TWIN DISC, INCORPORATED

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON
Form 10-Q

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

For the quarter ended December 31, 2000   Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact name of registrant as specified in its charter)

Wisconsin	39-0667110
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
1328 Racine Street, Racine, Wisconsin	53403
(Address of principal executive offices)	(Zip Code)

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

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

At December 31, 2000, the registrant had 2,807,832 shares of its common stock outstanding.

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31 2000	June 30 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 7,169	$ 5,651
Trade accounts receivable, net	26,670	28,828
Inventories, net	54,128	50,190
Other	5,785	5,333
Total current assets	93,752	90,002
Property, plant and equipment, net	32,208	34,303
Investments in affiliates	7,158	6,968
Deferred income taxes	4,500	4,416
Prepaid pension asset	14,328	14,335
Other assets	23,394	24,166
	$175,340	$174,190
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 8,817	$ 7,428
Accounts payable	13,648	11,571
Accrued liabilities	22,896	21,909
Total current liabilities	45,361	40,908
Long-term debt	31,258	31,254
Accrued retirement benefits	21,434	23,795
	98,053	95,957
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	84,111	83,228
Accumulated other comprehensive (loss)income	(996)	799
	94,768	95,680
Less treasury stock, at cost	17,481	17,447
Total shareholders' equity	77,287	78,233
	$175,340	$174,190

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31		Six Months Ended December 31	
	2000	1999	2000	1999
Net sales	$44,025	$44,342	$85,374	$79,619
Cost of goods sold	33,569	34,390	65,174	62,811
	10,456	9,952	20,200	16,808
Marketing, engineering and administrative expenses	8,049	8,139	15,578	15,884
Interest expense	685	828	1,443	1,484
Other income, net	(54)	(252)	(231)	(353)
	8,680	8,715	16,790	17,015
Earnings (loss) before income taxes	1,776	1,237	3,410	(207)
Income taxes	816	544	1,544	(3)
Net earnings (loss)	$ 960	$ 693	$ 1,866	($ 204)
Dividends per share	$ 0.175	$ 0.175	$ 0.35	$ 0.35
Earnings per share data:				
Basic earnings (loss) per share	$ 0.34	$ 0.25	$ 0.66	($ 0.07)
Diluted earnings (loss) per share	$ 0.34	$ 0.25	$ 0.66	($ 0.07)
Shares outstanding data:				
Average shares outstanding	2,808	2,826	2,808	2,831
Dilutive stock options	0	0	0	0
Diluted shares outstanding	2,808	2,826	2,808	2,831
Comprehensive income:				
Net earnings (loss)	$ 960	$ 693	$ 1,866	($ 204)
Foreign currency translation adjustment	(167)	(857)	(1,795)	(869)
Comprehensive income (loss)	$ 793	$ (164)	$ 71	($ 1,073)

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

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31 2000	1999
Cash flows from operating activities:		
Net earnings (loss)	$1,866	($ 204)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	3,184	3,060
Equity in earnings of affiliates	(451)	(405)
Dividends received from affiliate	263	250
Net change in working capital, excluding cash and debt, and other	(3,017)	(3,579)
	1,845	(878)
Cash flows from investing activities:		
Acquisitions of fixed assets	(1,096)	(1,145)
Proceeds from sale of fixed assets	7	51
Business acquisition	0	131
	(1,089)	(963)
Cash flows from financing activities:		
Increase in notes payable, net	2,100	2,489
Treasury stock activity	(34)	(278)
Dividends paid	(983)	(993)
	1,083	1,218
Effect of exchange rate changes on cash	(321)	(58)
Net change in cash and cash equivalents	1,518	(681)
Cash and cash equivalents:		
Beginning of period	5,651	4,136
End of period	$7,169	$3,455

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. Basis of Presentation

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

B. Inventory

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

	December 31 2000	June 30 2000
Inventories:		
Finished parts	$44,429	$40,313
Work in process	4,953	5,880
Raw materials	4,746	3,997
	$54,128	$50,190

C. Contingencies

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

At December 31,2000 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.

