

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported) July 27, 2006

Twin Disc, Incorporated

(exact name of registrant as specified in its charter)

WISCONSIN 001-7635 39-0667110

(State or other jurisdiction (Commission (IRS Employer  
of incorporation) File Number) Identification No.)

1328 Racine Street Racine, Wisconsin 53403

(Address of principal executive offices)

Registrant's telephone number, including area code: (262)638-4000

## Item 1.01 Entry into Material Definitive Agreements

At its meeting on July 27, 2006, the Compensation Committee of the Board of Directors of Twin Disc, Incorporated (the "Company") increased the base salary of the executive officers of the Company who will be the "named executive officers" for purposes of the Company's proxy statement for the 2006 annual meeting of shareholders and who will continue to be employed by the Company after October 1, 2006, the effective date of the increase (the base salary of Michael H. Joyce, who will be one of the named executive officers, was not increased due to his previously announced retirement). The base salaries of the named executive officers for 2006, effective October 1, 2006, are as follows:

Michael E. Batten	Chairman, Chief Executive Officer	\$462,500
Christopher J. Eperjesy	Vice President and Chief Financial Officer	\$260,000
James E. Feiertag	Executive Vice President	\$260,000
John H. Batten	Executive Vice President	\$225,000

At its meeting on July 27, 2006, the Compensation Committee also approved the award of Performance Stock Units to various executive officers of the Company under the Twin Disc, Incorporated, 2004 Stock Incentive Plan. A total of 30,434 Performance Stock Units were awarded subject to target-level achievement, effective July 27, 2006. These stock units are subject to adjustment as described below. The maximum number of Performance Stock

Units that can be awarded if targets are exceeded is 36,521. Such awards are contingent upon shareholder approval of amendments to the plan permitting such awards at the Company's 2006 annual meeting of shareholders. The Performance Stock Units will be paid out if the Company achieves certain economic profit objectives (measured as the Company's net operating profit after taxes ("NOPAT") as a percentage of the Company's capital charge for the cumulative three fiscal year period ending June 30, 2009.) If the Company achieves the maximum 3-year cumulative economic profit goal, a recipient will earn a maximum number of Performance Stock Units. If the Company achieves the target 3-year cumulative economic profit goal, a recipient will earn the target number of Performance Stock Units. If the Company achieves the threshold 3-year cumulative economic profit goal, a recipient will earn a threshold number of Performance Stock Units. No Performance Stock Units will be earned for performance below the 3-year cumulative economic profit threshold and no additional Performance Stock Units will be earned for performance exceeding the 3-year cumulative economic profit maximum. In the event that the Company's economic profit is between the achievement levels set forth, the percentage of Performance Stock Units awarded shall be determined by interpolation. A copy of the form of the Performance Stock Unit Award agreement is attached hereto as Exhibit 10.1 and incorporated herein by reference.

On July 27, 2006, the Compensation Committee also issued performance stock awards to various executive officers of the Company under the 2004 Stock Incentive Plan. A total of 30,441 performance shares were awarded subject to target-level achievement effective July 27, 2006. These shares are subject to adjustment as described below. The maximum number of shares that can be awarded if targets are exceeded is 36,529. The performance shares will be paid out if the Company achieves certain economic profit objectives (measured as the Company's net operating profit after taxes ("NOPAT") as a percentage of the Company's capital charge for the cumulative three fiscal year period ending June 30, 2009.) If the Company achieves the maximum 3-year cumulative economic profit goal, a recipient will earn a maximum number of performance shares. If the Company achieves the target 3-year cumulative economic profit goal, a recipient will earn the target number of performance shares. If the Company achieves the threshold 3-year cumulative economic profit goal, a recipient will earn a threshold number of performance shares. No performance shares will be earned for performance below the 3-year cumulative economic profit threshold and no additional performance shares will be earned for performance exceeding the 3-year cumulative economic profit maximum. In the event that the Company's economic profit is between the achievement levels set forth, the percentage of performance shares awarded shall be determined by interpolation. A copy of the form of the Performance Stock Award agreement is attached hereto as Exhibit 10.2 and is incorporated herein by reference.

At its July 27, 2006, meeting, the Compensation Committee also approved a Corporate Incentive Plan for various executive officers of the Company. The Corporate Incentive Plan may result in cash bonuses of up to a certain percentage of base salary to executive officers for the fiscal year that will end on June 30, 2007, based on the following factors and relative weights for each factor: corporate economic profit (70%) and operational goals (30%).

At its July 28, 2006 meeting, the Company's Board of Directors approved an amendment to the Twin Disc, Incorporated, 2004 Stock Incentive Plan for Non-Employee Directors. The purpose of the amendment was to reflect the 2 for 1 split of the Company's common stock on March 31, 2006. The effect of

the amendment was to increase the automatic awards under the plan for eligible directors from 300 stock options and 300 shares of restricted stock to 600 stock options and 600 shares of restricted stock. The plan was also amended to automatically adjust future awards under the plan in the event of a future recapitalization or stock split. A copy of the Twin Disc, Incorporated, 2004 Stock Incentive Plan for Non-Employee Directors, as amended, is attached hereto as Exhibit 10.3 and incorporated herein by reference.

At its meeting on July 28, 2006, the Company's Board of Directors also approved an increase to the annual director retainer fees from \$15,000 to \$18,000, effective November 1, 2006. Fees for attendance at Board Committee meetings remain the same.

The disclosure contained in Item 5.02 is incorporated herein by reference.

## Item 2.02 Results of Operations and Financial Condition

The Company has reported its 4th quarter 2006 financial results. The Company's press release dated July 31, 2006 announcing the results is attached hereto as Exhibit 99.1 and is incorporated herein in its entirety by reference.

The information set forth in this Item 2.02 of Form 8-K, including Exhibit 99.1, is furnished pursuant to Item 2.02 and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

## Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

As previously reported by the Company, effective July 31, 2006, Michael H. Joyce retired as President and Chief Operating Officer of the Company. He also resigned from the Board of Directors on the same date.

## Item 5.03 Amendment to Bylaws

Effective July 28, 2006, the Company amended the Company's Bylaws to reduce the number of Directors from nine to a number of directors between seven and nine as determined by the Board of Directors of the Company. This change was made to accommodate the retirement of Michael H. Joyce from the Board. A corresponding amendment was also made to the Bylaws to provide that a special meeting of the Board of Directors may be called by a majority of the directors, rather than by five directors as the Bylaws previously stated. A copy of the amended Bylaws is attached as Exhibit 3.1 and incorporated herein by reference.

