

TWIN DISC, INCORPORATED  
1328 Racine Street, Racine, Wisconsin 53403

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
OCTOBER 17, 1997

NOTICE IS HEREBY GIVEN TO THE  
SHAREHOLDERS OF TWIN DISC, INCORPORATED

The Annual Meeting of Shareholders of Twin Disc, Incorporated, a Wisconsin corporation will be held at 2 P.M. (Central Daylight Time) on Friday, October 17, 1997 at its main offices, 1328 Racine Street, Racine, Wisconsin for the following purposes:

1. Election of three Directors to serve until the Annual Meeting in 2000.
2. Ratification of election of independent public auditors for the fiscal year to end June 30, 1998.
3. To transact such other business as may properly come before the meeting.

Only holders of record of shares of common stock of the Corporation at the close of business on August 29, 1997, shall be entitled to vote at said meeting.

If you wish to propose business to be brought before the meeting or nominate a person for election as director at the meeting, such proposal or nomination must be received by the Secretary by the deadline stated in the proxy statement. Any proposal or nomination not received before the deadline will not be considered.

A proxy appointment and proxy statement are enclosed herewith. The proxy appointment shows the form in which your shares are registered. Your signature should be in the same form.

FRED H. TIMM  
Secretary

September 17, 1997

IF YOU ARE UNABLE TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND RETURN YOUR PROXY APPOINTMENT IN THE ENCLOSED ENVELOPE BEFORE THE DEADLINE STATED IN THE PROXY STATEMENT. IF YOUR PROXY APPOINTMENT IS NOT RECEIVED BY THE SECRETARY BEFORE THAT DEADLINE, IT WILL BE RULED INVALID. SHOULD YOU FIND IT CONVENIENT TO ATTEND THE MEETING PERSONALLY, AND DESIRE TO VOTE IN PERSON, YOU MAY REQUEST BEFORE ANY VOTE THAT YOUR PROXY APPOINTMENT BE RETURNED TO YOU IN ORDER THAT YOU MAY VOTE IN PERSON.

YOUR VOTE IS IMPORTANT!  
PLEASE SIGN, DATE AND RETURN  
THE ENCLOSED PROXY APPOINTMENT  
IMMEDIATELY.

Proxy Statement

This proxy statement is furnished in connection with the solicitation by the Board of Directors of the Corporation of proxies for use at the Annual Meeting of Shareholders to be held at 2 P.M. (Central Daylight Time), at 1328 Racine Street, Racine, Wisconsin on Friday, October 17, 1997, or any adjournment thereof. Holders of common stock of record at the close of business on the 29th day of August 1997, are entitled to vote at the meeting and each shareholder shall have one vote for each share of common stock registered in such shareholders name. Shares represented by a signed proxy appointment will be voted in the manner specified in the form of proxy or, if

no specification is made, in favor of each of the propositions mentioned therein. The presence of a majority of the outstanding shares of common stock of the Corporation, either in person or represented by a signed proxy appointment, will constitute a quorum at the meeting. The Corporation intends to mail this statement to shareholders on or about September 17, 1997.

On August 29, 1997, there were outstanding 2,825,174 shares of common stock of the Corporation entitled to vote at the Annual Meeting. There also are 200,000 shares of no-par preferred stock authorized, of which 50,000 shares have been designated Series A Junior Preferred Stock, but none are outstanding.

The enclosed proxy appointment form must be delivered to the Secretary either in person, by mail, or by messenger. Appointment forms transmitted by facsimile, telex, telegram, or electronic means will not be accepted. Furthermore, appointment forms must be received by the Secretary not less than forty-eight (48) hours prior to the date of the meeting. PROXY APPOINTMENT FORMS NOT MEETING THE ABOVE REQUIREMENTS WILL BE RULED INVALID FOR ANY PURPOSE.

The proxy appointment form must be signed in handwriting. The signature must be sufficiently legible to allow the inspector to distinguish it as representing the name of the registered shareholder, or must 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.

