the parties. The IEPA is expected to issue its decision by early fall, 2001. 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. 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 19, 2001.

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer since 1983	61
Michael H. Joyce	President - Chief Operating Officer since 1995	60
James O. Parrish	Vice President - Finance and Treasurer since 1982	61
Lance J. Melik	Vice President - Transmission and Industrial products since June 1999 and Vice President - Corporate Development since September 1995	58
Paul A. Pelligrino	Vice President - Engineering since 1996	62
Henri Claude Fabry	Vice President - Marine and Distribution since June 1999; formerly Director of Marketing and Sales, Twin Disc International S.A. since February 1997; formerly Managing Director of Marine Power Europe since 1985	55
James E. Feiertag	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	44
Fred H. Timm	Corporate Controller and Secretary since 1995	55

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.

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, 2001			Fiscal Year Ended June 30, 2000		
	High	Low		High	Low
First Quarter	17 ¹³ / ₁₆	15 ³ / ₄	First Quarter	20 ³ / ₈	16 ¹ / ₂
Second Quarter	17 ⁵ / ₁₆	14 ¹ / ₄	Second Quarter	16 ⁵ / ₈	11
Third Quarter	15 ³ / ₃₂	13 ¹ / ₁₆	Third Quarter	18 ⁵ / ₁₆	11 ⁷ / ₈
Fourth Quarter	17 ¹⁹ / ₆₄	14 ¹ / ₄	Fourth Quarter	17 ⁹ / ₁₆	15 ⁷ / ₁₆

Quarterly dividends of \$0.175 per share were declared and paid for each of the quarters above. As of June 30, 2001 there were 1,060 shareholder accounts.

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.

Item 6. Selected Financial Data

Financial Highlights

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

Statement of Operations Data:	For the years ended June 30,				
	2001	2000	1999	1998	1997
Net sales	\$180,786	\$177,987	\$168,142	\$202,643	\$189,942
Net earnings (loss)	6,169	3,773	(1,018)	9,363	7,729
Basic earnings (loss) per share	2.20	1.34	(.36)	3.30	2.78
Diluted earnings (loss) per share	2.20	1.34	(.36)	3.24	2.75
Dividends per share .....	.70	.70	.805	.76	.70
Balance Sheet Data (at end of period):					
Total assets	156,734	174,190	176,900	160,954	158,755
Total debt	31,058	38,682	40,127	20,225	20,113

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

Results of Operations

Net Sales, New Orders and Backlog

There was a small increase in revenues in fiscal 2001 following the modest improvement a year earlier. While sales improved, demand from our various markets was mixed and the strong dollar heightened competitive pressure. Order rates declined throughout the most recent fiscal year after an improvement in fiscal 2000. The backlog of orders scheduled for shipment during the next six months (six-month backlog) increased 32 percent to \$53 million at June 2000 but dropped by 26 percent to \$39 million by the end of fiscal 2001.

Net sales of \$178 million in fiscal 2000 were six percent ahead of the previous fiscal year and rose another two percent to \$181 million in fiscal 2001. Order rates improved early in fiscal year 2000, and year-over-year improvements in shipments began in the second fiscal quarter. The most significant components of the year 2000 improvement were registered within our domestic manufacturing operation. Shipments of power take-offs, attributable to the product line purchased in fiscal 1999; higher-horsepower marine transmissions used in commercial boats; power-shift transmissions for construction applications; and aftermarket parts sales all contributed to the increase. Shipments from our Belgian plant of lower-horsepower marine transmissions also increased slightly as demand for their use in pleasure craft applications remained steady; and shipments from our Italian manufacturing subsidiary acquired in fiscal 1999 contributed for the full year.

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 the year progressed, we experienced a 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 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 ago levels.

Shipments from our wholly owned distribution companies, primarily those offshore, rebounded in fiscal 2000 after the modest decline in 1999; and that improvement continued in fiscal 2001. Recovering economies, particularly in the Pacific Rim, were a positive influence, but the stronger dollar intensified competition and inhibited realization of the full market potential.

The U.S. dollar strengthened against most currencies in each of the last three fiscal years, particularly Asian currencies in fiscal 1999 and the Euro in fiscal 2000 and 2001, resulting in two negative influences on revenues. There was increased pricing pressure from non-dollar based competition, and sales from our offshore subsidiaries were down when translated into U.S. dollars for reporting. An offsetting favorable impact was the improved margins on dollar-denominated shipments from our Belgian subsidiary. Price increases, implemented selectively in each year, generated revenues about equal to the rate of inflation.

At the end of fiscal 2000, six-month backlog was \$53 million, a substantial increase from the prior year-end. The improvement was due mainly to improved demand for commercial marine and certain industrial products. As fiscal 2001 opened, order rates began to decline in selected markets, most notably industrial products, and that continued through the year. By the end of fiscal 2001 industrial products demonstrated evidence of some recovery in demand, but the order rate for marine transmissions had fallen. As a result, the six-month backlog at the end of fiscal 2001 had declined to \$39 million, 26 percent below the prior year-end.

Margins, Costs and Expenses

Manufacturing method and process improvements as well as programs to reduce inventory and manage assets more effectively have been part of our on-going efforts to improve operating margins. We also have given constant attention to fixed costs so that greater profitability can be achieved, especially during cyclical downturns.

The gross margin increased by almost two percentage points in fiscal 2000 with all manufacturing operations showing improvement. Domestically, higher production volume, a favorable product mix, strict control of general manufacturing costs, and the cost benefit of fiscal 1999 manufacturing personnel reductions were the most significant factors. Overseas, productivity improvements, expansion of the production workweek, and the favorable impact of sales denominated in the relatively strong dollar provided added profitability.

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 recorded several one-time charges against operations for inventory obsolescence and product warranty issues. Although the fourth-quarter margin was down somewhat from the comparable period a year ago, it was consistent with previous fiscal 2001 quarters.

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.

Recognizing the reduced order activity in the latter half of fiscal year 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, reserves were taken for the rationalization of several smaller branches and operations whose markets will continue to be served from other locations.

Early in fiscal 2001, we closed our wholly owned distribution company in Spain and engaged an existing 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.

Interest, Taxes and Net Earnings

Interest expense increased sharply in fiscal 2000 primarily due to the increased debt needed to finance acquisitions in fiscal 1999. In fiscal 2001, interest declined as debt was reduced by \$8 million and, although the majority of our debt is in fixed-rate notes, we also benefited from the drop in U.S. interest rates. In the last fiscal quarter, settlement of a federal tax issue allowed the reversal of previously accrued interest expense; and that further reduced fiscal 2001 interest expense.