The information set forth under Item 2.02 of this report is incorporated herein by reference solely for the purposes of this Item 7.01.

The information set forth in this Item 7.01 of Form 8-K is furnished pursuant to Item 7.01 and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

FORWARD LOOKING STATEMENTS

The disclosures in this report on Form 8-K and in the documents incorporated herein by reference contain or may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believes," "expects," "intends," "plans,"

"anticipates," "hopes," "likely," "will," and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company (or entities in which the Company has interests), or industry results, to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements. Certain factors that could cause the Company's actual future results to differ materially from those discussed are noted in connection with such statements, but other unanticipated factors could arise. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's view only as of the date of this Form 8-K. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, conditions or circumstances.

Item 9.01 Financial Statements and Exhibits  
(c) Exhibits.

EXHIBIT NUMBER	DESCRIPTION
3.1	Bylaws of Twin Disc, Incorporated (as amended effective July 28, 2006)
10.1	Form of Performance Stock Unit Award Agreement for performance stock units awarded by the Compensation Committee on July 27, 2006
10.2	Form of Performance Stock Award Agreement for performance shares awarded by Compensation Committee on July 27, 2006
10.3	Twin Disc, Incorporated, 2004 Stock Incentive Plan for Non-Employee Directors (amended effective July 27, 2006)
99.1	Press Release announcing 4 <sup>th</sup> quarter 2006 financial results.

SIGNATURE

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.

Date: July 31, 2006

Twin Disc, Inc.

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

# RESTATED BYLAWS

OF

## TWIN DISC, INCORPORATED

(Adopted April 19, 1991)  
(Amended July 28, 1995)  
(Amended October 18, 1996)  
(Amended June 22, 1998)  
(Amended July 30, 2004)  
(Amended October 15, 2004)  
(Amended July 28, 2006)

### ARTICLE I. OFFICE

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

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

### ARTICLE II. SHAREHOLDERS

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

(2) SPECIAL MEETINGS. Special Meetings of the Shareholders may be called by the Chairman and Chief Executive Officer, the President and the Chief Operating Office or Secretary at the request in writing of a majority of the Board of

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

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

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

(5) RECORD DATE. The Board of Directors may fix in advance a record date to determine the Shareholders entitled to notice of a Shareholders meeting, which record date shall be not more than seventy (70) nor less than five (5) days prior to the meeting or action requiring a determination of the Shareholders. A determination of the Shareholders entitled to notice of or to vote at a Shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new date, which it shall be required to do only if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

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

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Shareholder or his agent may inspect the list at any time during the meeting or any adjournment thereof. Refusal or failure to prepare or make available the Shareholders' list pursuant to this Bylaw shall not affect the validity of any action taken at the meeting.

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

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

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

corporate Secretary pursuant to the provisions of these By-laws; or

(a) openly stating the revocation at the Shareholders meeting;

(b) voting at the Shareholders meeting in person;

(c) submitting a proxy appointment form bearing a later date to the corporate Secretary pursuant to the provisions of these By-laws; or

(d) delivering a signed written statement revoking the proxy to the corporate Secretary prior to the date of the meeting.

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

(a) The proxy appointment form must be delivered to the Secretary of the Corporation pursuant to the provisions of these Bylaws;

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

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

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

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

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

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

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

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

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

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

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

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

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

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Wisconsin law, shall contain the same information as would have been required to be included in such notice, except the time and place of meeting.

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

(14) BUSINESS CONDUCTED AT THE MEETING.

(a) At any Annual Meeting or Special Meeting of the Shareholders, only such business shall be conducted, and only such proposals shall be acted as shall have been properly brought before the meeting in accordance with these By-laws. To be properly brought before any Annual Meeting or Special Meeting, any proposed business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors; (ii) otherwise brought before the meeting by or at the direction of the Board of Directors; or (iii) properly brought before the meeting by a shareholder. For a proposal to be properly brought before a meeting by a shareholder (other than a shareholder specified in the notice of the meeting given by or at the direction of the Board of Directors and included in the Corporation's proxy statement pursuant to Rule 14(a)-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), the shareholder must have given

timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation (a) not less than sixty (60) days before the anniversary date of the date on which the Corporation first mailed its proxy materials for the immediately preceding Annual Meeting, or (b) in the case of a special Meeting or in the event the date of the Annual Meeting has changed more than thirty (30) days from the prior year, notice by the shareholder to be timely must be given so as to be received not later than the close of business on the tenth (10<sup>th</sup>) day following the earlier of the day on which notice of the date of such meeting was mailed or public disclosure of the date of such meeting was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting, (i) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and record address, as they appear on the Corporation's books, of the shareholder proposing such business and any other shareholders known by such shareholder to be supporting such proposal; (iii) the class and number of shares of the Corporation's stock which are beneficially owned by the shareholder on the date of such shareholder notice and by any other shareholders known by such shareholder to be supporting such proposal on the date of such shareholder notice; and (iv) any financial interest of the shareholder in such proposal.

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

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

### **ARTICLE III. BOARD OF DIRECTORS**

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

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

(3) **NUMBER, TENURE, RESIGNATION AND QUALIFICATIONS.** The number of directors of the Corporation shall be not less than seven (7) and not more than nine (9). Directors need not be residents of the State of Wisconsin nor Shareholders of the Corporation.

The Board of Directors shall be divided into three (3) classes of approximately equal size. The term of office of each Director elected for a full term shall be the period of three (3) years to expire at the Annual Meeting of Shareholders three (3) years after the date of his election. The number of Directors to be elected at such meeting shall be equal to the number whose term expires at the time of such meeting. Each Director shall hold office for the term for which he is elected and until the next Annual Meeting of Shareholders at which his successor shall be elected, or his death, or until he shall resign or shall have been removed in a manner provided in these By-Laws.

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

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

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

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

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

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

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

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

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

(12) **INFORMAL ACTION BY DIRECTORS.** Any action required or permitted by the Articles of Incorporation, By-Laws, or other provision of law, which might be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Directors.

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

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

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

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

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

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

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

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

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

A Special Meeting of the stockholders as herein referred to may only be held after a hearing on the matter of cause claimed to exist has been held by the full Board of Directors of the company at which hearing the Director or Directors proposed for removal shall be given an adequate opportunity for preparation and attendance in person (together with representation by counsel); provided, however, that

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such hearing shall be held only after written notice has been given to said Director or Directors proposed for removal specifying the matters of cause claimed to exist. The conclusions of said hearing shall be reported by the Board of Directors in writing accompanying the notice of the special stockholders' meeting sent to each stockholder eligible to vote at said Special Meeting.

