

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended June 30, 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 Number)

1328 Racine Street, Racine, Wisconsin	53403
(Address of Principal Executive Office)	(Zip Code)

Registrant's Telephone Number, including area code: (262) 638-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered:
Common stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common stock, no par value  
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

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

At August 30, 2004, the aggregate market value of the common stock held by non-affiliates of the registrant was \$66,665,702. Determination of stock ownership by affiliates was made solely for the purpose of responding to this requirement and registrant is not bound by this determination for any other purpose.

At August 30, 2004, the registrant had 2,867,342 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

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

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004 are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

Twin Disc was incorporated under the laws of the state of Wisconsin in 1918. Twin Disc designs, manufactures and sells heavy duty off-highway power transmission equipment. Products offered include: hydraulic torque converters; power-shift transmissions; marine transmissions and surface drives; universal

joints; gas turbine starting drives; power take-offs and reduction gears; industrial clutches; fluid couplings and control systems. The Company sells its products to customers primarily in the construction equipment, industrial equipment, government, marine, energy and natural resources and agricultural markets. The Company's worldwide sales to both domestic and foreign customers

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are transacted through a direct sales force and a distributor network. At the end of May, 2004, the Company acquired Rolla SP Propellers SA a manufacturer of custom high performance propellers. The products described above have accounted for more than 90% of revenues in each of the last three fiscal years.

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

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

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

The Company's products receive direct widespread competition, including from divisions of other larger independent manufacturers. The Company also competes for business with parts manufacturing divisions of some of its major customers. Primary competitive factors for the Company's products are performance, price, service and availability. Ten customers accounted for approximately 32% of the Company's consolidated net sales during the year ended June 30, 2004. Sewart Supply, Inc., an independent distributor of Twin Disc products, accounted for approximately 11% of consolidated net sales in 2004.

Unfilled open orders for the next six months of \$49,400,000 at June 30, 2004 compares to \$30,593,000 at June 30, 2003. Since orders are subject to cancellation and rescheduling by the customer, the six-month order backlog is considered more representative of operating conditions than total backlog. However, as procurement and manufacturing "lead times" change, the backlog will increase or decrease; and thus it does not necessarily provide a valid indicator of the shipping rate. Cancellations are generally the result of rescheduling activity and do not represent a material change in backlog.

Management recognizes that there are attendant risks that foreign governments may place restrictions on dividend payments and other movements of money, but these risks are considered minimal due to the political relations the United States maintains with the countries in which the Company operates or the relatively low investment within individual countries. The Company's business is not subject to renegotiation of profits or termination of contracts at the election of the Government.

Engineering and development costs include research and development expenses for new product development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled \$2,840,000, \$2,220,000 and \$1,887,000 in 2004, 2003 and 2002, respectively. Total engineering and development costs were \$7,600,000, \$7,190,000 and \$6,718,000 in 2004, 2003 and 2002, respectively.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, is not anticipated to have a material effect on capital expenditures, earnings or the competitive position of the Company.

The number of persons employed by the Company at June 30, 2004 was 860.

A summary of financial data by segment and geographic area for the years ended June 30, 2004, 2003 and 2002 appears in Note M to the consolidated financial statements on pages 36 through 39 of this form.

ITEM 2. PROPERTIES

The Company owns two manufacturing, assembly and office facilities in Racine, Wisconsin, U.S.A. , one in Nivelles, Belgium and one in Decima, Italy. The aggregate floor space of these four plants approximates 677,000 square feet. One of the Racine facilities includes office space, which is the location of the Company's corporate headquarters. The Company leases additional manufacturing, assembly and office facilities in Decima, Italy and Balerna, Switzerland

The Company also has operations in the following locations, all of which are used for sales offices, warehousing and light assembly or product service. The following properties are leased:

3	Jacksonville, Florida, U.S.A.	Chambery, France
	Miami, Florida, U.S.A.	Brisbane, Queensland, Australia
	Coburg, Oregon, U.S.A.	Perth, Western Australia, Australia
	Kent, Washington, U.S.A.	Singapore
	Edmonton, Alberta, Canada	Shanghai, China
	Vancouver, British Columbia, Canada	Capezzano Planore, Italy

The properties are generally suitable for operations and are utilized in the manner for which they were designed. Manufacturing facilities are currently operating at less than 80% capacity and are adequate to meet foreseeable needs of the Company.

#### ITEM 3. LEGAL PROCEEDINGS

Twin Disc is a defendant in several product liability or related claims considered either adequately covered by appropriate liability insurance or involving amounts not deemed material to the business or financial condition of the Company.

#### ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended June 30, 2004.

##### Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 15, 2004.

Name	Principal Occupation Last Five Years	Age
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Michael E. Batten	Chairman, Chief Executive Officer since 1983	64
Michael H. Joyce	President - Chief Operating Officer since 1995	63
James E. Feiertag	Executive Vice President since October 2001: formerly Vice President - Manufacturing since November 2000; formerly Vice President of Manufacturing for the Drives and Systems Group, Rockwell Automation Group since 1999	47
Christopher J. Eperjesy	Vice President - Finance and Treasurer since November 2002: formerly Divisional Vice President - Financial Planning & Analysis, Kmart Corporation since 2001; formerly Senior Manager - Corporate Finance, DaimlerChrysler AG since 1999	36
Henri Claude Fabry	Vice President - Global Distribution since	58

October 2001; formerly Vice President Marine and Distribution since 1999

Fred H. Timm Vice President - Administration and Secretary 58  
since October 2001, formerly Corporate Controller  
And Secretary since 1995

John H. Batten Vice President and General Manager - Marine and 39  
Propulsion since October 2001; formerly Commercial  
Manager - Marine and Propulsion since 1998

Officers are elected annually by the Board of Directors at the Board meeting held preceding each Annual Meeting of the Shareholders. Each officer holds office until his successor is duly elected, or until he resigns or is removed from office. John H. Batten is the son of Michael E. Batten.

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## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the symbol TDI. The price information below represents the high and low sales prices for each period:

#### <CAPTION

	Fiscal Year Ended June 30, 2004		Fiscal Year Ended June 30, 2003		
	High	Low	High	Low	
First Quarter	17.00	14.12	First Quarter	15.14	12.90
Second Quarter	19.54	16.55	Second Quarter	13.25	11.90
Third Quarter	21.25	19.00	Third Quarter	13.35	9.90
Fourth Quarter	25.15	19.44	Fourth Quarter	14.35	10.70

Quarterly dividends of \$0.175 per share were declared and paid for each of the quarters above. As of June 30, 2004 there were 1,003 shareholder accounts. The sales price of Twin Disc common stock as of August 30, 2004 was \$23.25.

Pursuant to a shareholder rights plan (the "Rights Plan"), on April 17, 1998, the Board of Directors declared a dividend distribution, payable to shareholders of record at the close of business on June 30, 1998, of one Preferred Stock Purchase Right ("Rights") for each outstanding share of Common Stock. The Rights will expire 10 years after issuance, and will be exercisable only if a person or group becomes the beneficial owner of 15% or more of the Common Stock (or 25% in the case of any person or group which currently owns 15% or more of the shares or who shall become the Beneficial Owner of 15% or more of the shares as a result of any transfer by reason of the death of or by gift from any other person who is an Affiliate or an Associate of such existing holder or by succeeding such a person as trustee of a trust existing on the record date) (an "Acquiring Person"), or 10 business days following the commencement of a tender or exchange offer that would result in the offeror beneficially owning 25% or more of the Common Stock. A person who is not an Acquiring Person will not be deemed to have become an Acquiring Person solely as a result of a reduction in the number of shares of Common Stock outstanding due to a repurchase of Common Stock by the Company until such person becomes beneficial owner of any additional shares of Common Stock. Each Right will entitle shareholders who received the Rights to buy one newly issued unit of one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of \$160, subject to certain anti-dilution adjustments. The Company will generally be entitled to redeem the Rights at \$.05 per Right at any time prior to 10 business days after a public announcement of the existence of an acquiring Person. In addition, if (i) a person or group accumulates more than 25% of the Common Stock (except pursuant to an offer for all outstanding shares of Common Stock which the independent directors of the Company determine to be fair to and otherwise in the best interests of the Company and its shareholders and except solely due to a reduction in the number of shares of Common Stock outstanding due to the repurchase of Common Stock by the Company), (ii) a merger takes place with an Acquiring Person where the Company is the surviving corporation and its Common Stock is not changed or exchanged, (iii) an Acquiring Person engages in certain self-dealing transactions, or (iv) during such time as

there is an Acquiring Person, an event occurs which results in such Acquiring Person's ownership interest being increased by more than 1% (e.g., a reverse stock split), each Right (other than Rights held by the Acquiring Person and certain related parties which become void) will represent the right to purchase, at the exercise price, Common Stock (or in certain circumstances, a combination of securities and/or assets) having a value of twice the exercise price. In addition, if following the public announcement of the existence of an Acquiring Person the Company is acquired in a merger or other business combination transaction, except a merger or other business combination transaction that takes place after the consummation of an offer for all outstanding shares of Common Stock that the independent directors of the Company have determined to be fair, or a sale or transfer of 50% or more of the Company's assets or earning power is made, each Right (unless previously voided) will represent the right to purchase, at the exercise price, common stock of the acquiring entity having a value of twice the exercise price at the time.

The Rights may have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of Rights being acquired. However, the Rights are not intended to prevent a take-over, but rather are designed to enhance the ability of the Board of Directors to negotiate with an acquirer on behalf of all of the shareholders. In addition, the Rights should not interfere with a proxy contest.

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The Rights should not interfere with any merger or other business combination approved by the Board of Directors since the Rights may be redeemed by the Company at \$.05 per Right prior to 10 business days after the public announcement of the existence of an Acquiring Person.

The news release announcing the declaration of the Rights dividend, dated April 17, 1998, filed as Item 14(a)(3), Exhibit 4(b) of Part IV of the Annual Report on Form 10-K for the year ended June 30, 1998 is hereby incorporated by reference.

#### Recent Sales of Unregistered Securities

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, 2002, 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 6. SELECTED FINANCIAL DATA

##### Financial Highlights

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

Statement of Operations Data:	2004	For the years ended June 30,			
		2003	2002	2001	2000
Net sales	\$186,089	\$179,591	\$179,385	\$180,786	\$177,987
Net earnings (loss)	5,243	(2,368)	2,058	6,169	3,773
Basic earnings (loss) per share	1.86	(.84)	.73	2.20	1.34
Diluted earnings (loss) per share	1.84	(.84)	.73	2.20	1.34
Dividends per share	.70	.70	.70	.70	.70
Balance Sheet Data (at end of period):					
Total assets	\$176,637	\$170,358	\$157,280	\$156,734	\$174,190
Total Long-Term Debt	16,813	16,584	18,583	23,404	31,524

Effective May 31, 2004, the company acquired 100% of the common stock of Rolla SP Propellers SA of Balerna, Switzerland. Rolla designs and manufactures custom propellers. Rolla will have a fiscal year ended May 31, since the acquisition was also effective May 31. No results of operations of Rolla are included in consolidated results for the year ended June 30, 2004.

In January 2004, the Company sold its 25% minority interest in Palmer Johnson Distributors, LLC (PJD) to the majority holder, PJD, Inc. for \$3,811,000 cash, which approximated the net book value of the investment. The Company recognized pre-tax earnings of \$240,000, \$414,000 and \$481,000 in fiscal years 2004, 2003 and 2002 respectively, from its investment in PJD. In addition, the Company received cash distributions of \$195,000, \$303,000 and \$400,000 in fiscal years 2004, 2003 and 2002, respectively.

During the third quarter of 2001, the Company sold its investment in Niigata Converter Company, Ltd., resulting in a net gain of \$2,288,000 or \$.81 per share.

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. (NTC). Effective April 1, 2003, Niigata Engineering Co. LTD's ownership interest was transferred to Hitachi Nico Transmission Co. LTD. and NTC was renamed Twin Disc Nico Co. LTD (TDN). TDN's balance sheet as of March 31, 2004 and 2003 are consolidated with the Company's balance sheet as of June 30, 2004 and 2003, respectively. TDN's statement of operations for the years ended March 31, 2004, 2003 and 2002 are consolidated with the Company's statement of operations for the years ended June 30, 2004, 2003 and 2002, respectively. TDN contributed the following for the years ended June 30 (dollars in thousands, except per share amounts):

	2004	2003	2002
	----	----	----
Net sales	\$ 1,180	\$13,708	\$12,217

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Net earnings	48	23	263
Basic and diluted earnings per share	.02	.01	.09
Total assets	3,162	6,076	6,169
Total long-term obligations	0	0	0

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### Note on Forward Looking Statements

Statements in this report (including but not limited to certain statements in Items 1, 3 and 7) and in other Company communications that are not historical facts are forward-looking statements, which are based on managements current expectations. These statements involve risks and uncertainties that could cause actual results to differ materially from what appears here.

Forward-looking statements include the Company's description of plans and objectives for future operations and assumptions behind those plans. The words "anticipates," "believes," "intends," "estimates," "and "expects," or similar anticipatory expressions, usually identify forward-looking statements. In addition, goals established by Twin Disc, Incorporated should not be viewed as guarantees or promises of future performance. There can be no assurance the Company will be successful in achieving its goals.

In addition to the assumptions and information referred to specifically in the forward-looking statements, other factors could cause actual results to be materially different from what is presented here.

##### Results of Operations

(In thousands)

	2004	%	2003	%	2002	%
	----	--	----	--	----	--
Net sales	\$186,089		\$179,591		\$179,385	
Cost of goods sold	138,459		144,575		139,146	
Gross profit	47,630	25.6%	35,016	19.5%	40,239	22.4%
Marketing, engineering and administrative expenses	37,168	20.0	34,790	19.4	34,638	19.3
Restructuring of operations	-	0.0	2,042	1.1	-	0.0

Earnings (loss) from operations	\$10,462	5.6	\$(1,816)	(1.0)	\$5,601	3.1
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Fiscal 2004 Compared to Fiscal 2003

Net Sales

Net sales increased \$6.5 million, or nearly four percent in fiscal 2004. In fiscal 2004, the joint venture agreement governing Twin Disc Nico Co., LTD (TDN) was amended. Under the new agreement, sales into certain territories have been transferred to the joint venture partner in exchange for which TDN receives a product development fee equal to the gross margin formerly earned on such sales. The effect of this change was to reduce sales by \$13.7 million for the fiscal year ended June 30, 2004, with no effect on net earnings. Product development fees included in net sales in fiscal year 2004 approximated \$ 0.7 million. In fiscal 2003, the company recognized \$13.0 million of sales that are no longer recognized in accordance with the new agreement. As a result of the strong Euro and Asian currencies versus the dollar, foreign currency exchange had a net favorable impact on sales of \$10.4 million in fiscal 2004, compared to fiscal 2003.

In fiscal 2004, sales for our worldwide manufacturing operations, before eliminating intra-segment and inter-segment sales, were \$19.0 million, or 12.3%, higher than in the prior year. Over half of this increase came at our domestic manufacturing operations, which saw a recovery across most of its product markets. Of the remaining increase, approximately \$5.9 million was due to the impact of net favorable exchange rate movements on our European operations in Belgium and Italy.

Net sales for distribution operations were down \$4.2 million, or 6.7%, in fiscal 2004. However, there was a \$13.0 million decrease due to the change in the TDN agreement mentioned above. Adjusting for this change, sales were \$8.8 million, or 17.5%, higher than fiscal 2003. Of this increase, the net positive

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impact due to the change in foreign exchange rates was \$4.5 million, or 8.9%.

From a product perspective, the Company saw increases of 9.1%, 8.6%, and 14.1% in its industrial, transmission and propulsion product sales. After adjusting for the impact of the change in the TDN agreement, marine product sales were 14.0% higher (down 3.3% before adjusting). Of particular note in fiscal 2004 was the continued acceptance of our QuickShift™ marine transmissions, the overall recovery of the marine pleasure craft market, the double-digit sales growth in our Arneson Surface Drives (propulsion) and 8500 series transmission for oilfield applications.

Gross Profit

Gross profit as a percentage of sales improved 610 basis points in fiscal 2004 to 25.6%, compared to 19.5% in fiscal 2003. The improvement in fiscal 2004 can be attributed to a number of factors: (1) increased sales and favorable product mix, which accounted for over half of the current year's improvement, (2) increased productivity and absorption, (3) lower fixed costs as a result of cost reduction initiatives, (4) favorable purchase price variances as a result of a material cost reduction program and (5) the absence in fiscal 2004 of a \$0.8 million SFAS 144 impairment charge taken in fiscal 2003. These were partially offset by a \$1 million increase in pension expense in fiscal 2004 compared to fiscal 2003.

Marketing, Engineering and Administrative (ME&A) Expenses

Marketing, engineering, and administrative (ME&A) expenses increased \$2.4 million, or 6.8%, in fiscal 2004 versus fiscal 2003. Over \$1.5 million, or 425 basis points, of this increase can be attributed to the unfavorable exchange rate impact of the weakening dollar on our overseas operations' ME&A expenses. Increased pension expense for salaried and administrative employees accounted for another \$0.8 million of the increase.

Restructuring

During the second quarter of 2003, the Company recorded a pre-tax restructuring charge of \$2.0 million in connection with the reduction of its workforce. These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. The

charge consisted of employee termination and severance benefits for a total of 58 employees; 48 production employees and 10 salaried employees. During 2004 and 2003, the Company made cash payments of \$0.4 million and \$0.6 million, respectively. Accrued restructuring costs were \$0.9 million and \$1.3 million at June 30, 2004 and 2003, respectively.

#### Interest Expense

Interest expense decreased by \$250,000, or 19%, in fiscal 2004. The average outstanding debt for fiscal 2004 of \$20.4 million (computed monthly) was \$2.3 million lower than fiscal 2003. The decrease in interest expense for the fifth straight year can be attributed to overall lower debt levels and a lower weighted interest rate. The latter is partially due to the fact that the Company continues to pay down its Senior Notes, which carry a fixed rate of 7.37%, which is significantly higher than the interest rate on its other credit facilities.

#### Equity in Net Earnings of Affiliate

In January 2004, the Company sold its 25% minority interest in Palmer Johnson Distributors, LLC. to the majority holder, PJD, Inc. for \$3,900,000 cash, which approximated the net book value of the investment. The Company recognized pre-tax earnings of \$240,000 and \$414,000 in fiscal years 2004 and 2003 respectively, from its investment in PJD. In addition, the Company received cash distributions of \$195,000 and \$303,000 in fiscal years 2004 and 2003, respectively.

#### Income Taxes

In fiscal 2004, the effective income tax rate was adversely impacted by the inability to utilize foreign tax credits and a relatively high proportion of foreign earnings. The low effective tax rate in fiscal 2003 results from the benefit of domestic losses partially offset by taxes incurred on foreign earnings, the inability to utilize foreign tax credits and a reduction in statutory rates at some foreign locations.

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit carryforwards for which a

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valuation allowance has been recorded.

#### Order Rates

In fiscal 2004, we saw an improvement in our order rates for most of our products. As of fiscal year end, our manufacturing facilities in the United States, Belgium and Italy saw year-over-over increases in their six-month backlogs of 15.8%, 10.0% and 21.4%, respectively. The backlog of orders scheduled for shipment during the next six months (six-month backlog) of \$49.4 million at the end of fiscal 2004 compared favorably to the \$30.6 million for fiscal year end 2003. In June 2003, the Company announced that it had received an order to provide transmission systems for medium tactical vehicles to be supplied to Israeli Defense Forces. As of June 30, 2004, \$6.7 million of the six-month backlog related to this military contract. Prior to the over 60% improvement experienced this fiscal year, order rates for most of our products were down throughout much of the prior three fiscal years, contributing along with improved deliveries, to a steady decline in backlog. The year-over-year change in foreign exchange rates resulted in an approximately \$0.8 million increase in the backlog at June 30, 2004 versus June 30, 2003.

#### Other

On July 15, 2003, the Company announced a number of actions to address rising pension and retiree healthcare costs, meant to ensure both the future strength of our pension fund and the Company's ability to remain globally competitive. In addition to changes to both the pension and post-retirement healthcare plans (see Footnote P to the consolidated financial statements), the Company announced across-the-board wage reductions for corporate officers, and most domestic salaried and hourly employees. Domestic employee groups, including officers, also will forego performance bonuses in both fiscal 2003 and 2004. The 401(k) company match also has been reduced from 75 percent to 50 percent on the first six percent of employees' contributions. The combined effect of these actions approximately offset projected increases for both



pension and post-retirement healthcare costs in fiscal 2004. In the first quarter of fiscal 2005, the Company will restore salary and wages to their prior levels and plans to implement a new incentive plan 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. It is estimated that the annual net pre-tax impact of the salary and wage restoration will be approximately \$0.7 million.

## FISCAL 2003 COMPARED TO FISCAL 2002

### Net Sales

Net sales increased less than one percent to \$179.6 million in fiscal 2003 from \$179.4 million in the prior fiscal year. As a result of the strong Euro and Asian currencies versus the dollar, foreign currency exchange had a net favorable impact on sales of \$9.6 million in fiscal 2003, compared to fiscal 2002.

In fiscal 2003, our domestic operations experienced a decline in sales versus 2002 in all market segments except for Propulsion, which had a very strong year. After adjusting for the impact of foreign exchange rate changes, sales for overseas operations were slightly higher in fiscal 2003 compared to 2002. Overall, the Company's three major markets, marine, transmission and industrial products, all continued to be impacted by global economic conditions. However, the second half of the fiscal 2003 saw significant contributions from new-product introductions, such as our high-performance QuickShift™ marine transmissions and the 8500 series transmissions for oilfield applications, which supplemented improving core business strength. Our continuing ability to compete successfully for defense applications was underscored by the \$14.8 million contract for transmission systems announced in June 2003, augmenting recently awarded U.S. defense contracts for other land-based transmissions. Sales from this contract were first realized in late fiscal 2004.

For fiscal 2003, the Company's wholly-owned distribution companies posted a 9% improvement in sales, of which 6% can be attributed to the favorable impact of exchange rate fluctuations versus fiscal 2002. In particular, we saw strong sales for Arneson Surface Drives and the Italian Luxury Yacht industry weathered the pleasure craft downturn better than any other segment. Our distribution offices in Italy and the Pacific Rim continued to show strength in spite of weak global market conditions.