The substantial tax provision on almost-breakeven pre-tax earnings in fiscal 1999 was caused by lower tax rates on losses domestically, offset by higher rates on income overseas; and by the lack of a recordable tax benefit on the provision for loss on the closure of our South African distribution subsidiary. In fiscal 2000 and again in fiscal 2001, limitations on foreign tax credit utilization, continued high proportion of foreign earnings, and settlement of some state tax issues resulted in an unusually high effective tax rate. Statutory rates generally have remained unchanged.

Liquidity and Capital Resources

The net cash provided by operating activities in fiscal 2000 was almost \$7 million, down approximately \$2 million from the previous year. Positive cash flows from earnings, depreciation, and working capital reductions were partially offset by increased contributions to Company pension funds. In fiscal 2001, net cash provided by operations remained about \$7 million with earnings, depreciation and asset reduction the primary components.

Expenditures for capital equipment were reduced from plan to conserve cash during the fiscal 1999 downturn. For the past two years, spending has been well below depreciation as we have been more rigorous in establishing capital budgets that are consistent with long-term manufacturing strategy. Looking forward, we expect the level of capital spending will rise as necessary to provide for more efficient machinery and to allow further refinement of individual manufacturing cells.

Working capital and the current ratio dropped in fiscal 1999 as short-term debt was used to finance acquisitions. Early in fiscal 2000, the short-term borrowings were replaced with a term revolver and those liquidity measures returned to more normal levels. At the end of each of the last two fiscal years, working capital has been approximately \$50 million with the current ratio unchanged at 2.2.

The book value of the Company, and thus its reported capital structure, changed significantly at each of the last three fiscal year-ends. It was reduced by a non-cash charge to equity of \$11.1 million at June 30, 1999. The charge was caused primarily by using a more conservative mortality table to estimate pension liabilities and generally reflected the amount by which those liabilities exceeded plan assets. In fiscal 2000, the charge was reversed as a result of good market return on plan assets and equity increased by a similar amount. Then in the most recent year, poor market performance reduced plan assets and required a new non-cash charge to equity of \$17.8

million, net of tax. In accordance with applicable accounting standards, the after-tax effects of the changes were charged directly to equity and shown in comprehensive income but did not affect reported primary earnings. In addition, the aforementioned non-cash accounting adjustment reflects, in large part, a mismatch between cash contributed to the plan and the expense charged against operations and does not indicate a need for large cash contributions. Our pension plans are well funded.

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

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

Note on Forward-Looking Statements

Statements in this report 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.

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 of Notes to Consolidated Financial Statements on pages 15 through 16 of this form.

Interest rate risk - The Company currently has lines of credit bearing interest predominantly at the prime interest rate minus .75%. Due to the relative stability of interest rates, the Company does not utilize any financial instruments to manage interest rate risk exposure.

Commodity price risk - The Company is exposed to the 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. 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 transactions denominated in foreign currencies. Gains and losses from foreign currency transactions are included in earnings. At June 30, 2001 and 2000, the Company had outstanding forward exchange contracts to purchase 208,189,000 and 189,972,000 Belgian francs at a cost of \$4,500,000 and \$4,500,000, respectively. The contracts have a weighted average maturity of 48 days and 40 days, respectively. In addition, the Company had outstanding forward foreign exchange contracts to sell 776,913,000 Italian Lira for \$345,000. The contracts have a weighted average maturity of 21 days as of June 30, 2001.

Item 8. Financial Statements and Supplementary Data

See consolidated financial statements and Financial Statement Schedule on Pages 9 through 27 of this form.

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

	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>	<u>Year</u>
2001					
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
2000					
Net sales.	\$35,277	\$44,342	\$49,467	\$48,901	\$177,987
Gross profit.	6,856	9,952	11,590	12,960	41,358
Net earnings.	(897)	693	1,726	2,251	3,773
Basic earnings per share	(.32)	.25	.61	.80	1.34
Diluted earnings per share.	(.32)	.25	.61	.80	1.34
Dividends per share . . . . .	.175	.175	.175	.175	.70

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 19, 2001, 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 19, 2001, 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 19, 2001 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 19, 2001 under the caption "Principal Shareholders, Directors and Executive Officers" and incorporated into this report by reference.

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

Item 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a)(1) Consolidated Financial Statements

See "Index to Consolidated Financial Statements and Financial Statement Schedule," below, the Report of Independent Accountants on page 10 and the Consolidated Financial Statements on pages 11 to 26, 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," below, the Report of Independent Accountants on Financial Statement Schedule and the Consolidated Financial Statement Schedule on page 27, 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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, 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 20, 2001, except as to Note G
which is as of August 1, 2001

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

JUNE 30, 2001 and 2000

(Dollars in thousands)	<u>2001</u>	<u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,961	\$ 5,651
Trade accounts receivable, net	27,058	28,828
Inventories, net	46,492	50,190
Deferred income taxes	8,330	-
Other	<u>3,925</u>	<u>5,333</u>
Total current assets	91,766	90,002
Property, plant and equipment, net	31,584	34,303
Investments in affiliates	2,358	6,968
Goodwill, net	13,719	14,401
Deferred income taxes	6,302	4,416
Intangible pension asset	1,988	-
Prepaid pension asset	-	14,335
Other assets	<u>9,017</u>	<u>9,765</u>
	<u>\$156,734</u>	<u>\$174,190</u>
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 4,797	\$ 4,571
Current maturities on long-term debt	2,857	2,857
Accounts payable	10,368	11,571
Deferred income taxes	-	1,157
Accrued liabilities	<u>23,428</u>	<u>20,752</u>
Total current liabilities	41,450	40,908
Long-term debt	23,404	31,254
Accrued retirement benefits	<u>33,121</u>	<u>23,795</u>
	97,975	95,957
Minority interest	337	-
Shareholders' equity:		
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	87,431	83,228
Accumulated other comprehensive (loss) income	<u>(23,181)</u>	<u>799</u>
	75,903	95,680
Less treasury stock, at cost	<u>17,481</u>	<u>17,447</u>
Total shareholders' equity	<u>58,422</u>	<u>78,233</u>
	<u>\$156,734</u>	<u>\$174,190</u>