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

#### **ARTICLE IV. OFFICERS**

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

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

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

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

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

(6) **PRESIDENT AND CHIEF OPERATING OFFICER.** The President and Chief Operating Officer shall, in general, supervise, direct and control the operations and business of the Corporation subject to the supervision and direction of the Chairman and Chief Executive Officer and the Board of Directors and the provisions of these By-Laws. The President and Chief Operation Officer shall also, subject to such rules as may be prescribed by these By-Laws, the Chairman and Chief Executive Officer, or the Board of Directors, have the authority to sign, execute and acknowledge on behalf of the Corporation all deeds, mortgages, contracts, leases, reports and all other

documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, including certificates for shares of the Corporation. In the absence of the Chairman and Chief Executive Officer, he shall preside at all meetings of the Shareholders and Board of Directors.

(7) **VICE PRESIDENTS.** In the absence of the President and Chief Operating Officer, or in the event of his death, inability or refusal to act, the Executive Vice President or in his absence the Vice President-Finance (or should neither be available then the other Vice Presidents in the order designated at the time of their election or in the absence of any designation, then in the order of their election) shall perform the duties of the President and Chief Operating Officer, and when so acting shall have all the powers of and be subject to all the restrictions upon the President and Chief Operating Officer. Any Vice President may sign, with the Chairman and Chief Executive Officer and with the Secretary or Assistant Secretary, certificates for shares of the Corporation; and shall perform such other duties and have such authority as from time to time may be assigned to him by the Chairman and Chief Executive Officer or President and Chief Operating Officer or by the Board of Directors. Any Vice President is authorized to affix the seal of the Corporation to any document which requires the same.

(8) **SECRETARY.** The Secretary shall: (a) keep the minutes of the Shareholders' and of the Board of Directors' Meetings in one or more books provided for the purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents which require the same, the execution of which on behalf of the Corporation

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under its seal is duly authorized by another officer hereunder or by the Board of

Directors; (d) keep a register of the post office addresses of each Shareholder which shall be furnished to the Secretary by such Shareholders; (e) sign with the Chairman and with the President or a Vice President certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of stock transfer books for the Corporation; and (g) in general, perform all duties incident to the office of Secretary and have such other duties, and exercise such authority as from time to time may be delegated or assigned to him by the Chairman and Chief Executive Officer or President and Chief Operating Officer or by the Board of Directors.

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

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

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

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

To the fullest extent allowed by law, this Corporation shall indemnify its directors and officers against expenses (including attorney's fees, court costs, and disbursements) and liabilities (including ERISA excise taxes, judgments, fines and amounts paid in settlement) incurred in connection with any actual or threatened action, suit or proceeding to which such person is made or threatened to be made a party by reason of being, or

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having been, a director or officer or, upon written request of the Corporation pursuant to a resolution of its Board of Directors, serving or having served any other entity, including any benefit plan of the Corporation.

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

The Corporation shall have the power and authority to purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation in such capacity in any other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such whether or not the Corporation itself would have the power to indemnify him against such liability under the remaining provisions of this By-Law.

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

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

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

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

(3) **CHECKS, DRAFTS, AND OTHER EVIDENCES OF INDEBTEDNESS.** All checks, drafts, or other orders for the payment of money issued in the name of the Company shall be signed by such employee or employees, agent or agents, of the Company as are appointed by the President, and in such manner, including facsimile and printed signatures, as may be designed by the President. In connection with the furnishing of authorizing resolution and signature card forms needed by commercial banks, the Corporate Secretary, or any Assistant Secretary, is authorized to execute and certify to

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such forms as he may deem appropriate as adopted under the authority of this By-Law and as binding upon the Company in acceptance therewith, thereby empowering employees or agents appointed by the President to sign checks, drafts, or other orders for the payment of money in the name of the Company.

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

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

(1) **CERTIFICATES FOR SHARES.** Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such Certificates shall be signed by the President or Vice President and by the Secretary or an Assistant Secretary and may be signed by the Chairman of the Board and may be sealed with the seal of the Corporation or a facsimile thereof. Signatures of the Chairman of the Board, the President, the Vice President, the Secretary or Assistant

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

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

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

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

#### **ARTICLE VIII. FISCAL YEAR**

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

#### **ARTICLE IX. DIVIDENDS**

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

#### **ARTICLE X. SEAL**

The corporate seal shall be a round metallic disk with the words "TWIN DISC, INCORPORATED, Racine, Wisconsin" around the circumference, and the words "Corporate Seal" in the center. If a facsimile or printed seal is used on stock certificates, it shall be similar in content and design to the above. of Directors, or at any Special Meeting of the Shareholders or Board of Directors provided that such action has been specified in the notice of any such Special Meeting.



## PERFORMANCE STOCK UNIT AWARD GRANT AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD GRANT AGREEMENT (the "Agreement"), by and between TWIN DISC, INCORPORATED (the "Company") and \_\_\_\_\_ (the "Employee") is dated as of the 27<sup>th</sup> day of July, 2006, to memorialize an award of performance stock units of even date herewith.

WHEREAS, the Company adopted a Stock Incentive Plan in 2004 (the "Plan") whereby the Compensation Committee of the Board of Directors (the "Committee") is authorized to grant awards of various types to certain key employees of the Company; and WHEREAS the Company amended the Plan on January 20, 2006, to authorize the award of performance stock units, which entitle an employee of the Company receiving such an award to a cash payment equal to the value of the common stock of the Company if the Company achieves a predetermined performance objective; and

WHEREAS, effective July 27, 2006, the Committee made an award of performance stock units to the Employee as an inducement to achieve the below described performance objective.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements herein set forth, the parties hereto agree as follows:

1. Performance Stock Unit Award Grant. Subject to the terms of the Plan, a copy of which has been provided to the Employee and is incorporated herein by reference, the Company has granted Employee a maximum award of \_\_\_\_\_ performance stock units effective July 27, 2006. Such performance stock units entitle the Employee to receive a cash payment equal to the product of the number of units awarded pursuant to the table below, multiplied by the fair market value of the Company's common stock as of June 30, 2009, if the Company achieves the economic profit objective stated below (the "Performance Objective"). The Committee shall

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certify whether and to what extent such Performance Objective is satisfied before any payment pursuant to a performance stock unit is made.