The enclosed proxy appointment may be revoked any time before it is voted by submission, either in person, by mail, or by messenger, of a later dated proxy appointment form to the Secretary at least forty-eight (48) hours prior to the date of the meeting. Any such later dated proxy appointment form which is not received by the Secretary by this deadline or by the correct method shall not be effective as a new proxy appointment nor as a revocation of a prior proxy appointment. In addition, a shareholder may revoke a proxy appointment form signed by him or her by openly stating the revocation at the meeting, by voting at the meeting in person, or by delivering a signed written statement revoking the proxy to the Secretary prior to the date of the meeting. Appointment forms or revocations transmitted by facsimile, telex, telegram, or electronic means shall not be accepted. ANY ATTEMPTED REVOCATIONS NOT MEETING THE ABOVE REQUIREMENTS WILL BE RULED INVALID FOR ANY PURPOSE.

The proxy solicited hereunder will be voted in favor of the Directors' recommendations on each and all matters properly brought before the meeting, unless the undersigned shareholder specifically instructs the holder or holders of the proxy to the contrary. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. Abstentions may be specified on all proposals submitted to shareholders (other than the election of directors). Abstentions and "broker non-votes" are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Under the rules of the New York Stock Exchange, Inc., brokers who hold shares in street name for customers may have authority to vote on certain items when they have not received instructions from beneficial owners. A "broker non-vote" occurs on an item submitted for shareholder approval when the broker does not have authority to vote on the item in the absence of instructions from the beneficial owner. Such "broker non-votes" will have no effect on the outcome of the election of directors or the independent public auditors.

SHAREHOLDER PROPOSALS FOR 1997

In order for a proposal or nomination to be timely for the 1997 meeting, notice thereof must be delivered to or mailed and received at the principal executive offices of the Corporation no earlier than September 17, 1997, and no later than October 2, 1997. Any proposals or nominations not received during this period will not be considered at the meeting. If you wish to submit a proposal or nomination, please contact the Secretary for a copy of the relevant Bylaw, which details the necessary information which must be included in the proposal or nomination.

SHAREHOLDER PROPOSALS FOR 1998

The last day for the Corporation to receive proposals, for consideration for inclusion in the Notice of the Meeting and Proxy Statement for the 1998 Annual Meeting is May 14, 1998.

PRINCIPAL SHAREHOLDERS AND SHARE OWNERSHIP  
OF DIRECTORS AND EXECUTIVE OFFICERS

PRINCIPAL SHAREHOLDERS

Based upon the records of the Corporation and filings with the Securities and Exchange Commission as of July 31, 1997 the following table sets forth the persons or group of persons having beneficial ownership (as defined by the Securities and Exchange Commission) of more than 5% of the issued and outstanding common stock of the Corporation.

Name	Address	Nature of Beneficial Ownership	Amount Owned	Percent of Class
Michael E. Batten	3419 Michigan Blvd. Racine, WI	Power to vote Beneficial	542,427<F1> 132,897<F2>	19.2% 4.7%
Dimensional Fund Advisors	1299 Ocean Ave. Santa Monica, CA	Power to vote & dispose of stock	234,500	8.3%
Fidelity Management and Research Corporation	82 Devonshire St. Boston, MA	Power to vote & dispose of stock	215,000	7.6%
Kennedy Capital Management, Inc.	425 N. New Ballas Rd. St. Louis, MO	Power to vote & dispose of stock	167,800	5.9%
Wachovia Corporation	100 North Main St. Winston-Salem, NC	Power to vote & dispose of stock	152,000	5.4%

<FN>

<F1>

(1) Held as trustee under various trusts.

<F2>

(2) Includes 2,600 shares owned by the wife of Michael E. Batten and 52,000 subject to currently exercisable stock options.

