TWIN DISC INC
Form 10-Q/A
September 12, 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 March 31, 2005 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 March 31, 2005, filed on May 13, 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 April 29, 2005, the registrant had 2,901,632 shares of its common stock outstanding.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31 2005 (As Restated)	June 30 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 8,579	$ 9,127
Trade accounts receivable, net	38,383	37,091
Inventories, net	53,203	48,777
Deferred income taxes	4,557	4,216
Other	3,415	3,111
Total current assets	108,137	102,322
Property, plant and equipment, net	36,616	33,222
Goodwill	13,065	12,717
Deferred income taxes	16,598	16,955
Other assets	8,973	9,406
	$183,389	$174,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 3,575	$ 1,607
Current maturities on long-term debt	2,857	3,018
Accounts payable	17,849	17,241
Accrued liabilities	28,283	27,262
Total current liabilities	52,564	49,128

Long-term debt	17,618	16,813
Accrued retirement benefits	46,249	49,456
	116,431	115,397
Minority Interest	480	509
Shareholders' Equity:		
Common stock	11,653	11,653
Retained earnings	86,682	84,428
Unearned Compensation	(255)	(304)
Accumulated other comprehensive loss	(16,057)	(20,301)
	82,023	75,476
Less treasury stock, at cost	15,545	16,760
Total shareholders' equity	66,478	58,716
	$183,389	$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 March 31		Nine Months Ended March 31	
	2005	2004	2005	2004
Net sales	$56,436	$48,606	$156,549	$128,943
Cost of goods sold	41,761	35,532	116,284	95,883
	14,675	13,074	40,265	33,060
Marketing, engineering and administrative expenses	11,227	9,520	31,997	27,156
Interest expense	304	272	814	835
Other expense (income),net	181	(42)	322	(227)
	11,712	9,750	33,133	27,764
Earnings before income taxes and minority interest	2,963	3,324	7,132	5,296
Income taxes	1,388	1,454	3,300	2,503
Earnings before minority interest	1,575	1,870	3,832	2,793
Minority interest	4	2	(64)	(17)
Net earnings	$ 1,579	$1,872	$ 3,768	$2,776

Dividends per share	$ 0.175	$ 0.175	$ .525	$ 0.525
Earnings per share data:				
Basic earnings per share	$ 0.55	$ 0.66	$ 1.32	$ 0.99
Diluted earnings per share	$ 0.54	$ 0.66	$ 1.30	$ 0.98
Shares outstanding data:				
Average shares outstanding	2,877	2,819	2,858	2,811
Dilutive stock options	51	29	48	21
Diluted shares outstanding	2,928	2,848	2,906	2,832
Comprehensive income:				
Net earnings	$ 1,579	$ 1,872	$ 3,768	$ 2,776
Foreign currency translation adjustment	(1,338)	34	4,244	3,055
Comprehensive income	$ 241	$ 1,906	$ 8,012	$ 5,831

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	
	Nine Months Ended March 31	
	2005	2004
Cash flows from operating activities:		
Net earnings	$ 3,768	$ 2,776
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,946	4,252
Equity in earnings of affiliate	-	(240)
Dividends received from affiliate	-	195
Unearned Compensation	150	146
Net change in working capital, excluding cash and debt, and other	(4,958)	(875)
	2,906	6,254
Cash flows from investing activities:		
Acquisitions of fixed assets	(5,977)	(1,681)

Proceeds from sales of fixed assets	69	48
Proceeds from sale of affiliate	-	3,811
	(5,908)	2,178
Cash flows from financing activities:		
Increase (decrease) in debt, net	2,075	(2,396)
Proceeds from exercise of stock options	1,215	304
Dividends paid	(1,514)	(1,493)
	1,776	(3,585)
Effect of exchange rate changes on cash	678	595
Net change in cash and cash equivalents	(548)	5,442
Cash and cash equivalents:		
Beginning of period	9,127	5,908
End of period	$ 8,579	$11,350

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 nine months ended March 31, 2005 and 2004 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:

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	March 31, 2005	
	As Restated	As Reported
Condensed Consolidated Balance Sheets:		
Inventories, net	$53,203	$56,137
Deferred income taxes	16,598	15,454
Retained earnings	86,682	88,472

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

	As Restated		As Reported	
	2005	2004	2005	2004
Cost of goods sold	$41,761	$35,532	$42,352	$35,689
Income taxes	1,388	1,454	1,158	1,393
Net earnings (loss)	1,579	1,872	1,218	1,776
Basic earnings(loss) per share	$0.55	$0.66	$0.42	$0.63
Diluted earnings(loss) per share	$0.54	$0.66	$0.42	$0.62

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

	As Restated		As Reported	
	2005	2004	2005	2004
Cost of goods sold	$116,284	$95,883	$116,652	$96,409
Income taxes	3,300	2,503	3,156	2,298
Net earnings (loss)	3,768	2,776	3,544	2,455

Basic earnings(loss) per share	$1.32	$0.99	$1.24	$0.87
Diluted earnings(loss) per share	$1.30	$0.98	$1.22	$0.86

C. Recently Issued Accounting Standards

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. 123R "Share Based Payment", and FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004".