The Performance Objective is the Company's net operating profit after taxes ("NOPAT") for the cumulative three fiscal year period ending June 30, 2009, measured as a percentage of the Company's capital charge for the cumulative three fiscal year period ending June 30, 2009. If the Company achieves the maximum Performance Objective as specified on the table below, the Employee will earn the maximum number of performance stock units. If the Company achieves the target Performance Objective as specified on the table below, the Employee will receive the target number of performance stock units. If the Company achieves the threshold Performance Objective stated below, the Employee will earn the threshold number of performance stock units. No performance stock units will be earned for performance below the 3-year cumulative economic profit threshold and no additional performance stock units will be earned for performance exceeding the 3-year cumulative economic profit maximum.

	Cumulative NOPAT as a percentage of cumulative capital charge	Number of Performance Stock Units
Maximum	XX%	XXXX
Target	XX%	XXXX
Threshold	XX%	XXXX

In the event that the Company's economic profit is between the achievement levels set forth in the above table, the number of performance stock units awarded shall be determined by interpolation.

2. Price Paid by Employee. The price to be paid by the Employee for the performance stock units granted shall be No Dollars (\$0.00) per share.

3. Voluntary Termination of Employment Prior to Retirement/Termination for Cause. If prior to attaining the Performance Objective an Employee voluntarily terminates

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employment prior to the Employee becoming eligible for normal or early retirement under the Company's defined benefit pension plan covering the Employee or the employment of an Employee is terminated for cause, the performance stock units granted to such Employee shall be forfeited. The Committee shall conclusively determine whether an Employee was terminated for cause for purposes of this performance stock unit award.

4. Death/Disability/Other Termination of Employment Other than Change of Control of Company. If prior to attaining the Performance Objective an Employee dies, becomes permanently disabled, voluntarily terminates employment after becoming eligible for normal or early retirement under the Company's defined benefit pension plan covering the Employee, or is terminated for any reason other than for cause or following a Change in Control of the Company as described in Section 5 (each a "Qualifying Event"), the performance stock units granted to such Employee shall be paid on a prorated basis if and when the Performance Objective is achieved. Such prorated performance stock unit awards shall be subject to the following terms and conditions:

- The prorated award shall be determined by multiplying the cash payment due pursuant to the vesting of the award by a fraction, the numerator of which is the number of days from July 1, 2006, through the Employee's last day of employment, and the denominator of which is the number of days from July 1, 2006, through June 30, 2009.
- Except as otherwise provided in Section 4(c), the payment of such prorated award shall be paid in the ordinary course after the determination by the Committee that the Performance Objective has been achieved (and no later than 2-1/2 months after June 30, 2009).
- The Committee has the authority in its sole discretion to immediately vest the prorated portion of the performance stock units granted hereunder of an Employee who experiences a Qualifying Event and to make a cash payment pursuant to such prorated awards as if the maximum Performance Objective had been fully achieved. In such event, the calculation of the cash payment due to the Employee shall be based on the fair market value of the Company's common stock as of the effective date of such Employee's termination of employment.

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- The Committee shall conclusively determine whether an Employee shall be considered permanently disabled for purposes of this performance stock unit award.

5. Change of Control. Notwithstanding Sections 3 and 4 above, if an event constituting a Change in Control of the Company occurs and the Employee thereafter terminates employment for any reason, then the performance stock units granted hereunder shall immediately vest and a cash payment shall be made as if the maximum Performance Objective had been fully achieved, regardless of whether termination of employment is by the Employee, the Company or otherwise. Such cash payment shall be equal to the number of performance stock units granted to the Employee multiplied by the fair market value of the Company's common stock as of the effective date of such Change in Control. Employee's continued employment with the Company, for whatever duration, following a Change in Control of the Company shall not constitute a waiver of the Employee's rights with respect to this Section 5.

For purposes of this Section 5, a "Change in Control of the Company" shall be deemed to occur in any of the following circumstances:

- (a) if there occurs a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") whether or not the Company is then subject to such reporting requirement;
- (b) if any "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than Michael Batten or any member of his family (the "Batten Family"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding securities;
- (c) if during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement) there shall cease to be a majority of the Board comprised as follows: individuals who at the beginning of such period constitute the Board and any new director(s) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved; or

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

6. Awards Contingent Upon Shareholder Approval of Plan Amendments. All of the performance stock units granted hereunder are contingent upon the approval by the Company's shareholders at the Company's 2006 annual meeting of the amendments to the Plan approved by the Board on January 20, 2006. Upon the occurrence of said event, the grant of performance stock units awarded herein shall be effective as of the date specified herein with no further action required by the Committee. If such approval does not occur at the Company's 2006 annual meeting of shareholders, the awards granted hereunder shall be null and void.

7. Employment Status. Neither this Agreement nor the Plan impose on the Company any obligation to continue the employment of the Employee.

&n bsp; TWIN DISC, INCORPORATED  
 &n bsp; By: \_\_\_\_\_

; Its: \_\_\_\_\_  
 p;

&nbs

&

nbs; EMPLOYEE: \_\_\_\_\_

# PERFORMANCE STOCK AWARD GRANT AGREEMENT

THIS PERFORMANCE STOCK AWARD GRANT AGREEMENT (the "Agreement"), by and between TWIN DISC, INCORPORATED (the "Company") and (the "Employee") is dated this 27<sup>th</sup> day of July, 2006, to memorialize an amendment of an award of performance stock of even date herewith.

WHEREAS, the Company adopted an Stock Incentive Plan in 2004 (the "Plan") whereby the Compensation Committee of the Board of Directors (the "Committee") is authorized to grant performance stock awards that entitle an employee of the Company receiving such award to shares of common stock of the Company if the Company achieves a predetermined performance objective; and WHEREAS, effective July 27, 2006, the Committee made an award of performance stock to the Employee as an inducement to achieve the below described performance objective.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements herein set forth, the parties hereto agree as follows:

1. Performance Stock Award Grant. Subject to the terms of the Plan, a copy of which has been provided to the Employee and is incorporated herein by reference, the Company has granted Employee a performance stock award effective July 27, 2006. Such performance stock award shall entitle the Employee to receive \_\_\_\_\_ shares of the Company's common stock (the "Shares") if the Company achieves the economic profit objective stated below (the "Performance Objective"). The Committee shall certify whether and to what extent such Performance Objective is satisfied before any Shares are awarded.

The Performance Objective is the Company's net operating profit after taxes ("NOPAT") for the cumulative three fiscal year period ending June 30, 2009, measured as a percentage of the

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Company's capital charge for the cumulative three fiscal year period ending June 30, 2009. If the Company achieves the maximum Performance Objective as specified on the table below, the Employee will earn the maximum number of Shares. If the Company achieves the target Performance Objective as specified on the table below, the Employee will receive the target number of Shares. If the Company achieves the threshold Performance Objective stated below, the Employee will earn the threshold number of Shares. No Shares will be earned for performance below the 3-year cumulative economic profit threshold and no additional Shares will be earned for performance exceeding the 3-year cumulative economic profit maximum.