We had mixed results in our manufacturing operations in fiscal 2003. Our Italian operations posted another strong sales year with an increase of 18.4% versus fiscal 2002. However, the majority of this increase was caused by the strengthening Euro. Although our Belgian operations got off to a slow start in

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fiscal 2003, the second half of the year saw some recovery as we began to produce and see the effects of our new QuickShift <trademark> marine transmissions. After adjusting for the impact of a strengthening Euro in fiscal 2003, our Belgian operations posted a slight increase in sales, primarily driven by a very strong fourth quarter. In the U.S., our domestic operations were faced with a number of challenges early in fiscal 2003. In the first quarter, quality problems necessitated downtime in order to segregate non-conforming parts received from two of the Company's vendors. By the end of the second quarter, the disruption of production flow as a result of these vendor-supplied off-spec parts was normalized. In the second quarter, the Company announced restructuring actions that impacted both our U.S. and Belgian manufacturing operations (see Footnote S to the consolidated financial statements). These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. In addition to these challenges, the Company continued to be confronted with softness in many of its key markets. However, propulsion products continued to be a strong area for the Company in fiscal 2003, increasing over 30% versus the prior year (almost half of this increase is attributable to exchange rate changes versus fiscal 2002).

### Gross Profit

Gross profit as a percentage of sales deteriorated 290 basis points to 19.5% in fiscal 2003 compared to fiscal 2002. Almost half of the deterioration can be attributed to increased pension and medical costs of nearly \$1.6 million, and a \$0.8 million impairment charge taken in the second quarter (see Footnote F to the consolidated financial statements). The remaining deterioration was

due to unfavorable volume and mix in fiscal 2003 as well as supplier quality issues the Company experienced in the first and second quarters of fiscal 2003. The latter was somewhat offset by ongoing productivity and cost improvement initiatives in our manufacturing operations. Despite early setbacks caused by the supplier quality issues and restructuring actions taken in the first half of 2003, the second half of the year was much stronger. For example, fourth quarter gross profit as a percentage of sales of 22.7% compared favorably with fiscal 2002 at 22.9%.

#### Marketing, Engineering and Administrative (ME&A) Expenses

In fiscal 2003, marketing, engineering, and administrative (ME&A) expenses remained flat versus the prior year, in spite of an almost \$1.4 million increase attributable to the unfavorable exchange rate impact of the weakening dollar on our overseas operations. This was achievable primarily as a result of ongoing cost reduction initiatives, including the restructuring actions announced in the 2nd quarter. For fiscal 2003, total engineering related expenses were approximately \$1 million higher than the prior year as the Company continued to invest in engineering projects related to the development of new marine, industrial, surface drive and electronic control products. This increase was more than offset by reductions in marketing and administrative expenses, even with the negative foreign exchange impact. Approximately one-half of the \$2.9 million increase in fiscal 2002 spending was due to the first-year expenses of NTC, and the balance consisted of added marketing and engineering expenses related to a new product introduction.

#### Restructuring

During the second quarter of 2003, the Company recorded a pre-tax restructuring charge of \$2.0 million in connection with the reduction of its workforce. These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. The charge consisted of employee termination and severance benefits for a total of 58 employees; 48 production employees and 10 salaried employees. During 2003, the Company made cash payments of \$0.6 million. Accrued restructuring costs were \$1.3 million at June 30, 2003.

#### Interest Expense

Interest expense declined for the fourth straight year in fiscal 2003 as debt was further reduced by \$2 million, excluding the impact of foreign exchange, and the company continued to pay down its senior notes, which carry a significantly higher interest rate than its revolver facility.

#### Income Taxes

The effective tax rate in fiscal 2004 was adversely effected by state income taxes and higher taxes at foreign operations. The low effective tax rate in fiscal 2003 results from the benefit of domestic losses partially offset by taxes incurred on foreign earnings, the inability to utilize foreign tax credits and a reduction in statutory rates at some foreign locations. In fiscal year 2002, limitations on foreign tax credit utilization, the relatively high

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proportion of foreign earnings and settlement of some state tax issues resulted in an unusually high tax rate. The effective rate in fiscal 2002 was increased further by two third-quarter adjustments totaling about \$300,000. Also in fiscal 2002, a tax incentive provided by the Belgian government several years ago was disallowed by the European Commission and was refunded to the government, and the United States tax provision was adjusted upward for the taxes due on an asset sale gain recorded in the prior year's third quarter. Statutory rate changes at European operations reduced taxes in 2003 by approximately \$100,000.

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit carryforwards for which a valuation allowance has been recorded.

#### Order Rates

Order rates for most of our products were down throughout much of fiscal 2003 and 2002, contributing along with improved deliveries, to a steady decline in backlog. The backlog of orders scheduled for shipment during the next six months (six-month backlog) remained relatively flat at \$31 million at the end of

fiscal 2003. However, the year-over-year change in foreign exchange rates resulted in an approximately \$2.1 million increase in the backlog at June 30, 2003 versus June 30, 2002. The year-over-year change in foreign exchange rates resulted in an approximately \$1.0 million increase in the backlog at June 30, 2002 versus June 30, 2001.

#### LIQUIDITY AND CAPITAL RESOURCES

Fiscal Years 2004, 2003 and 2002

Cash flows from operating activities were \$12.2 million, \$6.7 million and \$13.2 million, in fiscal 2004, 2003 and 2002, respectively.

The fiscal 2004 cash flows from operating activities were \$5.5 million higher than the prior year. Fiscal 2004 experienced significantly higher net earnings than in fiscal 2003, a profit of \$5.2 million versus a loss of \$2.4 million in the prior fiscal year, for a net increase of \$7.6 million. In addition, improved cash flows in fiscal 2004 related to a decrease in accounts receivable and other assets versus increases in the prior year (for a net change of \$3.6 million and \$3.6 million, respectively) as well as a net change in provision for deferred income taxes of \$11.4 million. These net favorable year-over-year operating cash flows were offset partially by the net year-over-year unfavorable cash flow impacts of increased inventories of \$6.3 million and decreased accrued/prepaid retirement benefits of \$11.8 million.

The fiscal 2003 cash flows from operating activities were \$6.5 million lower than fiscal 2002. Fiscal 2003 experienced a net loss of \$2.4 million versus net earnings of \$2.1 million in fiscal 2002, for a net decrease in operating cash flows of \$4.5 million. In addition, a further reduction in operating cash flows in fiscal 2003 related to an increase in accounts receivable and other assets versus the prior year of \$2 million and \$5.6 million, respectively, as well as a net decrease in the operating cash flow impact of the year-over-year change in the provision for deferred income taxes of \$4.8 million. These net unfavorable year-over-year operating cash flows were offset partially by the net year-over-year favorable cash flow impacts of a smaller decrease in accrued liabilities in fiscal 2003 versus 2002 of \$2.6 million and increased accrued/prepaid retirement benefits of \$6.9 million.

The net cash used for investing activities in fiscal 2004 consisted of the net acquisition price for Rolla SP Propellers SA of \$5.1 million, net of \$1.2 million cash acquired, and nearly \$4.2 million in investments in capital equipment offset by the net proceeds from the sale of the Company's 25% minority interest in PJD, Inc. to the majority holder for \$3.8 million.

In fiscal 2003 and 2002, the net cash used for investing activities consisted primarily of capital expenditures at our domestic and European manufacturing locations.

In fiscal 2004, the Company continued its effort to invest in key manufacturing cells in both our domestic and European operations. Total capital spending totaled \$4.2 million in fiscal 2004, slightly below the level of the prior year and just over \$2 million higher than in fiscal 2002. A little over 60% of the capital investment made in fiscal 2004 was at our domestic manufacturing locations. With the acquisition of Rolla SP Propellers SA of Balerna, Switzerland in May 2004, the Company is in the process of constructing a new state-of-the-art facility for the design and manufacturing of high-performance, custom propellers. As a result, management expects capital expenditures in fiscal 2005 to significantly exceed recent years,

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reversing a trend of below depreciation capital spending.

In fiscal 2004, 2003 and 2002, the net cash flow used by financing activities consisted primarily of dividends paid to shareholders of \$2.0 million and the repayment of long-term debt. In each fiscal year, the Company repaid \$2.9 million of its 7.37% Senior Notes due 2006. The net payments/proceeds from long-term debt were payments or borrowings on the Company's revolving credit facility.

#### Future Liquidity and Capital Resources

Twin Disc has a three-year \$20 million revolving credit facility that expires in October 2005. This credit facility is used to fund seasonal working capital requirements and other financing needs. This facility and Twin Disc's other indebtedness contain certain restrictive covenants as are fully disclosed

in Note J of the Notes to the Consolidated Financial Statements. Twin Disc is currently renegotiating its revolving credit agreement and plans to have a new agreement negotiated by the end of fiscal 2005's first quarter. At this time, we do not foresee any difficulties in securing an extension as well as an increase in the available borrowings under the agreement.

The overall liquidity of the Company remains strong. We continue to reduce total borrowings, have over \$7.2 million of available borrowings on our \$20 million revolving loan agreement, and continue to generate enough cash from operations to meet our operating and investing needs. In fiscal 2005, the Company expects to contribute \$7.5 million to its pension plans, an increase of nearly \$3 million over fiscal 2004. The Company intends to meet this funding requirement from cash from operations and, if necessary, from available borrowings under existing credit facilities. Working capital increased \$5 million to about \$56 million in fiscal 2004, and the current ratio has been unchanged at between 2.1 and 2.2 for the past four fiscal years. The Company's balance sheet is strong, there are no off-balance sheet arrangements, and we continue to have sufficient liquidity for near-term needs.

Twin Disc expects capital expenditures to be up to \$10 million in fiscal 2005, partially reflecting the impact of the cost of a new a facility under construction in Switzerland noted above. These anticipated expenditures reflect our plans to continue to reinvest in modern equipment and facilities, and new products.

Management believes that available cash, the credit facility, cash generated from future operations, existing lines of credit and access to debt markets will be adequate to fund Twin Disc's capital requirements for the foreseeable future.

#### Off Balance Sheet Arrangements and Contractual Obligations

The Company had no off-balance sheet arrangements, guarantees or obligations except for normal open purchase orders and operating leases as of June 30, 2004 and 2003. Obligations for operating leases are listed in the table below.

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

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Short-term debt	\$ 1,607	\$ 1,607	-	-	-
Revolving loan borrowing	\$12,800	-	\$12,800	-	-
Long-term debt	\$ 7,031	\$ 3,018	\$ 4,013	-	-
Operation Leases	\$10,285	\$ 2,700	\$ 3,711	\$2,404	\$1,470

The Company believes the capital resources available in the form of existing cash, lines of credit (see Footnote J to the consolidated financial statements), and funds provided by operations will be adequate to meet anticipated capital expenditures and other foreseeable future business requirements, including pension funding requirements. As noted above, the Company is currently in discussions to increase the borrowings available under and extend its \$20,000,000 revolving loan agreement, which expires on October 31, 2005. Management expects to have the amended agreement finalized before the end of fiscal 2005's first quarter.

#### OTHER MATTERS

##### Environmental Matters

The Company has been involved in various stages of investigation relative

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to hazardous waste sites, two of which were on the United States EPA National Priorities List (Superfund sites). The Company's involvement in one of the Superfund sites was settled in 2003 for approximately \$191,000. The Company has made a \$117,000 payment in trust in settlement of its exposure related to the second Superfund site and anticipates that no further payments will be required. The excess reserve for these sites of \$300,000 was reversed against cost of sales in 2003.

##### Critical Accounting Policies

The preparation of this Annual 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 to the consolidated financial statements on pages 31 through 33 of this form. Not all of these significant accounting policies require management to make difficult, subjective, or complex judgments or estimates. However, the policies management considers most critical to understanding and evaluating our reported financial results are the following:

#### Revenue Recognition

Twin Disc recognizes revenue from product sales at the time of shipment and passage of title. While we respect the customer's right to return products that were shipped in error or do not function properly, historical experience shows those types of adjustments have been immaterial and thus no provision is made. With respect to other revenue recognition issues, management has concluded that its policies are appropriate and in accordance with the guidance provided by Securities and Exchange Commissions' Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition".

#### Accounts Receivable

Twin Disc performs ongoing credit evaluations of our customers and adjusts credit limits based on payment history and the customer's credit-worthiness as determined by review of current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer-collection issues. In addition, senior management reviews the accounts receivable aging on a monthly basis to determine if any receivable balances may be uncollectible. Although our accounts receivable are dispersed among a large customer base, a significant change in the liquidity or financial position of any one of our largest customers could have a material adverse impact on the collectibility of our accounts receivable and future operating results.

#### Inventory

Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for the majority of the inventories located in the United States, and by the first-in, first-out (FIFO) method for all other inventories. Management specifically identifies obsolete products and analyzes historical usage, forecasted production based on future orders, demand forecasts, and economic trends when evaluating the adequacy of the reserve for excess and obsolete inventory. The adjustments to the reserve are estimates that could vary significantly, either favorably or unfavorably, from the actual requirements if future economic conditions, customer demand or competitive conditions differ from expectations.

#### 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.

#### Income Taxes

As part of the process of preparing our consolidated financial statements, income taxes in each of the jurisdictions in which we operate must be estimated.

This process involves estimating the actual current tax exposure and assessing the realizability of deferred tax assets. If it is deemed more likely than not that a deferred tax asset will be realized, a valuation allowance is recorded.

#### Recently Issued Accounting Standards

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"). Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements of FAS 5, "Accounting for Contingencies," relating to guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Interpretation's provisions for initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of annual periods that end after December 15, 2002. The adoption of the accounting and disclosure provisions of this Interpretation did not have a significant impact on the Company's financial statements for the year ending June 30, 2004.

In May 2003, the FASB issued SFAS No. 150. "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of the provisions of this Statement to have a significant impact on its financial statements.

#### ITEM 7(a). QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risks from changes in interest rates, commodities and foreign exchange. To reduce such risks, the Company selectively uses financial instruments and other pro-active management techniques. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for trading or speculative purposes. Discussions of the Company's accounting policies and further disclosure relating to financial instruments is included in Note A to the consolidated financial statements on pages 27 through 30 of this form.

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. During fiscal 2003, the Company entered into a \$20,000,000 revolving loan agreement, which expires on October 31, 2005. In accordance with the loan agreement, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On", between 1% and 2.75%, depending on the Company's Total Funded Debt to EBITDA ratio. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at June 30, 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 \$30,000.

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 one-third of the Company's revenues in the years ended June 30, 2004, 2003 and 2002 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 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

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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 2004, 2003 and 2002 was the euro. 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. At June 30, 2003, the Company had net outstanding forward exchange contracts to purchase Euros in the value of \$2,701,000 with a weighted average maturity of 50 days. The fair value of the Company's contracts was approximately zero at June 30, 2003.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See consolidated financial statements and Financial Statement Schedule on Pages 10 through 28 of this form.

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

2004	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	\$37,966	\$42,371	\$48,606	\$57,146	\$186,089
Gross profit	8,896	10,721	12,917	15,096	47,630
Net earnings	171	508	1,776	2,788	5,243
Basic earnings per share	.06	.18	.63	.99	1.86
Diluted earnings per share	.06	.18	.62	.97	1.84
Dividends per share	.175	.175	.175	.175	.70

2003	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Net sales	\$36,521	\$42,794	\$47,177	\$53,099	\$179,591
Gross profit	5,930	6,680	10,425	11,981	35,016
Net earnings (loss)	(1,731)	(3,087)	509	1,941	(2,368)
Basic earnings (loss) per share	(.62)	(1.10)	.18	.70	(.84)
Diluted earnings (loss) per share	(.62)	(1.10)	.18	.70	(.84)
Dividends per share	.175	.175	.175	.175	.70

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### ITEM 9(a). CONTROLS AND PROCEDURES

##### (a) Evaluation of Disclosure Controls and Procedures.

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as of the end of the period covered by this report and under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to the certifying officers by others within the Company and its consolidated subsidiaries during the period covered by this report.

(b) Changes in Internal Controls.

There were no changes in the Company's internal controls for financial reporting or other factors during the fourth quarter of the most recent fiscal year that could significantly affect such internal controls. However, in connection with the new rules, the Company has been engaged in the process of

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further reviewing and documenting its disclosure controls and procedures, including its internal accounting controls. The Company may from time to time make changes aimed at enhancing the effectiveness of its disclosure controls and procedures, including its internal controls, to ensure that the Company's systems evolve with its business.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information with respect to the executive officers of the Registrant, see "Executive Officers of the Registrant" at the end of Part I of this report.

For information with respect to the Directors of the Registrant, see "Election of Directors" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004, which is incorporated into this report by reference.

For information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, see "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004, which is incorporated into this report by reference.

For information with respect to the Company's Code of Ethics, see "Code of Ethics" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004, which is incorporated into this report by reference. The Company's Code of Ethics, entitled, "Guidelines for Business Conduct and Ethics", is included on the Company's website, [www.twindisc.com](http://www.twindisc.com).

For information with respect to changes to procedures by which shareholders may recommend nominees to the Company's Board of Directors, see "Selection of Nominees for the Board" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004, which is incorporated into this report by reference.

For information with respect to the Audit Committee Financial Expert, see "Roles of the Board's Committees: Audit Committee" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004, which is incorporated into this report by reference.

For information with respect to the Audit Committee Disclosure, see "Roles of the Board's Committees: Audit Committee" in the Proxy Statement for the Annual Meeting of Shareholders to be held October 15, 2004, which is incorporated into this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Compensation of Executive Officers", "Stock Options", "Retirement Income Plan", "Supplemental Retirement Benefit Plan", "Compensation of Directors" and "Employment Contracts" in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 15, 2004 is incorporated into this report by reference. Discussion in the Proxy Statement under the captions "Board Compensation Committee Report on Executive Compensation" and "Corporate Performance Graph" is incorporated by reference but shall not be deemed "soliciting material" or to be "filed" as part of this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security ownership of certain beneficial owners and management is set forth in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 15, 2004 under the caption "Principal Shareholders, Directors and Executive Officers" and incorporated into this report by reference.

There are no arrangements known to the Registrant, the operation of which



may at a subsequent date result in a change in control of the Registrant.

The following table summarizes certain information regarding the Company's equity-based compensation plans:

Plan Category	# of Securities to be Issued Under Exercise of Outstanding Options, Warrants and Rights	Weighted Average Price of Outstanding Options Warrants and Rights	# of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
---------------	---	---	---

Equity Compensation Plans Approved by Shareholders	188,200	\$19.69	\$24,250
Equity Compensation Plans Not Approved By Shareholders	0	N/A	0
Total	188,200	\$19.69	\$24,250

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Company incorporates by reference the information contained in the Company's definitive Proxy Statement dated October 15, 2004 under the heading "Fees to Independent Registered Public Accounting Firm".

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Consolidated Financial Statements

See "Index to Consolidated Financial Statements and Financial Statement Schedule" on page 22, the Report of Independent Registered Public Accounting Firm on page 23 and the Consolidated Financial Statements on pages 24 to 47, all of which are incorporated by reference.

Individual financial statements of the 50% or less owned entities accounted for by the equity method are not required because the 50% or less owned entities do not constitute significant subsidiaries.

(a) (2) Consolidated Financial Statement Schedules

See "Index to Consolidated Financial Statements and Financial Statement Schedule" on page 22, and the Consolidated Financial Statement Schedule on page 49, all of which are incorporated by reference.

(a) (3) Exhibits. See Exhibit Index included as the last page of this form, which is incorporated by reference.

Copies of exhibits filed as a part of this Annual Report on Form 10-K may be obtained by shareholders of record upon written request directed to the Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

(b) A Form 8-K was filed on April 16, 2004 announcing the financial results for the third fiscal quarter of 2004.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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Schedules, other than those listed, are omitted for the reason that they are inapplicable, are not required, or the information required is shown in the financial statements or the related notes.

