

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
OCTOBER 18, 1996

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

The Annual Meeting of Shareholders of Twin Disc, Incorporated, a Wisconsin corporation will be held at 2 P.M. (Central Daylight Time) on Friday, October 18, 1996 at its main offices, 1328 Racine Street, Racine, Wisconsin for the following purposes:

1. Election of three Directors to serve until the Annual Meeting in 1999.
2. Ratification of election of independent public auditors for the fiscal year to end June 30, 1997.
3. To transact such other business as may properly come before the meeting.

Only holders of record of shares of common stock of the Corporation at the close of business on August 30, 1996, shall be entitled to vote at said meeting.

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

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

FRED H. TIMM  
Secretary

September 18, 1996

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

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

## Proxy Statement

This proxy statement is furnished in connection with the solicitation by the Board of Directors of the Corporation of proxies for use at the Annual Meeting of Shareholders to be held at 2 P.M. (Central Daylight Time), at 1328 Racine Street, Racine, Wisconsin on Friday, October 18, 1996, or any adjournment thereof. Holders of common stock of record at the close of business on the 30th day of August 1996, are entitled to vote at the meeting and each shareholder shall have one vote for each share of common stock registered in such shareholders name. Shares represented by a signed proxy appointment will be voted in the manner specified in the form of proxy or, if no specification is made, in favor of each of the propositions mentioned therein. The presence of a majority of the outstanding shares of common stock of the Corporation, either in person or represented by a signed proxy appointment, will constitute a quorum at the meeting. The Corporation intends to mail this statement to shareholders on or about September 18, 1996.

On August 30, 1996, there were outstanding 2,777,274 shares of common stock of the Corporation entitled to vote at the Annual Meeting. There also are 200,000 shares of no-par preferred stock authorized, of which 50,000 shares have been designated Series A Junior Preferred Stock, but none outstanding.

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

The appointment form must be signed in handwriting. The signature must be sufficiently legible to allow the inspector to distinguish it as representing the name of the registered shareholder, or must be accompanied by a rubber stamp facsimile or hand-printed name, including the shareholder's surname and either the shareholder's first or middle name as represented on the corporate records, and any titles, offices or words indicating agency which appear in the corporate records.

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

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

## SHAREHOLDER PROPOSALS FOR 1996

In order for a proposal or nomination to be timely for the 1996 meeting, notice thereof must be delivered to or mailed and received at the principal executive offices of the Corporation no earlier than September 18, 1996, and no later than October 3, 1996. Any proposals or nominations not received during this period will not be considered at the meeting. If you wish to submit a proposal or nomination, please contact the Secretary for a copy of the relevant Bylaw, which details the necessary information which must be included in the proposal or nomination.

## SHAREHOLDER PROPOSALS FOR 1997

The last day for the Corporation to receive proposals, for inclusion in the Notice of the Meeting and Proxy Statement for the 1997 Annual Meeting is May 13, 1997.

PRINCIPAL SHAREHOLDERS AND SHARE OWNERSHIP  
OF DIRECTORS AND EXECUTIVE OFFICERS

## PRINCIPAL SHAREHOLDERS

Based upon the records of the Corporation and filings with the Securities and Exchange Commission as of July 31, 1996 the following table sets forth the persons or group of persons having beneficial ownership (as defined by the Securities and Exchange Commission) of more than 5% of the issued and outstanding common stock of the Corporation.

Name	Address	Nature of Beneficial Ownership	Amount Owned	Percent of Class
Michael E. Batten	3419 Michigan Blvd. Racine, WI	Power to vote Beneficial	542,427 124,897	19.4% 4.5%
Kennedy Capital Management, Inc.	425 N. New Ballas Rd. St. Louis, MO	Power to vote & dispose of stock	227,000	8.1%
Dimensional Fund Advisors	1299 Ocean Ave. Santa Monica, CA	Power to vote & dispose of stock	219,000	7.8%
Fidelity Management and Research Corporation	82 Devonshire St. Boston, MA	Power to vote & dispose of stock	175,000	6.3%

Held as trustee under various trusts.

Includes 2,600 shares owned by the wife of Michael E. Batten and 44,000 subject to currently exercisable stock options.