	Cumulative NOPAT as a percentage of cumulative capital charge	Number of Shares
<b>Maximum</b>	XX%	XXXX
<b>Target</b>	XX%	XXXX
<b>Threshold</b>	XX%	XXXX

In the event that the Company's economic profit is between the achievement levels set forth in the above table, the number of Shares awarded shall be determined by interpolation. Any fractional share of the Company resulting from such interpolation shall be rounded up to a whole share of the Company.

2. Price Paid by Employee. The price to be paid by the Employee for the Shares granted shall be No Dollars (\$0.00) per share.

3. Voluntary Termination of Employment Prior to Retirement/Termination for Cause. If prior to attaining the Performance Objective the Employee voluntarily terminates employment prior to the Employee becoming eligible for normal or early retirement under the Company's defined benefit pension plan covering the Employee or the employment of the Employee is terminated for cause, the performance stock awards granted to such Employee shall

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be forfeited. The Committee shall conclusively determine whether the Employee was terminated for cause for purposes of this performance stock award.

4. Death/Disability/Other Termination of Employment Other than Change of Control of Company. If prior to attaining the Performance Objective the Employee dies, becomes permanently disabled, voluntarily terminates employment after becoming eligible for normal or early retirement under the Company's defined benefit pension plan covering the Employee, or is terminated for any reason other than for cause or following a Change in Control of the Company as described in Section 5 (each a "Qualifying Event"), the performance stock awards granted to such Employee shall be paid on a prorated basis if and when the Performance Objective is achieved. Such prorated performance stock awards shall be subject to the following terms and conditions:

- The prorated award shall be determined by multiplying the number of shares underlying the award by a fraction, the numerator of which is the number of days from July 1, 2006, through the Employee's last day of employment, and the denominator of which is the number of days from July 1, 2006, through June 30, 2009. Any fractional share of the Company resulting from such a prorated award shall be rounded up to a whole share of the Company.
- Except as otherwise provided in Section 4(c), shares of the Company underlying such prorated awards shall be delivered in the ordinary course after the determination by the Committee that the Performance Objective has been achieved (and no later than 2-1/2 months after June 30, 2009).
- The Committee has the authority in its sole discretion to immediately vest the prorated portion of the performance stock awards granted hereunder if the Employee experiences a Qualifying Event and deliver shares of Company stock underlying such prorated awards as if the maximum Performance Objective had been fully achieved.
- The Committee shall conclusively determine whether the Employee shall be considered permanently disabled for purposes of this performance stock award.

5. Change of Control. Notwithstanding Sections 3 and 4 above, if an event constituting a Change in Control of the Company occurs and the Employee thereafter terminates

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employment for any reason, then the performance stock award granted hereunder shall immediately vest and the Shares of the Company underlying the award shall be delivered as if the maximum Performance Objective had been fully achieved, regardless of whether termination of employment is by the Employee, the Company or

otherwise. Employee's continued employment with the Company, for whatever duration, following a Change in Control of the Company shall not constitute a waiver of the Employee's rights with respect to this Section 5.

For purposes of this Section 5, a "Change in Control of the Company" shall be deemed to occur in any of the following circumstances:

- (a) if there occurs a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") whether or not the Company is then subject to such reporting requirement;
- (b) if any "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than Michael Batten or any member of his family (the "Batten Family"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding securities;
- (c) if during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement) there shall cease to be a majority of the Board comprised as follows: individuals who at the beginning of such period constitute the Board and any new director(s) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved; or
- (d) if the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

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6. No Rights of Shareholder. Until the Performance Objective is met, the performance stock award grant shall not entitle the Employee any rights of a shareholder, including the right to receive dividends or to vote the Shares. In the event that the Performance Objective is met, the associated shares of the Company shall be issued to the Employee if his performance stock awards have not been forfeited. Shares may be issued by either delivering stock certificates to the Employee or by making an appropriate book entry for the associates shares. Such certificates shall be issued, or such book entry shall be made, no later than 2-1/2 months after June 30, 2009.

7. Employment Status. Neither this Agreement nor the Plan impose on the Company any obligation to continue the employment of the Employee.

&n bsp; TWIN DISC, INCORPORATED

&n bsp; By: \_\_\_\_\_  
; Its: \_\_\_\_\_

&n bsp; EMPLOYEE:

&n bsp; \_\_\_\_\_

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**TWIN DISC, INC., ANNOUNCES RECORD RESULTS FOR FISCAL 2006****Fiscal 2006 Net income Up 109.2 Percent to \$14,453,000****Fiscal 2006 Sales Increase 11.4 Percent to \$243,287,000****Record Year End Backlog****Positive Momentum Continuing into Fiscal 2007**

RACINE, WISCONSIN—July 31, 2006—**Twin Disc, Inc. (NASDAQ: TWIN)**, today announced record financial results for the fiscal 2006 fourth quarter and full year ended June 30, 2006.

For the fiscal 2006 fourth quarter, net income increased 80.1 percent to a quarterly record of \$5,660,000, or \$0.95 per diluted share, compared with net income of \$3,142,000, or \$0.54 per diluted share in the same quarter last fiscal year. All per share information has been adjusted for a two-for-one stock split of the Company's common stock that occurred April 3, 2006. Net income for 2006 increased 109.2 percent to a record \$14,453,000, or \$2.43 per diluted share compared with \$6,910,000, or \$1.19 per diluted share last year.

Gross profit reached a record \$24,057,000 in the fiscal 2006 fourth quarter. Gross profit as a percentage of sales in the fiscal 2006 fourth quarter increased to 33.2 percent from 27.7 percent in the same period last fiscal year. Profitability continued to improve from the implementation of cost reduction programs, a better product mix and selective price increases, which absorbed higher steel, energy and shipping costs. The gross margin for fiscal 2006 increased 4.2 percentage points to 30.5 percent compared with 26.3 percent last year.

More...

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Page 2, Twin Disc, Inc.

Net sales for the fourth quarter of fiscal 2006 increased 17.1 percent to a quarterly record \$72,534,000 from \$61,923,000 for the same period last year. Sales continue to benefit from strong industry trends, especially from the Company's oil and military customers. Net sales for the 2006 full year increased 11.4 percent to a record \$243,287,000 compared with last year's \$218,472,000. Net sales were negatively impacted by unfavorable currency exchange rates, primarily the Euro, of approximately \$3,200,000 compared to the prior fiscal year. Sales for the fiscal 2006 fourth quarter and full year do not include sales from the Company's recent acquisition of the BCS Group.