Report of Independent Registered Public Accounting Firm

To the Shareholders of  
Twin Disc, Incorporated:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Twin Disc, Incorporated and Subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin  
July 30, 2004

TWIN DISC, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2004 and 2003

(Dollars in thousands)

2004

2003

	----	----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,127	\$ 5,908
Trade accounts receivable, net	37,091	35,367
Inventories, net	52,079	47,247
Deferred income taxes	4,216	4,469
Other	3,111	4,104
	-----	-----
Total current assets	105,624	97,095
Property, plant and equipment, net	33,222	30,210
Investment in affiliate	-	2,550
Goodwill, net	12,717	12,876
Deferred income taxes	15,668	20,164
Intangible pension asset	-	24
Other assets	9,406	7,439
	-----	-----
	\$176,637	\$170,358
	=====	=====
LIABILITIES and SHAREHOLDERS' EQUITY		
17		
Current liabilities:		
Notes payable	\$ 1,607	\$ 2,429
Current maturities on long-term debt	3,018	2,857
Accounts payable	17,241	16,115
Accrued liabilities	27,262	24,885
	-----	-----
Total current liabilities	49,128	46,286
Long-term debt	16,813	16,584
Accrued retirement benefits	49,456	56,732
	-----	-----
	115,397	119,602
Minority interest	509	485
Shareholders' equity:		
Preferred shares authorized: 200,000; issued: none; no par	-	-
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	86,443	83,191
Unearned Compensation	(304)	-
Accumulated other comprehensive loss	(20,301)	(26,978)
	-----	-----
	77,491	67,866
Less treasury stock, at cost	16,760	17,595
	-----	-----
Total shareholders' equity	60,731	50,271
	-----	-----
	\$176,637	\$170,358
	=====	=====

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

TWIN DISC, INCORPORATED and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
for the years ended June 30, 2004, 2003 and 2002

(In thousands, except per share data)

	2004	2003	2002
Net sales	\$186,089	\$179,591	\$179,385
Cost of goods sold	138,459	144,575	139,146
	-----	-----	-----
Gross profit	47,630	35,016	40,239
Marketing, engineering and administrative expenses	37,168	34,790	34,638
Restructuring of operations	-	2,042	-
	-----	-----	-----
Earnings (Loss) from operations	10,462	(1,816)	5,601
Other income (expense):			
Interest income	252	167	294
Interest expense	(1,078)	(1,323)	(1,700)
Equity in net earnings of affiliate	240	414	481
Other, net	101	(81)	467
	-----	-----	-----
	(485)	(823)	(458)
	-----	-----	-----
Earnings (loss) before income taxes and minority interest	9,977	(2,639)	5,143
Income taxes	4,709	(283)	2,950
	-----	-----	-----
Earnings (loss) before minority interest	5,268	(2,356)	2,193
Minority interest	(25)	(12)	(135)
	-----	-----	-----
Net earnings (loss)	\$ 5,243	\$ (2,368)	\$ 2,058
	=====	=====	=====

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Earnings (loss) per share data:			
Basic earnings (loss) per share	\$ 1.86	\$ (0.84)	\$ .73
Diluted earnings (loss) per share	1.84	(0.84)	.73
Weighted average shares outstanding data:			
Basic shares outstanding	2,814	2,805	2,808
Dilutive stock options	29	-	-
	-----	-----	-----
Diluted shares outstanding	2,843	2,805	2,808
	=====	=====	=====

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

TWIN DISC, INCORPORATED and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2004, 2003 and 2002

(In thousands)	2004	2003	2002
	----	----	----
Cash flows from operating activities:			
Net earnings (loss)	\$ 5,243	\$ (2,368)	\$ 2,058
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,692	5,673	5,709
Write-off of impaired asset	-	773	-
Loss on sale of plant assets	55	105	90
Minority interest	25	12	135
(Gain) loss on restructuring of operations	-	1,278	(53)
Unearned compensation	188	-	-

Equity in net earnings of affiliate	(240)	(414)	(481)
Provision for deferred income taxes	1,312	(1,424)	378
Dividends received from affiliate	195	303	400
Changes in operating assets and liabilities:			
Trade accounts receivable, net	622	(2,977)	(995)
Inventories, net	(2,575)	3,725	3,724
Other assets	940	(1,193)	67
Accounts payable	(377)	1,489	2,456
Accrued liabilities	427	577	(3,702)
Accrued/prepaid retirement benefits	733	1,151	3,375
	-----	-----	-----
Net cash provided by operating activities	12,240	6,710	13,161
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sale of plant assets	1	20	25
Proceeds from sale of affiliate	3,811	-	-
Acquisitions of plant assets	(4,180)	(4,410)	(2,063)
Acquisition of affiliate, net of cash acquired	(5,085)	-	-
	-----	-----	-----
Net cash used by investing activities	(5,453)	(4,390)	(2,038)
	-----	-----	-----
Cash flows from financing activities:			
Decreases in notes payable, net	(1,382)	(23)	(3,082)
Payments of long-term debt	(922)	(1,992)	(4,857)
Proceeds from exercise of stock options	343	-	-
Acquisition of treasury stock	-	(114)	-
Dividends paid	(1,991)	(1,965)	(1,965)
	-----	-----	-----
Net cash used by financing activities	(3,952)	(4,094)	(9,904)
	-----	-----	-----
Effect of exchange rate changes on cash	384	282	220
	-----	-----	-----
Net change in cash and cash equivalents	3,219	(1,492)	1,439
Cash and cash equivalents:			
Beginning of year	5,908	7,400	5,961
	-----	-----	-----
End of year	\$ 9,127	\$ 5,908	\$ 7,400

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Supplemental cash flow information:

Cash paid during the year for:

Interest	\$ 1,563	\$ 1,870	\$ 1,882
Income taxes	2,127	1,675	1,908

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

TWIN DISC, INCORPORATED and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME  
for the years ended June 30, 2004, 2003 and 2002

(In thousands)	2004	2003	2002
	----	----	----
Common stock			
Balance, June 30	\$ 11,653	\$ 11,653	\$ 11,653
	-----	-----	-----
Retained earnings			
Balance, July 1	83,191	87,524	87,431
Net earnings (loss)	5,243	(2,368)	2,058
Cash dividends	(1,991)	(1,965)	(1,965)
	-----	-----	-----

Balance, June 30	86,443	83,191	87,524
	-----	-----	-----
Accumulated other comprehensive loss			
Balance, July 1	(26,978)	(23,187)	(23,181)
	-----	-----	-----
Foreign currency translation adjustment			
Balance, July 1	4,409	(1,520)	(5,420)
Current adjustment	2,480	5,929	3,900
	-----	-----	-----
Balance, June 30	6,889	4,409	(1,520)
	-----	-----	-----
Minimum pension liability adjustment, net			
Balance, July 1	(31,387)	(21,667)	(17,761)
Current adjustment, net of related income taxes (\$2,683) in 2004 \$6,215 in 2003, and \$2,497 in 2002)	4,197	(9,720)	(3,906)
	-----	-----	-----
Balance, June 30	(27,190)	(31,387)	(21,667)
	-----	-----	-----
Accumulated other comprehensive loss			
Balance, June 30	(20,301)	(26,978)	(23,187)
	-----	-----	-----
Treasury stock, at cost			
Balance, July 1	(17,595)	(17,481)	(17,481)
Shares issued (acquired)	531	(114)	-
	-----	-----	-----
Balance, June 30	(17,064)	(17,595)	(17,481)
	-----	-----	-----
Shareholders' equity balance, June 30	\$ 60,731	\$ 50,271	\$ 58,509
	=====	=====	=====
Comprehensive income (loss)			
Net earnings (loss)	\$ 5,243	\$ (2,368)	\$ 2,058
Other comprehensive income (loss)			
Foreign currency translation adjustment	2,480	5,929	3,900
Minimum pension liability adjustment, net	4,197	(9,720)	(3,906)
	-----	-----	-----
Other comprehensive income (loss)	6,677	(3,791)	(6)
	-----	-----	-----
Comprehensive income (loss)	\$ 11,920	\$ (6,159)	\$ 2,052
	=====	=====	=====

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

TWIN DISC, INCORPORATED AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

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

**Consolidation Principles** -- The consolidated financial statements include the accounts of Twin Disc, Incorporated and its wholly and partially owned domestic and foreign subsidiaries. Certain foreign subsidiaries are included based on fiscal years ending March 31 or May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

**Translation of Foreign Currencies** -- The financial statements of the Company's non-U.S. subsidiaries are translated using the current exchange rate for assets and liabilities and the weighted average exchange rate for the year for revenues and expenses. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) are foreign currency transaction losses (gains) of \$73,000, \$123,000 and \$(170,000) in 2004, 2003 and 2002, respectively.

Cash Equivalents -- The Company considers all highly liquid marketable securities purchased with a maturity date of three months or less to be cash equivalents.

Receivables -- Trade accounts receivable are stated net of an allowance for doubtful accounts of \$604,000 and \$502,000 at June 30, 2004 and 2003, respectively.

Fair Value of Financial Instruments -- The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate fair value because of the immediate short-term maturity of these financial instruments. The fair value of long-term debt exceeds its carrying amount by \$252,000 and \$438,000 at June 30, 2004 and 2003, respectively, based on the current rates that would be offered to the Company for debt with the same remaining maturity.

Derivative Financial Instruments -- The Company has written policies and procedures that place all financial instruments under the direction of the Company's corporate treasury and restrict all 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 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 2004, 2003 and 2002 was the Euro. 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. At June 30, 2003, the Company had net outstanding forward exchange contracts to purchase Euros in the value of \$2,701,000 with a weighted average maturity of 50 days. The fair value of the Company's contracts was approximately zero at June 30, 2003.

Inventories -- Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for the majority of inventories located in the United States, and by the first-in, first-out (FIFO) method for all other inventories.

Property, Plant and Equipment and Depreciation -- Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and depreciated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal

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of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physically disposed.

Impairment of Long-lived Assets -- The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment of Long-lived Assets". For property, plant and equipment and other long-lived assets, excluding indefinite lived intangible assets, the Company performs undiscounted operating cash flow analyses to determine if an impairment exists. If an impairment is determined to exist, any related impairment loss is calculated based on fair value.

Investments in Affiliates -- The Company's investments in 20% to 50%-owned affiliates in which it has significant influence are accounted for using the

equity method. Investments in affiliates where significant control does not exist are accounted for using the cost method.

Revenue Recognition -- Revenue is recognized by the Company when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred and ownership has transferred to the customer; the price to the customer is fixed or determinable; and collectibility is reasonably assured.

Goodwill and Other Intangibles -- Goodwill is tested for impairment at least annually and more frequently if an event occurs which indicates the goodwill may be impaired in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Impairment of goodwill is measured according to a two step approach. In the first step, the fair value of a reporting unit, as defined by the statement, is compared to the carrying value of the reporting unit, including goodwill. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. In the second step the implied value of the goodwill is estimated as the fair value of the reporting unit less the fair value of all other tangible and identifiable intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill.

Deferred Taxes -- The Company recognizes deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

The Company does not provide for taxes which would be payable if undistributed earnings of its foreign subsidiaries or its foreign affiliate were remitted because the Company either considers these earnings to be invested for an indefinite period or anticipates that if such earnings were distributed, the U.S. income taxes payable would be substantially offset by foreign tax credits.

Stock-Based Compensation -- At June 30, 2004, the Company has two stock-based compensation plans, which are described more fully in Note N, "Stock Option Plans." The Company accounts for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost related to stock options is reflected in earnings, as all option grants under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation is disclosed in Note N.

Management Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates.

Shipping and Handling Fees and Costs -- The Company records revenue from shipping and handling costs in net sales. The cost associated with shipping

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and handling of products is reflected in cost of sales.

Reclassification -- Certain amounts in prior year financial statements have been reclassified to conform to the presentation in the 2004 financial statements.

## B. ACQUISITION

Effective May 31, 2004, the company acquired 100% of the common stock of Rolla SP Propellers SA of Balerna, Switzerland. Rolla designs and manufactures



custom propellers.

Rolla will have a fiscal year ended May 31, since the acquisition was also effective May 31. No results of operations of Rolla are included in consolidated results for the year ended June 30, 2004.

The acquisition cost, including consulting fees, net of cash acquired was \$5,085,000.

The condensed balance sheet of Rolla as of May 31, 2004 is as follows (in thousands):

Current assets	\$ 3,323
Net fixed Assets	3,636
Intangibles	3,189
	-----
Total	\$10,148
	=====
Current liabilities	\$ 2,056
Long term debt	1,146
Deferred taxes	655
Stockholders' equity	6,291
	-----
Total	\$10,148
	=====

#### Intangible Assets Identified and the Amounts

Assigned are as Follows:  
Intangible Assets Subject  
to amortization:

Proprietary Technology	\$ 840
Computer Software	860
Other	408
	-----
	\$ 2,108
	=====

The Weighted Average Amortization Period is 7 years.

Intangible Assets Not Subject to Amortization:

Goodwill	\$ 927
Tradenname	154
	-----
	\$ 1,081
	=====

The goodwill is not expected to be deductible for tax purposes.

#### C. INVENTORIES

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

	2004	2003
	----	----
Finished parts	\$39,139	\$36,175
Work-in-process	8,187	7,003
Raw materials	4,753	4,069

\$52,079	\$47,247
=====	=====

Inventories stated on a LIFO basis represent approximately 45% and 43% of total inventories at June 30, 2004 and 2003, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by \$19,898,000 and \$20,542,000 at June 30, 2004 and 2003, respectively. Inventory quantities were reduced in 2003 resulting in a liquidation of LIFO inventory quantities carried at costs prevailing in prior years which were lower than current costs. The effect was to decrease the 2003 net loss by \$70,000.

D. PROPERTY, PLANT AND EQUIPMENT

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

	2004	2003
	----	----
Land	\$ 3,414	\$ 1,412
Buildings	26,421	24,948
Machinery and equipment	96,749	92,371
	-----	-----
	126,584	118,731
Less accumulated depreciation	93,362	88,521
	-----	-----
	\$ 33,222	\$ 30,210
	=====	=====

E. INVESTMENT IN AFFILIATE

The Company's investment in affiliate consisted of a 25% minority interest in Palmer Johnson Distributors, LLC (PJD) a domestic distributor of Twin Disc products.

In January 2004, the Company sold its 25% minority interest in PJD to the majority holder, PJD, Inc. for \$3,811,000 cash, which approximated the net book value of the investment. The Company recognized pre-tax earnings of \$240,000, \$414,000 and \$481,000 in fiscal years 2004, 2003 and 2002 respectively, from its investment in PJD. In addition, the Company received cash distributions of \$195,000, \$303,000 and \$400,000 in fiscal years 2004, 2003 and 2002, respectively.

Combined condensed financial data for the investment in affiliate accounted for under the equity method of accounting through the date of sale are summarized below (in thousands). The statement of operations information includes the results of operations of the domestic distributor from June 1 through December 31 for 2004 and from June 1 through May 31 for 2003 and 2002.

	2003
	----
Current assets	\$ 12,792
Other assets	2,125
	-----
	\$ 14,917
	=====
Current liabilities	\$ 2,662
Other liabilities	2,164
Shareholders' equity	10,091
	-----
	\$ 14,917
	=====

  

2004	2003	2002
----	----	----

Net sales	\$15,165	\$ 27,008	\$23,774
Gross profit	4,710	8,831	8,300
Net earnings	962	1,607	1,925

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At June 30, 2003, trade receivables from the 25% owned distributor were \$1,719,000.

Sales to the Company's 25% owned domestic distributor were the same terms and conditions as sales to independent distributors. Sales to this distributor were \$6,240,000, \$10,886,000 and \$9,250,000 in fiscal 2004, 2003 and 2002, respectively.

#### F. GOODWILL AND OTHER INTANGIBLES

The Company performed impairment tests of its goodwill during 2004, 2003 and 2002 and determined that no impairment of goodwill existed. Goodwill at June 30, 2004 and 2003 is net of accumulated amortization of \$789,000. There were no other significant indefinite lived intangible assets identified by the Company at June 30, 2004 or 2003.

The changes in the carrying amount of goodwill, substantially all of which is allocated to the manufacturing segment, for the years ended June 30, 2004 and 2003 were as follows (in thousands):

Balance at June 30, 2002	\$ 12,311
Translation adjustment	565
-----	
Balance at June 30, 2003	12,876
Disposal (1,188)	
Translation adjustment	102
Acquisition	927
-----	
Balance at June 30, 2004	\$12,717
=====	

Included in Other assets on the Company's Consolidated Balance Sheet as of the end of June 30, 2004 and 2003, respectively, are the following acquired intangible assets (in thousands):

	2004	2003
	----	----
Intangible assets with finite lives:		
Licensing agreements	\$ 3,015	\$ 5,490
Other	2,865	1,259
	-----	-----
	5,880	6,749
Accumulated amortization	2,475	4,211
Write off of impaired asset	-	773
	-----	-----
Total	\$ 3,405	\$ 1,765
	=====	=====

In the second quarter of 2003, a charge of \$773,000 was recorded based on SFAS 144 impairment tests. This charge was classified as a component of cost of sales pertaining to the Company's Manufacturing segment.

The weighted average remaining useful life of the intangible assets included in the table above is approximately 11 years.

Intangible amortization expense for the year ended June 30, 2004, 2003 and 2002 was \$466,000, \$601,000 and \$726,000, respectively. Estimated intangible amortization expense for each of the subsequent five fiscal years is as follows (in thousands):

Fiscal Year	
2005	\$ 495

2006	382	
2007	374	
2008		374
2009	374	
Thereafter		1,406
		-----
		\$3,405
		=====

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#### G. JOINT VENTURE

On April 2, 2001, the Company entered into a Joint Venture Agreement with Niigata Engineering Co. LTD., Japan to form NICO Transmissions Co., Inc. (NTC). NTC is an engineering and marketing company supporting the Company's expanding global marine product line as well as a distribution company for Niigata's family of transmission products.

In 2002, Niigata filed for creditor protection in Japan under the local bankruptcy code. Niigata was acquired out of bankruptcy in 2003 and the acquiring company is participating in the joint venture under the original terms of the joint agreement. Subsequent to the acquisition of Niigata, the name of the Joint Venture was changed to Twin Disc Nico Co. LTD. During 2002 the Company fully reserved for its receivable from Niigata in the amount of \$237,000 as a result of this filing and wrote off this amount in 2003.

#### H. ACCRUED LIABILITIES

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

	2004	2003
	----	----
Salaries and wages	\$ 4,911	\$ 4,756
Retirement benefits	7,559	6,309
Warranty	6,478	6,070
Other	8,314	7,750
	-----	-----
	\$ 27,262	\$ 24,885
	=====	=====

#### I. WARRANTY

The Company warrants all assembled products and parts (except component products or parts on which written warranties are issued by the respective manufacturers thereof and are furnished to the original customer, as to which the Company makes no warranty and assumes no liability) against defective materials or workmanship. Such warranty generally extends from periods ranging from 12 months to 24 months.

The Company 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 the Company's 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 the Company believes 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 years ended June 30 (in thousands):

	2004	2003
	-----	-----
Reserve balance, July 1	\$6,070	\$5,294
Current period expense	4,764	4,417
Payments or credits to customers	(4,356)	(3,766)
Adjustments to pre-existing warranties	-	125
	-----	-----
Reserve balance, June 30	\$6,478	\$6,070
	=====	=====

#### J. DEBT

Notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total \$8,969,000 at June 30, 2004. These lines of credit may be withdrawn at the option of the banks. The weighted

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average interest rate of the lines outstanding was 2.8% and 3.4% at June 30, 2004 and 2003, respectively.

Included in long-term debt is \$2,841,000 and \$5,698,000 of 7.37% ten-year unsecured notes at June 30, 2004 and 2003, respectively. The current portion of these notes was \$2,857,000 at June 30, 2004 and 2003. These notes contain certain covenants, including the maintenance of a current ratio of not less than 1.5 and the maintenance of an EBITDA to fixed charges ratio greater than 1.75. Consolidated net worth must be at least equal to the sum of \$60,310,000 plus 35% of consolidated net earnings for each quarter from July 1, 1996, however the Company may exclude up to \$34,000,000 of net worth adjustments that result from changes to the assumptions used by the Company in determining its pension liability or changes in the market value of plan assets. As of June 30, 2004, the Company was in compliance with all debt covenants.

In December 2002, the Company entered into a \$20,000,000 revolving loan agreement which expires on October 31, 2005. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. Financial covenants include a minimum consolidated net worth calculated consistently with the net worth covenant discussed in the above paragraph, minimum EBITDA of \$11,000,000 at June 30, 2004 and a maximum total funded debt to EBITDA ratio of 2.5 at June 30, 2004. As of June 30, 2004, the Company was in compliance with all debt covenants. The outstanding balance of \$12,800,000 and \$10,865,000 at June 30, 2004 and 2003, respectively, is classified as long-term debt. Notes under this agreement bear interest on a schedule determined by the Company's leverage ratio and the LIBOR interest rate (LIBOR plus 1.25% and 2.75% at June 30, 2004 and 2003, respectively). The rate was 2.375% and 4.07% at June 30, 2004 and 2003, respectively.

As part of the acquisition of Rolla SP Propellers S.A., the Company assumed \$1,077,020 of secured long term debt which is due May 28, 2008. The long term debt bears interest of 4.25%. The debt is to be used for the construction of a new manufacturing facility and is secured by that facility. An additional secured line of credit of \$1,777,000 is available for the construction of the new facility and is secured by the facility. The line of credit bears interest of 3.0% at June 30, 2004. In addition the Company assumed short and long term capital lease obligations of \$161,000 and \$ 69,000, respectively.

The aggregate scheduled maturities of outstanding long term debt obligations in subsequent years are as follows (in thousands):

#### Fiscal Year

2005	\$ 3,018
2006	15,736
2007	-
2008	1,077
	-----
	\$19,831
	=====

#### K. LEASE COMMITMENTS

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

Fiscal Year

2005	\$ 2,700
2006	2,205
2007	1,506
2008	1,257
2009	1,147
Thereafter	1,470
	-----
	\$10,285
	=====

Total rent expense for operating leases approximated \$3,587,000, \$3,320,000, and \$3,135,000 in 2004, 2003, and 2002 respectively.

L. SHAREHOLDERS' EQUITY

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At June 30, 2004 and 2003, treasury stock consisted of 792,748 and 845,798 shares of common stock, respectively. The Company issued 23,050 shares of treasury stock in 2004 to fulfill its obligations under the stock option plans and 25,000 shares were issued as stock grants. The difference between the cost of treasury shares and the option price is recorded in retained earnings. The fair value of the stock grants are recorded as unearned compensation and amortized over 2 and 4 year periods. The Company acquired 10,000 shares of treasury stock in 2003 for \$114,000.

Cash dividends per share were \$0.70 in 2004, 2003 and 2002.

In 1998, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders one preferred stock purchase right for each outstanding share of common stock. Under certain circumstances, a right may be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of \$160, subject to certain anti-dilution adjustments. The rights become exercisable ten (10) days after a public announcement that a party or group has either acquired at least 15% (or at least 25% in the case of existing holders who currently own 15% or more of the common stock), or commenced a tender offer for at least 25% of the Company's common stock. Generally, after the rights become exercisable, if the Company is a party to certain merger or business combination transactions, or transfers 50% or more of its assets or earnings power, or certain other events occur, each right will entitle its holders, other than the acquiring person, to buy a number of shares of common stock of the Company, or of the other party to the transaction, having a value of twice the exercise price of the right. The rights expire June 30, 2008, and may be redeemed by the Company for \$.05 per right at any time until ten (10) days following the stock acquisition date. The Company is authorized to issue 200,000 shares of preferred stock, none of which have been issued. The Company has designated 50,000 shares of the preferred stock for the purpose of the Shareholder Rights Plan.

M. BUSINESS SEGMENTS AND FOREIGN OPERATIONS

The Company and its subsidiaries are engaged in the manufacture and sale of power transmission equipment. Principal products include industrial clutches, hydraulic torque converters, fluid couplings, power-shift transmissions, marine transmissions, universal joints, power take-offs and reduction gears. The Company sells to both domestic and foreign customers in a variety of market areas, principally construction, industrial, energy and natural resources and marine and agricultural.

The Company has two reportable segments: manufacturing and distribution. These segments are managed separately because each provides different services and requires different technology and marketing strategies. The accounting practices of the segments are the same as those described in the summary of significant accounting policies. Transfers among segments are at established inter-company selling prices.