## SECURITIES OWNED BY MANAGEMENT

The following table sets forth, as of August 30, 1996, the number of shares of common stock of the Corporation beneficially owned by each of the Directors of the Corporation, each of the executive officers named in the Summary Compensation Table and the number of shares beneficially owned by all Directors and executive officers of the Corporation as a group.

Name of Beneficial Owner -----	Amount and Nature of Beneficial Ownership (1) -----	Percent of Class -----
Michael E. Batten	667,324	24.0%
John L. Murray	7,400	*
William W. Goessel	5,900	*
Stuart W. Tisdale	8,000	*
James O. Parrish	25,564	*
Paul J. Powers	1,800	*
Michael H. Joyce	6,408	1.3%
Jerome K. Green	4,100	*
Richard T. Savage	3,000	*
David L. Swift	200	*
David R. Zimmer	1,046	*
Phillipe Pecriaux	20,500	*
James McIndoe	18,162	*
All Directors and Executive Officers as a group (19 persons)	844,000	30.4%

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

Includes 2,600 shares held by Mr. Batten's wife, 495,849 shares held by him as trustee under various family trusts, 124,872 shares held as limited guardian for a cousin, and 44,000 shares subject to presently exercisable stock options.

Shares subject to currently exercisable stock options included in the above are as follows: Mr. Murray 7,000, Mr. Goessel 4,900, Mr. Tisdale 7,000, Mr. Parrish 21,000, Mr. Joyce 35,000, Mr. Green 3,900, Mr. Pecriaux 19,500, Mr. McIndoe 17,100, Mr. Powers 1,500, Mr. Savage 800, and all Directors and executive officers as a group 200,350.

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

## ELECTION OF DIRECTORS

Three directors are to be elected for a term to expire at the annual meeting following the fiscal year ended June 30, 1999. Shares of common stock represented by properly executed proxy appointments in the accompanying form will be voted for the nominees listed for the term indicated unless authority to do so is withheld.

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

Name of Director and Date of Birth	Principal Occupation and other Public Company Directorships	Served as Director Continuously Since
-----		
NOMINEES WHOSE TERMS EXPIRE IN 1999:		
Michael E. Batten.... April 14, 1940	Chairman, and Chief Executive Officer, Twin Disc, Incorporated Also Director, Briggs & Stratton Corporation, Firststar Corporation, Simpson Industries, and Universal Foods Corporation	May 1974
David L. Swift..... September 20, 1936	Former Chairman, President and Chief Executive Officer, Acme-Cleveland Corporation, Pepper Pike, Ohio (Manufacturer of diversified industrial products.) Also Director, Alltrista Corp.	July 1995
David R. Zimmer..... August 21, 1946	President and Chief Executive Officer Core Industries Inc. Bloomfield Hills, Michigan (Manufacturer of specialized products for the test, measurement, and control; fluid controls and construction and farm equipment markets.)	July 1995

## DIRECTORS WHOSE TERMS EXPIRE IN 1998:

Stuart W. Tisdale..... August 15, 1928	Retired, former Chairman & Chief Executive Officer WICOR, Inc. (parent company of Wisconsin Gas Company, and Sta-Rite Industries, Inc.) Milwaukee, Wisconsin Also Director, Marshall & Ilsley Corporation, and Modine Manufacturing Company	October 1980
James O. Parrish..... September 12, 1940	Vice President-Finance & Treasurer Twin Disc, Incorporated	December 1982
Paul J. Powers..... February 5, 1935	Chairman, President and Chief Executive Officer, Commercial Intertech, Corp., Youngstown, Ohio. (A leading manufacturer of hydraulic components, fluid purification products, pre-engineered buildings and stamped metal products.) Director of Global Marine Corporation, Ohio Edison Company	July 1992