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SECURITIES OWNED BY MANAGEMENT

The following table sets forth, as of August 29, 1997, the number of shares of common stock of the Corporation beneficially owned by each of the Directors of the Corporation, each of the executive officers named in the Summary Compensation Table and the number of shares beneficially owned by all Directors and executive officers of the Corporation as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <F4>	Percent of Class
Michael E. Batten	675,324 <F5>	23.9%
Stuart W. Tisdale	9,000 <F6>	*<F3>
James O. Parrish	27,936 <F6>	1.0%

Paul J. Powers	2,500 <F6>	*
Michael H. Joyce	37,750 <F6>	1.3%
Jerome K. Green	5,100 <F6>	*
Richard T. Savage	4,100 <F6>	*
David L. Swift	600 <F6>	*
David R. Zimmer	1,478 <F6>	*
Philippe Pecriaux	23,502 <F6>	*
James McIndoe	20,703 <F6>	*

All Directors and Executive Officers as a group (15 persons)	845,905 <F6>	29.9%
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<FN>

<F3>

\* Denotes ownership of less than one percent of shares outstanding.

<F4>

(1) Shares listed include any shares owned by a spouse, minor children and immediate relatives who share the same household as a Director or officer. Inclusion of any such shares is not to be considered an admission of beneficial ownership.

<F5>

(2) Includes 2,600 shares held by Mr. Batten's wife, 495,849 shares held by him as trustee under various family trusts, 124,872 shares held as limited guardian for a cousin, and 52,000 shares subject to presently exercisable stock options.

<F6>

(3) Shares subject to currently exercisable stock options included in the above are as follows: Mr. Tisdale 8,000, Mr. Parrish 22,300, Mr. Powers 2,200, Mr. Joyce 30,500, Mr. Green 4,900, Mr. Savage 1,400, Mr. Swift, 400, Mr. Zimmer 400, Mr. Pecriaux 22,500, Mr. McIndoe 18,600, and all Directors and executive officers as a group 191,750.

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#### ELECTION OF DIRECTORS

Three directors are to be elected for a term to expire at the annual meeting following the fiscal year ended June 30, 2000. Shares of common stock represented by properly executed proxy appointments in the accompanying form will be voted for the nominees listed for the term indicated unless authority to do so is withheld.

The nominees for the Board of Directors and the Directors whose terms will continue and the class to which he has been or is to be elected are as set forth below. Each nominee and each Director was elected to his present term of office by a vote of shareholders at a meeting for which proxies were solicited, except for George E. Wardeberg.

Name of Director and Date of Birth	Principal Occupation and other Public Company Directorships	Served as Director Continuously Since
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#### DIRECTORS WHOSE TERMS EXPIRE IN 2000:

Michael H. Joyce..... November 7, 1940	President and Chief Operating Officer, Twin Disc, Incorporated Formerly, President Mobile Fluid Products, Division of Dana Corporation (Diversified manufacturer) Greenville, South Carolina	October 1991
Richard T. Savage.... October 5, 1938	President and Chief Executive Officer, Modine Manufacturing Company, Racine, Wisconsin (A leading manufacturer of heat exchange equipment) Also Director,	April 1993

Marshall & Ilsley Corporation

George E. Wardeberg...President and Chief Executive Officer July 1997  
August 27, 1935 WICOR, Inc.,  
Milwaukee, Wisconsin  
(Parent company of Wisconsin Gas Company  
and Sta-Rite Industries, Inc.)  
Also Director,  
Marshall & Ilsley Corporation

NOMINEES WHOSE TERMS EXPIRE IN 1999:

Michael E. Batten....Chairman and Chief Executive Officer, May 1974  
April 14, 1940 Twin Disc, Incorporated  
Also Director,  
Briggs & Stratton Corporation,  
Firststar Corporation,  
Simpson Industries, and  
Universal Foods Corporation

David L. Swift.....Former Chairman, President and July 1995  
September 20, 1936 Chief Executive Officer,  
Acme-Cleveland Corporation,  
Pepper Pike, Ohio  
(Manufacturer of diversified  
industrial products.)  
Also Director,  
Alltrista Corporation and  
Cuno Incorporated

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David R. Zimmer.....Executive Vice President-Operations July 1995  
August 21, 1946 United Dominion Industries  
Charlotte, North Carolina  
(Manufacturer of proprietary engineered  
products.)  
Formerly President and Chief Executive Officer,  
Core Industries, Inc.,  
Bloomfield Hills, Michigan