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, 2001, 2000 and 1999

(In thousands, except per share data)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales	\$180,786	\$177,987	\$168,142
Cost of goods sold	<u>137,091</u>	<u>136,629</u>	<u>132,061</u>
Gross profit	43,695	41,358	36,081
Marketing, engineering and administrative expenses	31,716	31,476	32,755
Restructuring of operations	<u>1,453</u>	<u>—</u>	<u>—</u>
Earnings from operations	10,526	9,882	3,326
Other income (expense):			
Interest income	262	244	237
Interest expense	(2,194)	(2,979)	(2,070)
Equity in net earnings (loss) of affiliates	820	906	(945)
Gain on sale of affiliate	3,935	—	1,355
Loss on closure of subsidiary	—	—	(1,140)
Other, net	<u>(258)</u>	<u>14</u>	<u>(749)</u>
Earnings before income taxes	<u>13,091</u>	<u>8,067</u>	<u>14</u>
Income taxes	6,922	4,294	1,032
Net earnings (loss)	<u>\$ 6,169</u>	<u>\$ 3,773</u>	<u>\$ (1,018)</u>
Earnings (loss) per share data:			
Basic earnings (loss) per share	\$ 2.20	\$ 1.34	\$ (.36)
Diluted earnings (loss) per share	2.20	1.34	\$ (.36)
Shares outstanding data:			
Average shares outstanding	2,808	2,821	2,835
Dilutive stock options	<u>—</u>	<u>—</u>	<u>9</u>
Diluted shares outstanding	<u>2,808</u>	<u>2,821</u>	<u>2,844</u>

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, 2001, 2000 and 1999

(In thousands)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:			
Net earnings (loss)	\$ 6,169	\$ 3,773	\$ (1,018)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	6,392	6,980	6,454
(Loss) gain on sale of plant assets	10	(3)	38
Gain on partial sale of affiliate	(3,935)	-	(1,355)
Loss on closure of subsidiary	-	-	1,140
Loss on restructuring of operations	1,262	-	-
Equity in net (earnings) loss of affiliates	(820)	(906)	945
Provision for deferred income taxes	(4,680)	(284)	-
Dividends received from affiliate	632	600	625
Changes in operating assets and liabilities:			
Trade accounts receivable, net	672	(2,922)	3,898
Inventories, net	1,483	3,211	3,468
Other assets	3,535	(770)	(1,757)
Accounts payable	(1,677)	2,402	(1,360)
Accrued liabilities	1,210	168	(759)
Accrued/prepaid retirement benefits	(2,869)	(5,364)	(1,361)
Net cash provided by operating activities	<u>7,384</u>	<u>6,885</u>	<u>8,958</u>
Cash flows from investing activities:			
Proceeds from sale of plant assets	52	92	24
Proceeds from sale of affiliate	7,173	-	-
Acquisitions of plant assets	(3,492)	(2,134)	(6,439)
Acquisitions of businesses	-	-	(16,785)
Investment in joint venture	(654)	-	-
Net cash provided (used) by investing activities	<u>3,079</u>	<u>(2,042)</u>	<u>(23,200)</u>
Cash flows from financing activities:			
Increases (decreases) in notes payable, net	(5,000)	(15,000)	15,000
Proceeds from long-term debt	-	18,000	-
Payments of long-term debt	(2,857)	(3,857)	-
Acquisition of treasury stock	(34)	(343)	-
Proceeds from exercise of stock options	-	2	38
Dividends paid	(1,966)	(1,974)	(2,282)
Net cash (used) provided by financing activities	<u>(9,857)</u>	<u>(3,172)</u>	<u>12,756</u>
Effect of exchange rate changes on cash	(296)	(156)	535
Net change in cash and cash equivalents	310	1,515	(951)
Cash and cash equivalents:			
Beginning of year	5,651	4,136	5,087
End of year	<u>\$ 5,961</u>	<u>\$ 5,651</u>	<u>\$ 4,136</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 2,078	\$ 3,008	\$ 2,037
Income taxes	5,155	4,401	127

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, 2001, 2000 and 1999

(In thousands)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Common stock			
Balance, June 30	\$ 11,653	\$ 11,653	\$ 11,653
Retained earnings			
Balance, July 1	83,228	81,430	84,738
Net earnings (loss)	6,169	3,773	(1,018)
Cash dividends	(1,966)	(1,974)	(2,282)
Stock options exercised	—	(1)	(8)
Balance, June 30	<u>87,431</u>	<u>83,228</u>	<u>81,430</u>
Accumulated other comprehensive income (loss)			
Balance, July 1	799	(8,516)	2,757
Foreign currency translation adjustment			
Balance, July 1	799	3,288	3,418
Current adjustment	(6,219)	(2,489)	(130)
Balance, June 30	<u>(5,420)</u>	<u>799</u>	<u>3,288</u>
Minimum pension liability adjustment, net			
Balance, July 1	—	(11,804)	(661)
Current adjustment, net of related income taxes (\$11,356 in 2001, (7,547) in 2000 and 7,125 in 1999)	<u>(17,761)</u>	<u>11,804</u>	<u>(11,143)</u>
Balance, June 30	<u>(17,761)</u>	<u>—</u>	<u>(11,804)</u>
Balance, June 30	<u>(23,181)</u>	<u>799</u>	<u>(8,516)</u>
Treasury stock, at cost			
Balance, July 1	(17,447)	(17,107)	(17,153)
Shares acquired	(34)	(343)	—
Stock options exercised	—	3	46
Balance, June 30	<u>(17,481)</u>	<u>(17,447)</u>	<u>(17,107)</u>
Shareholders' equity balance, June 30	<u>\$ 58,422</u>	<u>\$ 78,233</u>	<u>\$ 67,460</u>
Comprehensive income (loss)			
Net earnings (loss)	6,169	3,773	(1,018)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(6,219)	(2,489)	(130)
Minimum pension liability adjustment	(17,761)	11,804	(11,143)
Other comprehensive income (loss)	<u>(23,980)</u>	<u>9,315</u>	<u>(11,273)</u>
Comprehensive income (loss)	<u>\$ (17,811)</u>	<u>\$ 13,088</u>	<u>\$ (12,291)</u>

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

TWIN DISC, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation Principles—The consolidated financial statements include the accounts of Twin Disc, Incorporated and its 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—Substantially all foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange prevailing at year-end. Revenues and expenses are translated at average rates of exchange in effect during the year. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) of the consolidated statement of operations are foreign currency transaction losses of \$145,000, \$144,000 and \$682,000 in 2001, 2000 and 1999, 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 \$699,000 and \$704,000 at June 30, 2001 and 2000, 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 approximates fair value because the underlying instruments bear interest at, or near, a current market rate.