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

2004	Manufacturing -----	Distribution -----	Total -----
Net sales	\$172,688	\$59,176	\$231,864
Intra-segment sales	8,930	2,512	11,442
Inter-segment sales	30,081	4,252	34,333
Interest income	395	36	431
Interest expense	1,176	111	1,287
Income taxes	3,734	1,671	5,405
Depreciation and amortization	5,284	355	5,639
Segment earnings	5,356	2,975	8,331
Segment assets	166,049	30,247	196,296
Expenditures for segment assets	8,980	285	9,265

2003			
Net sales	\$153,713	\$63,413	\$217,126
Intra-segment sales	6,587	2,890	9,477
Inter-segment sales	25,848	2,210	28,058
Interest income	470	25	495
Interest expense	1,480	137	1,617
Income taxes	(1,054)	1,073	19
Depreciation and amortization	5,291	292	5,583
Segment (loss) earnings	(1,866)	1,943	77

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Segment assets	152,093	32,761	184,854
Expenditures for segment assets	3,882	528	4,410

2002			
Net sales	\$155,730	\$61,848	\$217,578
Intra-segment sales	6,696	1,870	8,566
Inter-segment sales	22,784	6,843	29,627
Interest income	468	43	511
Interest expense	1,783	131	1,914
Income taxes	1,940	1,362	3,302
Depreciation and amortization	5,409	210	5,619
Segment earnings	2,247	2,366	4,613
Segment assets	139,810	30,275	170,085
Expenditures for segment assets	1,851	212	2,063

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

	2004 ----	2003 ----	2002 ----
Net sales:			
Total net sales from reportable segments	\$231,864	\$217,126	\$217,578
Elimination of inter-company sales	(45,775)	(37,535)	(38,193)
	-----	-----	-----
Total consolidated net sales	\$186,089	\$179,591	\$179,385
	=====	=====	=====
Earnings (loss):			
Total earnings from reportable segments	\$ 8,331	\$ 77	\$ 4,613
Other corporate expenses	(3,088)	(2,445)	(2,555)
	-----	-----	-----
Total consolidated net (loss) earnings	\$ 5,243	\$( 2,368)	\$ 2,058
	=====	=====	=====
Assets			
Total assets for reportable segments	\$196,296	\$184,854	
Elimination of inter-company assets	(21,100)	(19,402)	
Corporate assets	1,441	4,906	
	-----	-----	

Total consolidated assets	\$176,637	\$170,358	
	=====	=====	
Other significant items:			
Elimination			
	Segment	and Corporate	Consolidated
	Totals	Adjustments	Totals
	-----	-----	-----
2004			
Interest income	\$ 431	\$ (179)	\$ 252
Interest expense	1,287	(209)	1,078
Income taxes	5,405	(696)	4,709
Depreciation and amortization	5,639	53	5,692
Expenditures for segment assets	9,265	-	9,265
2003			
Interest income	\$ 495	\$ (328)	\$ 167
Interest expense	1,617	(294)	1,323
Income taxes	19	(302)	(283)
Depreciation and amortization	5,583	90	5,673
Expenditures for segment assets	4,410	-	4,410
2002			
Interest income	\$ 511	\$ (217)	\$ 294
Interest expense	1,914	(214)	1,700
Income taxes	3,302	(352)	2,950
Depreciation and amortization	5,619	90	5,709
Expenditures for segment assets	2,063	-	2,063

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

	2004	2003	2002
	----	----	----
29			
Net sales			
United States	\$107,146	\$ 95,813	\$108,288
Other countries	78,943	83,778	71,097
	-----	-----	-----
Total	\$186,089	\$179,591	\$179,385
	=====	=====	=====
Long-lived assets			
United States	\$ 55,774	\$ 63,865	
Belgium	11,490	11,228	
Other countries	12,995	6,646	
Elimination of inter-company assets	(9,246)	(8,476)	
	-----	-----	
Total	\$ 71,013	\$ 73,263	
	=====	=====	

One customer accounted for approximately 11%, 10% and 11% of consolidated net sales in 2004, 2003 and 2002, respectively.

#### N. STOCK OPTION PLANS

During fiscal 1999, the Company adopted the Twin Disc, Incorporated 1998 Stock Option Plan for Non-Employee Directors, a non-qualified plan for non-employee directors to purchase up to 35,000 shares of common stock, and the Twin Disc, Incorporated 1998 Incentive Compensation Plan, a plan where options are determined to be non-qualified or incentive at the date of grant, for officers and key employees to purchase up to 165,000 shares of common stock. The plans are administered by the Executive Selection and Compensation Committee of the Board of Directors which has the authority to determine which officers and key employees will be granted options. The grant of options to non-employee directors is fixed at options to purchase 1,000 shares of common stock per year



or 600 at time of appointment. Except as described in the following sentence, all options allow for exercise prices not less than the grant date fair market value, vest immediately and expire ten years after the date of grant. For options under the Incentive Compensation Plan, if the optionee owns more than 10% of the total combined voting power of all classes of the Company's stock, the price will be not less than 110% of the grant date fair market value and the options expire five years after the grant date. In addition, the Company has 34,200 incentive stock option plan options and 31,300 non-qualified stock option plan options outstanding at June 30, 2004 under the Twin Disc, Incorporated 1988 Incentive Stock Option plan and the Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors, respectively. Stock options can no longer be issued from the 1988 Plans.

Shares available for future options as of June 30 were as follows:

	2004 ----	2003 ----
1998 Stock Option Plan for Non-Employee Directors	6,400	6,400
1998 Incentive Compensation Plan	17,850	47,250

Stock option transactions under the plans during 2004, 2003 and 2002 were as follows:

	2004	Weighted Average Price	2003	Weighted Average Price	2002	Weighted Average Price
	----	-----	----	-----	----	-----
Non-qualified stock options:						
Options outstanding						
at beginning of year	133,150	\$18.54	102,350	\$20.46	88,350	\$21.31
Granted	-	-	48,800	14.37	14,500	15.05
Canceled	(15,450)	19.89	(18,000)	18.14	(500)	14.00
Exercised	(13,350)	14.18	-	-	-	-
	-----	-----	-----	-----	-----	-----
Options outstanding						
at June 30	104,350	\$18.90	133,150	\$18.54	102,350	\$20.46
	=====	=====	=====	=====	=====	=====

Options price range  
(\$14.45 - \$20.00)

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Number of shares 72,650  
Weighted average price \$ 16.28  
Weighted average remaining life 8.40 years

Options price range  
(\$21.875 - \$28.75)

Number of shares 31,700  
Weighted average price \$ 24.90  
Weighted average remaining life 4.83 years

	2004	Weighted Average Price	2003	Weighted Average Price	2002	Weighted Average Price
	----	-----	----	-----	----	-----
Incentive stock options:						
Options outstanding						
at beginning of year	106,700	\$20.55	146,000	\$20.75	125,650	\$22.29
Granted	-	-	-	-	30,200	15.25
Canceled	(13,150)	23.16	(39,300)	21.32	(9,850)	23.47
Exercised	( 9,700)	15.86	-	-	-	-

Options outstanding at June 30	83,850	\$20.68	106,700	\$20.55	146,000	\$20.75
-----------------------------------	--------	---------	---------	---------	---------	---------

Options price range (\$15.05 - \$20.00)						
Number of shares	51,450					
Weighted average price	\$ 17.77					
Weighted average remaining life	7.40 years					

Options price range (\$21.875 - \$28.75)						
Number of shares	32,400					
Weighted average price	\$ 25.30					
Weighted average remaining life	4.99 years					

The Company accounts for its stock option plans under the guidelines of Accounting Principles Board Opinion No. 25. 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):

	2004	2003	2002
	----	----	----
Net earnings (loss)			
As reported	\$ 5,243	\$ (2,368)	\$ 2,058
Pro forma	5,243	(2,442)	1,954
Basic earnings (loss) per share			
As reported	\$ 1.86	\$ ( 0.84)	\$ 0.73
Pro forma	1.86	( 0.87)	0.70
Diluted earnings (loss) per share			
As reported	\$ 1.84	\$ ( 0.84)	\$ 0.73
Pro forma	1.84	( 0.87)	0.70

There were no options granted during 2004. The above pro forma net earnings and earnings per share were computed using the fair value of options at the date of grant (for options granted after June 1995) as calculated by the Black-Scholes option-pricing method and the following assumptions: 22% volatility, 4.8% annual dividend yield, risk free interest rates of 3.58% and 2.71% in 2003 and 23% volatility, 4.5% annual dividend yield, risk free interest rate of 4.53% in 2002, a 5 year term and an exercise price equal to the fair market value on the date of grant except for incentive options granted to greater than 10% shareholders which are calculated using a 3 year term and an exercise price equal to 110% of the fair market value on the date of grant. For those options granted during 2003 and 2002 with exercise prices equal to the grant date fair market value, the exercise prices and weighted average fair values of the options were \$14.34 and \$1.83 in 2003 and \$15.05 and \$2.37 in 2002, respectively. For those options granted with exercise prices greater than

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the grant date fair market value, the exercise prices and weighted average fair values of the options were none in 2003 and \$16.56 and \$1.83 in 2002, respectively.

In fiscal 2004, the Company issued restricted stock grants for 25,000 shares, 12,500 of these shares vest in two years from the date of grant and 12,500 vest in four years. The fair 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 two and four year periods. Amortization expense as of June 30, 2004 approximated \$188,500.

#### O. ENGINEERING AND DEVELOPMENT COSTS

Engineering and development costs include research and development expenses for new products, development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totaled \$2,840,000,

\$2,220,000, and \$1,887,000 in 2004, 2003 and 2002 respectively. Total engineering and development costs were \$7,600,000, \$7,190,000, and \$6,718,000 in 2004, 2003 and 2002 respectively.

P. Pension and Other Postretirement Benefit Plans

The Company has non-contributory, qualified defined benefit pension plans covering substantially all domestic employees hired prior to October 1, 2003 and certain foreign employees. Domestic plan benefits are based on years of service, and, for salaried employees, on average compensation for benefits earned prior to January 1, 1997 and on a cash balance plan for benefits earned after January 1, 1997. The Company's funding policy for the plans covering domestic employees is to contribute an actuarially determined amount which falls between the minimum and maximum amount that can be deducted for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

On June 20, 2003 the Board of Directors amended the defined benefit pension plans covering domestic salaried and hourly employees to exclude all employees hired after October 1, 2003 from the plans. In addition, a portion of the medical supplement for post-1992 retirees that is payable prior to Medicare eligibility has been removed from the plan. The \$19.24 per month benefit times years of service has been reduced to \$4.42 per month times years of service. This is effective October 1, 2003 for all participants. The \$14.82 benefit removed is now provided through the retiree health plan discussed below. The remaining medical supplement will be calculated using service frozen as of October 1, 2003.

In addition, the Company has unfunded, non-qualified retirement plans for certain management employees and directors. Benefits are based on final average compensation and vest upon retirement from the Company.

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain domestic retirees. All employees retiring after December 31, 1992, and electing to continue coverage through the Company's group plan, are required to pay 100% of the premium cost. On June 20, 2003 the Board of Directors amended the coverage under the plans as follows:

- \* Pre-1993 retirees are required to pay any cost increases after 2003 for retiree medical coverage.
- \* Dental and vision coverage for Pre-1993 retirees was eliminated.
- \* Life insurance coverage for individuals who retire on or after October 1, 2003 was eliminated.
- \* Access to retiree medical coverage after age 65 for individuals who retire on or after October 1, 2003 and their spouses was eliminated.
- \* Retiree medical coverage was eliminated for all employees hired on or after October 1, 2003.
- \* A Healthcare Reimbursement Account ("HRA") program will be established for individuals who retire after January 1, 1993 but before age 65.

OBLIGATIONS AND FUNDED STATUS

The following table sets forth the Company's defined benefit pension plans' and other post-retirement benefit plan's funded status and the amounts recognized in the Company's balance sheets and income statements as of June 30 (dollars in thousands):

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	Pension	Post-Retirement	Other			
			Benefits		Benefits	
			2004	2003	2004	2003
Change in benefit obligation:						
Benefit obligation, beginning of year	\$115,960	\$115,147	\$ 32,369	\$ 32,999		
Service cost		1,260	1,344	45	17	
Interest cost		7,475	8,277	2,057	2,362	
Amendments		(6,376)	(6,106)			

Actuarial loss	9,603	7,034	(633)	6,678
Benefits paid	(10,147)	(9,466)	(4,043)	(3,581)
	-----	-----	-----	-----
Benefit obligation, end of year	\$124,151	\$115,960	\$ 29,795	\$ 32,369
	=====	=====	=====	=====

Change in plan assets:

Fair value of assets, beginning of year	\$ 75,278	\$ 92,405	\$ -	\$ -
Actual return on plan assets	19,325	(9,403)	-	-
Employer contribution	4,582	1,742	4,043	3,581
Benefits paid	(10,147)	(9,466)	(4,043)	(3,581)
	-----	-----	-----	-----
Fair value of assets, end of year	\$ 89,038	\$ 75,278	\$ -	\$ -
	=====	=====	=====	=====

Funded status	\$ (35,113)	\$ (40,682)	\$ (29,795)	\$ (32,369)
Unrecognized net transition obligation	358	391	-	-
Unrecognized actuarial loss	50,252	58,128	14,979	17,159
Unrecognized prior service cost	(5,467)	(5,842)	(5,427)	(6,106)
	-----	-----	-----	-----
Net amount recognized	\$ 10,030	\$ 11,995	\$ (20,243)	\$ (21,316)
	=====	=====	=====	=====

Amounts recognized in the balance sheet consist of:

Accrued benefit liability	(34,544)	(39,483)	(20,243)	(21,316)
Intangible asset	-	24	-	-
Deferred tax asset	17,384	20,067	-	-
Minimum pension liability adjustment	27,190	31,387	-	-
	-----	-----	-----	-----
Net amount recognized	\$ 10,030	\$ 11,995	\$ (20,243)	\$ (21,316)
	=====	=====	=====	=====

The accumulated benefit obligation for all defined benefit pension plans was \$124,151,000 and \$115,960,000 at June 30, 2004 and 2003, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	June 30	
	2004	2003
	----	----
Projected and accumulated benefit obligation	\$124,151	\$115,960
Fair value of plan assets	89,038	75,278

Components of Net Periodic Benefit Cost

	Pension Benefits		
	2004	2003	2002
	----	----	----
Service cost	\$ 1,260	\$ 1,344	\$ 1,361
Interest cost	7,475	8,277	8,203
Expected return on plan assets	(6,361)	(7,883)	(8,476)
Amortization of prior service cost	124	624	625
Amortization of transition obligation	60	56	49
Unrecognized net loss	3,990	2,492	1,802
	-----	-----	-----
Net periodic benefit cost	\$ 6,548	\$ 4,910	\$ 3,564
	=====	=====	=====

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	Postretirement Benefits		
	2004	2003	2002
	----	----	----
Service cost	\$ 45	\$ 17	\$ 17
Interest cost	2,057	2,362	2,281
Recognized prior service cost	(678)	-	-
Recognized net actuarial loss	1,547	798	580
	-----	-----	-----
Net periodic benefit cost	\$ 2,971	\$ 3,177	\$ 2,878
	=====	=====	=====

Additional Information

	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
	----	----	----	----
Increase (decrease) in minimum liability included in other comprehensive income	\$ 4,197	\$ (9,720)	N/A	N/A

Assumptions

	2004	2003	2004	2003
	----	----	----	----
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	6.00%	6.75%	6.00%	6.75%

Expected return on plan assets	8.50%	9.00%		
	2004	2003	2004	2003
	----	----	----	----
Weighted average assumptions used to determine net periodic benefit cost for years ended June 30:				
Discount rate	6.75%	7.50%	6.75%	7.50%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	5.00%	5.00%		

The assumed weighted average health care cost trend rate was 8% in 2004. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately \$401,000 and the service and interest cost by approximately \$24,000. A 1% decrease in the assumed health care cost trend would decrease the accumulated postretirement benefit obligation by approximately \$376,000 and the service and interest cost by approximately \$22,000.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a prescription drug benefit beginning in 2006 under Medicare Part D as well as a subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Based on the benefits provided and expected future prescription costs it has been estimated that the Company's plans will be actuarially equivalent through fiscal 2008. The effect of this was to reduce the Company's benefit obligation by approximately \$1,600,000 and reduced related expense in fiscal 2005 by approximately \$225,000.

#### PLAN ASSETS

The Company's pension plan weighted-average asset allocations at June 30, 2004 and 2003, by asset category are as follows:

Asset Category	Target	June 30	
	Allocation	2004	2003
	-----	----	----
Equity securities	61%	66%	58%
Debt securities	35%	30%	42%
Real Estate	4%	4%	-

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	----	----	----
	100%	100%	100%
	=====	=====	=====

Due to market conditions and other factors, actual asset allocation may vary from the target allocation outlined above. The pension plans held 62,402 shares of Company stock with a fair market value of \$1,522,609 ( 1.7% percent of total plan assets) and \$882,988 (1.2% percent of total plan assets) at June 30, 2004 and 2003, respectively.

Twin Disc employs a total return on investment approach whereby a mix of equities and fixed income investments are used to maximize long-term return of plan assets while avoiding excessive risk. Pension plan guidelines have been established based upon an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, and annual liability measurements.

The plans have a long-term return assumption of 8.50%. This rate was derived based upon historical experience and forward-looking return expectations for major asset class categories.

#### CASH FLOWS

##### Contributions

The Company expects to contribute \$7,476,000 to its pension plans in fiscal 2005.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Pension	Other	Benefits	Benefits
		-----	-----
2005		\$9,269	\$3,799
2006		8,931	4,603
2007	9,129	5,273	
2008	9,259	5,673	
2009	9,350	6,131	
Years 2010-2014		47,273	33,776

The Company sponsors defined contribution plans covering substantially all domestic employees and certain foreign employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was \$1,266,000, \$1,568,000 and \$1,780,000 in 2004, 2003, and 2002 respectively.

Q. INCOME TAXES

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

	2004	2003	2002
	----	----	----
United States	\$ 3,243	\$ (6,808)	\$ 694
Foreign	6,734	4,169	4,440
	-----	-----	-----
	\$ 9,977	\$ (2,639)	\$ 5,134
	=====	=====	=====

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

	2004	2003	2002
	----	----	----
Currently payable:			
Federal	\$ 545	\$ ( 176)	\$ 168
State	50	48	70
Foreign	2,802	1,269	2,334

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	-----	-----	-----
	3,397	1,141	2,572
	-----	-----	-----
Deferred:			
Federal	826	(1,281)	441
State	279	(587)	(83)
Foreign	207	444	20
	-----	-----	-----
	1,312	(1,424)	378
	-----	-----	-----
	\$ 4,709	\$ ( 283)	\$ 2,950
	=====	=====	=====

The components of the net deferred tax asset as of June 30 are summarized in the table below (in thousands).

	2004	2003
--	------	------

	----	----
Deferred tax assets:		
Retirement plans and employee benefits	\$20,280	\$23,571
Alternative minimum tax credit carryforwards	986	509
Foreign tax credit carryforwards	1,403	641
State net operating loss and other state credit carryforwards	406	553
Federal net operating loss carryforward	-	1,206
Other	3,590	3,610
	-----	-----
	26,665	30,090
	-----	-----
Deferred tax liabilities:		
Property, plant and equipment	3,996	4,222
Intangibles	1,382	594
	-----	-----
	5,378	4,816
	-----	-----
Valuation allowance	(1,403)	(641)
	-----	-----
Total net deferred tax assets	\$19,884	\$24,633
	=====	=====

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit carryforwards. Of the \$1,403,000 in foreign tax credit carryforwards at June 30, 2004, \$257,000 will expire in 2005, \$223,000 will expire in 2006, \$161,000 will expire in 2007 and \$762,000 will expire in 2009. The alternative minimum tax credit carryforwards will be carried forward indefinitely. Of the \$347,000 of state net operating loss carryforwards, net of Federal tax, at June 30, 2004, \$326,000 will expire in 2014, \$17,000 will expire in 2015 and \$4,000 will expire in 2017. Of the \$58,000 net of federal tax of state credit carryforwards, any credits not used by 2006 will be deducted in 2007 and 2008.

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

	2004	2003	2002
	----	----	----
U.S. federal income tax at 34%	\$ 3,384	\$ ( 901)	\$ 1,749
Increases (reductions)			
in tax resulting from:			
Foreign tax items	1,082	291	144
State taxes	313	( 366)	( 298)
Valuation allowance	-	-	920
Disposition of investment in subsidiary	-	-	522
Statutory rate change	- 97	-	-
Other, net	( 70)	596	( 87)
	-----	-----	-----
	\$ 4,709	\$ ( 283)	\$ 2,950
	=====	=====	=====

The Company has not recorded deferred income taxes applicable to

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undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. The undistributed earnings amount to approximately \$20.8 million at June 30, 2004. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

#### R. 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.

S. RESTRUCTURING OF OPERATIONS

During the second quarter of fiscal 2003, the Company recorded a pre-tax restructuring charge of \$2.0 million in connection with the reduction of its workforce. These actions were taken in an effort to streamline the Company's cost structure and align its corporate workforce with market conditions. The charge consists of employee termination and severance benefits for a total of 58 employees; 48 production employees and 10 salaried employees. During 2004 and 2003, the Company made cash payments of \$358,000 and \$600,000, respectively. Accrued restructuring costs were \$942,000 and \$1,300,000 at June 30, 2004 and 2003, respectively.