DIRECTORS WHOSE TERMS EXPIRE IN 1998:

Stuart W. Tisdale....Retired, former Chairman and October  
1980  
August 15, 1928 Chief Executive Officer,  
WICOR, Inc.  
(parent company of  
Wisconsin Gas Company, and  
Sta-Rite Industries, Inc.)  
Milwaukee, Wisconsin  
Also Director,  
Marshall & Ilsley Corporation,  
and Modine Manufacturing Company

James O. Parrish.....Vice President-Finance December 1982  
September 12, 1940 & Treasurer  
Twin Disc, Incorporated

Paul J. Powers.....Chairman, President and July 1992  
February 5, 1935 Chief Executive Officer,  
Commercial Intertech, Corp.,  
Youngstown, Ohio  
(A leading manufacturer of hydraulic  
components, pre-engineered buildings  
and stamped metal products.)  
Also Chairman and CEO,  
Cuno Incorporated,  
Meriden, Connecticut  
(A manufacturer of fluid purification products.)  
Director of Global Marine Incorporated, and

Ohio Edison Company

DIRECTOR COMMITTEES AND ATTENDANCE

BOARD OF DIRECTORS MEETINGS AND ATTENDANCE

The Corporation s Board of Directors met six times during the year ended June 30, 1997. There was one absence from these meetings.

DIRECTORS COMMITTEES MEETINGS AND ATTENDANCE

The Executive Selection and Salary and Audit Committees met one and three times respectively, during the year. The Board Affairs and Nominating Committee met once during fiscal 1997. The Pension and Finance Committees met three and two times respectively during the year. Each Director attended at least 75% of the meetings requiring his attendance.

DIRECTOR COMMITTEE FUNCTIONS

Audit Committee

The Audit Committee reviews with the Corporation s Internal Auditor and Independent Public Accountants their activities, reports and comments, and recommends to the Board any action which it deems appropriate. The Committee recommends to the Board the selection of auditors to stand for election at the Annual Shareholders Meeting.

Finance Committee

The Finance Committee considers management s proposed financial policies and actions, and makes appropriate recommendations to the Board regarding: Debt and capital structure, acquisitions, capital budgets, dividend policy and other financial matters.

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Director Nominating and Board Affairs Committee

The Director Nominating and Board Affairs Committee recommends nominees for the Board to the Board of Directors. The Committee will consider nominees recommended by shareholders in writing to the Secretary. In addition, The Committee reviews proposed changes in corporate structure and governance, committee structure and function, and meeting schedules making recommendations to the Board as appropriate.

Executive Selection and Salary Committee

The Executive Selection and Salary Committee reviews nominees for Corporate offices and related compensation levels, making recommendations to the Board of Directors as considered necessary.

Pension Committee

The Pension Committee reviews and recommends to the Board for approval the pension funds professional advisors and auditors. The Committee annually reviews actuarial assumptions, funding policies and investment policies.

Committee Membership

The Directors committees are currently comprised of the following Directors; the Chairman of the Committee is listed first:

Audit	Finance	Pension	Executive Selection	Nominating and Board Affairs
Powers	Zimmer	Savage	Green	Tisdale
Tisdale	Green	Joyce	Powers	Green
Swift	Swift	Parrish	Savage	Savage
Zimmer		Powers	Tisdale	
Green		Swift		
		Zimmer		

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth the compensation received by the Corporation s Chief Executive Officer and the four most highly paid executive officers for the three fiscal years ended June 30, 1995, 1996 and 1997, respectively.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation<FN8>
		Salary	Bonus<FN7>	Stock Options	
Michael E. Batten	1997	\$313,000	\$125,700	8,000	\$ 13,072
Chairman and	1996	305,000	53,699	9,000	16,424
Chief Executive Officer	1995	295,000	111,326	9,000	4,166
Michael H. Joyce	1997	234,000	94,000	3,500	5,525
President and	1996	228,176	40,142	4,500	6,939
Chief Operating Officer	1995	220,000	83,022	4,500	2,579
Philippe Pecriaux	1997	165,000	52,800	3,000	-
Vice President	1996	168,100	48,828	2,500	-
Europe	1995	135,000	51,371	2,500	-
James O. Parrish	1997	154,500	46,500	2,000	5,364
Vice President	1996	150,113	19,806	2,500	5,945
Finance & Treasurer	1995	144,600	41,017	2,500	4,341
James McIndoe	1997	129,000	22,600	2,500	3,503
Vice President	1996	124,092	16,705	2,000	2,973
International Marketing	1995	120,000	23,189	2,000	2,913

