



TWIN DISC, INCORPORATED ANNUAL REPORT 2005



About the Cover: The search for oil and natural gas drove excellent sales for the Twin Disc 8500 Power-Shift Transmission in 2005. Crown Energy Technologies installs the Twin Disc 8500 in their concrete pumping and fracturing rigs. Its 3000-horsepower capacity allows their customers, such as Trican Well Service, for greater productivity with fewer vehicles.



TWIN DISC, INCORPORATED is an international manufacturer and distributor of heavy-duty off-highway power transmission equipment. Company engineers work hand-in-hand with customers and engine manufacturers to design products with characteristics unique to their specific applications. Twin Disc supplies the commercial, pleasure craft and military segments of the marine market with transmissions, surface and waterjet drives, electronic controls and propellers. Its off-highway transmission products are used in agricultural, all-terrain specialty vehicle and military applications. Twin Disc also sells industrial products such as power take-offs, mechanical, hydraulic, and modulating clutches and control systems to the agricultural, environmental and energy and natural resources markets. The Corporation, which is a multinational organization headquartered in Racine, Wisconsin, currently has a diverse shareholder base with approximately one-third of the outstanding shares held by management, active and retired employees and other long-term investors.

	2005	2004	2003
Net Sales	\$218,472	\$186,089	\$179,591
Net Earnings (Loss)	6,910	5,643	(2,394)
Basic Earnings (Loss) Per Share	2.42	2.01	(0.85)
Diluted Earnings (Loss) Per Share	2.38	1.98	(0.85)
Dividends Per Share	0.70	0.70	0.70
Average Shares Outstanding For The Year	2,860,542	2,814,197	2,804,915
Fully Diluted Shares Outstanding For The Year	2,907,898	2,843,374	2,804,915

FINANCIAL HIGHLIGHTS

SALES AND EARNINGS BY QUARTER

2005	1ST QTR	2ND QTR	3RD QTR	4TH QTR	YEAR
Net Sales	\$45,382	\$54,731	\$56,436	\$61,923	\$218,472
Gross Profit	11,652	13,938	14,675	17,155	57,420
Net Earnings	1,077	1,113	1,579	3,141	6,910
Basic Earnings Per Share	0.38	0.39	0.55	1.09	2.42
Diluted Earnings Per Share	0.37	0.38	0.54	1.08	2.38
Dividends Per Share	0.175	0.175	0.175	0.175	0.70
Stock Price Range (High – Low)	26.20 – 22.15	26.00 – 22.25	28.25 – 24.01	25.98 – 19.75	28.25 – 19.75

2004

Net Sales	\$37,966	\$42,371	\$48,606	\$57,146	\$186,089
Gross Profit	9,541	10,445	13,074	15,225	48,285
Net Earnings	564	340	1,872	2,867	5,643
Basic Earnings Per Share	0.20	0.12	0.66	1.02	2.01
Diluted Earnings Per Share	0.20	0.12	0.66	1.00	1.98
Dividends Per Share	0.175	0.175	0.175	0.175	0.70
Stock Price Range (High – Low)	17.00 – 14.12	19.54 – 16.55	21.25 – 19.00	25.15 – 19.44	25.15 – 14.12

In thousands of dollars except per share and stock price range statistics.

TO OUR SHAREHOLDERS

We are pleased to report that fiscal 2005 was one of the most successful years in our 87-year history. Sales reached an all-time high and, for the second year in a row, we achieved earnings in excess of our cost of capital. Further, we improved our asset management and at the same time bolstered our financial condition. Importantly, during the year, we strengthened our management team for the future. And, finally, we are poised to take advantage of an improved business outlook.



FINANCIAL RESULTS For fiscal 2005, net sales increased 17.4 percent to \$218,472,000 from \$186,089,000 in fiscal 2004. Net income for 2005 increased 22.5 percent to \$6,910,000, or \$2.38 per diluted share, compared to a restated \$5,643,000, or \$1.98 per diluted share last year.

Improved demand was experienced in all of our served markets, details of which are described in the Operations Review below, and drove the underlying improvement in earnings. Gross margins expanded to 26.3 percent compared to 25.9 percent last year, despite inflating steel, energy and shipping costs that penalized profitability especially in the third quarter. However, we were able to offset some of these pressures through cost reduction efforts, a better product mix and selective price increases.

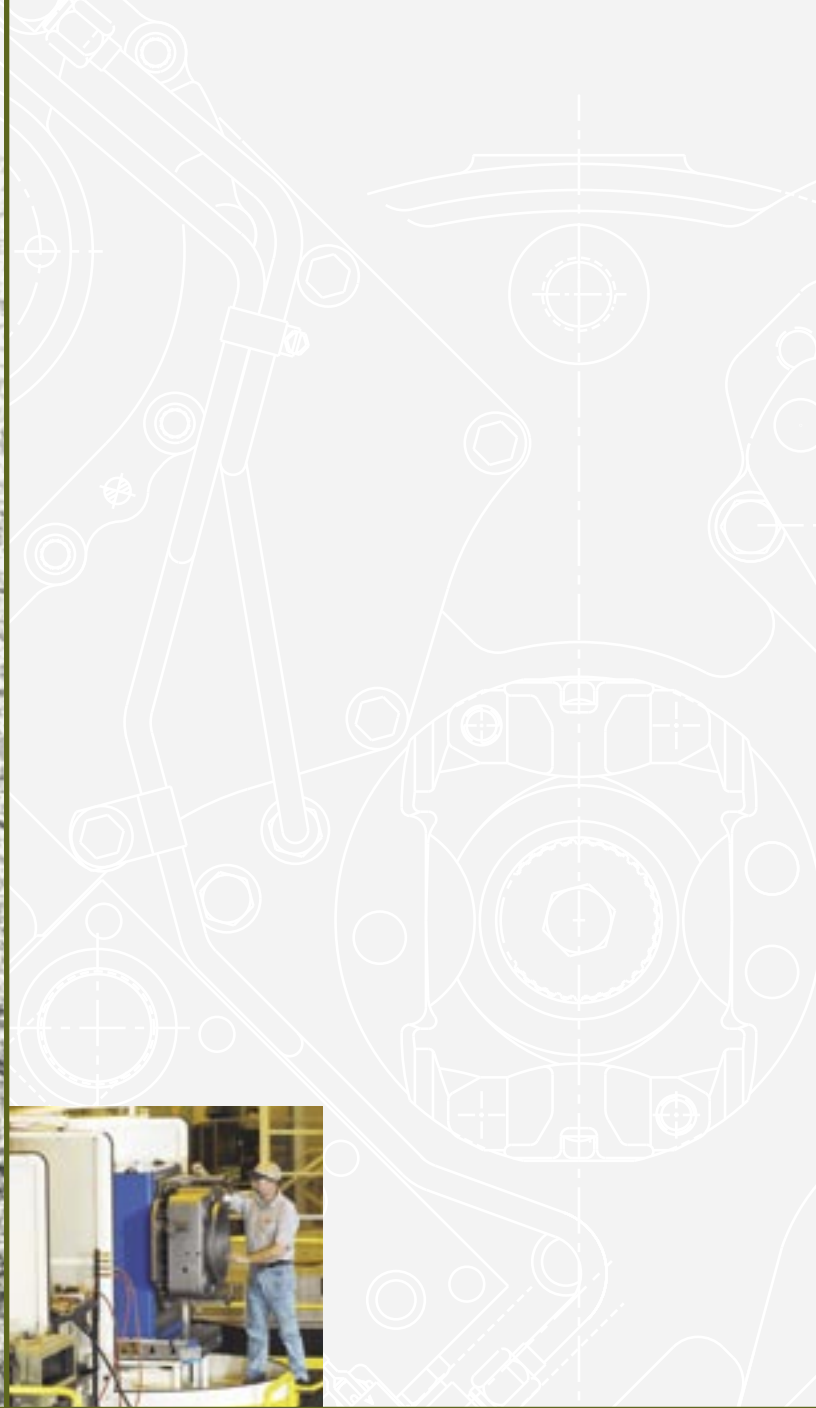
In the fourth quarter, we implemented two restructuring efforts to improve operating performance and profitability. Employment at our Belgian facility was reduced, with a pre-tax expense of \$2,076,000, to improve operating efficiency. In addition, we restructured the ownership of our European subsidiaries to take advantage of un-benefited foreign tax credits. As a result, a tax benefit of \$1,400,000 was recorded in the fourth quarter.

Throughout 2005, significant strides were made in strengthening our financial position. The solid operating performance resulted in a growth in shareholders' equity to \$66,899,000, or \$23.01 per diluted share, compared to last year's restated \$58,716,000. Accounts receivable and inventories remained flat year-over-year, while sales grew significantly over 2004. Total debt remained flat despite capital expenditures of \$12,000,000 and pension plan contributions of \$8,000,000.

Our Audit Committee re-evaluated the accounting for inter-company profit in inventory and decided to restate our financial statements for the prior fiscal years. As a result, in fiscal 2004 and 2002, earnings increased modestly and in 2003 the loss increased slightly. Please refer to the financial statements and notes for more information.

OPERATIONS REVIEW Demand for our products continued to improve across all of our served markets during the year. In particular, strength was seen in the oilfield for our 8500 series transmission for use in fracturing and well servicing applications. Land-based exploration and production activities have regained momentum, and this trend should remain strong for the foreseeable future as the oil industry continues to increase its spending on capital improvements.

Military spending was strong during the year as we received significant new orders to supply transmissions for military vehicles such as the U.S. Army's M88A1 medium recovery vehicle. The initial order for \$2,900,000 is the first option of a larger \$56,000,000 order to be completed in 2010. The M88A1 is a full-tracked vehicle used to perform battlefield rescue and recovery of heavy tanks and other combat vehicles.



Demand in our marine markets was mixed during the year. We increased our penetration of domestically produced commercial marine transmissions in the Pacific Basin as well as in Europe and the Middle East. In addition, activity along the U.S. Gulf Coast picked up in the second half of the year, as a result of higher oil prices. Demand in the pleasure craft sector showed improvement during the year, but was offset by the fact that margins were adversely affected by our manufacturing in Belgium in stronger euros and selling to the U.S. in weaker dollars.

Shipments of power take-offs to our industrial markets increased during the year. In particular, growth occurred in recycling and irrigation applications.

Our domestic manufacturing operations experienced a significant increase in volume, a favorable mix of products, and the benefits of cost reduction programs and price increases. Improved gross margins were partially offset by inflating raw material prices.

Revenues at our Belgian operation were flat and gross margins moderated, reflecting the impact of the adverse foreign currency trends noted above. Cost reduction and pricing actions were implemented during the year. In addition, employment was reduced by 13 percent in the final quarter with expected annual savings in the range of \$500,000 to \$1,000,000.

Our Technodrive and Rolla operations had increased volume and met operating income projections for the year.

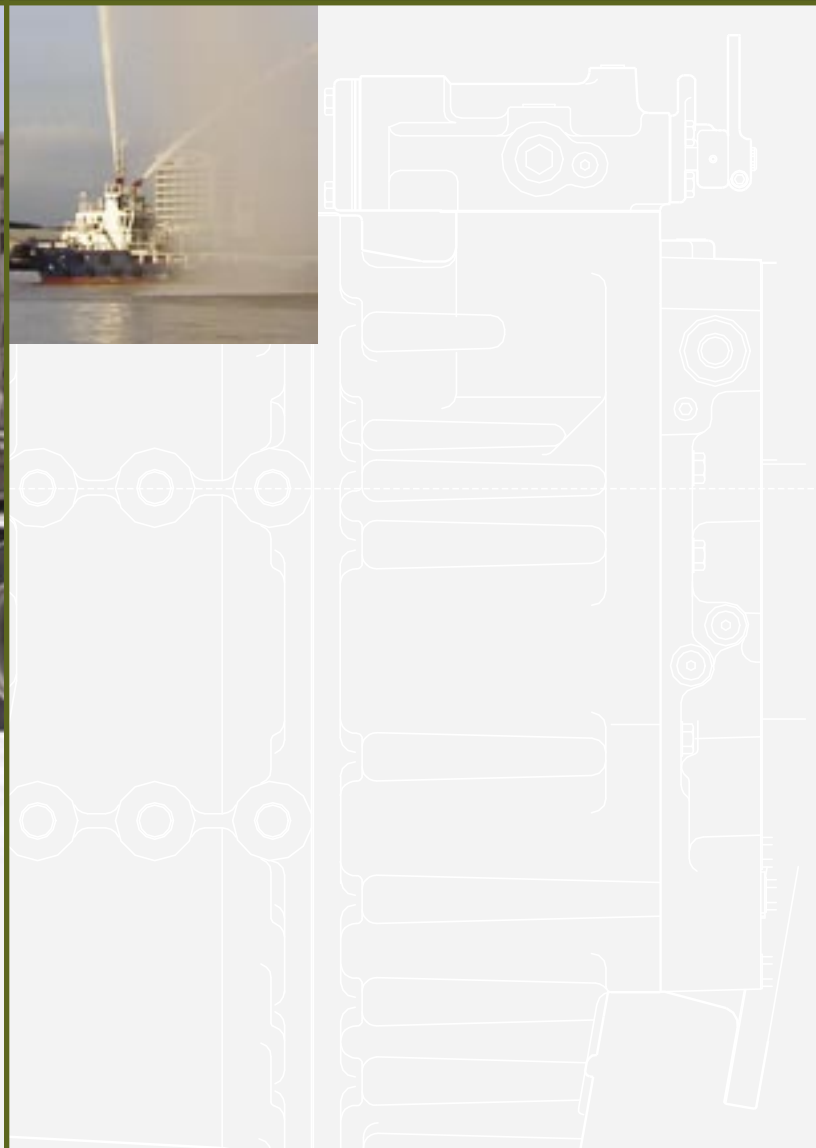
Our distribution operations also benefited from improving demand, especially in the Pacific Basin where we improved our share of market in the region.