TWIN DISC, INCORPORATED AND SUBSIDIARIES  
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 for the years ended June 30, 2004, 2003 and 2002  
 (In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions(F1)	Balance at end of Period
2004:				
Allowance for losses on accounts receivable	\$ 502	\$ 208	\$ 106	\$ 604
Reserve for inventory obsolescence	5,413	1,873	2,614	4,672
2003:				
Allowance for losses on accounts receivable	\$ 756	\$ 135	\$ 389	\$ 502
Reserve for inventory obsolescence	4,593	1,822	1,002	5,413
2002:				
Allowance for losses on accounts receivable	\$ 699	\$ 336	\$ 279	\$ 756
Reserve for inventory obsolescence	3,346	2,178	931	4,593

(FN)  
 (F1) Accounts receivable written-off and inventory disposed of during the year and other adjustments (primarily foreign currency translation adjustments).  
 </FN>

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 SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TWIN DISC, INCORPORATED

By /s/ FRED H. TIMM  
 Fred H. Timm, Vice President -  
 Administration and Secretary  
 (Chief Accounting Officer)

September 15, 2004



Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

September 15, 2004  
( By /s/ MICHAEL E. BATTEN  
( Michael E. Batten, Chairman,  
( Chief Executive Officer and Director  
(  
(  
(  
(  
(  
( By /s/ MICHAEL H. JOYCE  
( Michael H. Joyce, President,  
( Chief Operating Officer and Director  
(  
(  
(  
( By /s/ CHRISTOPHER J. EPERJESY  
( Christopher J. Eperjesy, Vice  
( President-Finance, Treasurer and  
( Chief Financial Officer

September 15, 2004  
( Paul J. Powers, Director  
( David L. Swift, Director  
( John A. Mellowses, Director  
( George E. Wardeberg, Director  
( David R. Zimmer, Director  
( David B. Rayburn, Director  
( John H. Batten, Director  
(  
( By /s/ CHRISTOPHER J. EPERJESY  
( Christopher J. Eperjesy, Attorney in  
( Fact

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EXHIBIT INDEX

EXHIBIT INDEX  
TWIN DISC, INCORPORATED  
10-K for Year Ended June 30, 2004

Exhibit	Description	Filed Herewith
3a)	Articles of Incorporation, as restated October 21, 1988 (Incorporated by reference to Exhibit 3(a) of the Company's Form 10-K for the year ended June 30, 2004).	
b)	Corporate Bylaws, as amended through July 30, 2004 (Incorporated by reference to Exhibit 3(b) of the Company's Form 10-K for the year ended June 30, 2004).	
4a)	Form of Rights Agreement dated as of April 17, 1998 by and between the Company and the Firststar Trust Company, as Rights Agent, with Form of Rights Certificate (Incorporated by reference to Exhibits 1 and 2 of the Company's Form 8-A dated May 4, 1998).	
b)	Announcement of Shareholder Rights Plan per news release dated April 17, 1998 (Incorporated by reference to Exhibit 6(a), of the Company's Form 10-Q dated May 4, 1998).	

Material Contracts

- 10a) The 1988 Incentive Stock Option Plan (Incorporated by reference to Exhibit 10(a) of the Company's Form 10-K for the year ended June 30, 2004).
- b) The 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors (Incorporated by reference to Exhibit 10(b) of the Company's Form 10-K for the year ended June 30, 2004).
- c) Amendment to 1988 Incentive Stock Option Plan of Twin Disc, Incorporated Incorporated by reference to Exhibit 10(c) of the Company's Form 10-K for the year ended June 30, 2004).

d)	Amendment to 1988 Non-Qualified Incentive Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated (Incorporated by reference to Exhibit 10(d) of the Company's Form 10-K for the year ended June 30, 2004).	
e)	Form of Severance Agreement for Senior Officers and form of Severance Agreement for Senior Officers (Incorporated by reference to Exhibit 10(e) of the Company's Form 10-K for the year ended June 30, 2004).	
f)	Supplemental Retirement Plan (Incorporated by reference to Exhibit 10(f) of the Company's Form 10-K for the year ended June 30, 1998).	
g)	Director Tenure and Retirement Policy (Incorporated by reference to Exhibit 10(g) of the Company's Form 10-K for the year ended June 30, 2004).	
10h)	Form of Twin Disc, Incorporated Corporate Short Term Incentive Plan (Incorporated by reference to Exhibit 10(h) of the Company's Form 10-K for the year ended June 30, 2004). i) The 1998 Incentive Compensation Plan (Incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998).	
j)	The 1998 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 16, 1998).	
21	Subsidiaries of the Registrant	X
23	Consent of Independent Registered Public Accounting Firm	X
24	Power of Attorney	X
31a	Certification	X
31b	Certification	X
32a	Certification pursuant to 18 U.S.C. Section 1350	X
32b	Certification pursuant to 18 U.S.C. Section 1350	X

## EXHIBIT 21

## SUBSIDIARIES OF THE REGISTRANT

Twin Disc, Incorporated, the registrant (a Wisconsin Corporation) owns directly or indirectly 100% of the following subsidiaries:

1. Twin Disc International, S.A. (a Belgian corporation)
2. Twin Disc Technodrive Srl (an Italian corporation)
4. Rolla Sp Propellers SA (a Swiss corporation)
3. Twin Disc Srl (an Italian corporation)
4. Twin Disc (Pacific) Pty. Ltd. (an Australian corporation)
5. Twin Disc (Far East) Ltd. (a Delaware corporation operating in Singapore and Hong Kong)
6. Mill-Log Equipment Co., Inc. (an Oregon corporation)
7. Twin Disc South East, Inc. (a Florida corporation)
8. Technodrive SARL (A French corporation)

Twin Disc, Incorporated also owns 66% of Twin Disc Nico Co. LTD.

The registrant has no parent nor any other subsidiaries. All of the above subsidiaries are included in the consolidated financial statements.

## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements on Form S-8 (File Nos. 33-26816, 33-26817, 333-9929, 333-69361 and 333-69015) of Twin Disc, Incorporated of our report dated July 30, 2004 relating to the financial statements and financial statement schedules, which appears in this form 10-K.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP

Milwaukee, Wisconsin  
July 30, 2004

EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute Michael E. Batten and Christopher J. Eperjesey, and each of them singly, true and lawful attorneys with full power to them, and each of them, singly, to sign for us and in our names as directors the Form 10-K Annual Report for the fiscal year ended June 30, 2004 pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, and generally do all such things in our names and behalf as directors to enable Twin Disc, Incorporated to comply with the provisions of the Securities and Exchange Act of 1934 and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures so they may be signed by our attorneys, or either of them, as set forth below.

/s/ JOHN A. MELLOWES )  
 John A. Mellowes, Director )  
 )  
 )  
 /s/ PAUL J. POWER )  
 Paul J. Powers, Director )  
 )  
 )  
 /s/ DAVID B. RAYBURN )  
 David B. Rayburn, Director )  
 )  
 )  
 /s/ DAVID L. SWIFT )  
 David L. Swift, Director )  
 )  
 )  
 /s/ GEORGE E. WARDEBERG )  
 George E. Wardeberg, Director )  
 )  
 )  
 /s/ DAVID R. ZIMMER )  
 David R. Zimmer, Director )

July 25, 2004

CERTIFICATIONS

I, Michael E. Batten, certify that:

1. I have reviewed this annual report on Form 10-K of Twin Disc, Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 15, 2004

/s/ MICHAEL E. BATTEN  
Michael E. Batten  
Chairman, Chief Executive Officer

CERTIFICATIONS

I, Christopher J. Eperjesy, certify that:

1. I have reviewed this annual report on Form 10-K of Twin Disc, Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 15, 2004

/s/ CHRISTOPHER J. EPERJESY  
Christopher J. Eperjesy  
Vice President - Finance, Treasurer,  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Twin Disc, Incorporated (the "Company") on Form 10-K for the fiscal year ending June 30, 2004, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Michael E. Batten, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with Section 13(a) of the Securities Exchange Act of 1934, and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL E. BATTEN  
Michael E. Batten  
Chairman, Chief Executive Officer

September 15, 2004



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Twin Disc, Incorporated (the "Company") on Form 10-K for the fiscal year ending June 30, 2004, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Christopher J. Eperjesy, Vice President - Finance, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with Section 13(a) of the Securities Exchange Act of 1934, and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHRISTOPHER J. EPERJESY  
Christopher J. Eperjesy  
Vice President ? Finance, Treasurer,  
Chief Financial Officer

September 15, 2004

RESTATED ARTICLES OF INCORPORATION  
OF  
TWIN DISC, INCORPORATED

## ARTICLE I.

The name of this Corporation shall be: "TWIN DISC, INCORPORATED"

## ARTICLE II.

The purpose or purposes for which this Corporation is organized is to engage in any lawful activities within the purposes for which corporations may be organized under the Wisconsin Business Corporation Law. In particular, but without limitation thereto by reason of such enumeration or restriction upon exercise of any powers, objects or purposes to manufacture, produce, buy, sell, deal and dispose of all kinds of goods, wares, merchandise, manufactures, products, commodities and supplies, either of its own design or under license from others of their design, and in general to carry on a manufacturing business on its own behalf or as a contractor therefore in any state, district or country, and to acquire, own, use, convey, lease, sell, ledge, mortgage, encumber and otherwise dispose of real and personal property, tangible and intangible property, property of mixed characteristics, patents, franchises, privileges, and rights of any and all kinds and wheresoever situated, and to borrow such funds and issue evidences of indebtedness of any and all kinds therefore, and to secure the same, all in such fashion as is deemed to be in the best interests of the Corporation.

## ARTICLE III.

A. The capital stock of this Corporation shall consist of 15,000,000 shares of common stock without nominal or par value and 200,000 shares of no-par preferred stock, the latter as more fully hereinafter provided.

No holder of shares of capital stock of this Corporation shall have any preemptive, preferential or other right to subscribe for or purchase any part of the unissued capital stock or capital stock of this Corporation held in the corporate treasury, whether now or hereafter authorized, or of other securities of this Corporation of any type or class which are convertible into capital stock of this Corporation excepting as the preferred shares herein provided may be made convertible into shares of the common stock of this Corporation.

Shares of preferred stock may be issued from time to time in one or more series, each such series to have such distinctive designation or title as may be fixed by the Board of Directors prior to the issuance of any shares thereof, and the number of shares of preference stock to be issued shall be determined from time to time by the Board of Directors. Each such series may differ from every other series already outstanding as may be determined from time to time by the Board of Directors prior to the issuance of any shares thereof, in any or all of the following, but in not other, respects:

- (a) The rate of dividend which the preferred stock of any such series shall be entitled to receive;
- (b) The price at and the terms and conditions upon which such shares may be redeemed;
- (c) The amount payable upon such shares in the event of voluntary or involuntary liquidation;
- (d) Sinking fund provisions for the redemption or purchase of such shares;
- (e) The terms and conditions upon which such shares may be converted into shares of common stock, if the shares of any series are issued with the privilege of conversion.

Except as to the matters expressly set forth hereinabove, all series of the preferred stock whenever designated and issued shall have the same

preferences, limitations, and relative rights and shall rank equally, share ratably, and be identical in all respects as to all other matters. All shares of one series of preferred stock shall be alike in every particular and each series of preferred stock shall be so designated as to distinguish the shares thereof from the shares of all other series or classes.

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Before any dividends shall be paid or set apart for payment upon the common stock, the holders of preferred stock shall be entitled to receive dividends at the rate per annum specified by the Board of Directors as above provided, and no more, payable at such times in each year as may be fixed by the Board of Directors out of the unreserved and unrestricted earned surplus of the Corporation or any net capital surplus legally available for the payment of such dividends. All dividends on preferred stock shall be cumulative. The holders, however, shall not be entitled to participate in any other earnings or profits of the Corporation except for such premiums, if any, as may be payable in case of redemption, liquidation, dissolution or winding up.

Holders of the common stock and of the preferred stock of the Corporation shall be entitled to one vote for each share held, on all questions on which shareholders of the Corporation are entitled to vote. Holders of each class of stock shall also have such right to vote as a class as is provided by the applicable statutes of the State of Wisconsin.

B. Pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Restated Articles of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

SECTION 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Preferred Stock" and the number of shares constituting such series shall be 150,000.

SECTION 2. Dividends and Distributions.

A. Subject to the prior and superior rights of the holders of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Preferred Stock with respect to dividends, the holders of shares of Series A Junior Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Preferred Stock, in an amount per shares (rounded to the nearest cent) equal to the greater of (a) \$5.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, without par value of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Preferred Stock. In the event the Corporation shall at any time after June 17, 1988 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

B. The Corporation shall declare a dividend or distribution on the Series A Junior Preferred Stock as provided in paragraph (A) above

immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$5.00 per share on the Series A Junior Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

C. Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Preferred Stock, unless the date of issue of such shares is prior to

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the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Series A Junior Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors of shares of Series A Junior Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for payment thereof.

SECTION 3. Voting Rights. The holders of shares of Series A Junior Preferred Stock shall have the following voting rights:

A. Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the stockholders of the Corporation.

B. Except as otherwise provided herein or by law, the holders of shares of Series A Junior Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

C. (i) If at any time dividends on any Series A Junior Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Preferred Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) Directors.

(ii) During any default period, such voting right of the holders of Series A Junior Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(c) or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of ten percent (10%) in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of the Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as my then exist up to two (2) Directors or, if such right is exercised at an annual meeting, to elect two (2) Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have

exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any shareholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (C) (iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such

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meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (C) (iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two (2) Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (c) (ii) or this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the articles of incorporation or by-laws irrespective of any increase made pursuant to the provisions of paragraph (C) (ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the articles of incorporation or by-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

D. Except as set forth herein, holders of Series A Junior Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### SECTION 4. Certain Restrictions.

A. Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Preferred Stock.

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with Series A Junior Preferred Stock, except dividends paid ratably on the Series A Junior Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Preferred Stock;

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes,

5 shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

B. The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) or this Section 4, purchase or otherwise acquire such shares at such time in such manner.

SECTION 5. Reacquired Shares. Any shares of Series A Junior Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

SECTION 6. Liquidation, Dissolution or Winding Up.

A. Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Stock unless, prior thereto, the holders of shares of Series A Junior Preferred Stock shall have received a premium of \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidations Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Preferred Stock and Common Stock, respectively, holders of Series A Junior Preferred Stock, as a further premium upon such liquidation, dissolution or winding up of the Company, and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

B. In the Event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Junior Preferred Stock, then such remaining asset shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however,

that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

C. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which the number of shares Common Stock that were outstanding immediately prior to such event.

SECTION 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the

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number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

#### SECTION 8. Optional Redemption

A. The Corporation shall have the right to redeem the Series A Junior Preferred Stock at any time, either in whole or in such portions as from time to time the provision for adjustment hereinafter set forth, 100 times the "current per share market price" of the Common Stock on the date of the mailing of the notice of redemption, plus an amount equal to accrued and unpaid dividends thereon to the date fixed for redemption (the "Redemption Date") (the total sum so payable upon any redemption being hereinafter referred to as the "Redemption Price"). In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Preferred Stock were otherwise entitled immediately prior to such event under the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately prior to such event. The "current per share market price" on any date shall be deemed to be the average of the closing price per share of such Common Stock for the 10 consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date. The closing price for each day shall be the last sale price, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if the Common Stock is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotations Systems ("NASDAQ") or such other system then in use or, if on any such date the Common Stock is not quoted by such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Stock selected by the Board of Directors of the Corporation. If on such date no such market maker is making a market in the Common Stock, the fair

value of the Common Stock on such date as determined in good faith by the Board of Directors of the Corporation shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock listed or admitted to trading is open for the transaction of business or, if the Common Stock is not listed or admitted to trading on any national securities exchange, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of Wisconsin are not authorized or obligated by law or executive order to close.

B. At its election, the Corporation, on or prior to the Redemption Date, may deposit the aggregate of the Redemption Price of the shares so to be redeemed with such responsible bank or trust company in Milwaukee, Wisconsin (hereinafter referred to as the "Depository"), as may be designated by the Board of Directors, in trust for payment on and after the Redemption Date to the holders of the Series A Junior Preferred Stock then to be redeemed. If less than the whole amount of the outstanding Series A Junior Preferred Stock of any particular series shall be redeemed at any time the shares thereof to be redeemed shall be selected pro rata, by lot, or in such other manner as the Board of Directors in its discretion may determine. Notice of any such redemption shall be mailed to each holder of record of the shares of the Series A Junior Preferred Stock so to be redeemed, at his address registered with the Corporation, no more than 60 nor less than 30 days prior to the Redemption Date, and if less than all the shares owned by such shareholder are then to be redeemed the notice shall specify the shares which are to be redeemed. Notice of redemption having been so given, the shares therein designated for redemption shall not be entitled to any dividends which may be declared after the Redemption Date specified in such notice, unless default be made in the payment or deposit of the Redemption Price, and on such Redemption Date, or any date prior thereto on which the deposit herein provided for shall have been made, all rights of the respective holders of the said shares, as shareholders of the Corporation by reason of the ownership of such shares, shall cease, except the right to receive the Redemption Price of such shares upon presentation and surrender of their respective certificates representing the said shares (and except also the right to receive from the Depository on any quarterly dividend date which may intervene between the deposit of monies and the Redemption Date the amount of such quarterly dividend); and such shares

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shall not after such Redemption Date or date of deposit be deemed to be outstanding. In case less than all the shares represented by such certificates are redeemed a new certificate shall be issued representing the unredeemed shares.

C. In case the holder of shares of Series A Junior Preferred Stock which shall have been called for redemption shall not, within 5 years after the Redemption Date, claim the amount deposited with respect to the redemption thereof, and the Depository shall, upon demand, pay over to the Corporation such unclaimed amount, the Depository shall be relieved of all responsibility in respect thereof to such holder and such holder shall look only to the Corporation for the payment thereof. Any interest accrued on any funds so deposited shall belong to the Corporation.

D. All shares of Series A Junior Preferred Stock which shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued shares of Preferred Stock, without designation as to series until such shares are once more designated as part of a particular series by the Board of Directors.

SECTION 9. Ranking. The Series A Junior Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

SECTION 10. Amendment. At such time as shares of Series A Junior Preferred Stock are outstanding, the Restated Articles of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Preferred Stock, voting separately as a class.

SECTION 11. Fractional Shares. Series A Junior Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of



holders of Series A Junior Preferred Stock.

ARTICLE IV.

A. Except as set forth in parts (b) and (e) of the Article, the affirmative vote or consent of the holders of shares of all classes of stock of the Corporation possessing four-fifths of the voting rights in elections of Directors, considered for the purpose of this Article as one class, shall be required:

(i) for the adoption of any agreement for the merger or consolidation of this Corporation with or into any other corporation, or

(ii) to authorize any sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of any substantial part of the assets of the Corporation or any subsidiary of the Corporation to any other corporation, or

(iii) to authorize the issuance or transfer by this Corporation of securities of this Corporation in exchange for the securities or assets of any other corporation.

Such affirmative vote or consent shall be in lieu of the vote or consent of the holders of the stock of the Corporation otherwise required by law, these Articles of Incorporation, or any agreement or contract to which the Corporation is a party.

B. The provisions of Subparagraph (a) of this Article shall not be applicable to any transaction described therein if such transaction is approved by resolution of the Board of Directors of this Corporation, provided that the majority of the members of the Board of Directors voting for approval of such transaction were duly elected and acting members of the Board of Directors prior to the time that any such other corporations became a beneficial owner of shares of stock of the Corporation possessing more than 10% of the voting rights in elections of Directors.

C. For the purposes of this Article, any corporation, person or other entity shall be deemed to be the beneficial owner of any shares of stock of the Corporation which such entity has the right to acquire pursuant to any agreement of upon exercise of conversion rights, warranties or options or otherwise or which are beneficially owned, directly or indirectly, by any other corporation, person or entity with which it or its "affiliate" or "associate", as those terms are defined in Rule 12b-2 or the General Rules and Regulations

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under the Securities and Exchange Act of 1934 in effect January 1, 1970.

D. The Board of Directors of this Corporation shall have the power and duty to determine for the purposes of this Article on the basis of information known to the Corporation whether such other corporation, person or entity beneficially owns more than 10% of the outstanding shares of stock of the Corporation entitled to vote in elections of Directors, and whether it is an affiliate or associate of another as defined above, and whether the agreement, contract or understanding referred to in Subparagraph (e) of this Article is substantially consistent with the transaction covered thereby. Any such determination shall be conclusive and binding for all purposes of this Article.

E. The provisions of Subparagraph (a) of this Article shall further be inapplicable to any of the transactions therein described if the Board of Directors of this Corporation shall be resolution have approved a memorandum of understanding with such other corporation with respect to and substantially consistent with such transaction prior to the time that such other corporation or entity shall have become a beneficial holder of more than 10% of the outstanding shares of stock of this Corporation entitled to vote in election of Directors.

F. No amendment to the Articles of Incorporation of this Corporation shall amend, alter, change or repeal any of the provisions of this Article unless the amendment affecting such amendment, alteration or repeal shall receive the affirmative vote or consent of the holders of four-fifths of all classes of the stock of the Corporation entitled to vote in elections of Directors, considered for the purposes of this Article as one class.

ARTICLE V.

The Board of Directors of this Corporation shall consist of such number of

members as the By-Laws may provide, but not less than seven (7) members. Members of the Board of Directors shall have such qualifications and shall be elected in such manner, including division into classes for election, as may from time to time be provided by the By-Laws of this Corporation.

ARTICLE VI.

The period of existence of this Corporation shall be perpetual.

ARTICLE VII.

The address of the registered office of this Corporation at the time of the adoption of these Restated Articles of Incorporation is 1328 Racine Street, Racine, Wisconsin, 53403, and the name of its registered agent at such address James O. Parrish.

These Restated Articles of Incorporation shall supersede and take the place of the heretofore existing Restated Articles of Incorporation of this Corporation and any and all amendments thereto.

Signed and the corporate seal affixed on this 21st day of October, 1988.

Executive Officer

\_\_\_\_\_  
President and Chief

Attest:

\_\_\_\_\_  
Secretary

[Seal]

This document was drafted by Attorney Clay R. Williams.

## Exhibit 3b

RESTATED BYLAWS  
OF  
TWIN DISC, INCORPORATED

(Adopted April 19, 1991)  
(Amended July 28, 1995)  
(Amended October 18, 1996)  
(Amended June 22, 1998)  
(Amended July 30, 2004)

## ARTICLE I. OFFICE

The principal office of the Corporation in the State of Wisconsin shall be located in the City of Racine, Racine County. The Corporation may have such other offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the Corporation may require.

The registered office of the Corporation required by the Wisconsin Business Corporate Law to be maintained in the State of Wisconsin may be, but need not be, identical with the principal office in the State of Wisconsin, and the address of the registered office may be changed from time to time by the Board of Directors.