Derivative Financial Instruments—Derivative financial instruments (primarily forward foreign exchange contracts) may be utilized by the Company to hedge foreign exchange rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. For financial reporting purposes, forward foreign exchange contracts used to hedge the currency fluctuations on transactions denominated in foreign currencies are marked-to-market and the resulting gains and losses, together with the offsetting losses and gains on hedged transactions, are recorded in the "Other income (expense)" caption in the statement of operations. At June 30, 2001 and 2000, the Company had outstanding forward foreign exchange contracts to purchase \$4,500,000 and \$4,500,000, respectively, of Belgian francs with a weighted average maturity of 48 days and 40 days, respectively. In addition, the Company had outstanding forward foreign exchange contracts to sell \$345,000 of Italian lira with a weighted average maturity of 21 days as of June 30, 2001. The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" which establishes standards for accounting for derivatives and hedging activities. FAS 133 was effective for the Company on July 1, 2000 and did not have a significant impact on the Company's earnings or financial position.

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 majority of the Company's investments in 20% to 50%-owned affiliates 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—Goodwill consists of costs in excess of net assets of businesses acquired. Goodwill is amortized using the straight-line method over its estimated beneficial lives, not to exceed 40 years. Subsequent to an acquisition, the Company continually evaluates whether later events and circumstances have occurred that indicate whether the goodwill should be evaluated for possible impairment. Goodwill at June 30, 2001 and 2000 of \$13,719,000 and \$14,401,000, respectively, are net of accumulated amortization of \$1,397,000 and \$1,542,000, respectively.

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.

Recently Issued Accounting Standards—In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." The statements eliminate the pooling-of-interest method of accounting for business combinations and require that goodwill and certain intangible assets not be amortized. Instead, these assets will be reviewed for impairment annually with any related losses recognized in earnings when incurred. SFAS 141 is effective for the Company July 1, 2001. SFAS 142 will be effective for the Company July 1, 2002. Early application is permitted. The Company is currently evaluating the impact of SFAS 142.

B. INVENTORIES

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

	<u>2001</u>	<u>2000</u>
Finished parts	\$ 37,711	\$ 40,313
Work-in-process	4,931	5,880
Raw materials	3,850	3,997
	<u>\$ 46,492</u>	<u>\$ 50,190</u>

Inventories stated on a LIFO basis represent approximately 29% and 35% of total inventories at June 30, 2001 and 2000, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by \$20,565,000 and \$20,549,000 at June 30, 2001 and 2000, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2001</u>	<u>2000</u>
Land	\$ 1,403	\$ 1,406
Buildings	22,407	22,582
Machinery and equipment	91,773	92,715
	115,583	116,703
Less accumulated depreciation	83,999	82,400
	<u>\$ 31,584</u>	<u>\$ 34,303</u>

D. INVESTMENTS IN AFFILIATES

The Company's investments in affiliates as of June 30, 2001 consists of a 25% interest in a domestic distributor of Twin Disc products. The Company's investments in affiliates as of June 30, 2000 consisted of the 25% interest in the domestic distributor and a 19.5% investment in Niigata Converter Company, LTD., Japan (Niigata), a manufacturer of power transmission equipment. In March of 1999, the Company sold a portion of its investment in Niigata in exchange for a \$1.7 million note receivable due in various annual amounts commencing December 31, 2002 through December 31, 2008. The sale was a non-cash transaction for purposes of the consolidated statement of cash flows. As a result, a pre-tax gain of \$1.3 million was recognized in 1999. In January of 2001 the Company sold their remaining investment in Niigata. The total proceeds from the transaction was \$7.2 million, including the elimination of the \$1.7 million note receivable, and resulted in a pre-tax gain of \$3.9 million recognized in 2001.

Prior to the sale in 1999 the Company accounted for its 25% interest in Niigata using the equity method. The Company recognized its share of Niigata's loss from April 1, 1998 through March 1, 1999 of \$1.5 million.

Combined condensed financial data for investments in affiliates accounted for under the equity method of accounting are summarized below (in thousands). The balance sheet information for 2001 and 2000 includes the domestic distributor balances only. The statement of operations information for 2001 and 2000 includes the results of operation of the domestic distributor from June 1, 2000 through May 31, 2001 and June 1, 1999 through May 31, 2000, respectively. The statement of operations information for 1999 includes the domestic distributor results from June 1, 1998 through May 31, 1999 and Niigata results from April 1, 1998 through March 1, 1999.

	<u>2001</u>	<u>2000</u>
Current assets	\$ 11,485	\$ 10,145
Other assets	5,458	5,452
	<u>\$ 16,943</u>	<u>\$ 15,597</u>
Current liabilities	\$ 7,363	\$ 6,681
Other liabilities	149	235
Shareholders' equity	9,431	8,681
	<u>\$ 16,943</u>	<u>\$ 15,597</u>

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales	\$ 27,516	\$ 23,866	\$116,115
Gross profit	9,832	9,813	13,008
Net earnings (loss)	3,281	3,624	(3,780)

E. JOINT VENTURE

On April 2, 2001 the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan (Niigata) to form NICO Transmissions Co., Inc. (N.C.). N.C. 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 66% ownership interest in N.C. and Niigata contributed \$0.3 million for a 34% ownership interest. As a result of the Company's controlling interest, the Company will consolidate N.C. For reporting purposes, N.C.'s balance sheet and statement of operations as of and for the year ended March 31 will be consolidated with the Company's balance sheet and statement of operations as of and for the year ended June 30. Results of operation of N.C. for the three months ended June 30, 2001 were not significant.

F. ACCRUED LIABILITIES

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

	<u>2001</u>	<u>2000</u>
Salaries and wages	\$ 4,533	\$ 3,989
Retirement benefits	4,944	4,024
Other	13,951	12,739
	<u>\$ 23,428</u>	<u>\$ 20,752</u>

G. DEBT

Notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total \$19,476,000 at June 30, 2001. These lines of credit are available predominantly at the prime interest rate minus .75% and may be withdrawn at the option of the banks. The weighted average interest rate of the lines outstanding at June 30, 2001 and 2000 was 5.6% and 5.26%, respectively.