We significantly stepped up our capital investment program during the year to improve our operating efficiencies. Almost \$12,000,000 was spent in 2005 including \$4,000,000 for a new state-of-the-art manufacturing facility in Switzerland for our Rolla operation and \$2,700,000 for a new flexible machining system for our facility in Racine. Investments are being made in support of our core competencies, and we plan to spend over \$10,000,000 this year on capital improvements in Racine and Belgium.

STOCK REPURCHASE Since reactivating our stock repurchase plan on April 20, 2005, we have purchased 34,946 shares of our common stock for \$755,000, at an average price of \$21.60 in fiscal 2005.

MANAGEMENT TEAM During the year the Board of Directors approved a reorganization effective November 1, 2004 that strengthened the management team for the future.

Continuing as Executive Vice President, Jim Feiertag accepted expanded P&L responsibilities for our North American operations as well as global sales and marketing activities for our industrial and transmission product lines. Previously, Jim was responsible for our global manufacturing operations.



Promoted to Executive Vice President, John Batten assumed P&L responsibility for our European manufacturing operations as well as global sales and marketing activities for our marine and propulsion product lines. Previously, John was responsible for global sales and marketing for our marine and propulsion product lines.

Dean Bratel was promoted to Vice President – Engineering, responsible for global engineering and product development. Previously, Dean was Director of Corporate Engineering.

Denise Wilcox was promoted to Vice President – Human Resources, responsible for the global administration of the human resource function. Previously, Denise was Director of Corporate Human Resources.

Rounding out the management team, Christopher Eperjesy continues as Vice President – Finance & Treasurer and Chief Financial Officer and H. Claude Fabry continues as Vice President – Global Distribution.

Fred Timm, Vice President – Administration and Secretary, has announced his retirement effective September 30, 2005. With 25 years of service, Fred has been a valuable member of the management team since joining the Company as Internal Auditor. We will miss his wise counsel and wish him a long and healthy retirement.

OUTLOOK As of June 30, 2005, our six-month backlog (excluding Rolla) totaled \$62,000,000 – 25% higher than it was at June 30, 2004. Following the close of the fiscal year we received an order totaling \$9,100,000 for oilfield transmissions.

Incoming order rates remain strong across all of our markets, and we are encouraged about our prospects for the coming year. We should see higher revenues and operating results in fiscal 2006.



With a solid cash position and a strong balance sheet, we are positioned to continue our capital investment program and to take advantage of an accretive acquisition as the opportunity occurs.

MICHAEL H. JOYCE
President, Chief Operating Officer

MICHAEL E. BATTEN
Chairman, Chief Executive Officer



PRODUCT ACTIVITY



TRANSMISSION PRODUCTS

Continued strength in global demand for gas and oil provided the impetus for increased sales of the market-leading 3,000-horsepower 8500 Series Transmission. New customers and expanding geographic coverage of existing well-servicing customers resulted from market realization that the 8500 Series Transmission is the single most practical solution for high horsepower well fracturing jobs.

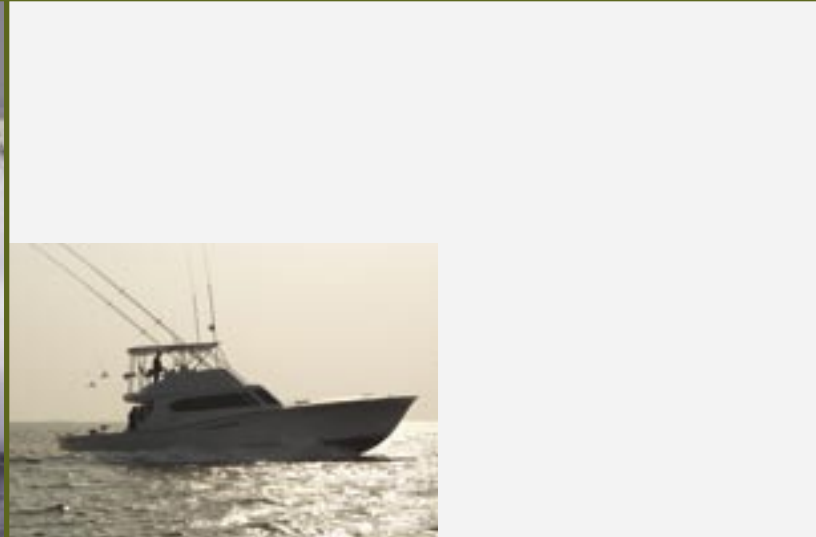
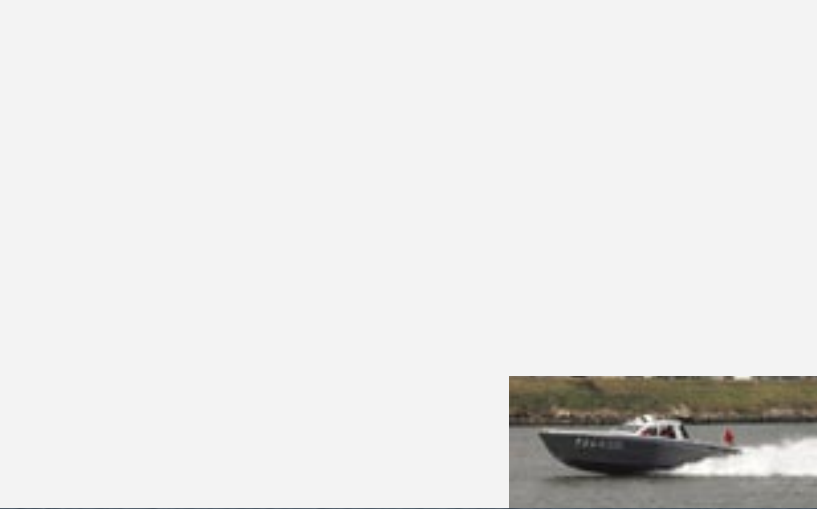
Military business maintained its strength with the completion of the first option of the IDF 6X6 vehicle and new prototype programs underway with the Marine LVSR vehicle and IDF HETT program.

The Aircraft Rescue and Fire Fighting (ARFF) vehicle market repeated its mainstay demand for our all-wheel-drive automatic transmission systems. Strong shipments to major players domestically and internationally centered around the unique “pump and roll” technology of Twin Disc transmission systems.

INDUSTRIAL PRODUCTS

Globalization and product integration were the focus for Twin Disc’s industrial product line in fiscal year 2005. Hydraulic Power Take-Offs led the way with increased sales into the recycling market. Concurrently, actions were taken to combine the Hydraulic Power Take-Off offerings of our three manufacturing locations into a single cohesive product line. Sales of our Technodrive subsidiary Pump Drives met expectations with year-over-year growth increases through both the OEM and distribution channels. Overall strong global economic activity propelled total industrial product sales, driven primarily by well servicing, irrigation and recycling markets.





MARINE TRANSMISSIONS

WORK BOAT MARKET

Twin Disc marine transmission sales in North America ranged from moderate to very strong during the past fiscal year. Throughout the first half of the year, the work boat market was soft, due to the decline in new fishing boat construction and a slow period for offshore oilfield related work boats. However, inland river work boat and military applications were steady during this period. The second half of our fiscal year saw a dramatic upturn in construction contracts for offshore oilfield vessels and in river work boat applications. We ended the year with good sales and a much stronger backlog of orders for our work boat marine transmission models. This improved domestic backlog carries us well into the next fiscal year with solid demand. International commercial marine transmission sales reflected strong demand from the energy sector, and a favorable U.S. dollar helped us gain significant market share. But new construction of fishing vessels remains soft, due to high fuel-related operating costs.

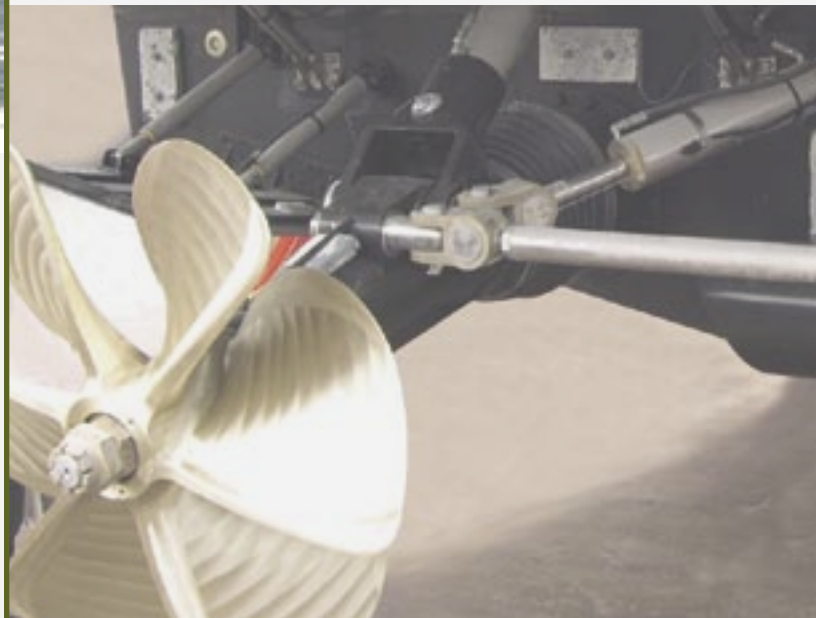


PLEASURE CRAFT MARKET

In the U.S., our sales into the pleasure boat market were steady throughout the year and met our budget expectations. This market offers continued opportunities for marine transmission sales volume increases. In order to distinguish ourselves from our product competition and provide a greater value proposition to boat builders, we are releasing more products in our patented QuickShift® family of marine transmissions.

Increasing international acceptance of Quickshift® transmissions combined with EC300 Electronic Controls improved global sales of our products.





QUICKSHIFT® TRANSMISSIONS

Twin Disc has made significant inroads in both the pleasure craft and work boat markets with our QuickShift® marine transmissions, in the two years since our initial release of the original product. Pleasure boat owners are seeing more of their fellow boaters control their boats in ways that were formerly not possible with conventional marine transmissions. This “peer pressure,” more than anything, is driving demand for QuickShift® marine transmissions in large pleasure craft vessels.

More recently we have introduced QuickShift® transmissions into an expanding variety of work boat applications. The New York Water Taxi service specified our transmissions and controls, because the smooth operation while maneuvering is a great asset for passenger carrying vessels. These same superior maneuvering characteristics have encouraged installations on vessels as widely varied as lobster boats, pilot boats and research boats. Twin Disc continues to expand our QuickShift® product offering into lower and higher horsepower marine transmission models, in order to bring our unique vessel performance benefits to more customers.



PROPULSION PRODUCTS

Twin Disc Arneson Surface Drives posted excellent sales results for the fiscal year. The product line’s performance was enhanced by its sustained leading position in advanced propulsion for the luxury yacht and military markets. As many governments around the world continued their focus on coastal protection, spending levels increased for vessels designed to safeguard the coastlines of many different countries. Twin Disc propulsion systems are ideal for the fast craft applications desired by many military agencies, due to the speed, agility and durability of the systems.