## ARTICLE II. SHAREHOLDERS

(1) ANNUAL MEETING. The Annual Meeting of the Shareholders, for the purpose of electing directors and for the transaction of such other business as may come before the meeting, shall be held during the months of September or October in each year at such place, on such date and at such time as given each Shareholder not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting. If the place, date and time of the Annual Shareholders Meeting for any year shall not have been designated by the Board of Directors at least thirty (30) days prior to the first day of September of such year, then the Annual Meeting of the Shareholders shall be held at the registered office of the Corporation on the third Friday of October in such year at 2 o'clock p.m., if not a legal holiday, but if a legal holiday, then on the next business day following.

(2) SPECIAL MEETINGS. Special Meetings of the Shareholders may be called by the Chairman and Chief Executive Officer, the President and the Chief Operating Officer or Secretary at the request in writing of a majority of the Board of Directors, or at the request of the Shareholders owning not less than twenty-five percent (25%) of the outstanding shares of stock of the Corporation entitled to vote at the meeting. Any such request shall state the purpose, or purposes, of the proposed meeting. At any Special Meeting, the order of business thereat shall be determined by the Chairman and Chief Executive Officer, the President and Chief Operating Officer of the Company.

(3) PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Wisconsin, as the place of meeting for any Annual Meeting, or for any Special Meeting called by the Board of Directors. If no designation is made, or if a Special Meeting be otherwise called, the place of the meeting shall be the registered office of the Corporation, but any meeting may be adjourned to reconvene at any place designated by a vote of majority of the shares represented at such meeting.

(4) NOTICE OF MEETING. Written notice stating the place, date and time of the meeting, and in case of a Special Meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman and Chief Executive Officer, President and Chief Operating Officer, Secretary, the Board of Directors, or other person or persons calling the meeting, to each Shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed, to the Shareholder at his address as it appears on the stock record book or similar records of the Corporation, with postage thereon prepaid. Notice of any meeting of the Shareholders shall clearly state that proxy appointments will be ruled invalid unless received by the Secretary before the deadlines prescribed in these By-Laws.

(5) RECORD DATE. The Board of Directors may fix in advance a record date to determine the Shareholders entitled to notice of a Shareholders meeting, which record date shall be not more than seventy (70) nor less than five (5) days prior to the meeting or action requiring a determination of the Shareholders. A determination of the Shareholders entitled to notice of or to

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vote at a Shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new date, which it shall be required to do only if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

(6) SHAREHOLDERS LIST. After fixing a record date for a Shareholders meeting, the Secretary shall prepare a list of names of all its Shareholders who are entitled to notice of the Shareholders meeting. The Secretary shall make the list available for inspection by any Shareholder, beginning two (2) days after notice of the meeting is given for which the list was prepared, at the Corporation's principal place of business, or at a place designated in the meeting notice. During the period specified in this By-Law, a Shareholder or such Shareholder's agent may inspect the list during regular business hours on written notice to the Secretary stating the date upon which the inspection is requested to take place, which date shall be not less than five (5) days from the date the request is made. The Corporation shall make the list available at the meeting, and any Shareholder or his agent may inspect the list at any time during the meeting or any adjournment thereof. Refusal or failure to prepare or make available the Shareholders' list pursuant to this Bylaw shall not affect the validity of any action taken at the meeting.

(7) QUORUM. Except as otherwise provided by law, these By-laws or the Articles of Organization, a majority of outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders, and a majority of votes cast at any meeting at which a quorum is present shall be decisive of any motion or election, unless a greater number is required by law, by these By-laws or by the Articles of Organization. The meeting may be adjourned from time to time by a majority of the votes cast. The Secretary must give proper notice of the time, date, or place unless the new time, date, or place is announced at the meeting. Once a share is represented for any purpose at a meeting other than for the purpose of objecting to the holding of the meeting or the transaction of business at the meeting, such share is considered present for the purpose of determining whether a quorum exists for any adjournment of that meeting, unless a new record date is set for that adjourned meeting.

(8) PROXIES. At any meetings of the Shareholders, any Shareholder is entitled to vote by proxy. A Shareholder may appoint a person to vote or otherwise act for him by signing an appointment form, either personally or by his authorized agent. Such a proxy appointment form shall be delivered to the Secretary of the Corporation in person, by mail or by messenger, not less than forty-eight (48) hours prior to the date of any Shareholder meeting. No proxy shall be valid after eleven (11) months from the date of its execution unless otherwise provided conspicuously on the face of the appointment form. Appointment forms or revocations transmitted by facsimile, telex, telegram, or electronic means shall not be accepted.

(8.25) REVOKING PROXIES. A Shareholder may revoke a proxy appointment form signed by him by:

- (a) openly stating the revocation at the Shareholders meeting;
- (b) voting at the Shareholders meeting in person;
- (c) submitting a proxy appointment form bearing a later date to the corporate Secretary pursuant to the provisions of these By-laws; or
- (d) delivering a signed written statement revoking the proxy to the corporate Secretary prior to the date of the meeting.

(8.50) PROXY VALIDATION. Any valid proxy appointment form must meet the following standards:

- (a) The proxy appointment form must be delivered to the Secretary of the Corporation pursuant to the provisions of these Bylaws;
- (b) The appointment form shall bear a signature in handwriting sufficiently legible to allow the inspector to distinguish it as

representing the name of a registered Shareholder, or be accompanied by a rubber stamp facsimile or hand-printed name, including the Shareholder's surname, and either the Shareholder's first or middle name as represented on the corporate records, and any titles, offices or words indicating agency which appear in the corporate records.

(c) If the name appearing on the appointment form does not correspond with the Shareholder's name in the corporate records, the signature on the appointment form must then include some indication of the signator's agency, office or authority allowing them to represent these Shareholder in this particular manner;

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(d) If the Shareholder is an entity, the person signing the form must demonstrate their authority as officer or agent;

(e) If the person signing the appointment form purports to be a personal representative, administrator, executor, guardian or conservator, the person signing the form must demonstrate their authority to represent the Shareholder in this matter; or

(f) If two or more persons are Shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners, the person signing the form must demonstrate their authority to act on behalf of the other co-owner(s).

The inspector shall in good faith, considering the facts and circumstances, determine whether each proxy appointment satisfies these standards. In making his determination the inspector shall be entitled to rely upon the genuineness of all signatures and purported authority of persons designated as officers, agents, representatives or co-owners. The inspector's determination shall be final.

(9) VOTING. Each outstanding share entitled to vote shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of Shareholders. Upon demand of any Shareholder, the vote for Directors shall be by ballot.

(10) VOTING OF SHARES BY CERTAIN SHAREHOLDERS. Shares standing in the name of another Corporation may be voted either in person or by proxy, by the President of such Corporation or any other officer appointed by such President. Shares held by an administrator, executor, guardian, conservator, trustee in bankruptcy, receiver, or assignee for creditors may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a fiduciary may be voted by him, either in person or by proxy. A Shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter, the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the Corporation shall not be voted, directly or indirectly at any meeting, and shall not be counted in determining the total number of outstanding shares entitled to vote at any given time, but shares of its own stock held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares at any given time.

(11) INSPECTOR OF ELECTION. Prior to the meeting, the Board of Directors may appoint no fewer than one (1) but no more than seven (7) inspectors to serve at any meeting of the Shareholders. The inspectors may be selected from among the employees of the Corporation or any individuals not affiliated with the Corporation. The inspectors shall determine the number of shares outstanding and the voting power of each share, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxy appointments. The inspectors shall also receive votes, ballots and questions relating to the qualifications of voters and the validity and effect of proxy appointments. The inspectors shall also receive votes, ballots and consents, hear and determine challenges and questions in connection with the right to vote, decide all questions relating to the qualifications of voters and the validity of proxy appointments pursuant to the provisions of these Bylaws, count and tabulate all votes, ballots or consents, and do such acts as are proper to conduct the election with fairness to all Shareholders. In the event the Board of Directors does not appoint any inspector, the Secretary of the Corporation shall perform any duties and exercise any authority provided to the inspector under these By-Laws.

(11.5) PROCEDURES AT THE SHAREHOLDER MEETING. The Chairman of the meeting shall follow the order of business prepared by the Secretary of the Corporation pursuant to the provisions of these By-laws. The Chairman of the meeting may rule out of order any motion from the floor to consider a matter not appearing on the agenda. All matters on the agenda may be combined on a single ballot, and in case of an election for the Board of Directors, all names of those candidates properly nominated under these By-laws may appear together on a single ballot. The Chairman shall announce the outcome following each vote, however the final count may be completed after the meeting provided the inspectors of the election sign a supplemental certification of election specifying the final count. The inspectors shall determine that each individual admitted to the meeting is a Shareholder on or prior to the record date, and no other individual shall participate in or observe the meeting, otherwise than by direction of the Chairman. The Board of Directors may provide for security to maintain reasonable decorum and ensure the safety of participants.

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The Chairman of the meeting is responsible for enforcing the rules of procedure on the floor of the meeting. Statements by Shareholders may not exceed two (2) minutes, or three (3) minutes in the case of the proponent's initial remarks on a matter before the Shareholders. The Chairman of the meeting may rule out of order any statement that exceeds the allotted time, goes beyond the matter before the Shareholders. The Chairman of the meeting shall have the power to rule on any other points of order and his decision shall be final.

(12) WAIVER OF NOTICE BY SHAREHOLDERS. Whenever any notice whatever is required to be given to any Shareholder of the Corporation under the Articles of Incorporation or By-laws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the Shareholder entitled to such notice, shall be deemed equivalent to the giving of such notice, provided that such waiver in respect to any matter of which notice is required under any provision of Wisconsin law, shall contain the same information as would have been required to be included in such notice, except the time and place of meeting.

(13) INFORMAL ACTION BY SHAREHOLDERS. Any action required or permitted by the Articles of Incorporation or By-laws or any provision of law to be taken at a meeting of the Shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken shall be signed by all of the Shareholders entitled to vote with respect to the subject matter thereof.

(14) BUSINESS CONDUCTED AT THE MEETING.

(a) At any Annual Meeting or Special Meeting of Shareholders, only such business shall be conducted, and only such proposals shall be acted as shall have been properly brought before the meeting in accordance with these By-laws. To be properly brought before any Annual Meeting or Special Meeting, any proposed business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors; (ii) otherwise brought before the meeting by or at the direction of the Board of Directors; or (iii) properly brought before the meeting by a shareholder. For a proposal to be properly brought before a meeting by a shareholder (other than a shareholder specified in the notice of the meeting given by or at the direction of the Board of Directors and included in the Corporation's proxy statement pursuant to Rule 14(a)-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation (a) not less than sixty (60) days before the anniversary date of the date on which the Corporation first mailed its proxy materials for the immediately preceding Annual Meeting, or (b) in the case of a special Meeting or in the event the date of the Annual Meeting has changed more than thirty (30) days from the prior year, notice by the shareholder to be timely must be given so as to be received not later than the close of business on the tenth (10th) day following the earlier of the day on which notice of the date of such meeting was mailed or public disclosure of the date of such meeting was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting, (i) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and record address,

as they appear on the Corporation's books, of the shareholder proposing such business and any other shareholders known by such shareholder to be supporting such proposal; (iii) the class and number of shares of the Corporation's stock which are beneficially owned by the shareholder on the date of such shareholder notice and by any other shareholders known by such shareholder to be supporting such proposal on the date of such shareholder notice; and (iv) any financial interest of the shareholder in such proposal.

(b) The Secretary shall compose an agenda prescribing the order of business for the meeting, which shall include all matters properly submitted under these By-Laws and provide the agenda to the Chairman of the meeting. The Secretary shall also deliver to the Chairman of the meeting a list of those matters not properly submitted, and the chairman shall so declare at the meeting and state that any such business shall not be transacted.

(c) This provision shall not prevent the consideration and approval or disapproval at the meeting of matters properly brought before the meeting nor of reports of officers, directors and committees of the Board of Directors; however, in connection with such reports, no business shall be acted upon at such meeting unless properly submitted as herein provided.

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### ARTICLE III. BOARD OF DIRECTORS

(1) GENERAL POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors.

(2) SPECIFIC POWERS. Without prejudice to such general powers and subject to the laws of Wisconsin and the Articles of Organization, it is hereby expressly declared that the Directors shall have the following powers, to-wit: to adopt and alter a common seal of the Corporation; to make and change regulations not inconsistent with these By-Laws, for the management of the Corporation's business and affairs; to purchase or otherwise acquire; to pay for any property purchased for the Corporation either wholly or partly in money, stock, bonds, and other negotiable and transferable instruments, mortgages, necessary to effectuate the same; to appoint and remove or suspend such subordinate officers, agents or factors as they may deem necessary and to determine their duties, and fix and from time to time change their salaries or remuneration, and to require security as and when they think fit; to confer upon any officer of the company the power to appoint, remove and suspend subordinate officers, agents and factors; to determine who shall be authorized on the Corporation's behalf to make and sign bills, notes, acceptances, endorsements, checks, releases, contracts and other instruments.

(3) NUMBER, TENURE, RESIGNATION AND QUALIFICATIONS. The number of directors of the Corporation shall be ten (10). Directors need not be residents of the State of Wisconsin nor Shareholders of the Corporation.

The Board of Directors shall be divided into three classes, consisting of three, three and four Directors. The term of office of each Director elected for a full term shall be the period of three years to expire at the Annual Meeting of Shareholders three years after the date of his election. The number of Directors to be elected at such meeting shall be equal to the number whose term expires at the time of such meeting. Each Director shall hold office for the term for which he is elected and until the next Annual Meeting of Shareholders at which his successor shall be elected, or until his death, or until he shall resign or shall have been removed in a manner provided in these By-Laws.

(4) REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after and at the same place as the Annual Meeting of Shareholders and each adjournment thereof. The Board of Directors may provide by resolution the time and place, either within or without the State of Wisconsin, for the holding of additional regular meetings without other notice to Directors than such resolution.

(5) SPECIAL MEETINGS. Special Meetings of the Board of Directors may be called by or at the request of the Chairman, President, Secretary, or any five (5) Directors. Special Meetings of the Board of Directors shall be held at such place, either within or without the State of Wisconsin, as the majority of the members of the Board of Directors may from time to time appoint.

(6) NOTICE. Notice of any Special Meeting shall be given at least forty-eight (48) hours previously thereto by written notice, delivered personally or mailed to each Director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Whenever any notice whatever is required to be given to any Director of the Corporation under the Articles of Incorporation or By-Laws, or any provision of law, a waiver thereof in writing, signed at any time whether before or after the time of meeting, by the Director entitled to such notice, shall be deemed equivalent to the giving of such notice. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting and objects thereto to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or Special Meeting of the Board of Directors need to be specified in the notice or waiver of notice of such meeting.

(7) QUORUM. Except as otherwise provided by law or by these By-Laws, a majority of the number of Directors fixed by Section (3) of this Article III shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but a majority of the Directors present (though less than such quorum) may adjourn the meeting from time to time without further notice.

(8) MANNER OF ACTION. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law by the Articles of Organization or by these By-Laws.

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(8.5) CONDUCTING MEETINGS. Any or all directors may participate in or conduct a regular or Special Meeting of the Board of Directors through the use of any means of communication by which all participating directors may simultaneously hear each other during the meeting, and all communication during the meeting is immediately transmitted to each participating director and each participating director is able to send immediately messages to all participating directors. If any means of communication as described above is to be utilized at a meeting of the Board of Directors, all participating directors must be informed that a meeting is taking place at which official business may be transacted.

(9) VACANCIES. Any vacancy in the Board of Directors, including a vacancy created by an increase in the number of Directors, may be filled until the next succeeding annual election by the affirmative vote of a majority of the Directors then in office, though less than a quorum of the Board of Directors. In the event of removal of one or more Directors as provided by these By-Laws, a new Director or Directors to fill such vacancy or vacancies, as the case may be, may be elected at the same meeting of Shareholders at which such action of removal was taken.

(10) COMPENSATION. The Board of Directors, by affirmative vote of a majority of the Directors then in office, and irrespective of any personal interest of any of its members, may establish reasonable compensation of all Directors for services to the Corporation as Directors, officers or otherwise. The Board of Directors also shall have authority to provide for reasonable pensions, disability or death benefits, and other benefits or payments, to Directors, officers and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered by such Directors, officers and employees to the Corporation. Each Director shall also be reimbursed for his necessary expenses in connection with attending meetings of the Board of Directors.

(11) PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

(12) INFORMAL ACTION BY DIRECTORS. Any action required or permitted by the Articles of Incorporation, By-Laws, or other provision of law, which might



be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Directors.

(12.5) EMERGENCY BY-LAWS. In the event of an emergency, which, for purposes of this By-Law, is defined as a catastrophic event including but without limitation to, a fire, plane crash, tornado, flood, or snow storm, preventing a quorum of the Board of Directors from being assembled, the following emergency By-Law provisions shall become and remain effective until such time as it is practicable for a normally constituted Board of Directors to resume management of the business of the Corporation.

(a) Those members of the Board of Directors who are available during the emergency shall continue to manage the business of the Corporation. A director is unavailable under this By-Law if such director is unable to receive notice of a Board of Directors meeting as provided in Article III, Section (6) of the By-Laws, or having received notice is by reason of the emergency unable to participate in the meeting so noticed.

(b) Three (3) directors shall constitute of quorum of the Board of Directors during an emergency. If the number of available directors should drop below three (3), additional directors may be appointed by the remaining directors from the officers or employees of the Corporation. Not more than three (3) directors shall be appointed under this provision.

(c) Meetings during an emergency may be called by any available director, using any reasonable means of communication in an effort to contact or give notice to each remaining director.

(d) During an emergency, any director may participate in or conduct a meeting of the Board of Directors through any available means of communication which allows all directors participating to simultaneously hear each other, and such communication is immediately transmitted to each other.

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(e) The provisions of the Corporation's regular By-laws shall remain effective during the emergency period except to the extent inconsistent therewith.

(f) The emergency By-laws shall no longer be effective after the emergency ceases and the term of any Director appointed to serve during such emergency shall end.

(13) RESIGNATION AND REMOVAL FOR CAUSE. Any Director, member of a committee or other officer may resign at any time. Such resignation shall be made in writing, and shall take effect at the time specified therein, and if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective.

A Director may be removed from office during the term of such office but only upon a showing of good cause, such removal to be by affirmative vote of a majority of the outstanding shares entitled to vote for the election of such Director and which action may only be taken at a Special Meeting of stockholders called for that purpose.

A Special Meeting of the stockholders as herein referred to may only be held after a hearing on the matter of cause claimed to exist has been held by the full Board of Directors of the company at which hearing the Director or Directors proposed for removal shall be given an adequate opportunity for preparation and attendance in person (together with representation by counsel); provided, however, that such hearing shall be held only after written notice has been given to said Director or Directors proposed for removal specifying the matters of cause claimed to exist. The conclusions of said hearing shall be reported by the Board of Directors in writing accompanying the notice of the special stockholders' meeting sent to each stockholder eligible to vote at said Special Meeting.

(14) DIRECTORS EMERITUS. The Board of Directors may from time to time name Directors Emeritus of the Board of Directors of the Corporation who shall be entitled to receive notice of all meetings of the Board and to attend thereat, provided that they shall not be entitled to vote upon any proposition to be voted by said Board of Directors. Directors Emeritus shall serve at the pleasure of the Board.

ARTICLE IV. OFFICERS

(1) NUMBER AND QUALIFICATION. The principal officers of the Corporation shall be a Chairman and Chief Executive Officer, at the option of the Board, a President and Chief Operating Officer, an Executive Vice President, one or more other Vice Presidents as the Board may choose to select, a Secretary, a Treasurer, and at the option of the Board, a President of North American Operations. The Chairman and Chief Executive Officer and the President and Chief Operating Officer shall be selected from among the membership of the Board of Directors and shall hold office until their successors are elected and qualified notwithstanding any earlier termination of their office as director, other than their removal for cause. Such other officers and assistant officers that may be deemed necessary may be elected or appointed by the Board and any two or more offices may be held by the same person except the offices of President and Chief Operating Officer and Vice President.

(2) ELECTION AND TERM OF OFFICE. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each Annual Meeting of the Shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected, or until his death, or until he shall resign, or shall have been removed in a manner hereinafter provided.

(3) REMOVAL. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, or the person so removed. Election or appointment shall not of itself create contract rights. The Chairman and Chief Executive Officer or President and Chief Operating Officer may suspend any officer until the next Board meeting.

(4) VACANCIES. A vacancy in any principal office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

(5) CHAIRMAN AND CHIEF EXECUTIVE OFFICER. The Chairman and Chief Executive Officer shall preside at all meetings of the Board of Directors, and shall have the general powers and duties of supervision and management of the

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business of the Corporation, its officers and agents. He shall have authority to sign certificates for shares of the Corporation as provided in ARTICLE VII hereof. He shall authority, subject to such agents and employees of the Corporation as he shall deem necessary, to prescribe their powers, duties and compensation and to delegate authority to them. Such agents and employees shall hold office at the discretion of the Chairman and Chief Executive Officer. In his capacity as Chairman and Chief Executive Officer, he shall also appoint all Board committees and their chairmen and he shall have such other power and duties as may from time to time be prescribed by the Board of Directors.

(6) PRESIDENT AND CHIEF OPERATING OFFICER. The President and Chief Operating Officer shall, in general, supervise, direct and control the operations and business of the Corporation subject to the supervision and direction of the Chairman and Chief Executive Officer and the Board of Directors and the provisions of these By-Laws. The President and Chief Operation Officer shall also, subject to such rules as may be prescribed by these By-Laws, the Chairman and Chief Executive Officer, or the Board of Directors, have the authority to sign, execute and acknowledge on behalf of the Corporation all deeds, mortgages, contracts, leases, reports and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, including certificates for shares of the Corporation. In the absence of the Chairman and Chief Executive Officer, he shall preside at all meetings of the Shareholders and Board of Directors.

(7) VICE PRESIDENTS. In the absence of the President and Chief Operating Officer, or in the event of his death, inability or refusal to act, the Executive Vice President or in his absence the Vice President-Finance (or should neither be available then the other Vice Presidents in the order designated at the time of their election or in the absence of any designation, then in the order of their election) shall perform the duties of the President and Chief Operating Officer, and when so acting shall have all the powers of and be subject to all the restrictions upon the President and Chief Operating

Officer. Any Vice President may sign, with the Chairman and Chief Executive Officer and with the Secretary or Assistant Secretary, certificates for shares of the Corporation; and shall perform such other duties and have such authority as from time to time may be assigned to him by the Chairman and Chief Executive Officer or President and Chief Operating Officer or by the Board of Directors. Any Vice President is authorized to affix the seal of the Corporation to any document which requires the same.