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material.

During December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R) "Share-Based Payment" ("SFAS 123R"), which revises SFAS 123 and supercedes APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense based on their fair values beginning with the first interim or annual period beginning after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission ("SEC") amended the compliance date to the first annual period beginning after June 15, 2005. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to expense recognition. We will adopt SFAS 123R using the modified-prospective method beginning in the first quarter of fiscal 2006.

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During December 2004, the FASB issued FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance on the accounting for the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act, which was signed into law on October 22, 2004, introduces relief on the potential income tax impact of repatriating foreign earnings and certain other provisions. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. Based on our analysis to date, we are not in a position to decide on whether, or to what extent, we might repatriate foreign earnings under the provision of the Jobs Act. However, we expect to be in a position to finalize our assessment by June 2005.

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.

D. Inventory (As Restated)

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

	March 31, 2005	June 30, 2004

Inventories:	(As Restated)	
Finished parts	$ 38,142	$35,837
Work in process	9,589	8,187
Raw materials	5,472	4,753
	$ 53,203	$48,777

E. Warranty

Twin Disc engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends. While we believe the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires. The following is a listing of the activity in the warranty reserve during the period ended March 31, 2005 (in thousands).

	Three Months Ended March 31		Nine Months Ended March 31	
	2005	2004	2005	2004
Beginning reserve balance	$ 6,720	$ 6,251	$ 6,478	$ 6,070
Current period expense	1,107	1,471	3,159	3,276
Payments or credits to customers	1,136	1,236	3,379	3,123
Translation	(188)	(86)	245	177
Ending reserve balance	$ 6,503	$ 6,400	$ 6,503	$ 6,400

F. Contingencies

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

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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.

G. Business Segments

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

As Restated

	Three Months Ended March 31		Nine Months Ended March 31	
	2005	2004	2005	2004
Manufacturing segment sales	$53,453	$45,355	$147,490	$119,289
Distribution segment sales	16,975	16,134	48,343	43,345
Inter/Intra segment sales	(13,992)	(12,883)	(39,284)	(33,691)
Net sales	$56,436	$48,606	$156,549	$128,943
Manufacturing segment earnings	$ 3,020	$ 2,866	$8,181	$ 4,766
Distribution segment earnings	1,251	1,363	3,611	3,342
Inter/Intra segment loss	(1,308)	(905)	(4,660)	(2,812)
Earnings before income taxes and minority interest	$ 2,963	$ 3,324	$ 7,132	$ 5,296

Assets	March 31, 2005 (As Restated)	June 30, 2004
Manufacturing segment assets	$169,793	$164,034
Distribution segment assets	34,102	30,247
Corporate assets and elimination of inter-company assets	(20,506)	(19,659)
	$183,389	$174,622

H. 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, second and third quarters of fiscal 2005 or 2004. 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 March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Net earnings				
As reported	$ 1,579	$ 1,872	$ 3,768	$ 2,776
Pro forma	1,579	1,872	3,768	2,776
Basic earnings per share				

As reported	0.55	$ 0.66	$ 1.32	$ 0.99
Pro forma	0.55	0.66	1.32	0.99
Diluted earnings per share				
As reported	$ 0.54	$ 0.66	$ 1.30	$ 0.98
Pro forma	0.54	0.66	1.30	0.98

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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. No compensation expense has been recorded.

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 of all restricted stock grants for the nine months ended March 31, 2005, approximated $150,000.

I. 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 March 31		Nine months ended March 31	
	2005	2004	2005	2004
Pension Benefits				
Service cost	$ 301	$ 310	$ 889	$ 913
Interest cost	1,799	1,796	5,378	5,367
Expected return on plan assets	(1,837)	(1,594)	(5,495)	(4,766)
Amortization of prior service cost	(149)	(179)	(446)	(538)
Amortization of transition obligation	18	16	46	42
Amortization of net loss	995	1,182	2,983	3,541
Net periodic benefit cost	$1,127	$1,531	$3,355	$4,559
Post-retirement Benefits				
Service cost	$ 13	$ 11	$ 39	$ 34
Interest cost	418	514	1,254	1,543
Amortization of net loss	164	217	492	651

Net periodic benefit cost	$ 595	$ 742	$1,785	$2,228

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 March 31, 2005, $6,352,000 of contributions have been made.