D. BUSINESS SEGMENTS

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

	Three Months Ended December 31		Six Months Ended December 31	
	2000	1999	2000	1999
Manufacturing segment sales	$42,516	$40,994	$81,154	$72,213
Distribution segment sales	10,848	11,729	22,176	22,248
Inter/Intra segment sales	(9,339)	(8,381)	(17,956)	(14,842)
Net sales	$44,025	$44,342	$85,374	$79,619

Manufacturing segment earnings(loss)	$ 2,035	$ 773	$ 3,242	$(1,015)
Distribution segment earnings	483	848	1,430	1,393
Inter/Intra segment loss	(742)	(384)	(1,262)	(585)
Pretax earnings (loss)	$ 1,776	$ 1,237	$ 3,410	($ 207)

Assets	December 31, 2000	June 30, 2000
Manufacturing segment assets	$154,086	$154,971
Distribution segment assets	24,257	24,518
Corporate assets and elimination of inter-company assets	(3,003)	(5,299)
	$175,340	$174,190

E. NEW ACCOUNTING PRONOUNCEMENT

In December 1999, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." This bulletin summarizes certain views of the SEC staff on applying generally accepted accounting principles to revenue recognition in financial statements. The SEC staff expressed its view that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured. The Company expects that SAB 101 will not have a material effect on its financial statements

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated net sales for the second fiscal quarter were even with a year ago, the net result of higher shipping levels at most operations, reductions caused by translating foreign sales at strong dollar exchange rates, and softening demand in certain markets. However, margins improved and net earnings rose by about 39 percent.

Revenues of our domestic manufacturing operations continued their improvement from year-ago levels, but at a lesser rate than in the first fiscal quarter. As in the prior quarter, we reported increased market penetration of our propulsion products, primarily Arneson surface drives, and an improvement in aftermarket parts sales. We continue to see some recovery in demand for the higher horsepower marine transmissions used in commercial applications, and sales to the military gained over last year. On the strength of continuing demand for pleasure craft marine transmissions, the volume of product shipped from our European manufacturing subsidiaries registered a solid improvement in the quarter. While the weak Euro provided a competitive pricing advantage for those products on world markets, the almost 20 percent decline in value of that currency during the past year eliminated the revenue gain when stated in U.S. dollar terms. Likewise, the effect of modest gains in unit shipments from our offshore distribution operations was not proportionately reflected in our reported sales due to the relative weakness against the dollar of other currencies around the world.

The consolidated gross margin improved slightly from a year ago as a result of greater production volumes, and improved productivity and the favorable impact of the strong dollar at our Belgian operation. Margins are enhanced by the component of European sales denominated in dollars. Also, in last year's second fiscal quarter, results were affected by lingering production inefficiency cause by the implementation of new business systems late in the first fiscal quarter.

Marketing, engineering and administrative spending for the period was slightly below the second quarter last year, in line with the minimal change in sales volume. Interest expense reflects a minor reclassification from the first fiscal quarter, but it is still well below a year ago as a result of the $4 million reduction in debt since last year.

Working capital, at $48 million, has changed little in the six months since our previous fiscal year-end. Accounts receivable and inventory balances are comparable to the last quarter with variances from June 30, 2000 due to seasonal factors. Debt also has remained relatively constant since the prior year-end with a small amount of temporary borrowing at the end of December. For the six months, cash flows from operating activities were sufficient to cover capital expenditures and dividend payments. Our balance sheet is strong and we continue to have sufficient liquidity for near-term needs.

OTHER INFORMATION

Item 1. Legal Proceedings.

There were no reports on Form 8-K during the three months ended December 31, 2000.

Item 2. Changes in Securities and Use of Proceeds.

There were no securities of the Company sold by the Company during the three months ended December 31, 2000 which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4 (2) of the Act.

Item 5. Other Information.

At the Annual Meeting of Shareholders held October 20, 2000, the number of votes cast for, against or abstentions with respect to each matter were as follows:

1. Election of Directors:

a) To serve until Annual Meeting in 2003:

Michael H. Joyce	For:	2,536,322	Authority withheld:	36,789
David B. Rayburn	For:	2,536,940	Authority withheld:	36,171
George E. Wardeberg	For:	2,535,886	Authority withheld:	37,225

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

SIGNATURE

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

TWIN DISC, INCORPORATED
(Registrant)

January 26, 2001	/S/ FRED H. TIMM
(Date)	Fred H. Timm Corporate Controller and Secretary