## DIRECTORS WHOSE TERMS EXPIRE IN 1997:

Michael H. Joyce..... November 7, 1940	President and Chief Operating Officer, Twin Disc, Incorporated Formerly, President Mobile Fluid Products, Division of Dana Corporation (Diversified manufacturer) Greenville, South Carolina	October 1991
Jerome K. Green..... July 5, 1936	Retired, former Group Vice President The Marmon Group (diversified manufacturer) Chicago, Illinois Formerly, President and Chief Executive Officer J.I. Case Company, a subsidiary of Tenneco, Inc. (Manufacturer of farm and construction equipment)	June 1988
Richard T. Savage..... October 5, 1938	President and Chief Executive Officer, Modine Manufacturing Company (A leading manufacturer of heat exchange equipment) Also Director, Marshall & Ilsley Corp.	April 1993

## DIRECTOR COMMITTEES AND ATTENDANCE

## BOARD OF DIRECTORS MEETINGS AND ATTENDANCE

The Corporation's Board of Directors met six times during the year ended June 30, 1996. There were no absences from these meetings.

## DIRECTORS COMMITTEES MEETINGS AND ATTENDANCE

The Executive Selection and Salary and Audit Committees met one and three times respectively, during the year. The Board Affairs and Nominating Committee did not meet during fiscal 1996. The Pension and Finance Committees met three and two times respectively during the year. Each Director attended at least 75% of the meetings requiring his attendance.

## DIRECTOR COMMITTEE FUNCTIONS

## AUDIT COMMITTEE

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

## FINANCE COMMITTEE

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

## DIRECTOR NOMINATING AND BOARD AFFAIRS COMMITTEE

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

## EXECUTIVE SELECTION AND SALARY COMMITTEE

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

## PENSION COMMITTEE

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

## COMMITTEE MEMBERSHIP

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

AUDIT	FINANCE	PENSION	EXECUTIVE SELECTION	NOMINATING AND BOARD AFFAIRS
Goessel	Murray	Green	Tisdale	Powers
Powers	Green	Joyce	Goessel	Goessel
Savage	Savage	Parrish	Green	Murray
Tisdale		Powers	Murray	Tisdale
Swift		Savage		
Zimmer		Swift		
		Zimmer		



## COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth the compensation received by the Corporation's Chief Executive Officer and the four most highly paid executive officers for the three fiscal years ended June 30, 1994, 1995 and 1996, respectively.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	
		Salary	Bonus	Stock Options	All Other Compensation
Michael E. Batten Chairman and Chief Executive Officer	1996	\$305,000	\$ 53,699	9,000	\$ 6,424
	1995	295,000	111,326	9,000	4,166
	1994	285,300	81,560	10,000	4,976
Michael H. Joyce President and Chief Operating Officer	1996	228,176	40,142	4,500	6,939
	1995	220,000	83,022	4,500	2,579
	1994	215,700	46,008	5,000	-
James O. Parrish Vice President Finance & Treasurer	1996	150,113	19,806	2,500	5,945
	1995	144,600	41,017	2,500	4,341
	1994	140,000	22,680	3,000	3,394
Philippe Pecriaux Vice President Europe	1996	168,100	48,828	2,500	-
	1995	135,000	51,371	2,500	-
	1994	129,000	42,858	2,500	-
James McIndoe Vice President International Marketing	1996	124,092	16,705	2,000	2,973
	1995	120,000	23,189	2,000	2,913
	1994	117,773	35,690	2,500	2,098

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

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

## STOCK OPTIONS

The following table summarizes option grants during fiscal 1996 to the executive officers named in the Summary Compensation Table above, and the potential realizable values at assumed annual rates of stock price appreciation for the ten year option term.

## OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation or Option Term		
	Options Granted	% of Total Options Granted to Employees	Exercise Price Date	Expiration Date	5%	10%
M. Batten	4,000	10.2%	\$26.95	8/14/00	\$ 67,795	\$171,805
M. Batten	5,000	12.8%	\$24.50	8/14/05	\$ 77,040	\$195,233
M. Joyce	4,500	11.5%	\$24.50	8/14/05	\$ 69,336	\$175,710
J. Parrish	2,500	6.4%	\$24.50	8/14/05	\$ 38,520	\$ 97,617
P. Pecriaux	2,500	6.4%	\$24.50	8/14/05	\$ 38,520	\$ 97,617
J. McIndoe	2,000	5.1%	\$24.50	8/14/05	\$ 30,816	\$ 78,093

During the fiscal year ended June 30, 1996, a total 38,950 options were granted to officers, key employees and directors, with 25,050 granted under the 1988 Incentive Stock Option Plan and 13,900 options granted under the 1988 Non-Qualified Stock Option Plan. Options granted to Mr. Batten during the fiscal year ended June 30, 1996 were 5,000 non-qualified stock options and 4,000 incentive stock options. Percentages reflected are based upon the total amount of options granted under both plans. All options are exercisable upon grant.