Domestic sales continued to show improvement in the high performance boat market. This trend was stimulated by the American Power Boat Association’s approval of the Arneson Surface Drive for its offshore racing division.

This year was the first full year with Rolla SP Propellers SA in the Twin Disc propulsion product family. Rolla Propellers allow Twin Disc propulsion systems to reach their full potential and provide our customers with maximum powertrain performance. We are looking forward to continuing our growth of propulsion products and technology in the coming years.



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, 2005

Commission File Number 1-7635

TWIN DISC, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Wisconsin
(State or Other Jurisdiction of
Incorporation or Organization)

39-0667110
(I.R.S. Employer
Identification Number)

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

53403
(Zip Code)

(262) 638-4000

Registrant's Telephone Number, including area code

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

Title of each class
None

Name of each exchange on which registered:
None

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 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.

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

At August 26, 2005, the aggregate market value of the common stock held by non-affiliates of the registrant was \$71,535,899. 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 26, 2005, the registrant had 2,902,034 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 21, 2005 are incorporated by reference into Part III.

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 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. The Company's top ten customers accounted for approximately 34% of the Company's consolidated net sales during the year ended June 30, 2005. There were no customers that accounted for 10% or more of consolidated net sales in fiscal 2005.

Unfilled open orders for the next six months of \$62,000,000 at June 30, 2005 compares to \$49,400,000 at June 30, 2004. 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 \$2,278,000, \$2,840,000 and \$2,220,000 in 2005, 2004 and 2003, respectively. Total engineering and development costs were \$8,050,000, \$7,600,000 and \$7,190,000 in 2005, 2004 and 2003, 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, 2005 was 901.

A summary of financial data by segment and geographic area for the years ended June 30, 2005, 2004 and 2003 appears in Note K to the consolidated financial statements on pages 29 through 31 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, one in Decima, Italy and one in Novazzano, Switzerland. The aggregate floor space of these five plants approximates 724,000 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.

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:

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

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

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended June 30, 2005.

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 21, 2005.

Name	Principal Occupation Last Five Years	Age
Michael E. Batten	Chairman, Chief Executive Officer since 1983	65
Michael H. Joyce	President – Chief Operating Officer since 1995	64
Christopher J. Eperjesy	Vice President – Finance & Treasurer and Chief Financial Officer since November 2002; formerly Divisional Vice President – Financial Planning & Analysis, Kmart Corporation since 2001; formerly Senior Manager – Corporate Finance, DaimlerChrysler AG since 1999	37
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	48
John H. Batten	Executive Vice President since November 2004; formerly Vice President and General Manager – Marine and Propulsion since October 2001; formerly Commercial Manager – Marine and Propulsion since 1998	40
Henri Claude Fabry	Vice President – Global Distribution since October 2001; formerly Vice President – Marine and Distribution since June 1999	59
Fred H. Timm	Vice President – Administration and Secretary since October 2001; formerly Corporate Controller and Secretary since 1995	59
Dean J. Bratel	Vice President – Engineering since November 2004; formerly Director of Corporate Engineering since January 2003; formerly Chief Engineer since October 2001; formerly Engineering Manager since December 1999	41
Denise L. Wilcox	Vice President – Human Resources since November 2004; formerly Director – Corporate Human Resources since March 2002; formerly Manager Compensation & Benefits since September 1998	48

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.

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

The Company's common stock is traded on the NASDAQ National Market under the symbol TWIN. Prior to October 21, 2004, the Company's common stock was traded on the New York Stock Exchange under the symbol TDI. The price information below represents the high and low sales prices for the Company's common stock from July 1, 2003 through October 20, 2004 and from October 21, 2004 through June 30, 2005, the high and low bid information for the Company's common stock:

Fiscal Year Ended June 30, 2005			Fiscal Year Ended June 30, 2004		
	High	Low		High	Low
First Quarter	26.20	22.15	First Quarter	17.00	14.12
Second Quarter	26.00	22.25	Second Quarter	19.54	16.55
Third Quarter	28.25	24.01	Third Quarter	21.25	19.00
Fourth Quarter	25.98	19.75	Fourth Quarter	25.15	19.44

For information regarding the Company's equity-based compensation plans, see the discussion under Item 12 on page 14 of this report. Quarterly dividends of \$0.175 per share were declared and paid for each of the quarters above. As of June 30, 2005 there were 888 shareholder accounts. The bid information of Twin Disc common stock as of August 26, 2005 was \$33.05.

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.

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 401(k) Savings Plan (the "Plan") the option to invest their Plan accounts in a fund comprised of Company stock. Participation interests of Plan participants in the Plan, which may be considered securities, were not registered with the SEC. During the fiscal year ended June 30, 2003, 68 Plan participants allocated an aggregate of \$81,000 toward this investment option. Participant accounts in the Plan consist of a combination of employee deferrals, Company matching contributions, and, in some cases, additional Company profit-sharing contributions. No underwriters were involved in these transactions. On September 6, 2003, 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.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
April 1–30, 2005	3,499	21.13	64,440	135,560
May 1–31, 2005	20,820	21.58	85,260	114,740
June 1–30, 2005	10,627	21.82	95,887	104,113
Total	34,946			

In April 1995, the Company authorized 100,000 shares to be purchased in a Stock Repurchase Program. In January 2002, the program was extended to authorize an additional 100,000 shares to be purchased. There is no expiration date for this program.

ITEM 6. SELECTED FINANCIAL DATA*Financial Highlights*

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

Statement of Operations Data:	For the years ended June 30,				
	2005	2004	2003	2002	2001
Net sales	\$218,472	\$186,089	\$179,591	\$179,385	\$180,786
Net earnings (loss)	6,910	5,643	(2,394)	2,276	6,885
Basic earnings (loss) per share	2.42	2.01	(.85)	.81	2.45
Diluted earnings (loss) per share	2.38	1.98	(.85)	.81	2.45
Dividends per share .....	.70	.70	.70	.70	.70
Balance Sheet Data (at end of period):					
Total assets	185,295	174,622	167,944	154,892	154,127
Total long-term debt	14,958	16,813	16,584	18,583	23,404

Effective May 31, 2004, the company acquired 100% of the common stock of Rolla SP Propellers SA of Novazzano, Switzerland. Rolla designs and manufactures custom propellers. Rolla has a fiscal year ending 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. A full year's results are included in the consolidated results for the year ended June 30, 2005.

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 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.

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.

Twin Disc Nico Co. Ltd. (TDN) is a joint venture between the Company and Hitachi Nico Transmission Co. Ltd. TDN's balance sheet and statement of operations have been combined with the Company since the inception of the joint venture. TDN contributed the following for the years ended June 30 (dollars in thousands, except per share amounts):

	2005	2004	2003
Net sales	\$ 809	\$ 1,180	\$13,708
Net earnings	188	48	23
Basic earnings per share .....	.07	.02	.01
Diluted earnings per share .....	.06	.02	.01
Total assets	3,434	3,162	6,076

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 management's 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)	2005	%	2004	%	2003	%
Net sales	\$218,472		\$186,089		\$179,591	
Cost of goods sold	161,052		137,804		144,618	
Gross profit	57,420	26.3%	48,285	26.0%	34,973	19.5%
Marketing, engineering and administrative expenses	44,666	20.4%	37,168	20.0%	34,790	19.4%
Restructuring of operations	2,076	1.0%	—	0%	2,042	1.1%
Earnings (loss) from operations	\$ 10,678	4.9%	\$ 11,117	6.0%	\$ (1,859)	(1.0%)

Fiscal 2005 Compared to Fiscal 2004

Net Sales

Net sales increased \$32.4 million, or 17.4%, in fiscal 2005. Rolla SP Propellers SA (Rolla Propellers), acquired at the end of fiscal 2004, contributed over \$6.1 million to net sales. The continued strength of the euro and Asian currencies versus the dollar resulted in a net favorable impact from foreign currency exchange on sales of \$5.8 million in fiscal 2005, compared to fiscal 2004.

In fiscal 2005, sales for our worldwide manufacturing operations, before eliminating intra-segment and inter-segment sales, were \$33.9 million, or 19.7%, higher than in the prior year. Over sixty percent of this increase came at our domestic manufacturing operation, which saw a recovery across most of its product markets. Particular strength was experienced in the off-highway transmission business, where the Company's products are used in the oilfield servicing market and various military vehicle applications. Of the remaining increase, approximately \$3.1 million was due to the impact of net favorable exchange rate movements on our European operations in Belgium and Italy, and \$6.1 million was related to the additional sales from the Company's recently acquired Swiss operation, Rolla Propellers.

Net sales for distribution operations were up \$8.6 million, or 14.5%, in fiscal 2005. Nearly half of the increase came from the Company's Mill-Log Equipment Co., Inc. (Mill-Log) subsidiary, with operations in the Northwest USA and Southwest Canada. In fiscal 2005, Mill-Log continued to experience strong sales to its oilfield servicing and industrial product markets. Nearly forty percent of the increase came from the Company's subsidiary in Singapore, Twin Disc (Far East) Ltd., where the operation experienced double-digit growth driven by strong marine transmission sales for commercial applications. Of the overall increase, the net positive impact due to the change in foreign exchange rates was \$2.7 million, or nearly a third of the overall increase.

The elimination for net intra-segment and inter-segment sales increased \$10.1 million, or 22.1%, from \$45.8 million in fiscal 2004 to \$55.9 million in fiscal 2005.

Gross Profit

Gross profit as a percentage of sales improved 40 basis points in fiscal 2005 to 26.3%, compared to 25.9% in fiscal 2004. There were a number of factors that impacted the Company's overall gross margin rate in fiscal 2005. The Company's margins continued to be adversely impacted by rising steel and energy costs. The Company estimates that the impact of steel surcharges on its domestic operation alone exceeded \$2.4 million. In addition, the Company's Belgian operation's gross margin was adversely affected by the continued relative strength of euro versus the U.S. dollar. This operation manufactures with euro-based costs and sells more than a third of its production into the U.S. market at U.S. dollar prices. The average euro to U.S. dollar exchange rate in fiscal 2005 was \$1.27, which was 6.1% higher than in fiscal 2004. It is estimated that the year-over-year effect of a stronger euro was to deteriorate margins at our Belgian subsidiary by nearly \$1 million. These adverse effects were offset by (1) increased sales and improved product mix, particularly from the domestic industrial and off-highway transmission markets, (2) selective pricing actions taken in the fourth quarter, (3) lower domestic pension and post-retirement healthcare costs of approximately \$2.0 million, and (4) the favorable impact of foreign currency translation at our overseas operations due to the strengthening of the euro and Asian currencies versus the U.S. dollar of \$1.4 million.

Marketing, Engineering and Administrative (ME&A) Expenses

Marketing, engineering, and administrative (ME&A) expenses increased \$7.5 million, or 20.2%, in fiscal 2005 versus fiscal 2004. As a percentage of sales, ME&A expenses increased slightly from 20.0% in fiscal 2004 to 20.4% in fiscal 2005. Compared to fiscal 2004, Rolla Propellers added an additional \$2.1 million to ME&A expenses in fiscal 2005, having been acquired at the end of fiscal 2004. Approximately \$0.9 million, or 242 basis points, of the increase can be attributed to the unfavorable exchange rate impact of the weakening dollar on our overseas operations' ME&A expenses. As part of a temporary corporate-wide wage reduction program in fiscal 2004, the corporate annual incentive program was suspended. In fiscal 2005, a new bonus program was implemented that emphasizes the achievement of earning returns in excess of the Company's cost of capital as well as other financial and non-financial objectives. Fiscal 2005's ME&A expenses include the impact of the accrued bonuses that were earned in fiscal 2005 of approximately \$3.2 million.

Restructuring of Operations

The Company recorded a restructuring charge of \$2.1 million in the fourth quarter of 2005 as the Company restructured its Belgian operation to improve future profitability. The charge consists of prepension costs for 37 employees; 33 manufacturing employees and 4 salaried employees. As of June 30, 2005 the Company had not made any cash payments related to the above restructuring.

Interest Expense

Interest expense increased by \$56,000, or 5.2%, in fiscal 2005. The average outstanding debt for fiscal 2005 of \$23.0 million (computed monthly) was \$2.6 million higher than fiscal 2004. However, the average balance of the Company's Senior Notes, which carry an interest rate of 7.37%, decreased by \$2.9 million. This was offset by an increase in the average borrowings under the Company's revolver of \$3.2 million. The revolver carried an average interest rate in fiscal 2005 and 2004 of between 3.5% and 4.0%. Rolla Propellers, acquired effective June 2004, added an additional \$2.7 million in average borrowings in fiscal 2005, at an average interest rate of just over 3%. As a result, while overall average borrowings were up 12.7%, the overall average interest rate for fiscal 2005 decreased by 40 basis points to 4.9%.