J. 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

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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 nine months ended March 31, 2005 and 2004, 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 Third Quarter of FY 2005 with the Third Quarter of FY 2004

Net sales for the third quarter improved 16.1% to $56.4 million from $48.6 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). For the quarter, Rolla contributed nearly $1.5 million in sales. Compared to the third 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 $1.4 million versus the prior year, before eliminations.

Sales at our manufacturing operations were up 17.8% 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 21%. Sales at our European manufacturing locations, excluding the recent Rolla acquisition, were up over 5% over the same period last year, with approximately three-quarters of the improvement coming from the strengthening Euro versus the US Dollar. The third quarter of fiscal 2005 represents the third quarter that the Company has recognized sales from this acquisition. For the third quarter, Rolla contributed just over $1.5 million in sales. The sales growth in our domestic operations was primarily driven by increased sales of military and 8500 series transmission, 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 5.2% in sales compared to the third quarter of fiscal 2004. The majority of this increase came from our distribution operations in Asia-Pacific. Sales growth in our commercial and pleasure craft marine transmission product lines primarily drove this increase. About two-thirds 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 $1.1 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 third quarter.

Gross profit as a percentage of sales decreased to 26.0% of sales, compared to 26.9% of sales for the same period last year. This decline results principally from the inability to offset higher prices for steel, shipping and energy; as well as, the unfavorable impact of producing pleasure craft marine transmissions in Euros at the Company's Belgium facility and selling them in US dollars to the North American market. Management has taken measures to offset the higher raw material costs through pricing actions to be effective in the fourth quarter. Higher volume, level fixed costs, increased manufacturing productivity and absorption at our domestic manufacturing operations, and lower pension expense helped to partially offset higher raw material and other costs.

Marketing, engineering, and administrative (ME&A) expenses were 17.9% higher compared to last year's third fiscal quarter. As a percentage of sales, ME&A expenses were up slightly to 19.9% of sales versus 19.6% of sales in the third quarter of fiscal 2004. In fiscal 2005's third 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 $0.2 million related to the continued weakening of the US dollar versus most Asian currencies and the Euro.

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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 $3.7 million versus the third fiscal quarter of last year, the mix of the Company's borrowings were at a lower weighted-average interest rate, as the Company continues to pay off its 7.37% ten-year unsecured notes.

The consolidated income tax rate was higher than a year ago primarily due to changes in the mix of foreign versus domestic earnings.

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

Net sales for the first nine months of 2005 improved 21.4% to $156.5 million from $128.9 million in the same period a year ago. The results for the current fiscal year's first nine months 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 $6.8 million in sales for the first nine months of this fiscal year. Compared to the first nine months 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 $4.5 million versus the prior year, before eliminations.

Sales at our manufacturing operations were up 23.6% 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 25%. Sales at our European manufacturing locations, excluding the recent Rolla acquisition, were up nearly 12% over the same period last year, with approximately half of this improvement coming from the strengthening Euro versus the US Dollar. For the first nine months of fiscal 2005, Rolla contributed just under $4.8 million in sales. The sales growth in our domestic operations was primarily driven by increased sales of military and 8500 series transmission, 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 11.5% in sales compared to the first nine months of fiscal 2004. The majority of this increase came from our distribution operations in Asia-Pacific, Japan, 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 and Japan, while increased surface drive product sales drove the increase in Italy. The increase sales activity at our distribution operations in the Northwestern US and Canada came from increased industrial product and transmission sales. Approximately 38% 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 $5.6 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 nine months.

Gross profit as a percentage of sales increased 10 basis points to 25.7% of sales, compared to 25.6% of sales for the same period last year. Higher volume, improved product mix, level fixed costs, increased manufacturing productivity and absorption, the favorable effect of the Company's outsourcing activities, 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 nine months of fiscal 2004. As a percentage of sales, ME&A expenses were down slightly to 20.4% of sales versus 21.1% of sales in the first nine months of fiscal 2004. In fiscal 2005's first nine months, 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 nine months 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 $0.7 million related to the continued weakening of the US dollar versus most Asian currencies and the Euro.

Interest expense of $0.8 million for the first nine months was 2.5% lower than the same period last year. While the average total borrowings for the first nine months were up nearly $2.5 million versus the first nine months of last year, the mix of the Company's borrowings were at a lower weighted-average

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interest rate, as the Company continues to pay off its 7.37% ten-year unsecured

notes.