Included in long-term debt is \$14,286,000 and \$17,142,000 on 7.37% ten-year unsecured notes, net of \$43,000 and \$51,000 unamortized debt issuance costs at June 30, 2001 and 2000, 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 a result of the minimum pension liability adjustment recorded by the Company during 2001 in accordance with Statement of Financial Accounting Standards (SFAS) No. 87 "Employers' Accounting for Pensions" the Company was in violation of the consolidated net worth covenant of the notes. On August 1, 2001, the Company received an amendment effective June 30, 2001 to its note agreement which cured this violation. The Company was in compliance with all other debt covenants as of June 30, 2001. Principal payments of \$2,857,000 are due in the years 2000 through 2005, with the remaining balance due on June 1, 2006. During 2000 the Company entered into a \$20,000,000 revolving loan agreement which expires on September 30, 2002. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. As of June 30, 2001, The Company was in compliance with all debt covenants. The outstanding balance of \$12,000,000 and \$17,000,000 at June 30, 2001 and 2000, respectively, is classified as a long-term liability as repayment is not expected within the next year. Notes under this agreement bear interest on a schedule determined by the Company's leverage ratio and the LIBOR interest rate. The rate was 4.9% and 7.9% at June 30, 2001 and 2000, respectively.

H. LEASE COMMITMENTS

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

Fiscal Year	
2002	\$ 2,169
2003	1,799
2004	990
2005	641
2006	576
Thereafter	1,318
	<u>\$ 7,493</u>

Total rent expense for operating leases approximated \$3,444,000, \$3,023,000 and \$2,941,000 in 2001, 2000 and 1999, respectively.

I. SHAREHOLDERS' EQUITY

At June 30, 2001 and 2000, treasury stock consisted of 835,798 and 833,740 shares of common stock, respectively. The Company issued 150 shares of treasury stock in 2000, to fulfill its obligations under the 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 and 25,444 shares of treasury stock in 2001 and 2000, respectively.

Cash dividends per share were \$.70 in 2001, \$.70 in 2000 and \$.805 in 1999.

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.

J. 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, 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):

	<u>Manufacturing</u>	<u>Distribution</u>	<u>Total</u>
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
1999			
Net sales	\$156,661	\$41,426	\$198,087
Intra-segment sales	7,235	439	7,674
Inter-segment sales	21,545	726	22,271
Interest income	350	92	442
Interest expense	2,134	228	2,362
Income taxes	519	1,036	1,555
Depreciation and amortization	6,062	291	6,353
Segment earnings	1,147	170	1,317
Segment assets	152,251	25,448	177,699
Expenditures for segment assets	6,017	422	6,439

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales			
Total net sales from reportable segments	\$216,776	\$212,793	\$198,087
Elimination of inter-company sales	(35,990)	(34,806)	(29,945)
Total consolidated net sales	<u>\$180,786</u>	<u>\$177,987</u>	<u>\$168,142</u>
Earnings (loss)			
Total earnings from			
reportable segments	\$ 6,927	\$ 5,051	\$ 1,317
Other corporate expenses	(758)	(1,278)	(2,335)
Total consolidated net earnings (loss)	<u>\$ 6,169</u>	<u>\$ 3,773</u>	<u>\$ (1,018)</u>
Assets			
Total assets for reportable segments	\$166,559	\$179,489	
Elimination of inter-company assets	(16,802)	(18,120)	
Corporate assets	6,977	12,821	
Total consolidated assets	<u>\$156,734</u>	<u>\$174,190</u>	

Other significant items:

	Segment Totals	Adjustments	Consolidated Totals
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
1999			
Interest income	\$ 442	\$ (205)	\$ 237
Interest expense	2,362	(292)	2,070
Income taxes	1,555	(523)	1,032
Depreciation and amortization	6,353	101	6,454
Expenditures for segment assets	6,439	-	6,439

All adjustments represent inter-company eliminations and corporate amounts.

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales			
United States	\$120,522	\$113,377	\$106,051
Other countries	60,264	64,610	62,091
Total	<u>\$180,786</u>	<u>\$177,987</u>	<u>\$168,142</u>
Long-lived assets			
United States	\$ 50,305	\$ 70,831	
Belgium	8,221	8,291	
Other countries	5,078	5,306	
Elimination of inter-company assets	(4,939)	(4,656)	
Total	<u>\$ 58,665</u>	<u>\$ 79,772</u>	

One customer accounted for approximately 11%, 10% and 8% of consolidated net sales in 2001, 2000 and 1999, respectively.

K. 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 78,750 incentive stock option plan options and 56,250 non-qualified stock option plan options outstanding at June 30, 2001 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:

	<u>2001</u>	<u>2000</u>
1998 Stock Option Plan for Non-Employee Directors	20,650	23,000
1998 Incentive Compensation Plan	100,350	132,750

Stock option transactions under the plans during 2001, 2000 and 1999 were as follows:

	<u>2001</u>	<u>Weighted Average Price</u>	<u>2000</u>	<u>Weighted Average Price</u>	<u>1999</u>	<u>Weighted Average Price</u>
Non-qualified stock options:						
Options outstanding						
at beginning of year	83,600	\$22.06	84,600	\$22.55	80,500	\$22.50
Granted	15,750	17.47	12,000	19.94	19,000	24.69
Canceled	(11,000)	21.47	(13,000)	23.31	(14,700)	25.08
Exercised	—	—	—	—	(200)	26.00
Options outstanding at June 30	<u>88,350</u>	<u>\$21.31</u>	<u>83,600</u>	<u>\$22.06</u>	<u>84,600</u>	<u>\$22.55</u>
Options price range (\$14.00 - \$20.00)						
Number of shares	52,650					
Weighted average price	\$ 18.86					
Weighted average remaining life	6.15 years					
Options price range (\$20.875 - \$28.75)						
Number of shares	35,700					
Weighted average price	\$ 24.93					
Weighted average remaining life	6.84 years					