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 \$3,811,000 cash, which approximated the net book value of the investment. The Company recognized pre-tax earnings of \$0 and \$240,000 in fiscal years 2005 and 2004, respectively, from its investment in PJD. In addition, the Company received cash distributions of \$0 and \$195,000 in fiscal years 2005 and 2004, respectively.

Income Taxes

During the fourth quarter of fiscal 2005, the Company undertook certain business restructuring activities which will allow it to utilize previously unutilized foreign tax credits. These restructuring activities resulted in a \$1.4 million tax benefit during the fourth quarter. For fiscal 2005, the effective income tax rate was favorably impacted by these activities. 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.

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

In fiscal 2005, we continued to see an improvement in our order rates for most of our products. As of fiscal year end, our manufacturing facility in the United States saw a year-over-over increase in its six-month backlog of almost 37%. Our Belgian manufacturing operation experienced a modest decline in its six-month backlog of approximately 10%, while our Italian manufacturing operation's six-month backlog was relatively flat year-over-year. The backlog of orders scheduled for shipment during the next six months (six-month backlog) of \$61.9 million at the end of fiscal 2005 compared favorably to the \$49.4 million and \$30.6 million for fiscal years ended 2004 and 2003, respectively. Rolla Propeller's backlog, not included in the figures above, amounted to just under \$3 million as of June 30, 2005.

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 were 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. As a result of the strong euro and Asian currencies versus the U.S. 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 impact due to the change in foreign exchange rates was \$4.5 million, or 8.9%.

From a product perspective, the Company saw increases in its industrial, transmission and propulsion product sales. After adjusting for the impact of the change in the TDN agreement, marine product sales were also higher. 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 growth in our Arneson Surface Drives (propulsion) and 8500 series transmission for oilfield applications.

Gross Profit

Gross profit as a percentage of sales improved 640 basis points in fiscal 2004 to 25.9%, 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 of Operations

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 \$3,811,000 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 valuation allowance has been recorded.

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 N 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, forewent performance bonuses in both fiscal 2003 and 2004. The 401(k) company match was 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 restored salary and wages to their prior levels and implemented 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. The annual net pre-tax impact of the salary and wage restoration was approximately \$0.7 million.

Liquidity and Capital Resources*Fiscal Years 2005, 2004 and 2003*

The net cash provided by operating activities in fiscal 2005 totaled \$16.5 million versus \$12.2 million in fiscal 2004, for a net increase of \$4.3 million. This increase was primarily driven by an increase in accounts payable, accrued liabilities and net earnings as well as a net reduction in inventories. The increase in accounts payable was primarily due to the timing of vendor payments for several large pieces of equipment acquired in fiscal 2005. The increase in accrued liabilities was primarily due to the accrued bonus that was subsequently paid in August 2005. The decrease in inventories on higher sales was driven by a corporate-wide initiative to reduce inventories in fiscal 2005. As a percentage of sales, net inventories were reduced 400 basis points to 22.2%.

The net cash provided by operating activities in fiscal 2004 totaled \$12.2 million versus \$6.7 million in fiscal 2003, for a net increase of \$5.5 million. This increase was primarily driven by an increase in net earnings of \$8.0 million over fiscal 2003's net loss. This was partially offset by increased inventories at our domestic manufacturing location as we prepared to deliver transmission systems for military contracts. Accounts receivable at June 30, 2004 were approximately \$0.6 million lower, adjusted for the impact of exchange rate changes, than at June 30, 2003. The change in the TDN agreement previously discussed resulted in a net reduction in accounts receivable of \$3.6 million. This was offset by increased accounts receivable of \$3.9 million at our domestic manufacturing location, driven by increased sales in fiscal 2004's fourth quarter of over \$7 million versus the prior fiscal year's fourth quarter. The change in the TDN agreement also resulted in a net reduction in accounts payable of \$3.8 million. This was partially offset by a net increase of \$3.0 million in accounts payable at our domestic manufacturing location due to the increased sales activity noted above.

The net cash used for investing activities in fiscal 2005 consisted primarily of capital expenditures for machinery and equipment at our domestic manufacturing location in Racine and the construction of a new state-of-the-art facility for the design and manufacturing of high performance, custom propellers at our Swiss operation, Rolla Propellers. In fiscal 2005, Rolla Propellers' capital expenditures totaled just under \$4 million and consisted of the construction of and new machinery and equipment for the new facility. At our domestic manufacturing location, capital expenditures amounted to nearly \$6.8 million and included the installation of a new flexible machining system at a cost of just under \$3 million.

The net cash used for investing activities in fiscal 2004 consisted of the net acquisition price for Rolla SP Propellers SA for \$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, the net cash used for investing activities consisted primarily of capital expenditures at our domestic and European manufacturing locations.

In fiscal 2005, 2004 and 2003, 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 and the borrowings at Rolla Propellers for the construction of its new facility in fiscal 2005. In April 2005, the Company announced the reactivation of its stock purchase plan. In the fourth quarter of fiscal 2005, the Company repurchased just under 35,000 shares of its common stock for \$755,000. In fiscal 2005 and 2004, proceeds from the exercise of stock options totaled \$1.1 million and \$0.3 million, respectively.

Future Liquidity and Capital Resources

During the first quarter of fiscal 2005, the Company's revolving loan agreement was amended, increasing the limit from \$20,000,000 to \$35,000,000 and extending the term by two years to October 31, 2007. Additionally, certain capital expenditure restrictions were increased. 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 H of the Notes to the Consolidated Financial Statements.

The overall liquidity of the Company remains strong. We continue to reduce total long-term indebtedness, have \$21.5 million of available borrowings on our \$35 million revolving loan agreement as of June 30, 2005, and continue to generate enough cash from operations to meet our operating and investing needs. In fiscal 2006, the Company expects to contribute around \$4.5 million to its pension plans, a decrease of nearly \$3 million over fiscal 2005. The Company intends to meet this funding requirement using cash from operations and, if necessary, from available borrowings under existing credit facilities. Working capital decreased about \$2 million to about \$43.6 million in fiscal 2005, and the current ratio decreased slightly from 1.8 at June 30, 2004 to 1.7 at June 30, 2005. 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 over \$10 million in fiscal 2006. These anticipated expenditures reflect the Company's plans to continue investing 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, 2005 and 2004. 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	3-5 Years	After 5 Years
Notes payable	\$ 3,522	\$3,522	—	—	—
Revolving loan borrowing	\$ 13,500	—	\$13,500	—	—
Long-term debt	\$ 4,307	\$2,849	\$ 321	—	\$1,137
Operating leases	\$ 8,535	\$2,449	\$ 2,951	\$2,071	\$1,064

The Company believes the capital resources available in the form of existing cash, lines of credit (see Footnote H 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's revolving loan agreement was amended during the first quarter of fiscal 2005, increasing the limit from \$20,000,000 to \$35,000,000 and extending the term by two years to October 31, 2007. As of June 30, 2005, there was \$21.5 million of available borrowings under the revolver.

Other Matters

Environmental Matters

The Company has been involved in various stages of investigation relative 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 2004 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 2004.

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 22 through 24 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, 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

During December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R) "Share-Based Payment" ("SFAS 123(R)"), which revises SFAS 123 and supercedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense based on their fair values beginning with the first interim or annual period beginning after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission ("SEC") amended the compliance date to the first annual period beginning after June 15, 2005. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to expense recognition. We will adopt SFAS 123(R) using the modified-prospective method beginning in the first quarter of fiscal 2006. Adoption of this standard will not have an impact on consolidated net earnings as it relates to existing stock options as these options are fully vested at June 30, 2005. Future impacts will depend on share-based payment activity going forward.

During December 2004, the FASB issued FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance on the accounting for the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act, which was signed into law on October 22, 2004, introduces relief on the potential income tax impact of repatriating foreign earnings and certain other provisions. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. Based on our analysis to date, we are not in a position to decide on whether, or to what extent, we might repatriate foreign earnings under the provision of the Jobs Act. However, we expect to be in a position to finalize our assessment by June 2006. It is not expected that this will have a significant impact on the Company's financial statements.

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

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 22 through 24 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. During fiscal 2005, the revolving credit commitment of the agreement was increased to \$35,000,000 and the termination date of the agreement has been extended to October 31, 2007. 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, 2005 to manage interest rate risk exposure. A 10 percent increase or decrease in the applicable interest rate would result in a change in pretax interest expense of approximately \$60,000.

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, 2005, 2004 and 2003 were denominated in currencies other than the U.S. dollar. Of that total, approximately two-thirds was denominated in euros with the balance composed of Japanese yen and the Australian and Singapore dollars. The Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Forward foreign exchange contracts are used to hedge the currency fluctuations on significant transactions denominated in foreign currencies.

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

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other Income (Expense), net in the Consolidated Statement of Operations as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in 2005 and 2004 was the euro. At June 30, 2005, the Company had net outstanding forward exchange contracts to purchase euros in the value of \$2,153,000 with a weighted average maturity of 31 days. The fair value of the Company's contracts was a loss of approximately \$56,000 at June 30, 2005. At June 30, 2004, the Company had net outstanding forward exchange contracts to purchase euros in the value of \$2,901,000 with a weighted average maturity of 45 days. The fair value of the Company's contracts was a loss of approximately \$58,000 at June 30, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements and Financial Statement Schedule on Pages 16 through 40 of this form.

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

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
2005					
Net sales	\$45,382	\$54,731	\$56,436	\$61,923	\$218,472
Gross profit	11,652	13,938	14,675	17,155	57,420
Net earnings (loss)	1,077	1,113	1,579	3,141	6,910
Basic earnings per share .....	.38	.39	.55	1.09	2.42
Diluted earnings per share .....	.37	.38	.54	1.08	2.38
Dividends per share .....	.175	.175	.175	.175	.70
2004					
Net sales	\$37,966	\$42,371	\$48,606	\$57,146	\$186,089
Gross profit	9,541	10,445	13,074	15,225	48,285
Net earnings (loss)	564	340	1,872	2,867	5,643
Basic earnings per share .....	.20	.12	.66	1.02	2.01
Diluted earnings per share .....	.20	.12	.66	1.00	1.98
Dividends per share .....	.175	.175	.175	.175	.70

ITEM 9. CHANGE 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.

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

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 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.

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 21, 2005, 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 21, 2005, which is incorporated into this report by reference.

For information with respect to the Company’s Code of Ethics , see “Guidelines for Business Conduct and Ethics” in the Proxy Statement for the Annual Meeting of Shareholders to be held October 21, 2005, 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.

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 21, 2005, which is incorporated into this report by reference.

For information with respect to the Audit Committee Financial Expert , see “Director Committee Functions: Audit Committee” in the Proxy Statement for the Annual Meeting of Shareholders to be held October 21, 2005, which is incorporated into this report by reference.

For information with respect to the Audit Committee Disclosure, see “Director Committee Functions: Audit Committee” in the Proxy Statement for the Annual Meeting of Shareholders to be held October 21, 2005, which is incorporated into this report by reference.

For information with respect to the Audit Committee Membership, see “Director Committee Functions: Committee Membership” in the Proxy Statement for the Annual Meeting of Shareholders to be held October 21, 2005, which is incorporated into this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions “Compensation of Executive Officers,” “Aggregated Option Exercises in Last Fiscal Year and Year-end Option Values,” “Long-term Incentive Plans – Awards in Last Fiscal Year,” “Retirement Income Plan,” “Supplemental Retirement Benefit Plan,” “Retention and Non-Compete Agreement,” “Compensation of Directors” and “Employment Contracts and Change in Control Agreements” in the Proxy Statement for the Annual Meeting of Shareholders to be held on October 21, 2005 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 21, 2005 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 upon 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	123,850	\$20.08	183,550
Equity Compensation Plans Not Approved by Shareholders	0	n/a	0
Total	123,850	\$20.08	183,550

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 21, 2005 under the heading “Fees to Independent Registered Public Accounting Firm.”