(8) SECRETARY. The Secretary shall: (a) keep the minutes of the Shareholders' and of the Board of Directors' Meetings in one or more books provided for the at purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents which require the same, the execution of which on behalf of the Corporation under its seal is duly authorized by another officer hereunder or by the Board of Directors; (d) keep a register of the post office addresses of each Shareholder which shall be furnished to the Secretary by such Shareholders; (e) sign with the Chairman and with the President or a Vice President certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of stock transfer books for the Corporation; and (g) in general, perform all duties incident to the office of Secretary and have such other duties, and exercise such authority as from time to time may be delegated or assigned to him by the Chairman and Chief Executive Officer or President and Chief Operating Officer or by the Board of Directors.

(9) TREASURER. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for monies due and payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VI of these By-Laws; and (b) in general, perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned to him by the Chairman or President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. The Treasurer is authorized to affix the seal of the Corporation to any document which requires the same.

(10) ASSISTANT AND ACTING OFFICERS. The Board of Directors shall have the power to appoint any person to act as assistant to any officers when deemed desirable, or to perform the duties of such officer whenever for any reason it is impractical for such officer to act personally, and such assistant or acting officer so appointed by the Board of Directors shall have the power to perform all the duties of the office to which he is so appointed to be assistant, or as to which he is so appointed to act, except as such power may be otherwise

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defined, conditioned or restricted by the Board of Directors.

(11) SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary by the reason of the fact that he is also a Director of the Corporation.

#### ARTICLES V. INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

To the fullest extent allowed by law, this Corporation shall indemnify its directors and officers against expenses (including attorney's fees, court costs, and disbursements) and liabilities (including ERISA excise taxes, judgments, fines and amounts paid in settlement) incurred in connection with any actual or threatened action, suit or proceeding to which such person is made or threatened to be made a party by reason of being, or having been, a director or officer or, upon written request of the Corporation pursuant to a resolution of its Board of Directors, serving or having served any other entity, including any benefit plan of the Corporation.

Prior to the final disposition of an action, the Corporation may advance expenses for the defense thereof, provided it has received adequate assurances of repayment if it is ultimately determined that the individual is not entitled to repayment.

The Corporation shall have the power and authority to purchase and maintain insurance on behalf of any person who is or was a director, officer or

employee of the Corporation or is or was serving at the request of the Corporation in such capacity in any other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such whether or not the Corporation itself would have the power to indemnify him against such liability under the remaining provisions of this By-Law.

Indemnification pursuant to this By-Law shall not be exclusive and shall be in addition to that granted from time to time by operation of law, agreement, or vote of the Corporation's directors or Shareholders. With respect to liabilities and/or expenses arising from or incurred in connection with an individual serving, at the Corporation's request, any other entity, indemnification by the Corporation shall be deemed to be excess and any indemnification or insurance provided by such other entity shall be deemed the primary.

#### ARTICLE VI. CONTRACTS, LOANS, CHECKS AND DEPOSITS

(1) CONTRACTS. To the extent not otherwise authorized by these By-Laws, the Board of Directors may authorize any officer or officers, or agent or agents, or the Corporation to enter into any contract or execute and deliver any instrument in the names of and on behalf of the Corporation, and such authorization may be general or confined to specific instances.

(2) LOANS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its final name unless authorized by or under the authority of a resolution of the Board of Directors. Such authorization may be general or confined to specific instances.

(3) CHECKS, DRAFTS, AND OTHER EVIDENCES OF INDEBTEDNESS. All checks, drafts, or other orders for the payment of money issued in the name of the Company shall be signed by such employee or employees, agent or agents, of the Company as are appointed by the President, and in such manner, including facsimile and printed signatures, as may be designed by the President. In connection with the furnishing of authorizing resolution and signature card forms needed by commercial banks, the Corporate Secretary, or any Assistant Secretary, is authorized to execute and certify to such forms as he may deem appropriate as adopted under the authority of this By-Law and as binding upon the Company in acceptance therewith, thereby empowering employees or agents appointed by the President to sign checks, drafts, or other orders for the payment of money in the name of the Company.

(4) DEPOSITS. All funds of the Corporation, not otherwise employed, shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as may be selected by or under the authority of the Board of Directors.

#### ARTICLE VII. CERTIFICATES FOR SHARES AND THEIR TRANSFER

(1) CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such Certificates shall be signed by the President or Vice President and by the Secretary or an Assistant Secretary and may be signed by the

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Chairman of the Board and may be sealed with the seal of the Corporation or a facsimile thereof. Signatures of the Chairman of the Board, the President, the Vice President, the Secretary or Assistant Secretary on a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation or an employee of the Corporation. In the event any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if such person were such officer at the date of issue of such certificate. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefore upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

(2) TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall if so required furnish proper evidence of incumbency or appointment and of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation is to be the owner thereof for all purposes.

(3) LOST CERTIFICATES. A new certificate of stock may be issued in the place of any certificate theretofore issued by the Corporation, alleged to have been lost or destroyed, and the Board of Directors may, in their discretion, require the owner of the lost or destroyed certificate or his legal representatives to give the Corporation a bond, in such sum as they may direct, not exceeding double the value of the stock evidenced by such certificate, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate, or the issuance of any such new certificate.

(4) STOCK REGULATIONS. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with the statutes of the State of Wisconsin as they may deem expedient concerning the issue, transfer and registration of certificates representing shares of the Corporation.

#### ARTICLE VIII. FISCAL YEAR

The fiscal year of the Corporation shall begin on the 1st day of July in each year and shall end on the 30th day of June in the following year.

#### ARTICLE IX. DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law. Before declaring any dividends, there may be set apart out of any funds of the Corporation available for dividends, such sum or sums as the Board of Directors from time to time in their discretion deem proper for working capital or as a reserve fund to meet contingencies or for equalizing dividends, or for such other purposes as the Board of Directors shall deem conducive to the best interest of the Corporation.

#### ARTICLE X. SEAL

The corporate seal shall be a round metallic disk with the words "TWIN DISC, INCORPORATED, Racine, Wisconsin" around the circumference, and the words "Corporate Seal" in the center. If a facsimile or printed seal is used on stock certificates, it shall be similar in content and design to the above.

#### ARTICLE XI. AMENDMENTS

The By-laws may be amended, repealed or altered in whole or in part by the affirmative vote of not less than two-thirds (2/3rds) of the shares of the company entitled to vote thereon or by the affirmative vote of not less than two-thirds (2/3rds) of the full Board of Directors of the Company at any regular meeting of the Shareholders or Board of Directors, or at any Special Meeting of the Shareholders or Board of Directors provided that such action has been specified in the notice of any such Special Meeting.

## Exhibit 10a

1988 INCENTIVE STOCK OPTION PLAN  
OF TWIN DISC, INCORPORATED

(1) PURPOSE The purpose of this incentive stock option plan (hereinafter called "Plan") is to secure for Twin Disc, Incorporated (hereinafter called "Company") the benefits which result from providing present or future officers and key employees of the Company with the performance incentives inherent in common stock ownership. This Plan is expected to benefit the Company's shareholders by enabling the Company to attract and retain qualified management personnel, to provide incentive compensation to such personnel, and to encourage such personnel to acquire or increase their proprietary interests in the Company. It is intended that options issued pursuant to this Plan shall constitute incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended.

(2) STOCK The total number of shares of common stock to be subject to options upon the exercise of options granted under this Plan will not exceed 125,000 shares of the Company's common stock, subject to adjustment as provided in Paragraph 9(a) hereof. Such shares may be authorized and unissued shares of common stock which have been reacquired by the Company, or a combination thereof. Shares subject to an option under this Plan which is not exercised in full, or shares as to which the right to purchase is forfeited through default or otherwise, shall remain available for other options under this Plan.

(3) ELIGIBILITY An option may be granted to any officer or key employee of the Company (hereinafter called "Eligible Participant").

(4) MAXIMUM CALENDAR YEAR GRANT TO ANY EMPLOYEE The aggregate fair market value (determined at the time an option is granted) of the stock for which an Eligible Participant may be granted incentive stock options first exercisable in any calendar year shall not exceed \$100,000.

(5) ADMINISTRATION

(a) This Plan will be administered by a committee (hereinafter called "Committee") of not less than three (3) non-officer directors, who shall be appointed and serve at the pleasure of the Board of Directors.

(b) A majority of the Committee shall constitute a quorum, and acts of a majority at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee.

(c) The Committee shall select one of its members as Chairman. The Committee shall appoint a Secretary, who shall maintain a record of its actions, decisions and proceedings. The Committee shall have the authority to grant options, and subject to the express provisions of this Plan:

- (1) Determine the number of shares subject to each option and the terms thereof;
- (2) Prescribe rules and regulations from time to time for administration of this Plan;
- (3) Decide any questions arising as to the interpretation or application of any provision of this Plan.

(d) No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under it.

(6) OPTION PRICE Each option shall state the option price, which shall be not less than the fair market value of such stock at the date of grant of the option, unless an optionee (hereinafter called "Participant") owns more than ten percent (10%) of the total combined voting power of all classes of the Company's stock, in which case the option price shall be at least one hundred ten percent (110%) of the fair market value of the such stock. The fair market value of the stock at the date of grant shall be the closing price of the stock on the business day preceding the date of grant on the principal stock exchange

on which the Company's stock is then listed.

(7) TERMS OF OPTION Options shall be exercisable upon the terms and conditions set forth below. Each option granted under this Plan shall be evidenced by an agreement between the Company and the Participant, and shall

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contain, in such form and with such other provisions as the Committee shall from time to time approve and determine, provisions to the following effect:

(a) An option shall be nontransferable and may be exercised only by the Participant during the Participant's lifetime. A Participant shall have the right upon his death to transfer options granted to him, either by will or under the laws of intestate succession, subject to the provisions of Paragraph 7(b)(2) hereof.

(b)

(1) If a Participant's employment by the Company is terminated for any reason other than death or disability, the Participant may, within the ninety (90) days after termination, exercise any rights under any option theretofore granted to the Participant which the Participant would have been entitled to exercise on the date of such determination.

(2) If a Participant's employment by the Company is terminated by death, the person or persons to whom any option theretofore granted to the Participant passes, pursuant to his will or under the laws of intestate succession, may exercise any rights under any option theretofore granted to the Participant which the Participant would have been entitled to exercise on the date of his death, but such exercise must be made within one year of the death of the Participant. If the termination is due to disability, the Participant may exercise the option within one (1) year from the date of such termination.

(3) To the extent any option has not yet become exercisable on the date a Participant's employment is terminated, such option shall automatically terminate.

(c) An option must be exercised within ten (10) years of its grant, unless the Participant owns more than ten percent (10%) of the total combined voting power of all classes of the Company's stock, in which case it must be exercised within five (5) years its grant.

(d) An option shall be exercised by delivering to the Chief Financial Officer of the Company at its principal business office a written notice designating the number of shares for which it is being exercised. Payment in full for the number of shares for which the option is being exercised must accompany such notice.

(8) SHARES ACQUIRED ON EXERCISE OF OPTION

(a) At the time of exercise, unless the shares acquired are the subject of an effective registrations statement, a Participant shall be required to give a written representation that he is acquiring such shares for his own account and for purposes of investment, and not with a view to, or for sale in connection with, the distribution of such shares, nor with any present intention of distributing such shares. The Participant shall further acknowledge his understanding that such shares are not registered under the Securities Act of 1933, as amended, on the ground that the issuance of shares pursuant to the exercise of an option granted pursuant to this Plan is exempt from registration as not involving any public offering, and that the Company's reliance on such exemption is in part based on the foregoing representation. The Participant shall further agree that he will not sell or transfer any shares purchased through exercise of an option until a registration statement covering the shares is effective, or until he receives an opinion by the Company's counsel that a proposed sale or transfer will not violate the Securities Act of 1933, as amended, or until he obtains a no-action letter from the Securities Exchange Commission with respect thereto.

(b) Unless shares acquired are covered by an effective registration statement, their certificates shall bear an appropriate legend restricting their transfer.

(9) MISCELLANEOUS

(a) In the event any stock dividend, subdivision, stock split, combination of shares, reclassification, recapitalization, or if the Company shall participate in a merger or consolidation in which the Company is the surviving corporation, or if other similar change in the capitalization of the Company occurs affecting its common stock, the Committee shall make corresponding adjustments in (1) the number of shares and the price per share applicable to the outstanding options, (2) the number of shares then reserved for award under options thereafter to be granted, and (3) applicable limitations set forth in

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this Plan with respect to the granting of options.

(b) No fractional shares of stock shall be issued upon the exercise of any option and the Company shall not be under any obligation to compensate any Participant for fractional shares.

(c) This Plan does not impose on the Company an obligation to continue the employment of any Participant or Eligible Participant.

(d) No Participant shall have any rights as a shareholder of the Company with respect to any shares for which he has an option to purchase until issuance to him of a certificate representing such shares.

(10) EFFECTIVE DATE OF PLAN This plan shall become effective upon the later of the date of adoption by the Board of Directors of the Company or the date of ratification by the Company's shareholders, subject to compliance with all applicable laws.

(11) TERM OF PLAN Options may be granted pursuant to this Plan from time to time within a period of ten (10) years from the effective date of the Plan.



## exhibit 10b

1988 NON-QUALIFIED STOCK OPTION PLAN FOR  
OFFICERS, KEY EMPLOYEES, AND DIRECTORS  
OF TWIN DISC, INCORPORATED

1. PURPOSE. The purpose of this stock option plan (hereinafter called "Plan") is to secure for Twin Disc, Incorporated (hereinafter called "Company") the benefits which result from providing present or future officers, key employees, and directors of the Company with the performance incentives inherent in common stock ownership. This Plan is expected to benefit the Company's shareholders by enabling the Company to attract and retain qualified individuals to serve as its officers, key employees, and directors, to provide incentive compensation to such individuals, and to encourage such individuals to acquire or increase their proprietary interests in the Company.

2. STOCK. The total number of shares of common stock to be subject to options upon the exercise of options granted under this Plan will not exceed 75,000 shares of the Company's common stock, subject to adjustment as provided in Paragraph 8(a) hereof. Such shares may be authorized and unissued shares of common stock, or issued shares of common stock which have been reacquired by the Company, or a combination thereof. Shares subject to an option under this Plan which is not exercised in full, or shares as to which the right to purchase is forfeited through default or otherwise, shall remain available for other options under this Plan.

3. ELIGIBILITY. An option may be granted to any officer, key employee, or director of the Company (hereinafter called "Eligible Participant").

4. ADMINISTRATION.

(a) This Plan will be administered by the Salary and Selection Committee of the Company's Board of Directors (hereinafter called "Committee").

(b) A majority of the Committee shall constitute a quorum, and acts of majority present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee.

(c) The Committee shall select one of its members as Chairman. The Committee shall appoint a Secretary, who shall maintain a record of its actions, decisions and proceedings. The Committee shall have the authority to grant options, and subject to the express provisions of this Plan:

- (1) Determine the number of shares subject to each option and the terms thereof;
- (2) Prescribe rules and regulations from time to time for administration of this Plan;
- (3) Decide any questions arising as to the interpretation or application of any provision of this Plan

(d) No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under it.

5. OPTION PRICE. Each option shall state the option price, which shall be not less than the fair market value of such stock at the date of grant of the option. The fair market value of the stock at the date of grant shall be the closing price of the stock on the business day preceding the date of grant on the principal stock exchange on which the Company's stock is then listed.

6. TERMS OF OPTION. Options shall be exercisable upon the terms and conditions set forth below. Each option granted under this Plan shall be evidenced by an agreement between the Company and the optionee (hereinafter called "Participant") and shall contain, in such form and with such other provisions as the Committee shall from time to time approve and determine, provisions to the following effect:

(a) An option shall be nontransferable and may be exercised only by the participant during the Participant's lifetime. A Participant shall have the right upon his death to transfer options granted to him, either by will or under the law of intestate succession, subject

to the provisions of Paragraph 6(b)(2) hereof.

(b)

(1) If a Participant's employment or retention by the Company

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is terminated for any reason other than death or disability, the Participant may, within the ninety (90) days after terminations, exercise any rights under any option theretofore granted to the Participant which the Participant would have been entitled to exercise on the date of such termination.

(2) If a Participant's employment or retention by the Company is terminated by death, the person or persons to whom any option theretofore granted to the Participant passes, pursuant to his will or under the laws of intestate succession, may exercise any rights under any option theretofore granted to the Participant which the Participant would have been entitled to exercise on the date of his death, but such exercise must be made within one year of the death of the Participant. If the termination is due to disability, the Participant may exercise the option within one (1) year from the date of such termination.

(3) To the extent any option has not yet become exercisable on the date a Participant's employment or retention is terminated, such option shall automatically terminate.

(c) An option must be exercised within ten (10) years of its grant.

(d) An option shall be exercised by delivering to the Chief Financial Officer of the Company at its principal business office a written notice designating the number of shares for which it is being exercised. Payment in full for the number of shares for which the option is being exercised must accompany such notice.

(e) A Participant shall pay to the Company, upon its demand, such sums as may be requested by the Company for the purpose of satisfying its liability to withhold federal, state or local income or other taxes occurred by reason of the exercise of an option or the transfer of shares upon such exercise.

#### 7. SHARES ACQUIRED ON EXERCISE OF OPTION.

(a) At the time of exercise, unless the shares acquired are the subject of an effective registration statement, a Participant shall be required to give a written representation that he is acquiring such shares for his own account and for purposes of investment, and not with a view to, or for sale in connection with, the distribution of such shares, nor with any present intention of distributing such shares. The Participant shall further acknowledge his understanding that such shares are not registered under the Securities Act of 1933, as amended, on the ground that the issuance of shares pursuant to the exercise of an option granted pursuant to this Plan is exempt from registration as not involving any public offering, and that the Company's reliance on such exemption is in part based on the foregoing representation. The Participant shall further agree that he will not sell or transfer any shares purchased through exercise of an option until a registration statement covering the shares is effective, or until he receives an opinion by the Company's counsel that a proposed sale or transfer will not violate the Securities Act of 1933, as amended, or until he obtains a no-action letter from the Securities Exchange Commission with respect thereto.

(b) Unless shares acquired are covered by an effective registration statement, their certificates shall bear an appropriate legend restricting their transfer.

#### 8. MISCELLANEOUS.

(a) In the event of any stock dividend, subdivision, stock split, combination of shares, reclassification, recapitalization, or if the Company shall participate in a merger or consolidation in which the Company is the surviving corporation, or if other similar change in the capitalization of the Company occurs affecting its common stock, the Committee shall make corresponding adjustments in (1) the number of shares and the price per share applicable to the outstanding

options, (2) the number of shares then reserved for award under options thereafter to be granted, and (3) applicable limitations set forth in this Plan with respect to the granting of options.

(b) No fractional shares of stock shall be issued upon the exercise of any option and the Company shall not be under any obligation to compensate any Participant for fractional shares.

(c) This Plan does not impose on the Company an obligation to continue the employment or retention of any Participant or Eligible Participant.

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(d) No Participant shall have any rights as a shareholder of the Company with respect to any shares for which he has an option to purchase until issuance to him of a certificate representing such shares.

9. EFFECTIVE DATE OF PLAN. This Plan shall become effective upon the later of the date of adoption by the Board of Directors of the Company or the date of ratification by the Company's shareholders, subject to compliance with all applicable laws.

10. TERM OF PLAN. Options may be granted pursuant to this Plan from time to time within a period of ten (10) years from the effective date of the Plan.

AMENDMENT TO 1988 INCENTIVE STOCK OPTION PLAN  
OF TWIN DISC, INCORPORATED

The following is the text of Paragraph 2 of the 1988 Incentive Stock Plan of Twin Disc, Incorporated. The proposed change is in italics.

2. STOCK. The total number of shares of common stock to be subject to options upon the exercise of options granted under this Plan will not exceed 225,000 shares of the Company's common stock, subject to adjustment as provided in Paragraph 9(a) hereof. Such shares may be authorized and unissued shares of common stock, or issued shares of common stock which have been reacquired by the Company, or a combination thereof. Shares subject to an option under this Plan which is not exercised in full, or shares as to which the right to purchase is forfeited through default or otherwise, shall remain available for other options under this Plan.

AMENDMENT TO 1988 NON-QUALIFIED STOCK OPTION PLAN  
FOR OFFICERS, KEY EMPLOYEES AND DIRECTORS  
OF TWIN DISC, INCORPORATED

The following is the text to Paragraph 2 of the 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated. The proposed change is in italics.

2. STOCK. The total number of shares of common stock to be subject to options upon the exercise of options granted under this Plan will not exceed 125,000 shares of the Company's common stock, subject to adjustment as provided in Paragraph 8(a) hereof. Such shares may be authorized and unissued shares of common stock, or issued shares of common stock which have been reacquired by the Company, or a combination thereof. Shares subject to an option under this Plan which is not exercised in full, or shares as to which the right to purchase is forfeited through default or otherwise, shall remain available for other options under this Plan.

The following is the text of Paragraph 4(e) of the 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors of Twin Disc, Incorporated.

4. ADMINISTRATION. Each Director of the Company may be granted options each year to purchase shares of the Company's common stock based upon the number of years which each Director has served the Company as Director. Each Director who has served as Director for one year or more is entitled to an annual base award of options for three hundred (300) shares. In addition, after the first year of service, each Director is entitled to an additional award of options for one hundred (100) shares for each year of service, up to a maximum total award of options for one thousand (1,000) shares. After the first year of service as a Director, each Director is entitled to automatic award of base and additional options based upon years of service as follows: 0 to 1 year, no award; 1 to 2 years, 400 options; 2 to 3 years, 500 options; 3 to 4 years, 600 options; 4 to 5 years, 700 options; 5 to 6 years, 800 options; 6 to 7 years, 900 options; 7 or more years, 1,000 options. Each option shall bear an exercise price equal to the fair market value of the Company's common stock on the date of grant of such option. Other than to comply with changes in the Internal Revenue Code, the Employee Retirement Income Security Act or any other applicable law or rules promulgated thereunder, this Paragraph 4(e) may not be modified or amended more than once every six (6) months. Except as specified in this Paragraph 4(e), all other terms and conditions under the Plan shall apply to options granted to Directors pursuant to this paragraph.