	<u>2001</u>	<u>Weighted Average Price</u>	<u>2000</u>	<u>Weighted Average Price</u>	<u>1999</u>	<u>Weighted Average Price</u>
Incentive stock options:						
Options outstanding						
at beginning of year	119,400	\$23.24	132,250	\$23.70	124,300	\$23.57
Granted	26,800	17.81	22,800	20.20	33,900	25.80
Canceled	(20,550)	21.95	(35,500)	23.25	(23,950)	26.58
Exercised	—	—	(150)	14.00	(2,000)	16.63
Options outstanding at June 30	<u>125,650</u>	<u>\$22.29</u>	<u>119,400</u>	<u>\$23.24</u>	<u>132,250</u>	<u>23.70</u>
Options price range (\$14.00 - \$20.00)						
Number of shares	64,300					
Weighted average price	\$ 18.83					
Weighted average remaining life	7.27 years					
Options price range (\$20.875 - \$28.75)						
Number of shares	56,850					
Weighted average price	\$ 25.47					
Weighted average remaining life	7.02 years					
Options price range (\$31.625 - \$32.25)						
Number of shares	4,500					
Weighted average price	\$ 31.63					
Weighted average remaining life	7.00 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):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net earnings (loss)			
As reported	\$ 6,169	\$ 3,773	\$(1,018)
Pro forma	6,028	3,648	(1,277)
Basic earnings (loss) per share			
As reported	\$ 2.20	\$ 1.34	\$ (.36)
Pro forma	2.15	1.29	(.45)
Diluted earnings (loss) per share			
As reported	\$ 2.20	\$ 1.34	\$ (.36)
Pro forma	2.15	1.29	(.45)

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: 22% volatility, 4.2% annual dividend yield, interest rates based on expected terms and grant dates, a 5 year term and an exercise price equal to the fair market value on the date of grant except for incentive options granted to greater than 10% shareholders which are calculated using a 3 year term and an exercise price equal to 110% of the fair market value on the date of grant. For those options granted during 2001, 2000 and 1999 with exercise prices equal to the grant date fair market value, the exercise prices and weighted average fair values of the options were \$17.54 and \$3.38 in 2001, \$19.94 and \$3.70 in 2000 and \$25.26 and \$5.02 in 1999, 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 \$19.59 and \$2.50 in 2001, \$21.93 and \$2.43 in 2000 and \$28.08 and \$2.71 in 1999, respectively.

L. 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 \$1,942,000, \$1,852,000 and \$2,505,000 in 2001, 2000 and 1999, respectively. Total engineering and development costs were \$6,309,000, \$6,322,000 and \$7,829,000 in 2001, 2000 and 1999, respectively.

M. 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	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation, beginning of year	\$109,087	\$115,865	\$ 30,227	\$ 32,749
Service cost	1,284	1,518	16	19
Interest cost	8,333	8,028	2,298	2,265
Actuarial (gain) loss	4,094	(6,806)	3,110	(1,481)
Benefits paid	(8,773)	(9,518)	(3,684)	(3,325)
Benefit obligation, end of year	<u>\$114,025</u>	<u>\$109,087</u>	<u>\$ 31,967</u>	<u>\$ 30,227</u>
Change in plan assets:				
Fair value of assets, beginning of year	\$112,689	\$ 98,283	\$ -	\$ -
Actual return on plan assets	(11,560)	16,876	-	-
Employer contribution	5,996	7,048	3,684	3,325
Benefits paid	(8,773)	(9,518)	(3,684)	(3,325)
Fair value of assets, end of year	<u>\$ 98,352</u>	<u>\$112,689</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status	\$(15,673)	\$ 3,602	\$(31,967)	\$(30,227)
Unrecognized net transition obligation	375	606	-	-
Unrecognized actuarial loss	30,008	4,398	9,582	6,817
Unrecognized prior service cost	1,823	2,495	-	-
Net amount recognized	<u>\$ 16,533</u>	<u>\$ 11,101</u>	<u>\$(22,385)</u>	<u>\$(23,410)</u>
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	\$ 6	\$ 14,335	\$ -	\$ -
Accrued benefit liability	(14,578)	(3,234)	(22,385)	(23,410)
Intangible asset	1,988	-	-	-
Deferred tax asset	11,356	-	-	-
Minimum pension liability adjustment	17,761	-	-	-
Net amount recognized	<u>\$ 16,533</u>	<u>\$ 11,101</u>	<u>\$(22,385)</u>	<u>\$(23,410)</u>
Weighted average assumptions as of June 30:				
Discount rate	7.50%	8.00%	7.50%	8.00%
Expected return on plan assets	9.00%	9.00%	-	-
Rate of compensation increase	5.00%	5.00%	-	-

	Pension Benefits		
	2001	2000	1999
Service cost	\$ 1,284	\$ 1,518	\$ 1,517
Interest cost	8,333	8,028	7,254
Expected return on plan assets	(9,837)	(8,532)	(8,617)
Amortization of prior service cost	151	672	672
Amortization of transition obligation	181	179	183
Recognized net actuarial loss	456	699	102
Net periodic benefit cost	<u>\$ 568</u>	<u>\$ 2,564</u>	<u>\$ 1,111</u>

	Postretirement Benefits		
	2001	2000	1999
Service cost	\$ 16	\$ 19	\$ 23
Interest cost	2,298	2,265	1,978
Recognized net actuarial loss	345	457	399
Net periodic benefit cost	<u>\$ 2,659</u>	<u>\$ 2,741</u>	<u>\$ 2,400</u>

The pension plans held 62,402 shares of Company stock with a fair market value of \$989,000 and \$1,065,000 at June 30, 2001 and 2000, respectively.

The assumed weighted average health care cost trend rate was 6% in fiscal year 2001 and 2000. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately \$2.1 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 \$1,591,000, \$1,699,000 and \$1,572,000 in 2001, 2000 and 1999, respectively.