ITEM 15. Exhibits, Financial Statement Schedules**(a)(1) Consolidated Financial Statements**

See “Index to Consolidated Financial Statements and Financial Statement Schedule” on page 16, the Report of Independent Registered Public Accounting Firm on page 17 and the Consolidated Financial Statements on pages 18 to 39, 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 Schedule

See “Index to Consolidated Financial Statements and Financial Statement Schedule” on page 16, and the Consolidated Financial Statement Schedule on page 40, 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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

	Page
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Registered Public Accounting Firm.	17
Consolidated Balance Sheets as of June 30, 2005 and 2004.	18
Consolidated Statements of Operations for the years ended June 30, 2005, 2004 and 2003.	19
Consolidated Statements of Cash Flows for the years ended June 30, 2005, 2004 and 2003.	20
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended June 30, 2005, 2004 and 2003.	21
Notes to Consolidated Financial Statements.	22-39
INDEX TO FINANCIAL STATEMENT SCHEDULE	
Schedule II – Valuation and Qualifying Accounts.	40

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,
Racine Wisconsin:

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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2005 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) presents 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 the financial statement schedule 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
September 16, 2005

TWIN DISC, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

JUNE 30, 2005 and 2004

(Dollars in thousands)	2005	2004
ASSETS		
Current assets:		
Cash	\$ 11,614	\$ 9,127
Trade accounts receivable, net	37,751	37,091
Inventories, net	48,481	48,777
Deferred income taxes	5,514	4,216
Other	3,423	3,054
Total current assets	106,783	102,265
Property, plant and equipment, net	40,331	33,222
Goodwill, net	12,854	12,717
Deferred income taxes	16,230	17,025
Other assets	9,097	9,393
	\$185,295	\$174,622
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 3,522	\$ 1,607
Current maturities of long-term debt	2,849	3,018
Accounts payable	21,746	17,241
Accrued liabilities	35,050	34,738
Total current liabilities	63,167	56,604
Long-term debt	14,958	16,813
Accrued retirement benefits	39,680	41,980
	117,805	115,397
Minority interest	591	509
Shareholders' equity:		
Preferred shares authorized: 200,000; issued: none; no par value	—	—
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	11,653	11,653
Retained earnings	89,316	84,428
Unearned compensation	(203)	(304)
Accumulated other comprehensive loss	(17,567)	(20,301)
	83,199	75,476
Less treasury stock, at cost	16,300	16,760
Total shareholders' equity	66,899	58,716
	\$185,295	\$174,622

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, 2005, 2004 and 2003

(In thousands, except per share data)	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net sales	\$218,472	\$186,089	\$179,591
Cost of goods sold	161,052	137,804	144,618
Gross profit	57,420	48,285	34,973
Marketing, engineering and administrative expenses	44,666	37,168	34,790
Restructuring of operations	2,076	—	2,042
Earnings (loss) from operations	10,678	11,117	(1,859)
Other income (expense):			
Interest income	140	252	167
Interest expense	(1,134)	(1,078)	(1,323)
Equity in net earnings of affiliate	—	240	414
Other, net	(192)	101	(81)
	<u>(1,186)</u>	<u>(485)</u>	<u>(823)</u>
Earnings (loss) before income taxes and minority interest	9,492	10,632	(2,682)
Income taxes	2,485	4,964	(300)
Earnings (loss) before minority interest	7,007	5,668	(2,382)
Minority interest	(97)	(25)	(12)
Net earnings (loss)	<u>\$ 6,910</u>	<u>\$ 5,643</u>	<u>\$ (2,394)</u>
Earnings (loss) per share data:			
Basic earnings (loss) per share	\$ 2.42	\$ 2.01	\$ (0.85)
Diluted earnings (loss) per share	2.38	1.98	(0.85)
Weighted average shares outstanding data:			
Basic shares outstanding	2,861	2,814	2,805
Dilutive stock options	47	29	—
Diluted shares outstanding	<u>2,908</u>	<u>2,843</u>	<u>2,805</u>

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, 2005, 2004 and 2003

(In thousands)	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Net earnings (loss)	\$ 6,910	\$5,643	\$(2,394)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,677	5,692	5,673
Write-off of impaired asset	—	—	773
(Gain) loss on sale of plant assets	(9)	55	105
Minority interest	97	25	12
Loss on restructuring of operations	2,076	—	1,278
Unearned compensation	203	188	—
Equity in net earnings of affiliate	—	(240)	(414)
Provision for deferred income taxes	(1,291)	1,567	(1,441)
Dividends received from affiliate	—	195	303
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(186)	622	(2,977)
Inventories, net	897	(3,230)	3,768
Other assets	(370)	941	(1,193)
Accounts payable	4,291	(377)	1,489
Accrued liabilities	1,019	427	577
Accrued/prepaid retirement benefits	(2,864)	733	1,151
Net cash provided by operating activities	<u>16,450</u>	<u>12,241</u>	<u>6,710</u>
Cash flows from investing activities:			
Proceeds from sale of plant assets	34	1	20
Proceeds from sale of affiliate	—	3,811	—
Acquisitions of plant assets	(12,009)	(4,180)	(4,410)
Acquisition of affiliate, net of cash acquired	—	(5,085)	—
Net cash used by investing activities	<u>(11,975)</u>	<u>(5,453)</u>	<u>(4,390)</u>
Cash flows from financing activities:			
Increases (decreases) in notes payable, net	1,886	(1,382)	(23)
Payments of long-term debt	(2,104)	(922)	(1,992)
Proceeds from exercise of stock options	1,113	343	—
Acquisition of treasury stock	(755)	—	(114)
Dividends paid	(2,022)	(1,992)	(1,965)
Net cash used by financing activities	<u>(1,882)</u>	<u>(3,953)</u>	<u>(4,094)</u>
Exchange rate changes on cash	(106)	384	282
Net change in cash and cash equivalents	<u>2,487</u>	<u>3,219</u>	<u>(1,492)</u>
Cash and cash equivalents:			
Beginning of year	9,127	5,908	7,400
End of year	<u>\$11,614</u>	<u>\$9,127</u>	<u>\$5,908</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 1,412	\$1,563	\$1,870
Income taxes	3,788	2,127	1,675

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, 2005, 2004 and 2003

(In thousands)	2005	2004	2003
Common stock			
Balance, June 30	\$11,653	\$11,653	\$11,653
Retained earnings			
Balance, July 1	84,428	80,777	85,136
Net earnings (loss)	6,910	5,643	(2,394)
Cash dividends	(2,022)	(1,992)	(1,965)
Balance, June 30	89,316	84,428	80,777
Accumulated other comprehensive loss			
Balance, July 1	(20,301)	(26,978)	(23,187)
Foreign currency translation adjustment			
Balance, July 1	6,889	4,409	(1,520)
Current adjustment	1,375	2,480	5,929
Balance, June 30	8,264	6,889	4,409
Minimum pension liability adjustment, net			
Balance, July 1	(27,190)	(31,387)	(21,667)
Current adjustment, net of related income taxes [(\$869) in 2005, (\$2,683) in 2004, and \$6,215 in 2003]	1,359	4,197	(9,720)
Balance, June 30	(25,831)	(27,190)	(31,387)
Accumulated other comprehensive loss			
Balance, June 30	(17,567)	(20,301)	(26,978)
Treasury stock, at cost			
Balance, July 1	(17,064)	(17,595)	(17,481)
Shares issued (acquired)	561	531	(114)
Balance, June 30	(16,503)	(17,064)	(17,595)
Shareholders' equity balance, June 30	<u>\$66,899</u>	<u>\$58,716</u>	<u>\$47,857</u>
Comprehensive income (loss)			
Net earnings (loss)	\$ 6,910	\$ 5,643	\$ (2,394)
Other comprehensive income (loss)			
Foreign currency translation adjustment	1,375	2,480	5,929
Minimum pension liability adjustment, net	1,359	4,197	(9,720)
Other comprehensive income (loss)	2,734	6,677	(3,791)
Comprehensive income (loss)	<u>\$ 9,644</u>	<u>\$12,320</u>	<u>\$ (6,185)</u>

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

TWIN DISC, INCORPORATED AND SUBSIDIARIES

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. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss), which is included in shareholders' equity. Gains and losses from foreign currency transactions are included in earnings. Included in other income (expense) are foreign currency transaction losses of \$126,000, \$73,000 and \$123,000 in 2005, 2004 and 2003, respectively.

Receivables – Trade accounts receivable are stated net of an allowance for doubtful accounts of \$927,000 and \$604,000 at June 30, 2005 and 2004, respectively. The allowance for doubtful accounts is estimated based on various factors including, the aging of the accounts receivable, the evaluation of the likelihood of success in collecting the receivable and historical write-off experience.

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 \$66,000 and \$252,000 at June 30, 2005 and 2004, 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 restricts 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 2005 and 2004 was the euro. At June 30, 2005, the Company had net outstanding forward exchange contracts to purchase euros in the value of \$2,153,000 with a weighted average maturity of 31 days. The fair value of the Company's contracts was a loss of approximately \$56,000 at June 30, 2005. At June 30, 2004, the Company had net outstanding forward exchange contracts to purchase euros in the value of \$2,901,000 with a weighted average maturity of 45 days. The fair value of the Company's contracts was a loss of approximately \$58,000 at June 30, 2004.

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. 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.

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 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 collectability is reasonably assured. Revenue is recognized at the time product is shipped to the customer, except for certain domestic shipments to overseas customers where revenue is recognized upon receipt by the customer.

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. The fair value is primarily determined using discounted cash flow analyses, however other methods may be used to substantiate the discounted cash flow analyses, including third party valuations when necessary. 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. 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.

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.

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 has provided for the estimated residual U.S. tax on a portion of these earnings, which may or may not be indefinitely reinvested. The remaining earnings are considered to be indefinitely reinvested. If these indefinitely reinvested 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.

Stock-Based Compensation – At June 30, 2005, the Company has two stock-based compensation plans, which are described more fully in Note L, “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 L. The Company will adopt SFAS 123(R) effective July 1, 2005 which will require the recognition of compensation expense for stock options granted.

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 and handling of products is reflected in cost of sales.

Reclassification – Certain amounts in the 2004 financial statements have been reclassified to conform to the presentation in the 2005 financial statements.

Recently Issued Accounting Standards

During December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123(R) “Share-Based Payment” (“SFAS 123(R)”), which revises SFAS 123 and supercedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense based on their fair values beginning with the first interim or annual period beginning after June 15, 2005. In April 2005, the Securities and Exchange Commission (“SEC”) amended the compliance date to the first annual period beginning after June 15, 2005. The pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to expense recognition. We will adopt SFAS 123(R) using the modified-prospective method beginning in the first quarter of fiscal 2006. Adoption of this standard will not have an impact on consolidated net earnings as it relates to existing stock options as these options are fully vested as of June 30, 2005. Future impacts will depend on stock option activity going forward.

During December 2004, the FASB issued FSP No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (“FSP 109-2”), which provides guidance on the accounting for the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. The Jobs Act, which was signed into law on October 22, 2004, introduces relief on the potential income tax impact of repatriating foreign earnings and certain other provisions. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. Based on our analysis to date, we are not in a position to decide on whether, or to what extent, we might repatriate foreign earnings under the provision of the Jobs Act. However, we expect to be in a position to finalize our assessment by June 2006. It is not expected that this will have a significant impact on the Company’s financial statements.

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

B. INVENTORIES

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

	<u>2005</u>	<u>2004</u>
Finished parts	\$35,591	\$35,837
Work-in-process	7,565	8,187
Raw materials	5,325	4,753
	<u>\$48,481</u>	<u>\$48,777</u>

Inventories stated on a LIFO basis represent approximately 41% and 45% of total inventories at June 30, 2005 and 2004, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by \$22,082,000 and \$19,898,000 at June 30, 2005 and 2004, respectively. Inventory quantities were reduced in 2005 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 increase the 2005 net income by \$133,000.

C. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2005</u>	<u>2004</u>
Land	\$ 3,526	\$ 3,414
Buildings	30,408	26,421
Machinery and equipment	101,146	96,749
	<u>135,080</u>	<u>126,584</u>
Less accumulated depreciation	94,749	93,362
	<u>\$40,331</u>	<u>\$33,222</u>

Depreciation expense for the year ended June 30, 2005, 2004 and 2003 was \$5,108,000, \$5,226,000 and \$5,072,000, respectively.

D. 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 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.

E. GOODWILL AND OTHER INTANGIBLES

The Company performed impairment tests of its goodwill at June 30, 2005 and 2004 and determined that no impairment of goodwill existed. Goodwill at June 30, 2005 and 2004 is net of accumulated amortization of \$789,000. There were no other significant indefinite lived intangible assets recorded by the Company at June 30, 2005 or 2004.