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

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

The following table provides information on option exercises in fiscal 1996 by the named executive officers and the value of such officers unexercised options at June 30, 1996.

Name	Shares Acquired on Exercise	Value Real- ized	Total Number of Unexercised Options Held at Fiscal Year End		Total Value of Unexercised In-the-Money Options Held at Fiscal Year End	
			Exer- cisable	Unexer- cisable	Exer- cisable	Unexer- cisable
M. Batten	0	N/A	44,000	0	\$ 98,397	\$ 0
M. Joyce	0	N/A	35,000	0	\$176,563	\$ 0
J. Parrish	500	5,250	21,000	0	\$ 53,188	\$ 0
P. Pecriaux	0	N/A	19,500	0	\$ 39,125	\$ 0
J. McIndoe	500	5,250	17,100	0	\$ 47,063	\$ 0

COMPENSATION PURSUANT TO PLANS

RETIREMENT INCOME PLAN

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

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

The values reflected in the table represent the application of the Plan formula to the appropriate amounts of compensation and years of service. Benefits payable under the Plan, however, must be in compliance with the applicable guidelines or maximum prescribed in the Employees Retirement Income Security Act of 1974 (ERISA), as currently stated or as adjusted from time to time. Assuming continued employment to normal retirement age (age 65) the estimated credited years of service for each of the Corporation's executive officers named in the Summary Compensation Table is as follows: Mr. Batten 34 years; Mr. Joyce 15 years; Mr. Parrish 32 years; and Mr. McIndoe 24 years. Mr. Pecriaux is not eligible for benefits under the Twin Disc Retirement Income Plan.

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

#### SUPPLEMENTAL RETIREMENT BENEFIT PLAN

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

#### COMPENSATION OF DIRECTORS

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

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

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

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

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE  
IN CONTROL  
ARRANGEMENTS

The Corporation has entered into Severance Agreements with certain of its key executives, including Messrs. Batten, Joyce, Parrish, Pecriaux and McIndoe. The Agreement provides for severance benefits to be paid to any such executive following a change in control of the Corporation (as defined) and a termination (as defined) of the employment of such executive. Upon the occurrence of the events, as specified in the Severance Agreements, which would entitle such executive to the payment of severance benefits, the maximum contingent liability of the Corporation for the payment of such severance benefits would be approximately \$3,300,000. Severance benefits for an executive officer would generally consist of the sum of the executive's highest annual base salary between the change in control and the date of termination plus the executive's most recent annual bonus times the lesser of 2.75 or the number of whole and fractional years between the termination date and his normal retirement date. In addition, the executive would be entitled to the cash value of any shares of common stock subject to unexercised stock options held by the executive. The Severance Agreements are specifically designed to assure that benefits will not exceed the limitations and provisions of Sec. 280G, of the Internal Revenue Code.

BOARD EXECUTIVE SELECTION AND SALARY COMMITTEE REPORT  
ON EXECUTIVE COMPENSATION

COMPENSATION PHILOSOPHY

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

The Executive Selection and Salary Committee of the Board of Directors (the Committee) establishes compensation programs which are designed to foster the Corporation's business objectives. The Committee approves the design of, assesses the effectiveness of, and administers executive compensation programs in support of compensation policies. The Committee also reviews and approves all salary arrangements and other remuneration for executives, evaluates executive performance, and considers related matters.

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

Competitive market data is provided by an independent compensation consultant. The data provided compares the Corporation's compensation practices to a group of comparator companies. The Corporation's market for compensation comparison purposes is comprised of a group of companies that have national and international business operations and similar sales volumes, market capitalizations, employment levels, and lines of business. The Committee reviews and approves the selection of companies used for compensation comparison purposes.