Michael E. Batten, Chairman and Chief Executive Officer, said, "We are extremely proud of our 2006 financial and operational results. Fiscal 2006 represents the best year in the Company's history and we are entering 2007 with very strong momentum throughout every aspect of our organization.

"Throughout the year, sales, gross profit and earnings improved as a result of a stronger mix of business and increased sales penetration. These trends are continuing as our Company benefits from positive industry dynamics. We are seeing high demand from both our sea and land based oil and gas customers for a number of our products. We are excited about the strategic acquisition of the BCS Group made during the fourth quarter. The acquisition provides us a greater presence in the European luxury yacht market and enhances our product line as we now offer a complete line of transmission, propulsion and boat management systems to the marine industry.

"As a result of our strong financial performance, we were able to increase the shares outstanding to approximately 5,900,000 by splitting our common stock, and raise our quarterly cash dividend payment 8.6 percent to \$0.095 per common share on a post-split basis. For fiscal 2006 we returned \$2,117,000 in dividends, or 14.6 percent of net income to our shareholders, in addition to the stock's appreciation."

Christopher J. Eperjesy, Vice President - Finance, Chief Financial Officer and Secretary, stated, "During the fourth fiscal quarter, we successfully completed a \$25,000,000 private placement of 6.05 percent Senior Notes. We were able to secure an attractive interest rate for the Company to replace the 7.37 percent Senior Notes that expired in June. These funds were put to good use with the strategic acquisition of the BCS Group in May 2006. Although the total debt outstanding has increased versus the end of the prior fiscal year, the Company's balance sheet remains strong, with a total debt to total capital of just over 30 percent. We continue to actively manage our balance sheet and expect total debt to decrease throughout fiscal 2007."

Mr. Batten concluded, "Our backlog of orders to be shipped over the next six months, at the end of our fiscal year, was an annual record \$91,598,000, an increase of 41.4 percent from June 30, 2005. Based on our strong backlog, improving margins and favorable industry dynamics, Twin Disc is well positioned to continue to expand sales and earnings throughout fiscal 2007."

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Page 3, Twin Disc, Inc.

Twin Disc, Inc., designs, manufactures and internationally distributes heavy-duty off-highway power transmission equipment for the construction, industrial, government, marine, agricultural and energy and natural resources markets.

This press release may contain statements that are forward looking as defined by the Securities and Exchange Commission in its rules, regulations and releases. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors including those identified in the Company's most recent periodic report and other filings with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved.

**--Financial Results Follow--**

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Page 4, Twin Disc, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per-share data; unaudited)

	Three Months Ended		Fiscal Year Ended	
	June 30,		June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net sales	\$72,534	\$61,923	\$243,287	\$218,472
Cost of goods sold	<u>48,477</u>	<u>44,768</u>	<u>168,897</u>	<u>161,052</u>
Gross profit	24,057	17,155	74,390	57,420
Marketing, engineering and				

administrative expenses	14,816	12,669	49,606	44,666
Restructuring of operations	<u>0</u>	<u>2,076</u>	<u>0</u>	<u>2,076</u>
Operating income	9,241	2,410	24,784	10,678
Interest expense	582	320	1,718	1,134
Interest income	(146)	( 38)	(302)	(140)
Other expense (income), net	<u>227</u>	<u>(232)</u>	<u>316</u>	<u>192</u>
Earnings before income taxes and minority interest	8,578	2,360	23,052	9,492
Income taxes	<u>2,888</u>	<u>(815)</u>	<u>8,470</u>	<u>2,485</u>
Earnings before minority interest	5,690	3,175	14,582	7,007
Minority interest	<u>(30)</u>	<u>(33)</u>	<u>(129)</u>	<u>(97)</u>
Net earnings	<u>\$5,660</u>	<u>\$3,142</u>	<u>\$14,453</u>	<u>\$ 6,910</u>
Earnings per share:				
Basic	\$0.98	\$0.55	\$2.51	\$ 1.21
Diluted	\$0.95	\$0.54	\$2.43	\$ 1.19
Average shares outstanding:				
Basic	5,785	5,738	5,767	5,722
Diluted	5,979	5,816	5,941	5,816
Dividends per share	\$0.095	\$0.0875	\$0.365	\$ 0.35

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Page 5, Twin Disc, Inc.

#### CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per-share data; unaudited)

	June 30, <u>2006</u>	June 30, <u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$16,427	\$11,614
Trade accounts receivable, net	55,963	37,751
Inventories, net	65,081	48,481
Deferred income taxes	6,482	5,514
Other	<u>7,879</u>	<u>6,165</u>
Total current assets	151,832	109,525
Property, plant and equipment, net	46,958	40,331
Goodwill	15,304	12,854
Deferred income taxes	4,163	16,230
Other assets	<u>18,616</u>	<u>9,097</u>
	<u>\$236,873</u>	<u>\$188,037</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 757	\$3,522
Current maturities on long-term debt	365	2,849
Accounts payable/Bank Overdraft	30,948	21,746
Accrued liabilities	<u>48,635</u>	<u>37,792</u>
Total current liabilities	80,705	65,909
Long-term debt	37,986	14,958
Accrued retirement benefits	28,065	39,680
Other long term	<u>312</u>	<u>0</u>
	147,068	120,547
Minority interest	572	591
Shareholders' equity:		
Common stock	11,653	11,653
Retained earnings	101,652	89,316
Unearned Compensation	(108)	(203)
Accumulated other comprehensive loss	<u>(9,166)</u>	<u>(17,567)</u>
	104,031	83,199
Less treasury stock, at cost	<u>14,798</u>	<u>16,300</u>
Total shareholders' equity	<u>89,233</u>	<u>66,899</u>
	<u>\$236,873</u>	<u>\$188,037</u>



## 2004 STOCK INCENTIVE PLAN FOR NON-EMPLOYEE DIRECTORS

(As amended effective July 28, 2006)

## ARTICLE I

## PURPOSE

1.1 **Purpose.** The purpose of the Twin Disc, Incorporated 2004 Stock Incentive Plan for Non-Employee Directors (the "Directors' Plan" or "Plan") is to promote the financial interests of Twin Disc, Incorporated (the "Company") and its shareholders by providing non-employee members of the Company's Board of Directors (each a "Participant") the opportunity to acquire Common Stock of the Company ("Common Stock"), thereby assisting the Company in its efforts to attract and retain well qualified individuals to serve as directors and further aligning the interests of such directors with those of the Company's shareholders. Common Stock under the Plan will be made available to Participants as either options to purchase Common Stock ("Options") or Common Stock with certain imposed restrictions as defined herein ("Restricted Stock") (collectively with Options, "Awards"). Options granted under the Directors' Plan are not intended to meet all of the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and the Directors' Plan shall be construed so as to carry out that intent.

