TWIN DISC INC
Form 10-Q/A
September 09, 2005

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

Form 10-Q/A
Amendment No. 1

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

For the quarter ended December 31, 2004   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	53403-1758
(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 .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No X .

The Company hereby amends Form 10-Q for the quarter ended December 31, 2004, filed on February 10, 2005. This amendment restates items in the Company's Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Cash Flows and Notes to the Condensed Consolidated Financial Statements for intercompany profit in inventory transferred or sold with the entities of the consolidated company.

See Note B, "Restatement" in our Notes to Condensed Consolidated Financial Statements for further information regarding this restatement.

This amendment also revises the form of the Section 302 Certifications signed by the Company's Chief Executive Officer and Chief Financial Officer. The Company agreed to make these changes in response to a comment letter issued by the Securities and Exchange Commission dated May 18, 2005.

At January 31, 2005, the registrant had 2,901,632 shares of its common stock outstanding.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	2004	2004 (As Restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 8,914	$ 9,127
Trade accounts receivable, net	34,335	37,091
Inventories, net	56,033	48,777
Deferred income taxes	4,557	4,216
Other	3,768	3,111
Total current assets	107,607	102,322
Property, plant and equipment, net	36,234	33,222
Goodwill	13,098	12,717
Deferred income taxes	16,758	16,955
Other assets	9,446	9,406
	$183,143	$174,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 2,710	$ 1,607
Current maturities on long-term debt	2,857	3,018
Accounts payable	16,242	17,241
Accrued liabilities	28,762	27,262
Total current liabilities	50,571	49,128
Long-term debt	19,370	16,813

Accrued retirement benefits	46,283	49,456
	116,224	115,397
Minority Interest	483	509
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	85,613	84,428
Unearned Compensation	(308)	(304)
Accumulated other comprehensive loss	(14,719)	(20,301)
	82,239	75,476
Less treasury stock, at cost	15,803	16,760
Total shareholders' equity	66,436	58,716
	$183,143	$174,622

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

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

	As Restated			
	Three Months Ended December 31		Six Months Ended December 31	
	2004	2003	2004	2003
Net sales	$54,731	$42,371	$100,113	$80,337
Cost of goods sold	40,793	31,926	74,523	60,351
	13,938	10,445	25,590	19,986
Marketing, engineering and administrative expenses	11,261	9,277	20,770	17,635
Interest expense	291	283	510	563
Other expense (income),net	185	21	141	(184)
	11,737	9,581	21,421	18,014
Earnings before income taxes and minority interest	2,201	864	4,169	1,972
Income taxes	1,045	516	1,911	1,049
Earnings before minority interest	1,156	348	2,258	923
Minority interest	(43)	(8)	(68)	(19)
Net earnings	$ 1,113	$ 340	$ 2,190	$ 904

Dividends per share	$ 0.175	$ 0.175	$ 0.35	$ 0.35
Earnings per share data:				
Basic earnings per share	$ 0.39	$ 0.12	$ 0.77	$ 0.32
Diluted earnings per share	$ 0.38	$ 0.12	$ 0.76	$ 0.32
Shares outstanding data:				
Average shares outstanding	2,859	2,813	2,848	2,808
Dilutive stock options	48	20	47	15
Diluted shares outstanding	2,907	2,833	2,895	2,823
Comprehensive income:				
Net earnings	$ 1,113	$ 340	$ 2,190	$ 904
Foreign currency translation adjustment	5,353	3,630	5,582	3,021
Comprehensive income	$ 6,466	$ 3,970	$ 7,772	$ 3,925

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

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

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

	As Restated	
	Six Months Ended December 31	
	2004	2003
Cash flows from operating activities:		
Net earnings	$ 2,190	$ 904
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,552	2,783
Unearned Compensation	(5)	104
Equity in earnings of affiliate	-	(240)
Dividends received from affiliate	-	115
Net change in working capital, excluding cash and debt, and other	(4,717)	1,191
	20	4,857

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Cash flows from investing activities:		
Acquisitions of fixed assets	(3,809)	(920)
Proceeds from sales of fixed assets	31	28