<FN>  
<FN7>

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Represents annual incentive bonuses determined by the Board of Directors. See "Board Executive Selection and Salary Committee Report on Executive Compensation-Annual Incentives". Bonuses are paid in the fiscal year following the fiscal year in which earned.

<FN8>

Amounts are comprised of Corporation s 401(k) matching contributions and Corporation paid insurance.

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STOCK OPTIONS

The following table summarizes option grants during fiscal 1997 to the executive officers named in the Summary Compensation Table above, and the potential realizable values at assumed annual rates of stock price appreciation for the ten year option term.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation or Option Term	
		5%	10%
	% of Total Options Granted to Employees<F9>		
	Options Granted	Exercise Price<F10>	Expiration Date

M. Batten	4,000	10.2%	\$24.063	8/12/01	\$ 60,531	\$153,398
M. Batten	5,000	12.7%	\$21.875	8/12/06	\$ 68,785	\$174,316
M. Joyce	3,500	8.9%	\$21.875	8/12/06	\$ 48,150	\$122,021
J. Parrish	2,000	5.1%	\$21.875	8/12/06	\$ 27,514	\$ 69,726
P. Pecriaux	3,000	7.6%	\$21.875	8/12/06	\$ 41,271	\$104,589
J. McIndoe	2,500	6.4%	\$21.875	8/12/06	\$ 34,393	\$ 87,158

<FN>

<FN9>

During the fiscal year ended June 30, 1997, a total 39,350 options were granted to officers, key employees and directors, with 24,250 granted under the 1988 Incentive Stock Option Plan and 15,100 options granted under the 1988 Non-Qualified Stock Option Plan. Options granted to Mr. Batten during the fiscal year ended June 30, 1997 were 5,000 non-qualified stock options and 4,000 incentive stock options. Percentages reflected are based upon the total amount of options granted under both plans. All options are exercisable upon grant.

<FN10>

The exercise price is the fair market value on the date of grant, except for incentive stock options granted to Mr. Batten which are exercisable at 110% of the fair market value at date of grant.

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#### AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUES

The following table provides information on option exercises in fiscal 1997 by the named executive officers and the value of such officers unexercised options at June 30, 1997.

Name	Shares Acquired on Exercise	Value Real- ized	Total Number of Unexercised Options Held at Fiscal Year End		Total Value of Unexercised, In-the-Money Options Held at Fiscal Year End	
			Exer- cisable	Unexer- cisable	Exer- cisable	Unexer- cisable
M. Batten	0	N/A	52,000	0	\$274,897	\$ 0
M. Joyce	0	N/A	38,500	0	\$383,688	\$ 0
J. Parrish	0	N/A	23,000	0	\$159,813	\$ 0
P. Pecriaux	0	N/A	22,500	0	\$143,938	\$ 0
J. McIndoe	0	N/A	19,200	0	\$142,188	\$ 0

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#### COMPENSATION PURSUANT TO PLANS

##### RETIREMENT INCOME PLAN

The Twin Disc Employees Retirement Income Plan for salaried employees provides non-contributory benefits based upon both years of service and employee's highest consecutive 5-year average annual compensation during the last 10 calendar years of service excluding any annual incentive awards paid. The Plan is integrated with Social Security. The following table presents the non-contributory benefits payable for life under the Plan to employees assuming normal retirement in the current year.