For the first nine months of fiscal 2005, the consolidated income tax rate was slightly 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 March 31, 2005 and June 30, 2004

As of March 31, 2005, the Company had net working capital of $55.6 million, which represents a slight increase from the net working capital of $53.2 million as of June 30, 2004.

Cash and cash equivalents decreased $0.5 million, or approximately 6%, to $8.6 million as of March 31, 2005. The majority of the cash and cash equivalents as of March 31, 2005 are at our overseas operations in Europe and Asia-Pacific.

Trade receivables of $38.4 million were up $1.3 million versus last fiscal year-end. However, the change in foreign exchange rates since fiscal year-end results in an increase in foreign-denominated receivables of approximately $1.3 million. The net change is consistent with the sales volume experienced in the second and third fiscal quarters of this year versus the third and fourth fiscal quarters of fiscal 2004.

Net inventory increased by $4.4 million versus June 30, 2004 to $53.2 million. $2.0 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 nine months of this fiscal year. As of March 31, 2005, the Company's backlog of orders to be shipped over the next six months, which does not include any business booked from Rolla, was $62.7 million, up 27% since the year began and up 20% compared with the same period a year ago. This represents the highest six month backlog since the third quarter of fiscal 1998.

Net property, plant and equipment (PP&E) increased $3.4 million versus June 30, 2004. In the first nine months of fiscal 2005, the Company's capital expenditures for PP&E totaled $6.0 million, an over 250% 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 $17.8 million were up 3.5% from June 30, 2004. Accounts payable at our domestic manufacturing operations were down nearly $2 million from the beginning of the fiscal year. This was offset by increases at our overseas manufacturing and distribution operations. The net effect of the continued weakening US dollar was to increase foreign denominated accounts payable by $0.7 million compared to fiscal year-end 2004.

Total borrowings, notes payable and long-term debt, as of March 31, 2005 increased by $2.6 million, or 12%, to $24.1 million versus June 30, 2004. This increase is primarily attributable to increased funding in the first nine months of fiscal 2005 of the Company's pension plan as well as the increased capital investment noted above. In fiscal 2005's first nine months, the Company made pension contributions of just under $6.4 million. For the year ended June 30, 2005, the Company expects to contribute a total of $7.5

million to its pension plans, compared to $3.7 million in fiscal 2004.

Total shareholders' equity increased by $7.8 million to a total of $66.5 million. Retained earnings increased by $2.3 million. The net increase in retained earnings included $3.8 million in net earnings reported year-to-date, offset by $1.5 million in dividend payments. Net favorable foreign currency translation of $4.2 million was reported as the U.S. Dollar weakened against the Euro and Asian currencies during the first nine months. Accounting for the balance of the change, treasury stock decreased nearly $1.2 million from the prior fiscal year-end due to the exercising of stock options in the first nine 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

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the term by two years to October 31, 2007. Furthermore, it is the Company's intention to continue 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	$ 3,575	$ 3,575			
Revolver borrowing	$13,400		$13,400		
Long-term debt	$ 7,075	$ 2,857	$ 4,218		
Operating leases	$10,285	$ 2,700	$ 3,711	$2,404	$1,470
Total obligations	$34,335	$ 9,132	$21,329	$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. 123R "Share Based Payment", and FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004".

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material.

During December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R) "Share-Based Payment" ("SFAS 123R"), which revises SFAS 123

and supercedes APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense based on their fair values beginning with the first interim or annual period beginning after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission ("SEC") amended the compliance date to the first annual period beginning after June 15, 2005. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to expense recognition. We will adopt SFAS 123R using the modified-prospective method beginning in the first quarter of fiscal 2006.

During December 2004, the FASB issued FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance on the accounting for the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act, which was signed into law on October 22, 2004, introduces relief on the potential income tax impact of repatriating foreign earnings and certain other provisions. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. Based on our analysis to date, we are not in a position to decide on whether, or to what extent, we might repatriate foreign earnings under the provision of the Jobs Act. However, we expect to be in a position to finalize our assessment by June 2005.

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
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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 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 March 31, 2005 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

$53,000.

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 nine months ended March 31, 2005 and 2004 were denominated in currencies other than the U.S. dollar. Of that total, approximately 64% 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 March 31, 2005 the Company had net outstanding forward exchange contracts to purchase Euros in the value of $2,500,000 with a weighted average maturity of 35 days. The fair value of the Company's contracts was a loss of approximately $49,000 at March 31, 2005. 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 quarters and nine months ended March 31, 2005 and 2004 as the impact of this error is material to the previously issued financial statements.

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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 March 31, 2005.

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 March 31, 2005, 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.

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

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.

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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 12, 2005	/S/ FRED H. TIMM
(Date)	Fred H. Timm Vice President - Administration and Secretary and Chief Accounting Officer