The changes in the carrying amount of goodwill, substantially all of which is allocated to the manufacturing segment, for the years ended June 30, 2005 and 2004 were as follows (in thousands):

Balance at June 30, 2003	\$12,876
Disposal	(1,188)
Translation adjustment	102
Acquisition	927
Balance at June 30, 2004	12,717
Translation adjustment	137
Balance at June 30, 2005	<u>\$12,854</u>

Included in Other assets at June 30, are the following acquired intangible assets (in thousands):

Intangible assets with finite lives:	<u>2005</u>	<u>2004</u>
Licensing agreements	\$ 3,015	\$ 3,015
Other	2,865	2,865
	5,880	5,880
Accumulated amortization	(3,045)	(2,475)
Translation adjustment	125	—
Total	<u>\$ 2,960</u>	<u>\$ 3,405</u>

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, 2005, 2004 and 2003 was \$569,000, \$466,000 and \$601,000, respectively. Estimated intangible amortization expense for each of the next five fiscal years is as follows (in thousands):

Fiscal Year	
2006	\$ 350
2007	392
2008	392
2009	392
2010	189
Thereafter	1,245
	<u>\$ 2,960</u>

F. ACCRUED LIABILITIES

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

	<u>2005</u>	<u>2004</u>
Salaries and wages	\$ 7,802	\$ 4,911
Retirement benefits	12,178	15,035
Warranty	6,679	6,478
Other	8,391	8,314
	<u>\$35,050</u>	<u>\$34,738</u>

G. WARRANTY

The following is a listing of the activity in the warranty reserve during the years ended June 30 (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Reserve balance, July 1	\$6,478	\$6,070	\$5,294
Current period expense	4,654	4,764	4,417
Payments or credits to customers	(4,428)	(4,290)	(3,766)
Translation	(25)	(66)	125
Reserve balance, June 30	<u>\$6,679</u>	<u>\$6,478</u>	<u>\$6,070</u>

H. DEBT*Notes Payable*

Notes payable consists of amounts borrowed under unsecured line of credit agreements. These lines of credit may be withdrawn at the option of the banks. The following is aggregate borrowing information at June 30 (in thousands):

	<u>2005</u>	<u>2004</u>
Available credit lines	\$13,396	\$ 10,479
Unused credit lines	9,874	8,969
Outstanding credit lines	3,522	1,510
Notes payable – other	—	97
Total notes payable	<u>\$ 3,522</u>	<u>\$ 1,607</u>
Weighted-average interest rates on credit lines	3.0%	2.8%

Long-term Debt

Long-term debt consisted of the following at June 30 (in thousands):

	<u>2005</u>	<u>2004</u>
Revolving loan agreement	\$13,500	\$12,800
10-year unsecured senior notes	2,849	5,698
Secured long-term debt	1,137	1,077
Capital lease obligations	70	161
Other long-term debt	251	95
Subtotal	<u>\$17,807</u>	<u>\$19,831</u>
Less: current maturities	(2,849)	(3,018)
Total long-term debt	<u>\$14,958</u>	<u>\$16,813</u>

In December 2002, the Company entered into a \$20,000,000 revolving loan agreement which had an original expiration date of October 31, 2005. In September 2004, the revolving loan agreement was amended to increase the commitment to \$35,000,000 and extend the termination date of the agreement to October 31, 2007. 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 paragraph below, minimum EBITDA of \$11,000,000 at June 30, 2005 and a maximum total funded debt to EBITDA ratio of 2.5 at June 30, 2005. As of June 30, 2005, the Company was in compliance with these covenants. The outstanding balance of \$13,500,000 and \$12,800,000 at June 30, 2005 and 2004, respectively, is classified as long-term debt. Borrowings under this agreement bear interest on a schedule determined by the Company's leverage ratio and the LIBOR interest rate (LIBOR plus 1.25% at June 30, 2005 and 2004, respectively). The rate was 4.390% and 2.375% at June 30, 2005 and 2004, respectively.

Included in long-term debt is \$0 and \$2,841,000 of 7.37% ten-year unsecured notes at June 30, 2005 and 2004, respectively. The current portion of these notes was \$2,849,000 and \$2,857,000 at June 30, 2005 and 2004, respectively. 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, 2005, the Company was in compliance with these covenants.

The Company has a secured long-term debt of \$1,137,000 and \$1,077,000 at June 30, 2005 and 2004, respectively. The long-term debt is due May 28, 2008 and bears interest of 4.25% at June 30, 2005 and 2004, respectively. The debt was used for the construction of a new manufacturing facility at Rolla SP Propellers SA and is secured by the facility.

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

Fiscal Year	
2006	\$ 2,849
2007	308
2008	13,513
2009	—
2010	—
Thereafter	1,137
	<u>\$17,807</u>

I. LEASE COMMITMENTS

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

Fiscal Year	
2006	\$ 2,449
2007	1,651
2008	1,300
2009	1,055
2010	1,016
Thereafter	1,064
	<u>\$ 8,535</u>

Total rent expense for operating leases approximated \$3,248,000, \$3,587,000, and \$3,320,000 in 2005, 2004, and 2003, respectively.

J. SHAREHOLDERS' EQUITY

At June 30, 2005 and 2004, treasury stock consisted of 764,044 and 792,748 shares of common stock, respectively. The Company issued 65,650 shares of treasury stock in 2005, to fulfill its obligations under the stock option plans and restricted stock grants. The difference between the cost of treasury shares and the option price is recorded in retained earnings. The fair value of the restricted stock grants are recorded as unearned compensation and amortized over the vesting period which is generally 1 to 4 year periods. The Company repurchased 34,946 shares of stock in 2005 for \$755,000, which was recorded as treasury stock.

Cash dividends per share were \$0.70 in 2005, 2004 and 2003.

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.

K. 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):

	<u>Manufacturing</u>	<u>Distribution</u>	<u>Total</u>
2005			
Net sales	\$206,630	\$67,743	\$274,373
Intra-segment sales	11,084	4,221	15,305
Inter-segment sales	36,380	4,216	40,596
Interest income	296	29	325
Interest expense	1,254	89	1,343
Income taxes	4,386	1,948	6,334
Depreciation and amortization	5,310	367	5,677
Segment earnings	5,831	3,286	9,117
Segment assets	170,782	33,356	204,138
Expenditures for segment assets	11,656	353	12,009
2004			
Net sales	\$172,688	\$59,176	\$231,864
Intra-segment sales	8,930	4,252	13,182
Inter-segment sales	30,081	2,512	32,593
Interest income	395	36	431
Interest expense	1,176	111	1,287
Income taxes	3,989	1,671	5,660
Depreciation and amortization	5,284	355	5,639
Segment earnings	5,756	2,975	8,731
Segment assets	166,049	28,232	194,281
Expenditures for segment assets	8,980	285	9,265
2003			
Net sales	\$153,713	\$63,413	\$217,126
Intra-segment sales	6,587	2,210	8,797
Inter-segment sales	25,848	2,890	28,738
Interest income	470	25	495
Interest expense	1,480	137	1,617
Income taxes	(1,071)	1,073	2
Depreciation and amortization	5,291	292	5,583
Segment (loss) earnings	(1,892)	1,943	51
Segment assets	152,093	30,347	182,440
Expenditures for segment assets	3,882	528	4,410

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net sales			
Total net sales from reportable segments	\$274,373	\$231,864	\$217,126
Elimination of inter-company sales	(55,901)	(45,775)	(37,535)
Total consolidated net sales	<u>\$218,472</u>	<u>\$186,089</u>	<u>\$179,591</u>
Earnings (loss)			
Total earnings from reportable segments	\$ 9,117	\$ 8,731	\$ 51
Other corporate expenses	(2,207)	(3,088)	(2,445)
Total consolidated net earning (loss)	<u>\$ 6,910</u>	<u>\$ 5,643</u>	<u>\$ (2,394)</u>
Assets			
Total assets for reportable segments	\$204,138	\$194,281	
Elimination of inter-company assets	(20,050)	(21,100)	
Corporate assets	1,207	1,441	
Total consolidated assets	<u>\$185,295</u>	<u>\$174,622</u>	
Other significant items:			
	2005	Elimination & Corporate Adjustments	Consolidated Totals
Interest income	\$ 325	\$ (185)	\$ 140
Interest expense	1,343	(209)	1,134
Income taxes	6,334	(3,849)	2,485
Depreciation and amortization	5,677	—	5,677
Expenditures for segment assets	12,009	—	12,009
	2004		
Interest income	\$ 431	\$ (179)	\$ 252
Interest expense	1,287	(209)	1,078
Income taxes	5,660	(696)	4,964
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	2	(302)	(300)
Depreciation and amortization	5,583	90	5,673
Expenditures for segment assets	4,410	—	4,410

All adjustments represent inter-company eliminations and corporate amounts.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net sales			
United States	\$134,646	\$107,146	\$ 95,813
Other countries	83,826	78,943	83,778
Total	<u>\$218,472</u>	<u>\$186,089</u>	<u>\$179,591</u>
	<u>2005</u>	<u>2004</u>	
Long-lived assets			
United States	\$ 59,171	\$ 57,061	
Belgium	7,999	11,490	
Other countries	16,850	13,052	
Elimination of inter-company assets	(5,508)	(9,246)	
Total	<u>\$ 78,512</u>	<u>\$ 72,357</u>	

There were no customers that accounted for 10% or more of consolidated net sales in 2005 and 2004. One customer accounted for approximately 10% of consolidated net sales in 2003.

L. STOCK OPTION PLANS

During fiscal 2005, the Company adopted the Twin Disc, Incorporated 2004 Stock Incentive Plan for Non-Employee Directors, a non-qualified plan for non-employee directors to purchase up to 36,000 shares of common stock, and the Twin Disc, Incorporated 2004 Stock Incentive 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 164,000 shares of common stock. The plans are administered by the Compensation Committee of the Board of Directors which has the authority to determine which officers and key employees will be granted options or other stock related benefits. The grant of options to non-employee directors is fixed at options to purchase 300 shares of common stock per year. 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 Twin Disc, Incorporated 2004 Stock Incentive 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.

The Company has 23,450, incentive stock options outstanding under the Twin Disc, Incorporated 1998 Incentive Compensation Plan and 56,450 non-qualified stock options outstanding under the Twin Disc, Incorporated 1998 Stock Option Plan for Non-employee Directors at June 30, 2005. The 1998 plans were terminated during 2004, except that options then outstanding will remain so until exercised or until they expire.

The Company has 22,150 incentive stock options outstanding under the Twin Disc, Incorporated 1988 Incentive Stock Option plan and 21,800 non-qualified stock options outstanding under the Twin Disc, Incorporated 1988 Non-Qualified Stock Option Plan for Officers, Key Employees and Directors at June 30, 2005. The 1988 plans terminated during 1999, except that options then outstanding will remain so until exercised or until they expire.

In fiscal 2005, the Company granted 34,500 performance stock awards to various employees of the Company, including executive officers. The stock will be awarded if the Company achieves a specified consolidated gross revenue objective in the fiscal year ending June 30, 2007. No compensation expense has been recorded in 2005.