AVERAGE HIGH 5-YEAR ANNUAL COMPENSATION	NON-CONTRIBUTORY PENSION BASED ON YEARS OF CREDIT SERVICE				
	10 YEARS	20 YEARS	25 YEARS	30 YEARS	40 YEARS
\$ 50,000	\$ 9,683	\$19,366	\$ 24,208	\$ 25,149	\$ 27,391
75,000	14,883	29,766	37,208	38,799	42,341
100,000	20,083	40,166	50,208	52,449	57,291
150,000	30,483	60,966	76,208	79,749	87,191

The values reflected in the table represent the application of the Plan formula to the appropriate amounts of compensation and years of service. Benefits payable under the Plan, however, must be in compliance with the applicable guidelines or maximum prescribed in the Employees Retirement Income



Security Act of 1974 (ERISA), as currently stated or as adjusted from time to time. Assuming continued employment to normal retirement age (age 65) the estimated credited years of service for each of the Corporation's executive officers named in the Summary Compensation Table is as follows: Mr. Batten 35 years; Mr. Joyce 16 years; Mr. Parrish 33 years; and Mr. McIndoe 25 years. Mr. Pecriaux is not eligible for benefits under the Twin Disc Retirement Income Plan.

The Corporation has adopted an unfunded supplemental plan which will provide those benefits which are otherwise produced by application of the Plan formula, but which, under ERISA, are not permitted to be funded or paid through a qualified plan and its related trust. Such an arrangement is specifically provided for under the law.

#### SUPPLEMENTAL RETIREMENT BENEFIT PLAN

A supplemental retirement benefit is extended to qualified Management Group participants. The supplemental retirement benefits extend over a period of 10 years after normal retirement or in the event of disability at an amount equal to sixty percent of the highest rate of pay attained during a specified period of time, plus keyman group life insurance premiums or their equivalent supplemental benefit payable to those electing early retirement. In the event of death of a member of the Management Group, whether active or retired, an amount equal to 2 years supplemental retirement benefits is payable to the widow or other designated beneficiaries over a 4 to 10 year period.

#### COMPENSATION OF DIRECTORS

Directors of the Corporation were paid a retainer fee of \$8,000 for the year. In addition, Directors received a \$1,300 fee for each board meeting attended and \$1,100 for each committee meeting attended. Directors who are officers do not receive any fees in addition to their remuneration as officers.

Outside Directors (non-Twin Disc employees) are eligible to participate in the 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors.

Outside Directors (non-Twin Disc employees) who reach the age of 68 or who retire from full-time employment are required to retire from the Board of Directors effective as of the completion of their current term. Retired outside directors are entitled to a retirement benefit for a limited period equal to the sum of:

- a) The annual retainer at the time of retirement.
- b) Six monthly fees for Director Meetings at the rate prevailing at the time of retirement.

#### EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

The Corporation has entered into Severance Agreements with certain of its key executives, including Messrs. Batten, Joyce, Parrish, Pecriaux and McIndoe.

The Agreement provides for severance benefits to be paid to any such executive following a change in control of the Corporation (as defined) and a termination (as defined) of the employment of such executive. Upon the occurrence of the events, as specified in the Severance Agreements, which would entitle such executive to the payment of severance benefits, the maximum contingent liability of the Corporation for the payment of such severance benefits would be

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approximately \$2,971,000. Severance benefits for an executive officer would generally consist of the sum of the executive's highest annual base salary between the change in control and the date of termination plus the executive's most recent annual bonus times the lesser of 2.75 or the number of whole and fractional years between the termination date and his normal retirement date. In addition, the executive would be entitled to the cash value of any shares of common stock subject to unexercised stock options held by the executive. The Severance Agreements are specifically designed to assure that benefits will not exceed the limitations and provisions of Sec. 280G, of the Internal Revenue Code.

Board Executive Selection and Salary Committee Report  
on Executive Compensation

Compensation Philosophy

The Corporation's primary business objective is to maximize shareholder value over the long term. To accomplish this objective, the Corporation has developed a comprehensive business strategy that emphasizes maximizing long-term cash flow and earnings, maintaining leadership or becoming the leader in its markets, and providing products of the highest quality.