## ARTICLE II

## EFFECTIVE DATE AND TERM

2.1 **Effective Date.** The Directors' Plan shall become effective on the date that it is approved by shareholders holding a majority of the outstanding shares of Common Stock of the Company (the "Effective Date").

2.2 **Term.** No Option may be granted or Restricted Stock awarded more than ten (10) years after the Effective Date.

2.3 **Post-Term Activity.** Options granted within the term of the Plan as set forth in Section 2.2, subject to the all other terms and conditions of the Plan and the agreement(s) governing the grant of the Options, may be exercised, paid out, or modified more than ten years after the Effective Date. Restrictions on Restricted Stock may lapse more than ten (10) years after the Effective Date.

## ARTICLE III

## STOCK SUBJECT TO PLAN

3.1 **Maximum Number.** The maximum number of shares of Common Stock that may be issued pursuant to Awards under the Plan is 36,000 subject to the adjustments provided in Article XII, below. Such shares may be newly-issued shares, authorized but unissued shares or shares reacquired by the Company on the open market or otherwise.

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3.2 **Availability of Shares for Award.** Shares of Common Stock that are subject to issuance pursuant to an Award may thereafter be subject to a new Award:

- (a) if the prior Award to which such shares were subject lapses, expires or terminates without the issuance of such shares; or
- (b) shares issued pursuant to an Award are reacquired by the Company pursuant to rights reserved by the Company upon the issuance of such shares; provided, that shares reacquired by the Company may only be subject to new Awards if the Participant received no benefit of ownership from the shares.

Shares of Common Stock that are received by the Company in connection with the exercise of an Option, including the satisfaction of any tax liability or the satisfaction of a tax withholding obligation, may be made subject to issuance pursuant to a later Option.

## ARTICLE IV

## ADMINISTRATION

4.1 **General Administration.** The Company's Board of Directors (the "Board") will supervise and administer the Plan; provided, however, that the Board may appoint a committee (the "Committee") of two (2) or more directors to administer the Plan if deemed necessary or advisable in order to comply with the exemptive rule promulgated pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

4.2 **Powers.** Grants of Options under the Plan and the amount, price and timing of the awards to be granted will be automatic as described in Article VI. Awards of Restricted Stock under the Plan and the amount and timing of the awards will be automatic as described in Article IX. However, the Board or Committee shall have discretionary authority to determine all issues with respect to the interpretation of the Plan, Options granted under the Plan and Restricted Stock awarded under the Plan, and with respect to all Plan administration issues.

4.3 **Section 16 Compliance.** Transactions under this Directors' Plan are intended to comply with all applicable conditions of the exemptive rules promulgated pursuant to Section 16(b) of the Exchange Act. To the extent any provision of the Directors' Plan or action of the Board or Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board or Committee.

## ARTICLE V

## ELIGIBILITY

5.1 **Eligibility.** All present or future directors of the Company who are not employees of the Company shall be eligible to participate in the Directors' Plan.

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## ARTICLE VI

## GRANT OF OPTIONS



6.1 **Automatic Grant.** On each annual stockholders' meeting beginning in calendar year 2004, each eligible director who is elected or re-elected to the Board, and each eligible director who is continuing to serve on the Board, shall be granted Options to purchase 300 shares of Common Stock, and the grant date for such Options shall be the day of the annual stockholders' meeting. On each annual stockholders' meeting beginning in calendar year 2006, each eligible director who is elected or re-elected to the Board, and each eligible director who is continuing to serve on the Board, shall be granted Options to purchase 600 shares of Common Stock, and the grant date for such Options shall be the day of the annual stockholders' meeting.

6.2 **Exercise Price.** The exercise price per share shall be the fair market value per share of Common Stock on the date the Option is granted. For this and all other purposes under the Plan, the fair market value shall be the closing price per share of Common Stock on the New York Stock Exchange ("NYSE") on the date of grant; provided, that if the Common Stock ceases to be listed on the NYSE, the Board or Committee shall designate an alternative method of determining the fair market value of the Common Stock.

6.3 **Option Period.** No Option granted under the Plan shall be exercisable unless and until shareholder approval of the Plan is obtained. Following such approval, Options may be exercised in whole at any time or in part from time to time. An Option shall not be exercisable more than ten years after the date it is granted, and will terminate no later than three years after termination of director status for any reason other than death.

6.4 **Written Agreement.** Each Option shall be evidenced by an appropriate written agreement, the form of which shall be consistent with the terms and conditions of the Plan and applicable law, which shall be signed by an officer of the Company and the Participant. A single written agreement may cover the grant of Options in subsequent or prior years.

## ARTICLE VII

### PAYMENT FOR OPTIONS

7.1 **General.** Payments required, if any, upon a Participant's exercise of an Option under the Plan may be made in the form of: (i) cash; (ii) Company stock; (iii) a combination of cash and Company stock; or (iv) such other forms or means that the Board or Committee shall determine in its discretion and in such manner as is consistent with the Plan's purpose and the Code, the Exchange Act, or other applicable laws or regulations.

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## ARTICLE VIII

### TRANSFERABILITY OF OPTIONS AND EFFECT OF TERMINATION OF DIRECTOR STATUS

8.1 **General.** Except as provided herein, no Option or interest therein shall be transferable by a Participant other than by will or by the laws of descent and distribution.

8.2 **Exercise Upon Death.** In the event of the death of a Participant prior to termination of an Option held by such director, each such Option shall be exercisable to the extent provided therein, but not later than one year after the date of death (and not beyond the stated duration of the Option). Any such exercise shall be made only:

- (a) By the executor or administrator of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the Option shall pass by will or the laws of descent and distribution; and
- (b) To the extent, if any, that the deceased Participant was entitled to exercise such Option at the date of his death.

8.3 **Transferability of Option During Lifetime.** Except as otherwise provided herein, every Option granted under the Plan to a Participant may be assigned or transferred by the Participant to or for the benefit of a member of the Participant's immediate family or to trusts created for their benefit and may thereafter be exercised pursuant to its terms by the person or entity to whom assigned; provided, however, that such transfer does not result in liability under Section 16 of the Exchange Act to the Participant or other Participants and is consistent with registration of the Options and sale of Common Stock on Form S-8 (or a successor form) or the Committee's waiver of such condition.