	(3,778)	(892)
Cash flows from financing activities:		
Increase in debt, net	3,056	372
Proceeds from exercise of stock options	957	207
Dividends paid	(1,005)	(995)
	3,008	(416)
Effect of exchange rate changes on cash	537	538
Net change in cash and cash equivalents	(213)	4,087
Cash and cash equivalents:		
Beginning of period	9,127	5,908
End of period	$ 8,914	$ 9,995

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 consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

B. Restatement

The Company previously did not properly eliminate its intercompany profit in inventory. Accordingly, the Company has restated its financial statements as of and for the quarter and six months ended December 31, 2004 and 2003 to fully eliminate intercompany profits relating to inventory in accordance with generally accepted accounting principles. The Notes to the Consolidated Financial Statements contained herein have been restated as applicable.

The following table shows the impact of the restatement on the effected components of the Condensed Consolidated Balance Sheets and Condensed

Consolidated Statements of Operations:

	December 31,2004	
	As Restated	As Reported
Condensed Consolidated Balance Sheets:		
Inventories, net	$56,033	$59,558
Deferred income taxes	16,758	15,383
Retained earnings	85,613	87,763

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Condensed Consolidated Statements of Operations and earnings per share data for the three months ended December 31:

	As Restated		As Reported	
	2004	2003	2004	2003
Cost of goods sold	$40,793	$31,926	$40,693	$31,650
Income taxes	1,045	516	1,084	624
Net earnings (loss)	1,113	340	1,174	508
Basic earnings(loss) per share	$0.39	$0.12	$0.41	$0.18
Diluted earnings(loss) per share	$0.38	$0.12	$0.40	$0.18

Condensed Consolidated Statements of Operations and earnings per share data for the six months ended December 31:

	As Restated		As Reported	
	2004	2003	2004	2003
Cost of goods sold	$ 74,523	$60,351	$116,652	$96,409
Income taxes	1,911	1,049	3,156	2,298
Net earnings (loss)	2,190	904	3,544	2,455
Basic earnings(loss) per share	$0.77	$0.32	$1.24	$0.87
Diluted earnings(loss) per share	$0.76	$0.32	$1.22	$0.86

C. Inventory (As Restated)

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

	December 31, 2004 (As Restated)	June 30, 2004
Inventories:		
Finished parts	$ 39,740	$35,837
Work in process	10,454	8,187
Raw materials	5,839	4,753
	$ 56,033	$48,777

D. Warranty

Twin Disc engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes

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into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends. While we believe the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires. The following is a listing of the activity in the warranty reserve during the period ended December 31, 2004 (in thousands).

	Three Months Ended December 31		Six Months Ended December 31	
	2004	2003	2004	2003
Beginning reserve balance	$ 6,658	$ 6,099	$ 6,478	$ 6,070
Current period expense	835	906	2,052	1,779
Payments or credits to customers	1,186	1,031	2,243	1,888
Translation	413	277	433	290
Ending reserve balance	$ 6,720	$ 6,251	$ 6,720	$ 6,251

E. Contingencies

The Company is involved in litigation of which the ultimate outcome and

liability to the Company, if any, is not presently determinable. Management believes that final disposition of such litigation will not have a material impact on the Company's results of operations or financial position.

F. Business Segments

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

Manufacturing segment sales	$53,239	$40,787	$94,038	$73,934
Distribution segment sales	15,900	14,250	31,368	27,211
Inter/Intra segment sales	(14,408)	(12,666)	(25,293)	(20,808)
Net sales	$54,731	$42,371	$100,113	$80,337
Manufacturing segment earnings	$ 3,034	$ 1,288	$5,160	$ 1,900
Distribution segment earnings	1,024	815	2,360	1,979
Inter/Intra segment loss	(1,857)	(1,239)	(3,351)	(1,907)
Earnings before income taxes and minority interest	$ 2,201	$ 864	$ 4,169	$ 1,972

Assets	December 31, 2004	June 30, 2004
	(As Restated)	
Manufacturing segment assets	$172,168	$164,034
Distribution segment assets	33,103	30,247
Corporate assets and elimination of inter-company assets	(22,128)	(19,659)
	$183,143	$174,622