The Executive Selection and Salary Committee of the Board of Directors (the "Committee") is comprised of four independent directors, none of whom has interlocking or other relationships which might be considered conflicts of interest. The Committee establishes compensation programs which are designed to foster the Corporation's business objectives. The Committee approves the design of, assesses the effectiveness of, and administers executive compensation programs in support of compensation policies. The Committee also reviews and approves all salary arrangements and other remuneration for executives, evaluates executive performance, and considers related matters.

The Committee members believe that the compensation program should target compensation levels at rates that are reflective of current market practices. Offering market-comparable pay opportunities allows the Corporation to maintain a stable, successful management team.

Competitive market data is provided by an independent compensation consultant. The data provided compares the Corporation's compensation practices to a group of comparator companies. The Corporation's market for compensation comparison purposes is comprised of a group of companies that have national and international business operations and similar sales volumes, market capitalizations, employment levels, and lines of business. In establishing a comparator group for compensation purposes, the Committee exercises its judgment and makes its decision after considering the factors it deems relevant.

The companies chosen for the comparator group used for compensation purposes are not necessarily the same companies which comprise the peer group index in the Performance Graph included in this proxy statement. The Committee believes that the Corporation's most direct competitors for executive talent include many companies in geographical areas in which the Corporation operates as well as many of the companies that are included in the peer group established for comparing shareholders returns.

The key elements of the Corporation's executive compensation are base salary, annual incentives, long-term compensation, and benefits. These key elements are addressed separately below. In determining compensation, the Committee considers all elements of an executive's total compensation package, including severance plans, insurance, and other benefits, with the objective of being competitive but not trend setting.

#### Base Salaries

The Committee regularly reviews each executive's base salary. Base salaries are targeted at market levels, based upon the Committee's analysis of marketplace practices. Base salaries for executives are initially determined by evaluating executives' levels of responsibility, prior experience, breadth of knowledge, internal equity issues, and external pay practices.

Base salaries offer stability to executives and allow the Corporation to attract competent executive talent and maintain an effective management team. They also allow executives to be rewarded for individual performance based on the Corporation's evaluation process which encourages the development of executives. Pay for individual performance rewards executives for achieving goals which may not be immediately evident in common financial measurement.

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Increases to base salaries are driven primarily by individual performance. Individual performance is evaluated based on sustained levels of individual contribution to the Corporation. When evaluating individual performance, the Committee considers the executive's effort in promoting Corporate values; improving product quality; developing relationships with customers, suppliers, and employees; demonstrating leadership abilities among coworkers; and other goals. Overall, executive salaries were increased at rates comparable to the increases provided at other companies and are near market levels.

As reflected in the Summary Compensation Table on page 8, Mr. Batten's base salary was increased in 1997 by \$8,000. In determining Mr. Batten's base

salary in 1997, the Committee considered the Company's financial performance for the year, Mr. Batten's individual performance, and his long-term contributions to the success of the Corporation. The Committee also compared Mr. Batten's base salary to the base salaries of CEOs at comparator companies.

#### Annual Incentives

The Twin Disc Incentive Bonus Program (the "Annual Plan") promotes the Corporation's pay-for-performance philosophy by providing executives with direct financial incentives in the form of annual cash bonuses to achieve corporate, business unit, and individual performance goals. Annual bonus opportunities allow the Corporation to communicate specific goals that are of primary importance during the coming year and motivate executives to achieve these goals.

Eligibility to participate in the Annual Plan, as well as the individual payout percentages assigned to each eligible executive's position, are determined annually by Mr. Batten, as chief executive officer, subject to the approval of the Committee.

Each year, the Committee approves specific goals relating to each executive's bonus opportunity. Eligible executives are assigned threshold and target bonus levels based on a percentage of base salary. Executives earn bonuses to the extent to which preestablished goals are achieved.

In 1997 bonus awards were granted as earnings targets were attained indicating that prior long term decisions are providing favorable results. Corporate goals in 1997 were based on target earnings and return on net assets employed.

Target bonus awards are established at levels approximating marketplace practices for each executive. Targets are considered by the Committee to be achievable, but to require above average performance from each of the executives.