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

	<u>2005</u>	<u>2004</u>
2004 Stock Incentive Plan	147,550	—
2004 Stock Incentive Plan for Non-Employee Directors	36,000	—

Stock option transactions under the plans during 2005, 2004 and 2003 were as follows:

	2005	Weighted Average Price	2004	Weighted Average Price	2003	Weighted Average Price
Non-qualified stock options:						
Options outstanding at beginning of year	104,350	\$18.82	133,150	\$18.54	102,350	\$20.46
Granted	2,100	24.90	—	—	48,800	14.37
Canceled/Expired	(2,500)	25.55	(15,450)	19.89	(18,000)	18.14
Exercised	(25,700)	17.51	(13,350)	14.18	—	—
Options outstanding at June 30	<u>78,250</u>	<u>\$19.20</u>	<u>104,350</u>	<u>\$18.82</u>	<u>133,150</u>	<u>\$18.54</u>
Options price range (\$14.45 – \$20.00)						
Number of shares	49,400					
Weighted average price	\$ 15.85					
Weighted average remaining life	8.92 years					
Options price range (\$21.875 – \$28.75)						
Number of shares	28,850					
Weighted average price	\$ 24.92					
Weighted average remaining life	6.08 years					
	2005	Weighted Average Price	2004	Weighted Average Price	2003	Weighted Average Price
Incentive stock options:						
Options outstanding at beginning of year	83,850	\$20.68	106,700	\$20.55	146,000	\$20.75
Granted	—	—	—	—	—	—
Canceled/Expired	(3,100)	22.65	(13,150)	23.16	(39,300)	21.32
Exercised	(35,150)	19.32	(9,700)	15.86	—	—
Options outstanding at June 30	<u>45,600</u>	<u>\$21.59</u>	<u>83,850</u>	<u>\$20.68</u>	<u>106,700</u>	<u>\$20.55</u>
Options price range (\$15.05 - \$20.00)						
Number of shares	22,950					
Weighted average price	\$ 17.28					
Weighted average remaining life	8.33 years					
Options price range (\$21.875 - \$28.75)						
Number of shares	22,650					
Weighted average price	\$ 25.96					
Weighted average remaining life	5.08 years					

The Company accounts for its stock option plans under the guidelines of Accounting Principles Board Opinion No. 25. Accordingly, no compensation cost has been recognized in the condensed consolidated statements of operations. 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):

	2005	2004	2003
Net earnings (loss)			
As reported.....	\$ 6,910	\$5,643	\$(2,394)
Pro forma	6,900	5,643	(2,468)
Basic earnings (loss) per share			
As reported.....	\$ 2.42	\$ 2.01	\$ (0.85)
Pro forma	2.41	2.01	(0.88)
Diluted earnings (loss) per share			
As reported.....	\$ 2.38	\$ 1.98	\$ (0.85)
Pro forma	2.37	1.98	(0.88)

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:

	2005	2004	2003
Dividend yield	3.65%	—	4.80%
Volatility	32.67%	—	22.00%
Risk-free interest rate(s)	3.30%	—	3.58% and 2.71%
Expected life in years	5.00	—	5.00
Exercise price equal to fair value at grant date	\$ 24.90	—	\$ 14.34
Weighted average fair value at grant date.....	\$ 5.72	—	\$ 1.83

Incentive options granted to greater than 10% shareholders are calculated using a 3 year term and an exercise price equal to 110% of the fair market value on the date of grant. There were no incentive options granted to a greater than 10% shareholder during the years presented.

In fiscal 2005, the Company issued restricted stock grants for 4,800 shares, 600 shares vest in 1 year from the date of grant, 2,100 shares vest in 2 years, 600 shares vest in 3 years, and 1,500 shares vest in four years. The fair market value of the grants based on the market price at the date of grant was \$120,000.

In fiscal 2004, the Company issued restricted stock grants for 25,000 shares, 12,500 of these shares vest in 2 years from the date of grant and 12,500 vest in 4 years. The fair market value of the grants based on the market price at the date of grant was \$421,000.

The grants are recorded as Unearned Compensation and amortized over the vesting period. The total compensation expense recorded during 2005 and 2004 related to restricted stock grants approximated \$203,000 and \$189,000, respectively.

M. 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 \$2,278,000, \$2,840,000, and \$2,220,000 in 2005, 2004 and 2003, respectively. Total engineering and development costs were \$8,050,000, \$7,600,000, and \$7,190,000 in 2005, 2004 and 2003, respectively.

N. 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, effective October 1, 2003, 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. The \$14.82 benefit removed is now provided through the retiree health plan discussed below. The remaining medical supplement is 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 and their spouses 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 statement of operations as of June 30 (dollars in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation, beginning of year	\$124,151	\$115,960	\$ 29,795	\$ 32,369
Service cost	1,285	1,260	52	45
Interest cost	7,169	7,475	1,674	2,057
Amendments	—	—	—	—
Actuarial loss (gain)	1,992	9,603	(1,838)	(633)
Benefits paid	(9,195)	(10,147)	(3,573)	(4,043)
Benefit obligation, end of year	<u>\$125,402</u>	<u>\$124,151</u>	<u>\$ 26,110</u>	<u>\$ 29,795</u>
Change in plan assets:				
Fair value of assets, beginning of year	\$ 89,038	\$ 75,278	\$ —	\$ —
Actual return on plan assets	8,239	19,325	—	—
Employer contribution	8,156	4,582	3,573	4,043
Benefits paid	(9,195)	(10,147)	(3,573)	(4,043)
Fair value of assets, end of year	<u>\$ 96,238</u>	<u>\$ 89,038</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	\$ (29,164)	\$ (35,113)	\$ (26,109)	\$ (29,795)
Unrecognized net transition obligation	296	358	—	—
Unrecognized actuarial loss	47,130	50,252	11,808	14,979
Unrecognized prior service cost	(4,653)	(5,467)	(4,749)	(5,427)
Net amount recognized	<u>\$ 13,609</u>	<u>\$ 10,030</u>	<u>\$ (19,050)</u>	<u>\$ (20,243)</u>

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Amounts recognized in the balance sheet consist of:				
Accrued benefit liability	(28,737)	(34,544)	(19,050)	(20,243)
Intangible asset	—	—	—	—
Deferred tax asset	16,515	17,384	—	—
Minimum pension liability adjustment	25,831	27,190	—	—
Net amount recognized	<u>\$13,609</u>	<u>\$10,030</u>	<u>\$(19,050)</u>	<u>\$(20,243)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$125,402,000 and \$124,151,000 at June 30, 2005 and 2004, respectively. The Medicare Part D subsidy reduced the accumulated postretirement benefit obligation by \$1,680,000 as of June 30, 2005.

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

	June 30	
	2005	2004
Projected and accumulated benefit obligation	\$125,402	\$124,151
Fair value of plan assets	96,238	89,038

Components of Net Periodic Benefit Cost

	Pension Benefits		
	2005	2004	2003
Service cost	\$ 1,285	\$ 1,260	\$ 1,344
Interest cost	7,169	7,475	8,277
Expected return on plan assets	(7,321)	(6,361)	(7,883)
Amortization of prior service cost	124	124	624
Amortization of transition obligation	59	60	56
Amortization of net loss	3,262	3,990	2,492
Net periodic benefit cost	<u>\$ 4,578</u>	<u>\$ 6,548</u>	<u>\$ 4,910</u>

	Postretirement Benefits		
	2005	2004	2003
Service cost	\$ 52	\$ 45	\$ 17
Interest cost	1,674	2,057	2,362
Recognized prior service cost	(678)	(678)	—
Recognized net actuarial loss	1,333	1,547	798
Net periodic benefit cost	<u>\$ 2,381</u>	<u>\$ 2,971</u>	<u>\$ 3,177</u>

The Medicare Part D subsidy reduced the postretirement benefit expense by \$270,000 for fiscal 2005.

Additional Information

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Increase (decrease) in minimum liability included in other comprehensive income	\$(1,359)	\$4,197	N/A	N/A

Assumptions

	2005	2004	2005	2004
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected return on plan assets	8.50%	8.50%		
Weighted average assumptions used to determine net periodic benefit cost for years ended June 30:				
Discount rate	6.00%	6.75%	6.00%	6.75%
Expected return on plan assets	8.50%	9.00%		
Rate of compensation increase	5.00%	5.00%		

The assumed weighted average health care cost trend rate was 9% in 2005, grading down to 6% in 2008. A 1% increase in the assumed health care cost trend would increase the accumulated postretirement benefit obligation by approximately \$457,000 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 \$444,000 and the service and interest cost by approximately \$23,000.

Plan Assets

The Company’s pension plan weighted-average asset allocations at June 30, 2005 and 2004, by asset category are as follows:

Asset Category	Target	June 30	
	Allocation	2005	2004
Equity securities	61%	64%	66%
Debt securities	35%	32%	30%
Real Estate	4%	4%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 \$1,366,604 (1.5% percent of total plan assets) and \$1,522,609 (1.7% percent of total plan assets) at June 30, 2005 and 2004, 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 \$4,457,000 to its pension plan in fiscal 2006.

Estimated Future Benefit Payments

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

	Pension Benefits	OTHER BENEFITS		Net Benefit Payments
		Gross Benefits	Part D Reimbursement	
2006	\$ 9,215	\$ 3,246	\$329	\$ 2,917
2007	8,990	3,136	332	2,804
2008	9,108	2,961	331	2,630
2009	9,181	2,844	324	2,520
2010	9,215	2,744	317	2,427
Years 2011–2015	\$46,154	\$11,057	\$714	\$10,343

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 \$1,348,000, \$1,266,000 and \$1,568,000 in 2005, 2004, and 2003, respectively.

O. INCOME TAXES

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
United States	\$5,281	\$ 3,898	\$(6,851)
Foreign	4,211	6,734	4,169
	<u>\$9,492</u>	<u>\$10,632</u>	<u>\$(2,682)</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Currently payable:			
Federal	\$ 446	\$ 545	\$ (176)
State	32	50	48
Foreign	3,298	2,802	1,269
	<u>3,776</u>	<u>3,397</u>	<u>1,141</u>
Deferred:			
Federal	(813)	1,081	(1,298)
State	272	279	(587)
Foreign	(750)	207	444
	<u>(1,291)</u>	<u>1,567</u>	<u>(1,441)</u>
	<u>\$2,485</u>	<u>\$4,964</u>	<u>\$ (300)</u>

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

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Retirement plans and employee benefits	\$18,967	\$20,280
Alternative minimum tax credit carryforwards	1,159	986
Foreign tax credit carryforwards	2,297	1,403
State net operating loss and other state credit carryforwards	399	406
Other	5,036	4,947
	<u>27,858</u>	<u>28,022</u>
Deferred tax liabilities:		
Property, plant and equipment	4,064	3,996
Intangibles	1,780	1,382
	<u>5,844</u>	<u>5,378</u>
Valuation allowance	(270)	(1,403)
Total net deferred tax assets	<u>\$21,744</u>	<u>\$21,241</u>

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income and foreign source income to realize deferred tax assets. Of the \$2,297,000 in foreign tax credit carryforwards at June 30, 2005, \$177,000 will expire in 2010, \$623,000 will expire in 2011, \$58,000 will expire in 2012, \$662,000 will expire in 2013 and \$777,000 will expire in 2014. The alternative minimum tax credit carryforwards will be carried forward indefinitely. Of the \$341,000 of state net operating loss carryforwards at June 30, 2005, \$317,000 will expire in 2014, \$18,000 will expire in 2015, \$4,000 will expire in 2017 and \$2,000 will expire in 2018. Of the \$58,000 carryforwards, any credits not used by 2006 will be deducted in 2007 and 2008.

A valuation allowance of \$270,000 has been recorded as of June 30, 2005, as management believes that realization of certain foreign tax credit carryforwards and other deferred tax assets is unlikely. During 2005, the Company reversed a \$1,100,000 valuation allowance on certain foreign tax credit carryforwards that are expected to be utilized as a result of certain internal corporate restructurings and transactions.

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):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. federal income tax at 34%	\$3,194	\$3,605	\$ (916)
Increases (reductions) in tax resulting from:			
Foreign tax items	(354)	1,082	291
State taxes	304	347	(368)
Valuation allowance	(1,133)	—	—
Disposition of investment in subsidiary	—	—	—
Statutory rate change	—	—	97
Other, net.	474	(70)	596
	<u>\$2,485</u>	<u>\$4,964</u>	<u>\$ (300)</u>

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$6.4 million at June 30, 2005. The Company has provided for the estimated residual U.S. tax on a portion of these earnings, which may not be indefinitely reinvested. The remaining earnings are considered to be indefinitely reinvested. If these indefinitely reinvested 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.

P. 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.

Q. RESTRUCTURING OF OPERATIONS

The Company recorded a restructuring charge of \$2,076,000 in the fourth quarter of 2005 as the Company restructured its Belgian operation to improve future profitability. The charge consists of prepension costs for 37 employees; 33 manufacturing employees and 4 salaried employees. As of June 30, 2005 the Company had not made any cash payments related to the above restructuring.

During the second quarter of 2003, the Company recorded a pre-tax restructuring charge of \$2,042,000 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 2005 and 2004, the Company made cash payments of \$143,000 and \$358,000, respectively. Accrued restructuring costs were \$743,000 and \$942,000 at June 30, 2005 and 2004, respectively.

R. ACQUISITION

Effective May 31, 2004, the Company acquired 100% of the common stock of Rolla SP Propellers SA of Novazzano, Switzerland. Rolla designs and manufactures custom propellers.

Rolla has a fiscal year ending May 31. No results of operations of Rolla are included in consolidated results for the year ended June 30, 2004. A full year's results are included in the consolidated results for the year ended June 30, 2005.