N. INCOME TAXES

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

	2001	2000	1999
United States	\$ 3,457	\$ 367	\$ (3,555)
Foreign	9,634	7,700	3,569
	<u>\$ 13,091</u>	<u>\$ 8,067</u>	<u>\$ 14</u>

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

	2001	2000	1999
Currently payable:			
Federal	\$ 7,046	\$ 664	\$ (1,376)
State	101	6	49
Foreign	4,455	3,908	2,359
	<u>11,602</u>	<u>4,578</u>	<u>1,032</u>
Deferred:			
Federal	(5,045)	(137)	402
State	481	220	(292)
Foreign	(116)	(367)	(110)
	<u>(4,680)</u>	<u>(284)</u>	<u>—</u>
	<u>\$ 6,922</u>	<u>\$ 4,294</u>	<u>\$ 1,032</u>

The components of the net deferred tax asset as of June 30, were as follows (in thousands):

	<u>2001</u>	<u>2000</u>
Deferred tax assets:		
Retirement plans and employee benefits	\$ 13,241	\$ 4,852
Alternative minimum tax credit carryforwards	1,453	301
Foreign tax credit carryforwards	2,414	1,933
State net operating loss and other state credit carryforwards	531	771
Other	8,618	3,950
	<u>26,257</u>	<u>11,807</u>
Deferred tax liabilities:		
Property, plant and equipment	5,631	5,744
Other	-	2,804
	<u>5,631</u>	<u>8,548</u>
Valuation allowance	(1,500)	-
Total net deferred tax assets	<u>\$ 19,126</u>	<u>\$ 3,259</u>

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
U.S. federal income tax at 34%	\$ 4,451	\$ 2,743	\$ 5
Increases (reductions) in tax resulting from:			
Foreign tax items	234	1,387	463
State taxes	351	149	(161)
Valuation allowance	1,500	-	-
Disposition of investment in subsidiary	286	-	-
Accrual for prior years	2	150	74
Other, net	98	(135)	651
	<u>\$ 6,922</u>	<u>\$ 4,294</u>	<u>\$ 1,032</u>

During 2001 the Company recorded a \$1.5 million valuation allowance as it believes more likely than not certain foreign tax credit carryforwards will not be utilized prior to their expiration beginning June, 2002.

O. 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, 2001, the Company has accrued approximately \$1,050,000, 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.

P. 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 preexisting leases, \$0.1 million for the estimated loss on fixed assets which were held for

disposal, and \$0.1 million in miscellaneous costs. During 2001 the Company had cash payments of \$0.2 million and has a remaining balance in accrued liabilities of \$1.3 million.

Q. CLOSURE OF SUBSIDIARIES

In June 1999, the Company approved a plan to terminate operations at its South African subsidiary, Twin Disc (South Africa) Pty. Ltd, early in fiscal 2000. The Company recorded a loss of \$1,140,000 in 1999 related to the termination of operations, which consists primarily of the recognition of cumulative translation losses of \$829,000 with the remaining amounts related to disposals of inventories and fixed assets, and severance benefits. The results of the subsidiary's operations through June 30, 1999 are included in the consolidated financial statements.

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 20, 2001, except as to Note G which is as of August 1, 2001, appearing on page 10 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.



PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
July 20, 2001

TWIN DISC, INCORPORATED AND SUBSIDIARIES SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

for the years ended June 30, 2001, 2000 and 1999
(In thousands)

Description	Balance at Beginning of Period	Additions Charged to costs and Expenses	Deductions(1)	Balance at end of of Period
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
1999:				
Allowance for losses on accounts receivable.	\$ 647	\$ 170	\$ 283	\$ 534
Reserve for inventory obsolescence	\$1,161	\$ 779	\$ 743	\$1,161

(1) Accounts receivable written-off and inventory disposed of during the year and other 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, Corporate
Controller and Secretary
(Chief Accounting Officer)

September 18, 2001

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.

September 18, 2001

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

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)

September 18, 2001

Paul J. Powers, Director
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

EXHIBIT INDEX
TWIN DISC, INCORPORATED

10-K for Year Ended June 30, 2001

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 Firststar 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

TEN YEAR FINANCIAL SUMMARY

<i>(In thousands of dollars, except where noted)</i>	2001	2000	1999
STATEMENT OF OPERATIONS			
Net sales	\$180,786	\$177,987	\$168,142
Costs and expenses, including marketing, engineering and administrative	170,260	168,105	164,816
Earnings from operations	10,526	9,882	3,326
Other income (expense)	2,565	(1,815)	(3,312)
Earnings before income taxes	13,091	8,067	14
Income taxes	6,922	4,294	1,032
Net earnings (loss)	6,169	3,773	(1,018)
BALANCE SHEET			
Assets			
Cash and cash equivalents	5,961	5,651	4,136
Receivables, net	27,058	28,828	27,201
Inventories, net	46,492	50,190	54,500
Other current assets	12,255	5,333	11,910
Total current assets	91,766	90,002	97,747
Investments and other assets	33,384	49,885	40,218
Fixed assets less accumulated depreciation	31,584	34,303	38,935
Total assets	156,734	174,190	176,900
Liabilities and Shareholders' Equity			
Current liabilities	41,450	40,908	54,761
Long-term debt	23,404	31,254	17,112
Deferred liabilities	33,121	23,795	37,567
Minority Interest	337	—	—
Shareholders' equity	58,422	78,233	67,460
Total liabilities and shareholders' equity	156,734	174,190	176,900
Comparative Financial Information			
Per share statistics:			
Basic earnings (loss)	2.20	1.34	(.36)
Diluted earnings (loss)	2.20	1.34	(.36)
Dividends	.70	.70	.805
Shareholders' equity	20.81	27.84	23.79
Return on equity	10.6%	4.8%	(1.5)%
Return on assets	3.9%	2.2%	(.6)%
Return on sales	3.4%	2.1%	(.6)%
Average shares outstanding	2,807,832	2,820,534	2,834,909
Diluted shares outstanding	2,807,955	2,820,730	2,843,877
Number of shareholder accounts	1,060	1,480	1,138
Number of employees	986	999	1,029
Additions to plant and equipment	3,492	2,134	6,439
Depreciation	5,316	5,766	5,648
Net working capital	50,316	49,094	42,986

1993 Net Earnings data and Return percentages reflect operating earnings before the effect of adopting Financial Accounting Standards 106 and 109. The cumulative effect of their adoption was a net loss of \$14.44 million or \$5.16 per share.