G. Stock Option Plans (As Restated)

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 condensed consolidated statements of operations. No options were granted in the first and second quarters of fiscal 2004 or 2005. Had the Company recognized compensation expense determined based on the fair value at the grant date for awards under the plans, the net earnings and earnings per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003

Net earnings				
As reported	$ 1,113	$ 340	$ 2,190	$ 904
Pro forma	1,113	340	2,190	904
Basic earnings per share				
As reported	$ 0.39	$ 0.12	$ 0.77	$ 0.32
Pro forma	0.39	0.12	0.77	0.32
Diluted earnings per share				
As reported	$ 0.38	$ 0.12	$ 0.76	$ 0.32
Pro forma	0.38	0.12	0.76	0.32

In October 2004, the Company issued restricted stock grants for 4,800 shares, 600 shares vest in 1 year from the date of grant, 2,100 shares vest in 2 years, 600 shares vest in 3 years, and 1,500 shares vest in four years. The fair market value of the grants based on the market price at the date of grant was $120,000.

In October 2004, the Company granted performance stock awards to various employees of the Company, including executive officers. The stock will be awarded if the Company achieves a specified consolidated gross revenue objective in the fiscal year ending June 30, 2007.

In fiscal 2004, the Company issued restricted stock grants for 25,000 shares, 12,500 of these shares vest in 2 years from the date of grant and 12,500 vest in 4 years. The fair market value of the grants based on the market price at the date of grant was $421,000. The grants are recorded as Unearned Compensation and amortized over 2, 3, and 4 year periods. The total compensation expense all restricted stock grants for the six months ended December 31, 2004, approximated $97,000.

H. Periodic Benefit Cost

The Company has non-contributory, qualified defined benefit plans covering substantially all domestic employees hired prior to October 1, 2003 and certain foreign employees. Components of Net Periodic Benefit Cost (in thousands):

	Three months ended December 31		Six months ended December 31	
	2004	2003	2004	2003
Pension Benefits				
Service cost	$ 301	$ 309	$ 588	$ 603
Interest cost	1,799	1,794	3,579	3,571
Expected return on plan assets	(1,837)	(1,593)	(3,658)	(3,172)
Amortization of prior service cost	(149)	(179)	(297)	(359)
Amortization of transition obligation	18	16	28	26
Amortization of net loss	995	1,181	1,988	2,359
Net periodic benefit cost	$1,127	$1,528	$2,228	$3,028
Post-retirement Benefits				
Service cost	$ 13	$ 11	$ 26	$ 22
Interest cost	418	514	836	1,029
Recognized net actuarial loss	164	217	328	435

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Net periodic benefit cost	$ 595	742	$1,190	$1,486

The Company previously disclosed in its financial statements for the year ended June 30, 2004, that it expected to contribute $7,476,000 to its pension plan in fiscal 2005. As of December 31, 2004, $5,341,000 of contributions have been made.

I. Debt

During the first quarter the revolving loan agreement was amended increasing the limit from $20,000,000 to $35,000,000 and extending the term to October 31, 2007. Additionally certain capital expenditure restrictions were increased. All other terms and covenants remained the same.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Restatement

As further described in note B to the Condensed Consolidated Financial Statements,the Company previously did not eliminate its intercompany profit in inventory. Accordingly, the Company has restated its financial statements as of and for the quarters and six months ended December 31, 2004 and 2003, to fully eliminate intercompany profits relating to inventory in accordance with generally accepted accounting principles. The management discussion and analysis of financial condition and results of operations contained herein have been revised as applicable.

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

RESULTS OF OPERATIONS

Comparison of the Second Quarter of FY 2005 with the Second Quarter of FY 2004

Net sales for the second quarter improved 29.0% to $54.7 million from $42.4 million in the same period a year ago. The results for the current fiscal quarter were favorably impacted by the Company's recent acquisition of Rolla SP Propellers SA (Rolla) as well as a previously announced military contract to supply transmission systems for vehicles to be delivered to the Israeli Defense Forces (IDF). The latter contributed nearly $3.4 million in sales for the quarter. Compared to the second quarter of fiscal 2004, the Euro and Asian currencies continued to strengthen against the US dollar. The impact of this strengthening on foreign operations was to increase revenues by approximately $1.9 million versus the prior year, before eliminations.