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 assets acquired	<u>\$10,148</u>
Current liabilities	\$ 2,056
Long-term debt	1,146
Deferred taxes	655
Stockholders' equity	6,291
	<u>\$10,148</u>

Intangible assets identified and the amounts assigned are as follows:

Intangible assets subject to amortization:

Proprietary technology	\$ 840
Computer software	860
Other	408
	<u>\$2,108</u>

The weighted average amortization period is 7 years.

Intangible assets not subject to amortization:

Goodwill	\$ 927
Tradename	154
	<u>\$1,081</u>

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

TWIN DISC, INCORPORATED AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

for the years ended June 30, 2005, 2004 and 2003 (in thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions ¹	Balance at End of of Period
2005:				
Allowance for losses on accounts receivable.....	\$ 604	\$ 365	\$ 42	\$ 927
Reserve for inventory obsolescence	\$ 4,672	\$ 2,020	\$ 2,182	\$ 4,510
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

1 Accounts receivable written-off and inventory disposed of during the year and other adjustments (primarily foreign currency translation adjustments).

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 21, 2005

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.

By /s/ **MICHAEL E. BATTEN**
Michael E. Batten, Chairman,
Chief Executive Officer and Director

September 21, 2005

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 21, 2005

John H. Batten, Director
John A. Mellows, Director
David B. Rayburn, Director
Harold M. Stratton II, Director
David L. Swift, Director
George E. Wardeberg, Director
David R. Zimmer, Director

By /s/ **CHRISTOPHER J. EPERJESY**
Christopher J. Eperjesy, Attorney in Fact

EXHIBIT INDEX
TWIN DISC, INCORPORATED

10-K for Year Ended June 30, 2005

Exhibit	Description	Included 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 Other Officers (Incorporated by reference to Exhibit 10(e) of the Company's Form 10-K for the year ended June 30, 2004).	
f)	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).	
g)	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).	
h)	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).	
i)	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).	
j)	The 2004 Stock Incentive Plan (Incorporated by reference to Exhibit B of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 2004).	
k)	The 2004 Stock Incentive Plan for Non-Employee Directors (Incorporated by reference to Exhibit C of the Proxy Statement for the Annual Meeting of Shareholders held on October 15, 2004).	
l)	Performance Stock Award Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 2, 2005).	
m)	Twin Disc, Incorporated Supplemental Retirement Plan, as amended and restated on July 28, 2005 (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 2, 2005).	
n)	Change in Control Severance Agreements (Incorporated by reference to Exhibits 10.3, 10.4 and 10.6 of the Company's Form 8-K dated August 2, 2005).	
o)	Indemnity Agreement (Incorporated by reference to Exhibit 10.5 of the Company's Form 8-K dated August 2, 2005).	
p)	Waiver and Release Agreement (Incorporated by reference to Exhibit 10.7 of the Company's Form 8-K dated August 2, 2005).	
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)
3. Rolla SP Propellers SA (a Swiss corporation)
4. Twin Disc Srl (an Italian corporation)
5. Twin Disc (Pacific) Pty. Ltd. (an Australian corporation)
6. Twin Disc (Far East) Ltd. (a Delaware corporation operating in Singapore and Hong Kong)
7. Mill-Log Equipment Co., Inc. (an Oregon corporation)
8. Twin Disc Southeast, Inc. (a Florida corporation)
9. Technodrive SARL (a French corporation)

Twin Disc, Incorporated also owns 66% of Twin Disc Nico Co. LTD. (a Japanese corporation)

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

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-9929, 333-69361, 333-69015, 33-26816, 33-26817) of Twin Disc, Incorporated of our report dated September 16, 2005 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.



PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
September 20, 2005

EXHIBIT 24

POWER OF ATTORNEY

The undersigned directors of Twin Disc, Incorporated hereby severally constitute Michael E. Batten and Christopher J. Eperjesy, 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, 2005 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.

July 29, 2005

/s/ **JOHN A. MELLOWES**
John A. Mellowes, Director

/s/ **DAVID L. SWIFT**
David L. Swift, Director

/s/ **DAVID B. RAYBURN**
David B. Rayburn, Director

/s/ **GEORGE E. WARDEBERG**
George E. Wardeberg, Director

/s/ **HAROLD M. STRATTON II**
Harold M. Stratton II, Director

/s/ **DAVID R. ZIMMER**
David R. Zimmer, Director

EXHIBIT 31a
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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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 and material weaknesses 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 21, 2005

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

EXHIBIT 31b
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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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 and material weaknesses 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 21, 2005

/s/ **CHRISTOPHER J. EPERJESY**
Christopher J. Eperjesy
Vice President – Finance & Treasurer
and Chief Financial Officer

EXHIBIT 32a

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

In connection with the Annual Report of Twin Disc, Incorporated (the "Company") on Form 10-K for the fiscal year ending June 30, 2005, 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.

Date: September 21, 2005

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

EXHIBIT 32b
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003

In connection with the Annual Report of Twin Disc, Incorporated (the "Company") on Form 10-K for the fiscal year ending June 30, 2005, 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.

Date: September 21, 2005

/s/ **CHRISTOPHER J. EPERJESY**
Christopher J. Eperjesy
Vice President – Finance & Treasurer
and Chief Financial Officer

5 - YEAR FINANCIAL SUMMARY

(In thousands of dollars, except where noted)	2005	2004	2003	2002	2001
STATEMENT OF OPERATIONS					
Net sales	\$218,472	\$186,089	\$179,591	\$179,385	\$180,786
Costs and expenses, including marketing, engineering and administrative	207,794	174,972	181,450	173,426	169,086
Earnings (loss) from operations	10,678	11,117	(1,859)	5,959	11,700
Other income (expense)	(1,186)	(485)	(823)	(458)	2,565
Earnings (loss) before income taxes and minority interest	9,492	10,632	(2,682)	5,501	14,265
Income taxes (credits)	2,485	4,964	(300)	3,090	7,380
Minority interest	(97)	(25)	(12)	(135)	—
Net earnings (loss)	6,910	5,643	(2,394)	2,276	6,885
BALANCE SHEET					
<i>Assets</i>					
Cash and cash equivalents	11,614	9,127	5,908	7,400	5,961
Receivables, net	37,751	37,091	35,367	29,255	27,058
Inventories, net	48,481	48,777	43,289	40,589	42,219
Other current assets	8,937	7,270	8,573	8,631	12,255
Total current assets	106,783	102,265	93,137	85,875	87,493
Investments and other assets	38,181	39,135	44,597	39,468	35,050
Fixed assets less accumulated depreciation	40,331	33,222	30,210	29,549	31,584
Total assets	185,295	174,622	167,944	154,892	154,127
<i>Liabilities and Shareholders' Equity</i>					
Current liabilities	63,167	56,604	46,286	39,919	41,450
Long-term debt	14,958	16,813	16,584	18,583	23,404
Deferred liabilities	39,680	41,980	56,732	39,797	33,121
Minority interest	591	509	485	472	337
Shareholders' equity	66,899	58,716	47,857	56,121	55,815
Total liabilities and shareholders' equity	185,295	174,622	167,944	154,892	154,127
<i>Comparative Financial Information</i>					
Per share statistics:					
Basic earnings (loss)	2.42	2.01	(0.85)	0.81	2.45
Diluted earnings (loss)	2.38	1.98	(0.85)	0.81	2.45
Dividends	0.70	0.70	0.70	0.70	0.70
Shareholders' equity	23.39	20.86	17.06	19.99	19.88
Return on equity	10.3%	9.6%	(5.0)%	4.1%	12.3%
Return on assets	3.7%	3.2%	(1.4)%	1.5%	4.5%
Return on sales	3.2%	3.0%	(1.3)%	1.3%	3.8%
Average shares outstanding	2,860,542	2,814,197	2,804,915	2,807,832	2,807,832
Diluted shares outstanding	2,907,898	2,843,374	2,804,915	2,807,832	2,807,955
Number of shareholder accounts	888	917	966	1,003	1,060
Number of employees	901	860	832	936	986
Additions to plant and equipment	12,009	4,180	4,410	2,063	3,492
Depreciation	5,108	5,226	5,072	5,012	5,316
Net working capital	43,616	45,661	46,851	45,956	46,043

DIRECTORS

MICHAEL E. BATTEN

Chairman, Chief Executive Officer

MICHAEL H. JOYCE

President, Chief Operating Officer

JOHN H. BATTEN

Executive Vice President

JOHN A. MELLOWES

Chairman and Chief Executive Officer

Charter Manufacturing Co.

(A privately held producer of bar, rod wire
and wire parts)

Mequon, Wisconsin

DAVID B. RAYBURN

President and Chief Executive Officer

Modine Manufacturing Company

(Manufacturer of Heat Exchange Equipment)

Racine, Wisconsin

HAROLD M. STRATTON II

Chairman and Chief Executive Officer,

Strattec Security Corporation

(A manufacturer of mechanical locks,
electromagnetical locks and related security

access control products)

Milwaukee, Wisconsin

DAVID L. SWIFT

Retired Chairman, President – Chief Executive Officer

Acme-Cleveland Corporation

(Manufacturer of Diversified Industrial Products)

Pepper Pike, Ohio

GEORGE E. WARDEBERG

Retired Vice Chairman

Wisconsin Energy Corp.

(A holding company with subsidiaries in electric,
natural gas, energy services and manufacturing)

Milwaukee, Wisconsin

DAVID R. ZIMMER

Managing Partner

Stonebridge Equity, LLC

(A merger, acquisition and finance
value consulting firm)

Troy, Michigan

OFFICERS

MICHAEL E. BATTEN

Chairman, Chief Executive Officer

MICHAEL H. JOYCE

President, Chief Operating Officer

CHRISTOPHER J. EPERJESY

Vice President – Finance & Treasurer

and Chief Financial Officer

JAMES E. FEIERTAG

Executive Vice President

JOHN H. BATTEN

Executive Vice President

HENRI-CLAUDE FABRY

Vice President – Global Distribution

FRED H. TIMM

Vice President – Administration and Secretary

DEAN J. BRATEL

Vice President – Engineering

DENISE L. WILCOX

Vice President – Human Resources

CORPORATE DATA**ANNUAL MEETING**

Twin Disc Corporate Offices
 Racine, Wisconsin
 2:00 P.M.
 October 21, 2005

SHARES TRADED

NASDAQ: Symbol TWIN

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K

Single copies of the Company's 2005 Annual Report on Securities and Exchange Commission Form 10-K, including exhibits, will be provided without charge to shareholders after September 30, 2005, upon written request directed to Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

TRANSFER AGENT & REGISTRAR

Mellon Human Resources and Investor Solutions
 Chicago, Illinois

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
 Milwaukee, Wisconsin

GENERAL COUNSEL

von Briesen & Roper, s.c.
 Milwaukee, Wisconsin

CORPORATE OFFICES

Twin Disc, Incorporated
 Racine, Wisconsin 53403
 Telephone: (262) 638-4000

WHOLLY-OWNED SUBSIDIARIES

Twin Disc International S.A.
 Nivelles, Belgium
 Twin Disc Srl
 Capezzano Pianore, Italy
 Twin Disc Technodrive Srl
 Decima, Italy
 Technodrive SARL
 Chambéry, France
 Twin Disc (Pacific) Pty. Ltd.
 Brisbane, Queensland, Australia
 Twin Disc (Far East) Ltd.
 Singapore

Mill-Log Equipment Co., Inc.
 Coburg, Oregon

Mill-Log Wilson Equipment Ltd.
 Vancouver, British Columbia

Twin Disc Southeast, Inc.
 Miami, Florida

Rolla SP Propellers SA
 Novazzano, Switzerland

PARTIALLY OWNED SUBSIDIARIES

Twin Disc Nico Co. Ltd.

MANUFACTURING FACILITIES

Racine, Wisconsin
 Nivelles, Belgium
 Decima, Italy
 Novazzano, Switzerland

SALES OFFICES

Domestic
 Racine, Wisconsin
 Coburg, Oregon
 Kent, Washington
 Miami, Florida
 Jacksonville, Florida
Foreign
 Nivelles, Belgium
 Brisbane and Perth, Australia
 Singapore
 Capezzano Pianore, Italy
 Decima, Italy
 Novazzano, Switzerland
 Chambéry, France
 Edmonton, Canada
 Vancouver, Canada
 Saitama, Japan
 Shanghai, China

MANUFACTURING LICENSES

Hitachi-Nico Transmission Co., Ltd.
 Tokyo, Japan



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