	1998	1997	1996	1995	1994	1993	1992
	\$202,643	\$189,942	\$176,657	\$164,232	\$141,193	\$139,403	\$136,255
	186,607	177,342	164,486	154,347	136,244	135,284	134,242
	16,036	12,600	12,171	9,885	4,949	4,119	2,013
	9	80	(1,264)	(1,301)	18	(95)	(162)
	16,045	12,680	10,907	8,584	4,967	4,024	1,851
	6,682	4,951	4,348	2,912	578	1,362	810
	9,363	7,729	6,559	5,672	4,389	2,662	1,041
	5,087	8,983	2,043	3,741	4,166	2,903	2,987
	28,320	32,428	34,917	29,247	25,682	25,106	26,026
	53,280	47,844	51,083	47,157	41,569	42,562	36,686
	6,893	8,707	8,597	10,345	8,993	6,961	4,521
	93,580	97,962	96,640	90,490	80,410	77,532	70,220
	31,646	26,544	30,344	30,463	26,830	21,813	10,554
	35,728	34,249	35,715	37,348	36,676	37,560	38,724
	160,954	158,755	162,699	158,301	143,916	136,905	119,498
	29,553	29,621	34,002	36,852	32,710	31,252	35,694
	19,949	19,944	19,938	14,000	11,500	13,000	—
	29,457	35,393	33,578	32,827	34,309	31,244	7,365
	—	—	—	—	—	—	—
	81,995	73,797	75,181	74,622	65,397	61,409	76,439
	160,954	158,755	162,699	158,301	143,916	136,905	119,498
	3.30	2.78	2.36	2.03	1.57	.95	.37
	3.24	2.75	2.34	2.02	1.56	.95	.37
	.76	.70	.70	.70	.70	.70	.70
	28.94	26.48	27.07	26.75	23.36	21.93	27.10
	11.4 %	10.5 %	8.7 %	7.6 %	6.7 %	4.3 %	1.4%
	5.8 %	4.9 %	4.0 %	3.6 %	3.0 %	1.9 %	.9%
	4.6 %	4.1 %	3.7 %	3.5 %	3.1 %	1.9 %	.8%
	2,833,663	2,781,174	2,776,805	2,790,111	2,799,390	2,799,603	2,820,513
	2,886,209	2,808,226	2,805,123	2,812,703	2,809,390	2,806,603	2,823,885
	774	845	913	996	1,058	1,139	1,214
	1,078	1,081	1,080	1,097	1,099	1,114	1,221
	7,154	4,734	4,140	4,290	4,216	4,684	4,390
	5,205	5,141	5,071	4,792	4,670	4,958	5,452
	64,027	68,341	62,638	53,638	47,700	46,280	34,526

DIRECTORS

MICHAEL E. BATTEN

Chairman, Chief Executive Officer

MICHAEL H. JOYCE

President, Chief Operating Officer

JAMES O. PARRISH

Vice President-Finance & Treasurer

JOHN A. MELLOWES

Chairman and Chief Executive Officer

Charter Manufacturing Co.

(A privately held producer of bar, rod wire
and wire parts)

Mequon, Wisconsin

PAUL J. POWERS

Retired Chairman, President-Chief Executive Officer

Commercial Intertech Corp.

(Manufacturer of Hydraulic Components,
Fluid Purification Products, Pre-Engineered
Buildings and Stamped Metal Products)

Youngstown, Ohio

DAVID B. RAYBURN

Executive Vice President of Operations

Modine Manufacturing Company

(Manufacturer of Heat Exchange Equipment)

Racine, Wisconsin

DAVID L. SWIFT

Retired Chairman, President-Chief

Executive Officer

Acme-Cleveland Corporation

(Manufacturer of Diversified Industrial Products)

Pepper Pike, Ohio

GEORGE E. WARDEBERG

Vice Chairman

Wisconsin Energy Corp.

(A holding company with subsidiaries in electric,
natural gas, energy services and manufacturing)

Milwaukee, Wisconsin

DAVID R. ZIMMER

Chief Executive Officer

Twitchell Corporation

(A privately held manufacturer and marketer
of highly engineered, synthetic yarns,
fabrics, extrusions, and coatings)

Dothan, Alabama

OFFICERS

MICHAEL E. BATTEN

Chairman, Chief Executive Officer

MICHAEL H. JOYCE

President, Chief Operating Officer

JAMES O. PARRISH

Vice President—Finance & Treasurer

HENRI-CLAUDE FABRY

Vice President—Marine and Distribution

LANCE J. MELIK

Vice President—Corporate Development

Vice President—Transmission and Industrial Marketing

FRED H. TIMM

Corporate Controller & Secretary

PAUL A. PELLIGRINO

Vice President—Engineering

JAMES E. FEIERTAG

Vice President—Manufacturing

CORPORATE DATA

ANNUAL MEETING

Twin Disc Corporate Offices
Racine, Wisconsin
2:00 P.M.
October 19, 2001

SHARES TRADED

New York Stock Exchange: Symbol TDI

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K

Single copies of the Company's 2001 Annual Report on Securities and Exchange Commission Form 10-K will be provided without charge to shareholders after September 30, 2001, upon written request directed to the Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

TRANSFER AGENT & REGISTRAR

Firststar Trust Company
Milwaukee, Wisconsin

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin

GENERAL COUNSEL

von Briesen, Purtell, & Roper, s.c.
Milwaukee, Wisconsin

CORPORATE OFFICES

Twin Disc, Incorporated
Racine, Wisconsin 53403
Telephone: (262) 638-4000

WHOLLY-OWNED SUBSIDIARIES

Twin Disc International S.A.
Nivelles, Belgium
Twin Disc Srl
Viareggio, Italy
Twin Disc Technodrive Srl
Decima, Italy
Technodrive S.A.R.L.
Chambery, France
Twin Disc (Pacific) Pty. Ltd.
Brisbane, Queensland, Australia
Twin Disc (Far East) Ltd.
Singapore

Mill-Log Equipment Co., Inc.
Coburg, Oregon
Twin Disc Southeast, Inc.
Miami, Florida
TD Electronics, Inc.
Loves Park, Illinois

PARTIALLY OWNED SUBSIDIARIES

Nico Transmissions Co., Inc.

PARTIALLY OWNED AFFILIATE COMPANIES

Palmer Johnson Distributors, LLC
Sturgeon Bay, Wisconsin

MANUFACTURING FACILITIES

Racine, Wisconsin
Nivelles, Belgium
Decima, Italy
Loves Park, Illinois

SALES OFFICES

Domestic
Racine, Wisconsin
Coburg, Oregon
Kent, Washington
Miami, Florida
Jacksonville, Florida
Loves Park, Illinois
Foreign
Nivelles, Belgium
Brisbane and Perth, Australia
Singapore
Viareggio, Italy
Decima, Italy
Chambery, France
Edmonton, Canada
Vancouver, Canada
Saitama, Japan
Affiliate Company
Sturgeon Bay, Wisconsin

MANUFACTURING LICENSES

Niigata Engineering Company, Inc.
Tokyo, Japan



Twin Disc, Incorporated

1328 RACINE STREET
RACINE, WISCONSIN 53403 USA

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