Sales at our manufacturing operations were up 30.5% versus the same period last year. The Company experienced significant increased order activities and sales at all of our manufacturing locations. Sales at our US domestic manufacturing location were up nearly 34%. Sales at our European manufacturing locations, excluding the recent Rolla acquisition, were up over 13% over the same period last year, with just over half of this improvement coming from the strengthening Euro versus the US Dollar. The second quarter of fiscal 2005 represents the second quarter that the Company has recognized sales from this

acquisition. For the second quarter, Rolla contributed just over $1.7 million in sales. The sales growth in our domestic operations was primarily driven by increased sales of military and 8500 series transmissions and industrial products, while the growth in our European operations was driven primarily by marine product sales increases.

Our distribution segment experienced an increase of 11.6% in sales compared to the second quarter of fiscal 2004. The majority of this increase came from our distribution operations in Asia-Pacific, Italy, and the Northwestern US and Canada. Sales growth in our commercial and pleasure craft marine transmission product lines primarily drove the increase in Asia-Pacific, while increased surface drive product sales drove the increase in Italy. Just under half of the sales growth experienced by our distribution operations versus the same period last year can be attributed to the effect of a weaker dollar among most Asian currencies and the Euro.

The elimination for net inter/intra segment sales increased $1.7 million, accounting for the remainder of the net change in sales versus the same period

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last year. This increase was consistent with the overall increase in sales experienced by the Company in the second quarter.

Gross profit as a percentage of sales remained relatively flat at 25.5% of sales, compared to 24.7% of sales for the same period last year. Higher volume, level fixed costs, increased manufacturing productivity and absorption, and lower pension expense helped to offset higher raw material and other costs.

Marketing, engineering, and administrative (ME&A) expenses were 21.4% higher compared to last year's second fiscal quarter. As a percentage of sales, ME&A expenses were down slightly to 20.6% of sales versus 21.9% of sales in the second quarter of fiscal 2004. In fiscal 2005's second quarter, ME&A expenses include the impact of the recent Rolla acquisition. As part of a temporary corporate-wide wage cost reduction program in fiscal 2004, the corporate bonus program was suspended for the prior fiscal year. For fiscal 2005, a new bonus program has been implemented that emphasizes the achievement of earning returns in excess of the Company's cost of capital as well as other financial and non-financial objectives. The current quarter includes the impact of the re-introduction of the corporate bonus program. Lastly, there was a net unfavorable impact on the ME&A expenses of our overseas operations of approximately $0.3 million related to the continued weakening of the US dollar versus most Asian currencies and the Euro.

Interest expense of $0.3 million for the quarter was relatively flat to the same quarter last year. While the average total borrowings for the quarter were up nearly $3.0 million versus the second fiscal quarter of last year, the mix of the Company's borrowings were at a lower weighted interest rate, as the Company continues to pay off its 7.37% ten-year unsecured notes.

The consolidated income tax rate was lower than a year ago primarily due to increased domestic earnings, which were taxed at a lower rate and changes in the mix of foreign versus domestic earnings.

Comparison of the First Six Months of FY 2005 with the First Six Months of FY 2004

Net sales for the first six months of 2005 improved 24.6% to $100.1 million from $80.3 million in the same period a year ago. The results for the current first half were favorably impacted by the Company's recent acquisition of Rolla as well as a previously announced military contract to supply transmission systems for vehicles to be delivered to the Israeli Defense Forces (IDF). The latter contributed nearly $5.8 million in sales for the six months of this fiscal year. Compared to the first half of fiscal 2004, the Euro and Asian

currencies continued to strengthen against the US dollar. The impact of this strengthening on foreign operations was to increase revenues by approximately $3.2 million versus the prior year, before eliminations.

Sales at our manufacturing operations were up 27.2% versus the same period last year. The Company experienced significant increased order activities and sales at all of our manufacturing locations. Sales at our US domestic manufacturing location were up nearly 27%. Sales at our European manufacturing locations, excluding the recent Rolla acquisition, were up over 15% over the same period last year, with just over 40% of this improvement coming from the strengthening Euro versus the US Dollar. For the first six months quarter, Rolla contributed just under $3.2 million in sales. The sales growth in our domestic operations was primarily driven by increased sales of military and 8500 series transmissions and industrial products, while the growth in our European operations was driven primarily by marine product sales increases.