In 1997, Mr. Batten received a bonus under the Annual Plan of \$125,700. This reflects achievements towards the Corporation's goals relating to earnings and return on net assets employed in 1997.

#### Long-Term Incentives

Long-term incentives are provided pursuant to the Corporation's 1988 Non-Qualified Stock Option Plan for Officers, key employees and Directors, and the 1988 Incentive Stock Option Plan.

In keeping with the Corporation's commitment to provide a total compensation package which includes at-risk components of pay, the Committee makes annual decisions regarding appropriate stock option grants for each executive. When awarding stock options, the Committee considers executives' levels of responsibility, prior experience, historical award data, various performance criteria, and compensation practices at comparator companies. Consistent with the above stated goals, Mr. Batten received options to purchase 9,000 shares in 1997.

Stock options are granted at an option price not less than the fair market value of the Corporation's common stock on the date of grant. Accordingly, stock options have value only if the stock price appreciates from the date the options are granted. This design focuses executives on the creation of shareholder value over the long term and encourages equity ownership in the Corporation.

Executive Selection and Salary Committee  
Jerome K. Green, Chairman  
Stuart W. Tisdale  
Paul J. Powers  
Richard T. Savage

July 25, 1997

#### CORPORATE PERFORMANCE GRAPH

The following table compares total shareholder return over the last five (5) fiscal years to the Standard & Poor's Diversified Machinery Index and the Russell 2000 index. The S&P Diversified Machinery Index consists of a broad range of manufacturers (including the Corporation). The Russell 2000 Index

consists of a broad range of 2,000 Companies (including the Corporation). The Corporation believes, because of the similarity of its business with those companies contained in the S&P Diversified Machinery Index, that comparison of shareholder return with this index is appropriate. Total return values for the Corporation's common stock, the S&P Diversified Machinery Index and the Russell 2000 Index were calculated based upon an assumption of a \$100 investment on June 30, 1988, and based upon cumulative total return values assuming reinvestment of dividends on a quarterly basis.

Comparison of Five-Year Cumulative Total Return  
Twin Disc, Inc.; S&P Diversified Machinery; and Russell 2000

	06/30/92	06/30/93	06/30/94	06/30/95	06/30/96	06/30/97
Twin Disc	100.00	97.63	114.78	148.11	142.65	180.85
S&P Div. Mach.	100.00	134.23	145.89	184.60	211.85	305.71
Russell 2000	100.00	125.96	131.50	157.90	195.68	227.64

COMPLIANCE WITH SECTION 16(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and directors, and persons who beneficially own more than ten percent (10%) of the Corporation's common stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than ten percent (10%) beneficial owners are required by the SEC regulations to furnish the Corporation with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Corporation and representations from executive officers and directors, the Corporation believes that during the period from July 1, 1996 to June 30, 1997, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than ten (10%) beneficial owners were complied with.

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INDEPENDENT PUBLIC AUDITORS

The Directors of the Corporation recommend that you vote in favor of the appointment of Coopers & Lybrand as independent public accountants for the Corporation for the fiscal year to end June 30, 1998. The firm has audited the Corporation's books annually since 1928. Representatives of Coopers & Lybrand are expected to be present at the meeting and, while no formal statement will be made by them, they will be available to respond to appropriate questions. If the shareholders should not approve such appointment, the Directors would reconsider the appointment.

GENERAL

The Corporation will bear the cost of the solicitation of proxies. The firm of Georgeson & Co., Inc., New York, NY has been retained to assist in solicitation of proxies for the Annual Meeting at a fee not to exceed \$6,500 plus expenses.

Management does not know of any other business to come before the meeting. However, if any other matters properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote upon such matters in their discretion in accordance with the authorization of the proxy.

If you do not contemplate attending in person, we respectfully request that you fill in, sign and return the accompanying proxy at your early convenience. However, remember that in order to have your proxy validated, it must be delivered to the Secretary either in person, by mail, or by messenger, and it must be received by the Secretary not less than forty-eight (48) hours prior to the date of the meeting.