## SEVERANCE AGREEMENT

THIS AGREEMENT is executed and entered into as of this \_\_\_\_ day of \_\_\_\_\_ 200X, by and between Twin Disc, Incorporated, a Wisconsin corporation, with its principal offices located at 1328 Racine Street, Racine, Wisconsin ("Corporation"), and \_\_\_\_\_ ("Employee").

## WITNESSETH:

WHEREAS, the Board of Directors of the Corporation is aware of the uncertainties created by the current business environment in which tender offers for publicly-held corporations are increasingly frequent, is aware that the possibility of a change in control of the Corporation raises questions and uncertainties, and is aware that these questions and uncertainties are cause for legitimate concern among key Corporation employees about their future with the Corporation; and

WHEREAS, the Board of Directors of the Corporation recognizes that the efforts of those employees identified by the Board as key management employees have contributed and will continue to contribute to the growth and success of the Corporation; and

WHEREAS, the Board of Directors of the Corporation is concerned that the uncertainties associated with the current business environment may adversely affect the morale of key management employees of the Corporation, undermine the confidence of such key management employees in the ability of the Corporation to remain a viable and competitive entity and jeopardize the ability of the Corporation to attract and retain the services of key management employees in the future; and

WHEREAS, the Board of Directors of the Corporation believes that in the best interests of the Corporation, it is essential that key management employees, including Employee, be retained and that the Corporation be in a position to rely on their ongoing dedication and commitment to render services to the Corporation, irrespective of whether the Corporation is or may be acquired or merged with or into another corporation.

NOW, THEREFORE, in consideration of, and as a specific inducement for, the continued services of Employee, the parties hereto agree as follows:

1. TERM OF AGREEMENT. This Agreement shall commence as of the date hereof and shall continue in effect until \_\_\_\_\_; provided, however, that commencing on \_\_\_\_\_, 200X, and each \_\_\_\_\_ thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than August 1 of that year, the Corporation shall have given notice that it does not wish to extend this Agreement; provided, further, if a Change in Control (as defined in Section 2 below) of the Corporation shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of twenty-four (24) months beyond the month in which such Change in Control of the Corporation occurred.

## 2. CHANGE IN CONTROL OF THE CORPORATION.

(a) No benefits shall be payable hereunder unless there shall have been a Change in Control of the Corporation, as set forth below. For purposes of this Agreement, a "Change in Control of the Corporation" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") whether or not the Corporation is then subject to such reporting requirement; provided that without limitation, such a change in control shall be deemed to have occurred if:

(i) any "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than Michael Batten or any member of his family (the "Batten Family"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing thirty percent (30%) or more of the combined voting power of the Corporation's then outstanding securities;

(ii) during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement) there shall cease to be a majority of the Board comprised as follows: individuals who at the beginning of such period constitute the Board and any new director(s) whose election by the Board or nomination for election by the Corporation's

shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved; or

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(iii) the shareholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets.

(b) For purposes of this Agreement a "Potential Change in Control of the Corporation" shall be deemed to have occurred if (i) the Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control of the Corporation, (ii) any person (including the Corporation) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control of the Corporation, (iii) any person, other than a member of the Batten Family or a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or a corporation owned, directly or indirectly, by the shareholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation, who is or becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 9.5% or more of the combined voting power of the Corporation's then outstanding securities, increases his beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (iv) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control of the Corporation has occurred. Employee agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control of the Corporation, Employee shall not terminate his employment with the Corporation until the earliest of (i) a date which is six (6) months from the occurrence of such Potential Change in Control of the Corporation, (ii) the termination by Employee of his employment by reason of Disability or Retirement (at Employee's normal retirement age), as defined in Subsection 3(a) hereof, or (iii) the occurrence of a Change in Control of the Corporation.

3. TERMINATION FOLLOWING A CHANGE IN CONTROL OF THE CORPORATION. If any of the events described in Section 2 hereof constituting a change in control of the Corporation shall have occurred, Employee shall be entitled to the benefits provided in Subsection 4(d) hereof immediately upon a termination of his employment which occurs during the term of this Agreement unless such termination is (i) due to Employee's death, Disability or Retirement, (ii) by the Corporation for Cause, or (iii) by Employee other than for Good Reason.

(a) DISABILITY;RETIREMENT. If, as a result of Employee's incapacity due to physical or mental illness, Employee shall have been absent from the full-time performance of his duties with the Corporation for six (6) consecutive months, and within thirty (30) days after written notice of termination is given, Employee shall not have returned to the full-time performance of his duties, the Corporation may terminate Employee's employment for "Disability." Termination by the Corporation or by Employee of Employee's employment by reason of "Retirement" shall mean termination on or after Employee's "Normal Retirement Date" as defined in Section 4.1 of Twin Disc Incorporated Supplemental Retirement Plan, Approved June 21, 1984 and Amended January 1, 1985 (the "Supplemental Retirement Plans"), as applicable to Employee, as of the date hereof, or in accordance with any retirement arrangement established with Employee's consent, with respect to Employee.

(b) CAUSE. Termination by the Corporation of Employee's employment for "Cause" shall mean termination upon (i) the willful and continued failure by Employee to substantially perform his duties with the Corporation (other than any such failure resulting from termination for Good Reason) after a demand for substantial performance is delivered to Employee that specifically identifies the manner in which the Corporation believes that Employee has not substantially performed his duties, and Employee has failed to resume substantial performance of his duties on a continuous basis within fourteen

(14) days of receiving such demand, (ii) the willful engaging by Employee in conduct which is demonstrably and materially injurious to the Corporation, monetarily or otherwise or (iii) Employee's conviction of a felony or conviction of a misdemeanor which materially impairs Employee's ability substantially to perform his duties with the Corporation. For purposes of this Subsection, no act or failure to act, on Employee's part shall be deemed "willful" unless done, or omitted to be done, by Employee not in good faith and without reasonable belief that his action or omission was in the best interest of the Corporation.

(c) GOOD REASON. Employee shall be entitled to terminate his employment for Good Reason. For purposes of this Agreement, "Good Reason"

3 shall mean, without Employee's express written consent, the occurrence after a Change in Control of the Corporation of any one or more of the following:

(i) the assignment to Employee of duties, responsibilities or status inconsistent with his present duties, responsibilities and status as the Vice President-Finance of the Corporation or a reduction or alteration in the nature or status of Employee's duties and responsibilities from those in effect as of the date hereof;

(ii) a reduction by the Corporation in Employee's base salary as in effect on the date hereof or as the same shall be increased from time to time ("Base Salary");

(iii) the Corporation's requiring Employee to be based at an office location other than in Racine, Wisconsin;

(iv) the failure by the Corporation to continue in effect the Corporation's Salaried Retirement Plan, Supplemental Retirement Plan, Choice Plan (Cafeteria plan under section 125 for qualified group insurance benefits), Incentive Bonus Program, The Accelerator 401(k) Savings Plan, Key Man Life Insurance Program, Travel Accident Insurance, Qualified and Non-Qualified Stock Option Plans or any other of the Corporation's employee benefit plans, policies, practices or arrangements in which Employee participates or the failure by the Corporation to continue Employee's participation therein on substantially the same basis, both in terms of the amount of benefits provided and the level of Employee's participation relative to other participants, as existed as of the date hereof;

(v) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation to assume and agree to perform this Agreement as contemplated in Section 5 hereof; and

(vi) any purported termination by the Corporation of Employee's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection (d) below, and for purposes of this Agreement, no such purported termination shall be effective. Employee's right to terminate his employment pursuant to this Subsection shall not be affected by his incapacity due to physical or mental illness. Employee's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

(d) NOTICE OF TERMINATION. Any termination by the Corporation for Cause or by Employee for Good Reason shall be communicated by Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provision so indicated.

(e) DATE OF TERMINATION. "Date of Termination" shall mean the date specified in the Notice of Termination where required or in any other case the date upon which Employee ceases to perform services to the Corporation; provided that if within thirty (30) days after any Notice of Termination one party notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date finally determined to be the Date of Termination, either by mutual written agreement of the parties or by the final nonappealable determination of a court of competent jurisdiction.

4. COMPENSATION UPON TERMINATION OR DURING DISABILITY. Following a Change in Control of the Corporation, as defined in Section 2 hereof, upon termination of Employee's employment or during a period of disability Employee shall be entitled to the following benefits:



(a) During any period that Employee fails to perform his full-time duties with the Corporation as a result of incapacity due to physical or mental illness or disability, Employee shall continue to receive his Base Salary at the rate in effect at the commencement of any such period, until Employee's employment is terminated pursuant to Subsection 3(a) hereof. Thereafter, Employee's benefits shall be determined in accordance with the Corporation's retirement, insurance and other applicable programs and plans then in effect.

(b) If Employee's employment shall be terminated by the Corporation for Cause or by Employee other than for Good Reason, the Corporation shall pay Employee his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given or on the Date of Termination if no Notice of Termination is required hereunder, plus all other amounts to which Employee is entitled under any compensation plan of the Corporation at the time such payments are due, and the Corporation shall have no further obligations to Employee under this Agreement.

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(c) If Employee's employment terminates by reason of his Retirement or by reason of his death, then Employee's benefits shall be determined in accordance with the Corporation's Supplemental Retirement Plans, and its retirement, survivor's benefits, insurance, and/or such other applicable programs and plans then in effect.

(d) If Employee's employment by the Corporation shall be terminated (i) by the Corporation other than for Cause, Retirement or Disability or (ii) by Employee for Good Reason, Employee shall be entitled to the benefits (the "Severance Payments") provided below:

(A) the Corporation shall pay Employee his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, or the Date of Termination where no Notice of Termination is required hereunder;

(B) the Corporation shall pay as severance benefits to Employee, not later than the tenth (10th) day following the Date of Termination a lump sum severance payment equal to the product of (i) the sum of (I) Employee's annual Base Salary in effect immediately prior to the occurrence of the circumstances giving rise to such termination, and (II) the most recent annual bonus awarded to Employee; times (ii) the lesser of (I) 1.50 or (II) the number of whole and fractional years occurring between Employee's Date of Termination and his Normal Retirement Date as set forth in the Supplemental Retirement Plans;

(C) in lieu of shares of common stock of the Corporation ("Option Shares") issuable upon exercise of outstanding options ("Options"), if any, granted to Employee under the Corporation's 1988 Incentive Stock Option Plan and 1988 Non-Qualified Stock Option Plan, together with any additional, substitute or successor option program or plan as may be in effect from time to time, (which Options shall be canceled upon the making of the payment referred to below), Employee shall receive an amount in cash equal to the product of (i) the higher of the closing price of shares reported on the New York Stock Exchange on the Date of Termination or the highest per share price for Option Shares actually paid in connection with any Change in Control of the Corporation, over the per share exercise price of each Option held by Employee, times (ii) the number of Option Shares covered by each such Option;

(D) for a twenty-four (24) month period after such termination, the Corporation will arrange to provide Employee, at the Corporation's expense, with benefits under the Corporation's applicable employee fringe benefit plans, which benefits shall be the same or substantially similar to the benefits Employee was receiving immediately prior to the Notice of Termination; but in no event shall Employee be provided the benefits described herein after his Normal Retirement Date; and provided further that benefits otherwise receivable by Employee pursuant to this Subsection (D) shall be reduced to the extent comparable benefits are actually received by Employee during the twenty-four (24) month period following Employee's termination and any such benefits actually received by Employee shall be reported to the Corporation.

(e) in the event that Employee becomes entitled to the Severance Payments, if it is determined that any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986 ("Code") (or any similar tax that may hereafter be imposed), the

Severance Payments to which Employee is entitled hereunder shall be reduced to the extent necessary to avoid the imposition of any Excise Tax upon such Severance Payments. In the event Severance Payments shall have previously been made to Employee which are or would be subject to the Excise Tax, Employee shall immediately repay to the Corporation that portion of the Severance Payments determined to be subject to such Excise Tax. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) any other payments or benefits received or to be received by Employee in connection with a Change in Control of the Corporation or Employee's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, any person whose actions result in a Change in Control of the Corporation or any person affiliated with the Corporation or such person) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Corporation's independent auditors and acceptable to Employee such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the Severance Payments which shall be treated

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as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Severance Payments or (B) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (i) above), and (iii) the value of any non-cash benefits or any deferred payment or benefits shall be determined by the Corporation's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of Employee's employment, the Corporation shall repay to the Employee at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Severance Payments previously repaid by Employee to the Corporation hereunder attributable to such reduction plus interest on the amount of such repayment at the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of Employee's employment, Employee shall repay to the Corporation such further excess portion of the Severance Payments as would be subject to the Excise Tax (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined.

(f) In the event the amount of Severance Payments that Employee would be entitled to receive hereunder, following a Change in Control of the Corporation, upon termination of Employee's employment, would, under any applicable provision of law, render the validity, legality or enforceability of this Agreement and the Severance Payments made hereunder contingent upon this Agreement having first been approved by the affirmative vote of a majority of the aggregate outstanding voting securities of the Corporation, (i) the Severance Payments due Employee hereunder shall be reduced to the extent necessary to avoid rendering this Agreement subject, under any applicable provision of law, to prior shareholder approval as specified above; or (ii) if Severance Payments have previously been made to Employee hereunder, the amount of which Severance Payments would render this Agreement subject to prior shareholder approval, as specified above, as a condition precedent to its validity, legality or enforceability, Employee shall immediately repay to the Corporation that portion of the Severance Payments which served to render this Agreement subject to said prior shareholder approval.

(g) The payments provided for in Subsection (d) above shall be made no later than the tenth (10th) day following the Date of Termination; provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Corporation shall pay to Employee on such day an estimate as determined in good faith by the Corporation of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Corporation to Employee payable on the tenth (10th) day after demand by the Corporation (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(h) The Corporation shall also pay to Employee all legal fees and expenses incurred by Employee as a result of such termination of employment (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder).

(i) Employee shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Section 4 be reduced by any compensation earned by Employee as the result of employment by another employer after the Date of Termination, or otherwise.

(j) The Severance Payments to be paid pursuant to Subsection (d) above are not intended as stipulated or liquidated damages for breach of any promise of a term of employment, no such promise being made herein, but are payments which shall be fully earned as of the Date of Termination, and shall be compensation for: Employee's continued services rendered to the Corporation after the date hereof and prior to such Date of Termination; the foregoing of other possibly more secure employment; consequential losses which may result from such termination, including, but not limited to, permanent injury to reputation, loss of career development opportunities, and emotional stress; and actual losses which may result from such termination including, but not limited to, lost wages and expenses of securing other employment.

(k) The Corporation shall have no obligation to provide or cause to be provided to Employee the benefits described in this Agreement if the Corporation or Employee shall terminate Employee's employment prior to a Change

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of Control. This Agreement is not and nothing contained herein shall be deemed to create a contract of employment between the Employee and the Corporation.

5. SUCCESSORS; BINDING AGREEMENT.

(a) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation or of any division or subsidiary thereof employing Employee to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure of the Corporation to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Employee to compensation from the Corporation in the same amount and on the same terms as Employee would be entitled hereunder if Employee terminated his employment for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

(b) This Agreement shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amount would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee or other designees or, if there is no such designee, to Employee's estate.

6. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below:

(a) If to the Corporation:  
Twin Disc, Incorporated  
1328 Racine Street  
Racine, Wisconsin 53403

(b) If to Employee:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such officer as may be specifically designated by the Board. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Wisconsin.

8. VALIDITY. The invalidity or unenforceability of any provision of this shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. INTERPRETATION. All terms used herein in the singular shall be construed to include the plural and all terms used herein in the masculine gender shall be construed to include the feminine gender as may be required by the context in which the terms are used.

10. ENTIRE AGREEMENT. This Agreement sets forth the entire agreement and understanding of the parties hereto with respect to the matters covered hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement in the City and County of Racine, Wisconsin, effective as of the date first set forth above.

TWIN DISC, INCORPORATED

By:

Attest:

EMPLOYEE:

\_\_\_\_\_

## exhibit 10g

Twin Disc, Incorporated  
Director Tenure and Retirement Policy  
January 18, 1993

It is the policy of the Board that outside directors be independent from any potential conflict of interest in representing the interest of the Shareholders. Accordingly, no outside directors shall be elected by the directors to this Board or nominated by the directors to the shareholders for election to this Board if such person or his employer has a material or significant business relationship with the Corporation.

No outside director shall be elected by the directors to this Board or nominated by the directors to the shareholders for election to this Board who is not at such time employed full-time or who is then over 68 years of age.

No outside director shall be nominated by the directors to the shareholders for re-election to this Board who would be over 68 years of age at the time of re-election.

Any outside director whose full-time employment terminates may remain on this Board until his/her current term expires and, provided the director is not over 68 years of age upon expiration of his/her current term, will be eligible for nomination by the directors to the shareholders for election to one additional term.

Any inside director whose employment by this Corporation terminates for any reason is expected to resign from this Board effective as of the commencement of the next regular or special meeting of this Board following said termination. However, any director who retires from this Corporation as its Chief Executive Officer may remain on this Board until his/her current term expires.

Exceptions to this tenure policy may only be effected by an action of this Board upon the unanimous recommendation from its Board Affairs and Nominating Committee.

Provided that he serves at least one complete three year term, a non-employee director who retires from the Board, resigns from the Board, or decides not to stand for re-election to the Board shall be entitled to an annual retirement payment equal to the sum of:

1. The annual retainer at the time of his/her resignation.
2. Six Board meeting fees at the rates prevailing at the time of his/her resignation.

Retirement payments, payable quarterly, shall continue for such number of years as is equal to the number of his/her service, or until his/her death, whichever time elapses first.

This Director Tenure and Retirement Policy replaces all prior tenure and retirement compensation policies and is effective as of 1/18/93.

## exhibit 10h

Twin Disc, Incorporated  
Twinco Salaried Employees Short Term Incentive Plan  
FY 2004

(1) **PURPOSE:** The purpose of this Corporate Incentive Plan is to motivate salaried employees to grow the earnings and to efficiently utilize the assets of the Corporation. The ultimate aim is to increase Shareholder Value by achieving returns which are greater than the cost of capital off the Corporation.

(2) **ELIGIBILITY FOR PARTICIPATION:** Participants will be all the salaried employees of the Twinco Operations.

(3) **ELIGIBILITY FOR INCENTIVE BONUS PAYMENT:** Participants must be employed at the end of the Bonus Year in order to receive an Incentive Bonus. However, the Incentive Bonus will be prorated and paid to a Participant who dies, is disabled or retires during a Bonus Year. The proration will be based on the period of actual employment and earnings during that period. A Participant whose employment is terminated for any other reason prior to the end of a Bonus Year will not be entitled to an Incentive Bonus for that Bonus Year.

(4) **INCENTIVE AWARD DETERMINATION:** The Twinco Salary Incentive Plan will be based on one criterion:

- \* Achievement of Target RONAE as contained in the Annual Business Plan approved by the Board of Directors.

The approved Target RONAE for the current year is listed in Exhibit A.

(5) **PAYOUT RANGE:** The payout range is recommended annually by the President-Chief Operation Officer for the approval of the Chairman-Chief Executive Officer and the Executive Selection & Salary Committee of the Board of Directors.

(6) **DEFINITIONS:**

**RETURN ON NET ASSETS EMPLOYED (RONAE):** Operating Income divided by Average Net Assets Employed (Average NAE).

**OPERATING INCOME:** Operating Income as reported in the audited, consolidated financial statements of the Company prior to accrual for the Incentive Bonus.

**NET ASSETS EMPLOYED (NAE):** Balance sheet footing of total assets plus any reserve for LIFO valuation of inventory, less:

- cash and cash equivalents; and
- all non-interest bearing liabilities, regardless of maturity, with the exception of;
- accrued interest
- accruals for Incentive Bonuses
- dividends payable

**AVERAGE NAE:** Thirteen (13) point average of NAE at the end of each month starting with the last day of the previous Bonus Year and ending with the last day of the current Bonus Year.

(7) **ADMINISTRATIVE GUIDELINES:** Unless the Executive Selection & Salary Committee of the Board of Directors decides otherwise:

- Losses resulting from bad debts, inventory write-downs, plant closures, or similar adjustments to asset values will be reflected in Operating Income and NAE from the date of adjustment.
- Adjustments or material transactions not in the ordinary course of business, e.g., compliance with changes in accounting standards, litigation awards or settlements, insurance recoveries, transaction costs incurred in the acquisition or sale of a business unit, etc., will be excluded from the determination of Operating Income.
- New acquisitions will be included in the determination of Operating Income and NAE for the date of acquisition.

- Discontinued operations and divestitures will be included in the determination of Operating Income and NAE until the date of disposal; and
- Gains or losses on the sale of subsidiaries, divisions or business units, whether by sale of assets, stock or other securities, will be excluded from the determination of Operating Income.

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(8) INDIVIDUAL SALARY BASE: The Participant's total salary compensation for the Bonus Year:

- Plus any salary deferred under an 401(k) plan;
- Less any Incentive payments and other payments made in lieu of benefits.

(9) INCENTIVE YEAR: The Company's fiscal year.

(10) PAYOUT DATE: Established by the Executive Selection & Salary Committee of the Board of Directors but typically annually within four weeks after the Board's acceptance of the Company's annual audit report.

(11) WITHOLDING TAXES: The Company shall deduct from all Incentive Bonus payments made under this program all taxes required by law to be withheld.

(12) EMPLOYMENT NOT GUARANTEED: Neither this Incentive Bonus Program nor any action taken hereunder shall be construed as giving any Participant a right to remain as an employee of the Company at any time or for any period.

(13) CONSTRUCTION: This Incentive Bonus Program shall be construed according the laws of the State of Wisconsin.

(14) AMENDMENT OR TERMINATION: The Board of Directors of the Company may, without prior notice, amend or terminate this Incentive Bonus Program at any time.