Our distribution segment experienced an increase of 15.3% in sales compared to the first six months of fiscal 2004. The majority of this increase came from our distribution operations in Asia-Pacific, Italy, and the Northwestern US and Canada. Sales growth in our commercial and pleasure craft marine transmission product lines primarily drove the increase in Asia-Pacific, while increased surface drive product sales drove the increase in Italy. Just over 30% of the sales growth experienced by our distribution operations versus the same period last year can be attributed to the effect of a weaker dollar among most Asian currencies and the Euro.

The elimination for net inter/intra segment sales increased $4.5 million, accounting for the remainder of the net change in sales versus the same period last year. This increase was consistent with the overall increase in sales experienced by the Company in the first six months.

Gross profit as a percentage of sales increased 70 basis points to 25.6% of sales, compared to 24.9% of sales for the same period last year. Higher volume, improved product mix, level fixed costs, increased manufacturing productivity and absorption, and lower pension expense helped to offset higher raw material and other costs.

Marketing, engineering, and administrative (ME&A) expenses were 17.8% higher compared to the first six months of fiscal 2004. As a percentage of sales, ME&A expenses were down slightly to 20.7% of sales versus 22.0% of sales in the first half of fiscal 2004. In fiscal 2005's first half, ME&A expenses include the impact of the recent Rolla acquisition. As part of a temporary corporate-wide wage cost reduction program in fiscal 2004, the corporate bonus program was suspended for the prior fiscal year. For fiscal 2005, a new bonus program has been implemented that emphasizes the achievement of earning returns in excess of the Company's cost of capital as well as other financial and non-financial objectives. The first half of this fiscal year includes the impact of the re-introduction of the corporate bonus program. Lastly, there was a net unfavorable impact on the ME&A expenses of our overseas operations of approximately $0.5 million related to the continued weakening of the US dollar versus most Asian currencies and the Euro.

Interest expense of $0.5 million for the first six months was 10% lower than the same period last year. While the average total borrowings for the first six months were up nearly $1.7 million versus the first six months of last year, the mix of the Company's borrowings were at a lower weighted interest rate, as the Company continues to pay off its 7.37% ten-year unsecured notes.

The consolidated income tax rate was lower than a year ago primarily due to increased domestic earnings, which were taxed at a lower rate and changes in the mix of foreign versus domestic earnings.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Comparison between December 31, 2004 and June 30, 2004

As of December 31, 2004, the Company had net working capital of $60.6 million, which represents a slight increase from the net working capital of $56.5 million as of June 30, 2004.

Cash and cash equivalents decreased $0.2 million, or approximately 2%, to $8.9 million as of December 31, 2004. The majority of the cash and cash equivalents as of December 31, 3004 are at our overseas operations in Europe and Asia-Pacific.

Trade receivables of $34.3 million were down $2.8 million versus last fiscal year-end. Historically, the Company may experience a larger decrease in receivables in the second quarter of the fiscal year. However, in fiscal 2005's first and second quarters, sales were up nearly 25% over the prior year, and as a result, receivables were higher than would normally be expected. In addition, the change in foreign exchange rates since fiscal year-end results in an increase in foreign-denominated receivables of approximately $1.3 million.

Net inventory increased by $7.3 million versus June 30, 2004. Approximately one quarter of the increase came at our domestic manufacturing location and is primarily due to higher inventory levels as we experienced increased sales and order activity. $2.9 million of the increase can be attributed to the net effect of the change in foreign exchange rates since fiscal year-end. The net remaining increase was experienced at the remaining manufacturing and distribution subsidiaries and is consistent with the increase sales and order activity experienced in the first half of this fiscal year.