In establishing a comparator group for compensation purposes, the Committee neither bases its decisions on quantitative relative weights of various factors, nor follows mathematical formulae. Rather, the Committee exercises its judgment and makes its decision after considering the factors it deems relevant.

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

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

BASE SALARIES

The Committee regularly reviews each executive's base salary. Base salaries are targeted at market levels, based upon the Committee's analysis of marketplace practices. Base salaries for executives are initially determined

by evaluating executives levels of responsibility, prior experience, breadth of knowledge, internal equity issues, and external pay practices.

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

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

As reflected in the Summary Compensation Table on page 7, Mr. Batten's base salary was increased in 1996 by \$10,000. In determining Mr. Batten's base salary in 1996, the Committee considered the Company's financial performance for the year, Mr. Batten's individual performance, and his long-term contributions to the success of the Corporation. The Committee also compared Mr. Batten's base salary to the base salaries of CEOs at comparator companies.

#### ANNUAL INCENTIVES

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

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

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

In 1996 bonus awards were granted as earnings targets were attained indicating that prior long term decisions are providing favorable results. Corporate goals in 1996 were based on target earnings and return on net assets employed.

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

In 1996, Mr. Batten received a bonus under the Annual Plan of \$53,699. This reflects an 85% achievement of the Corporation's goal relating to target earnings in 1996.

#### LONG-TERM INCENTIVES

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

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

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

On August 12, 1996, Mr. Batten received non-qualified options to purchase shares at the fair market value of shares on the date of grant and qualified options to purchase shares at 110% of the fair market value on the date of grant. In 1995, Mr. Batten received non-qualified options to purchase 5,000 shares at the fair market value on the date of grant and qualified options to purchase 4,000 at 110% of the fair market value on the date of grant. Mr. Batten is claimed to be the beneficial owner of 80,713 shares of the Corporation's common stock and holds options to purchase an additional 44,000 shares. The Committee believes that this equity interest provides a strong link to the interest of shareholders.

Executive Selection and Salary Committee  
Stuart W. Tisdale, Chairman  
William W. Goessel  
Jerome K. Green  
John L. Murray

July 26, 1996

## CORPORATE PERFORMANCE GRAPH

The following table compares total shareholder return over the last five (5) fiscal years to the Standard & Poor's Diversified Machinery Index and the Russell 2000 index. The S&P Diversified Machinery Index consists of a broad range of manufacturers (including the Corporation). The Russell 2000 Index consists of a broad range of 2,000 Companies (including the Corporation). The Corporation believes, because of the similarity of its business with those companies contained in the S&P Diversified Machinery Index, that comparison of shareholder return with this index is appropriate. Total return values for the Corporation's common stock, the S&P Diversified Machinery Index and the Russell 2000 Index were calculated based upon an assumption of a \$100 investment on June 30, 1988, and based upon cumulative total return values assuming reinvestment of dividends on a quarterly basis.

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

	06/30/91	06/30/92	06/30/93	06/30/94	06/30/95	06/30/96
	-----	-----	-----	-----	-----	-----
Twin Disc	100.00	122.01	119.12	140.05	180.72	174.05
S&P Div. Mach.	100.00	97.51	130.23	141.54	179.10	208.96
Russell 2000	100.00	114.54	144.28	150.63	180.86	234.81

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

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

Based solely on a review of the copies of such forms furnished to the Corporation and representations from executive officers and directors, the Corporation believes that during the period from July 1, 1995 to June 30, 1996, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than ten (10%) beneficial owners were complied with.



## INDEPENDENT PUBLIC AUDITORS

The Directors of the Corporation recommend that you vote in favor of the appointment of Coopers & Lybrand as independent public accountants for the Corporation for the fiscal year to end June 30, 1997. The firm has audited the Corporation's books annually since 1928. Representatives of Coopers & Lybrand are expected to be present at the meeting and, while no formal statement will be made by them, they will be available to respond to appropriate questions. If the shareholders should not approve such appointment, the Directors would reconsider the appointment.

## GENERAL

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

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

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