Net property, plant and equipment (PP&E) increased $3.0 million versus June 30, 2004. In the first half of fiscal 2005, the Company's capital expenditures for PP&E totaled $3.8 million, an over 300% increase compared to the same period last year. The year-over-year increase is primarily driven by the construction of a new facility at our manufacturing operation in Switzerland. In total, the Company expects to more than double its investments in capital assets in fiscal 2005 compared to fiscal 2004. In addition to the new facility at Rolla, the Company is focusing on modernizing key core manufacturing, assembly and testing processes.

Accounts payable of $16.2 million were down 5.8% from June 30, 2004. The decrease came primarily at our domestic manufacturing. The accounts payable balance as of June 30, 2004 was historically high as our domestic manufacturing operations was building inventory in anticipation of IDF contract and other product deliveries in the first half of fiscal 2005. The net effect of the continued weakening US dollar was to increase foreign denominated accounts payable by $0.5 million compared to fiscal year-end 2004.

Total borrowings, notes payable and long-term debt, as of December 31, 2004 increased by $3.5 million, or 16%, to $24.9 million versus June 30, 2004. This increase is primarily attributable to increased funding in the first six months of fiscal 2005 of the Company's pension plan as well as the increased capital
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investment noted above. In fiscal 2005's first half, the Company made pension contributions of just over $5.3 million. For the year ended June 30, 2005, the Company expects to contribute a total of $7.5 million to its pension plans.

Total shareholders' equity increased by $7.7 million to a total of $66.4 million. Retained earnings increased by $1.2 million. The net increase in retained earnings included $2.2 million in net earnings reported year-to-date,

offset by $1.0 million in dividend payments. Net favorable foreign currency translation of $5.6 million was reported as the U.S. Dollar weakened against the Euro and Asian currencies during the first six months. Accounting for the balance of the change, treasury stock decreased nearly $1.0 million from the prior fiscal year-end due to the exercising of stock options in the first six months of fiscal 2005.

The Company's balance sheet remains very strong, there are no off-balance-sheet arrangements, and we continue to have sufficient liquidity for near-term needs. During the first fiscal quarter, the Company amended its revolving loan agreement, increasing the limit to $35,000,000, from $20,000,000, and extending the term by two years to October 31, 2007. Furthermore, it is the Company's intention to repatriate foreign cash, as needed, in the coming quarters. Management believes that available cash, our revolver facility, cash generated from operations, existing lines of credit and access to debt markets will be adequate to fund our capital requirements for the foreseeable future.

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

Contractual Obligations	Total	Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Short-term debt	$ 2,710	$ 2,710			
Revolver borrowing	$15,100		$15,100		
Long-term debt	$ 7,128	$ 2,857	$ 4,271		
Operating leases	$10,285	$ 2,700	$ 3,711	$2,404	$1,470
Total obligations	$35,223	$ 8,267	$23,082	$2,404	$1,470

New Accounting Releases

In the second quarter of fiscal 2005, the FASB issued SFAS No. 151 "Inventory Costs-an amendment of ARB No.43 Chapter 4", SFAS No. 153 "Exchanges of Nonmonetary Assets-an amendment of APB Opinion 29" and SFAS No. 123R "Share Based Payment".

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 153, exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS 123R establishes the standards for the accounting for transactions in which an entity exchanges its equity for goods or services.

These statements are effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of these statements is not expected to have a significant impact on the Company's financial statements.

Critical Accounting Policies

The preparation of this Quarterly Report requires management's judgment to make estimates and assumptions that affect the reported amounts of assets and

liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Twin Disc's significant accounting policies are described in Note A in the Notes to Consolidated Financial Statements in the Annual Report for June 30, 2004. There have been no significant changes to those accounting policies subsequent to June 30, 2004.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

The Company is exposed to market risks from changes in interest rates, commodities and foreign exchange. To reduce such risks, the Company selectively uses financial instruments and other pro-active management techniques. All

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hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for trading or speculative purposes.

Interest rate risk - The Company's earnings exposure related to adverse movements of interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to the prime and LIBOR interest rates. Those debt facilities bear interest predominantly at the prime interest rate or LIBOR plus 1.25%. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at December 31, 2004 to manage interest rate risk exposure. A 10 percent increase or decrease in the applicable interest rate would result in a change in pretax interest expense of approximately $50,000.

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

Currency risk - The Company has exposure to foreign currency exchange fluctuations. Approximately 45% of the Company's revenues in the three months and six months ended December 31, 2004 and 2003 were denominated in currencies other than the U.S. dollar. Of that total, approximately two-thirds was denominated in Euros with the balance composed of Japanese yen, Swiss franc and the Australian and Singapore dollars. The Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Forward foreign exchange contracts are used to hedge the currency fluctuations on significant transactions denominated in foreign currencies.

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

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other income (expense), net in the Consolidated Statement of Operations as

the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2005 and 2004 was the Euro. At December 31, 2004 the Company had net outstanding forward exchange contracts to purchase Euros in the value of $3,500,000 with a weighted average maturity of 49 days. The fair value of the Company's contracts was a loss of approximately $151,000 at December 31, 2004. At June 30, 2004 the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,901,000 with a weighted average maturity of 45 days. The fair value of the Company's contracts was a loss of approximately $58,000 at June 30, 2004.

Item 4. Controls and Procedures.

Restatement

Historically, the Company did not eliminate intercompany profit in inventory transferred or sold within the entities of the consolidated company.

The Company recently reevaluated its accounting for intercompany profit in inventory and has now concluded that the intercompany profit within inventory at the end of each period should be eliminated. As a result, the Company has decided to restate its financial statements for the quarter and six months ended December 31, 2004 and 2003 as the impact of this error is material to the previously issued financial statements.

Evaluation of Disclosure Controls and Procedures

In connection with the restatement, under the direction of the Chief Executive Officer and Chief Financial Officer, the Company reevaluated its disclosure controls and procedures and concluded that a failure to ensure that intercompany profit in inventory is eliminated during the financial close process is a material weakness. As a result of this material weakness, the Company concluded that its disclosure controls and procedures were not

effective as of December 31, 2004.

Remediation of Material Weakness in Internal Control

The Company has enhanced its inventory accounting procedures to include a calculation of the intercompany profit in inventory at each period end and timely elimination of this amount during the consolidation process. The Company's management believes that this corrective action has remediated the identified deficiency in the Company's disclosure controls and procedures as of the date of this filing.

Part II. - OTHER INFORMATION

Item 1. Legal Proceedings.

Twin Disc is a defendant in several product liability or related claims of which the ultimate outcome and liability to the Company, if any, is not presently determinable. Management believes that the final disposition of such litigation will not have a material impact on the Company's results of operations or financial position.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no securities of the Company sold by the Company during the six months ended December 31, 2004, that were not registered under the Securities Act of 1933.

During the period covered by this report, the Company offered participants in

the Twin Disc, Incorporated B The Accelerator 401(k) Savings Plan (the "Plan") the option to invest their Plan accounts in a fund comprised of Company stock. Participation interests of Plan participants in the Plan, which may be considered securities, were not registered with the SEC. During the fiscal year ended June 30, 2003, 68 Plan participants allocated an aggregate of $81,000 toward this investment option. Participant accounts in the Plan consist of a combination of employee deferrals, Company matching contributions, and, in some cases, additional Company profit-sharing contributions. No underwriters were involved in these transactions. On September 6, 2002, the Company filed a Form S-8 to register 100,000 shares of Company common stock offered through the Plan, as well as an indeterminate amount of Plan participation interests.

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

At the Annual Meeting of Shareholders held October 15, 2004, 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 2007:

John H. Batten	For: 2,260,622	Authority withheld: 168,010
John A. Mellowes	For: 2,260,622	Authority withheld: 168,010
Harold M. Stratton II	For: 2,260,622	Authority withheld: 168,010

2. Approval of 2004 Stock Incentive Plan:

For: 1,417,252 Against: 477,300 Abstain: 9,082

3. Approval of 2004 Stock Incentive Plan for Non-Employee Directors:

For: 1,406,930 Against: 481,363 Abstain: 15,341

Item 5. Other Information.

Grants of Performance Stock Awards

Effective as of October 15, 2004, the Compensation Committee of the Company made certain performance stock awards pursuant to the 1998 Incentive Compensation Plan (the "1998 Plan") and the 2004 Stock Incentive Plan (the "2004 Plan"). Attaining a defined level of Company revenue in the fiscal year ending June 30, 2007, is the performance milestone used to determine whether a performance share award will entitle the grantee to the associated number of Company shares. These awards were not previously disclosed in a Form 8-K filing. The form of the agreement for performance stock awards granted to executive officers pursuant to the 1998 Plan is attached as Exhibit 10.01. The form of the agreement for performance stock awards granted pursuant to the 2004 Plan is attached as Exhibit 10.2

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Effective as of February 3, 2005, the Compensation Committee amended the performance stock awards granted on October 15, 2004 pursuant to the 1998 Plan and the 2004 Plan to permit prorated awards in the event of certain terminations of employment. The form of the amended agreement for the amended performance stock awards granted to executive officers pursuant to the 1998 Plan is attached as Exhibit 10.3. The form of the amended agreement for the amended performance stock awards granted to executive officers pursuant to the 2004 Plan is attached as Exhibit 10.4.

On October 21, 2004, the Company filed a Form 8-K announcing the appointment of two new executive officers, Denise L. Wilcox and Dean J. Bratel. Ms. Wilcox and Mr. Bratel were recipients of performance stock awards as of October 15, 2004, which were not previously disclosed as part of the Form 8-K filing. These awards were also amended effective February 3, 2005. The forms of the performance share agreement and amended performance share agreement covering Ms. Wilcox and Mr. Bratel are attached as Exhibits 10.5 and 10.6, respectively.

Grants of Restricted Stock

Effective as of October 15, 2004, the Compensation Committee awarded certain restricted stock grants pursuant to the 1998 Plan. The form of the agreement for the restricted stock grants made to executive officers pursuant to the 1998 Plan is attached as Exhibit 10.7.

Forward Looking Statements

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

Item 6. Exhibits

10.1 Form of Performance Stock Award Grant Agreement for Performance Stock Awards granted on October 15, 2004, under the 1998 Incentive Compensation Plan (Incorporated by reference to Exhibit 10.1, of the Company's Form 10-Q dated February 9, 2005, SEC File No. 1-7635).

10.2 Form of Performance Stock Award Grant Agreement for Performance Stock Awards granted on October 15, 2004, under the 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2, of the Company's Form 10-Q dated February 9, 2005, SEC File No. 1-7635).

10.3 Form of Amended Performance Stock Award Grant Agreement for Performance Stock Awards granted on October 15, 2004, under the 1998 Incentive Compensation Plan, and amended effective February 3,2005 (Incorporated by reference to Exhibit 10.3, of the Company's Form 10-Q dated February 9, 2005, SEC File No. 1-7635).

10.4 Form of Amended Performance Stock Award Grant Agreement for Performance Stock Awards granted on October 15, 2004, under the 2004 Stock Incentive Plan, and amended effective February 3, 2005 (Incorporated by reference to Exhibit 10.4, of the Company's Form 10-Q dated February 9, 2005, SEC File No. 1-7635).

10.5 Form of Performance Stock Award Grant Agreement for Performance Stock Awards granted on October 15, 2004, to Denise L. Wilcox and Dean J. Bratel under the 1998 Incentive Compensation Plan (Incorporated by reference to Exhibit 10.5, of the Company's Form 10-Q dated February 9, 2005, SEC File No. 1-7635).

10.6 Form of Amended Performance Stock Award Grant Agreement for Performance

Stock Awards granted on October 15, 2004 to Denise L. Wilcox and Dean J. Bratel under the 1998 Incentive Compensation Plan, and amended effective February 3, 2005 (Incorporated by reference to Exhibit 10.6, of the Company's Form 10-Q dated February 9, 2005, SEC File No.1-7635).

10.7 Form of Restricted Stock Award Agreement for Restricted Stock granted on October 15, 2004, under the 1998 Incentive Plan (Incorporated by

reference to Exhibit 10.7, of the Company's Form 10-Q dated February 9, 2005, SEC File No. 1-7635).

31a Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31b Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32a Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32b Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

TWIN DISC, INCORPORATED
(Registrant)

September 9, 2005
(Date)

/S/ FRED H. TIMM

Fred H. Timm
Vice President - Administration and
Secretary and Chief Accounting Officer