8.4 **Forfeiture.** Any unexpired and unexercised Options held by a Participant shall be immediately forfeited if the Participant is prohibited from serving on the Board by any court of competent jurisdiction or other government authority, or if, in the discretion of the Board or Committee, a Participant is no longer competent to serve on the Board due to the Participant's violation of state or federal securities law or other rule of the NYSE (or such other listing standards then applicable to the Company).

8.5 **Resale Limitation.** Shares of Common Stock issued upon exercise of Options under the Plan are subject to effective registration statements filed with the Securities and Exchange Commission and are freely transferable. However, any sale of shares acquired through the exercise of Options by a director must be made pursuant to an effective registration statement under the Securities Act of 1933, as amended, or under an applicable exemption from registration (such as SEC Rule 144). Any such sale be reported to the SEC in accordance with the applicable provisions of Section 16 of the Exchange Act and rules promulgated thereunder.

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## ARTICLE IX

### AWARD OF RESTRICTED STOCK

9.1 **Automatic Award.** On each annual stockholders' meeting beginning in calendar year 2004, each eligible director who is elected or re-elected to the Board, and each eligible director who is continuing to serve on the Board, shall be awarded 300 shares of Common Stock with the transferability restrictions set forth in Article X ("Restricted Stock"), and the award date for such Restricted Stock awarded shall be the day of the annual stockholders' meeting. On each annual stockholders' meeting beginning in calendar year 2006, each eligible director who is elected or re-elected to the Board, and each eligible director who is continuing to serve on the Board, shall be awarded 600 shares of Common Stock with the transferability restrictions set forth in Article X ("Restricted Stock"), and the award date for such Restricted Stock awarded shall be the day of the annual stockholders' meeting.

9.2 **Written Agreement.** Each Restricted Stock award shall be evidenced by an appropriate written agreement, the form of which shall be consistent with the terms and conditions of the Plan and applicable law, which shall be signed by an officer of the Company and the Participant. A single written agreement may cover the award of Restricted Stock in subsequent or prior years.

9.3 **Rights of Holder of Restricted Stock.** Except for the restrictions on transfer and risk of forfeiture, the Participant shall have, with respect to shares of Restricted Stock, all of the rights of a shareholder of Common Stock, including, if applicable, the right to vote the shares and the right to receive any cash or stock dividends. Unless otherwise determined by the Board or Committee and subject to the terms of the Plan, cash or stock dividends on shares of Restricted Stock shall be payable to the Participant as they are paid by the Company, even if the restrictions on the shares to which such dividends relate have not yet lapsed. Cash dividends, if deferred, shall be paid with an appropriate rate of interest, as determined by the Board or Committee.

## ARTICLE X

### TRANSFERABILITY OF RESTRICTED STOCK

10.1 Transferability Restriction. Except as otherwise provided for in this Article X, for a period of three (3) years from the date of award, the Restricted Stock shall not be subject to sale, assignment, pledge or other transfer of disposition by the Participant, except by reason of an exchange or conversion of such shares because of merger, consolidation, reorganization or other corporate action. Any shares into which the Restricted Stock may be converted or for which the Restricted Stock may be exchanged in a merger, consolidation, reorganization or other corporate action shall be subject to the same transferability restrictions as the Restricted Stock.

10.2 Release of the Transferability Restriction. One-third (1/3) of the Restricted Stock awarded on a particular date shall become freely transferable on each of the subsequent three (3) anniversaries of the date of award.

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**Example:** If a Restricted Stock award of 90 shares is made on January 1, 2004, 30 shares of that award become freely transferable on January 1, 2005, another 30 shares of that award become freely transferable on January 1, 2006 and the final 30 shares of that award become freely transferable on January 1, 2007.

10.3 Transferability of Restricted Stock Upon Death or Voluntary Retirement. Subject to the forfeiture provisions set forth in Article XI, all Restricted Stock held by a Participant shall become freely transferable upon the death of the Participant or the Participant's voluntary retirement from the Board.

10.4 Resale Limitation. Restricted Stock awarded under the Plan is subject to effective registration statements filed with the Securities and Exchange Commission and is freely transferable, except as provided in this Article X. However, any sale of Restricted Stock by a director must be made pursuant to an effective registration statement under the Securities Act of 1933, as amended, or under an applicable exemption from registration (such as SEC Rule 144). Any such sale be reported to the SEC in accordance with the applicable provisions of Section 16 of the Exchange Act and rules promulgated thereunder.

## ARTICLE XI

### FORFEITURE OF RESTRICTED STOCK

11.1 General. Any Restricted Stock held by a Participant that remains subject to the transfer restrictions set forth in Section 10.2 shall be immediately forfeited if the Participant:

- (a) is recommended by the Company to be re-elected to the Board and fails to be re-elected by the shareholders of the Company to the Board in that election; or
- (b) is prohibited from serving on the Board by any court of competent jurisdiction or other government authority, or in the discretion of the Board or Committee is no longer competent to serve on the Board due to the Participant's violation of state or federal securities law or other rule of the NYSE (or such other listing standards then applicable to the Company).

## ARTICLE XII

### ADJUSTMENT PROVISIONS

12.1 Changes in Capitalization. If the Company shall at any time change the number of issued shares of Common Stock without new consideration to the Company (by stock dividends, stock splits, split-up, spin-off or similar transactions):

- (a) the total number of shares reserved for issuance under this Plan and the number of shares subject to each outstanding Option shall be adjusted so that the aggregate consideration payable to the Company, if any, and the value of each such Option shall not be changed; and

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- (b) for stock dividends, stock splits, split-up, spin-off or similar transactions that occur on or after July 28, 2006, the number of Options and shares of Restricted Stock automatically awarded pursuant to Sections 6.1 and 9.1 of the Plan shall be proportionately adjusted to reflect the change in the number of issued shares of Common Stock.

12.2 Reorganization, Sale, etc. Options granted hereunder may also contain provisions for their continuation, acceleration, immediate vesting, or for other equitable adjustments after changes in the Common Stock resulting from reorganization, sale, merger, consolidation, dissolution, liquidation or similar circumstances.

## ARTICLE XIII

### AMENDMENT AND TERMINATION OF PLAN

13.3 General. The Board, without further approval of the Company's shareholders, may amend the Plan from time to time or terminate the Plan at any time, provided that:

- (a) no action authorized by this Article shall reduce the amount of any existing Option or Restricted Stock award or change the terms and conditions thereof without the Participant's consent; and
- (b) no amendment of the Plan shall, without the approval of the Company's shareholders, (i) increase the total number of shares of Common Stock that may be issued under the Plan or increase the amount or type of Option that may be granted under the Plan or increase the amount of Restricted Stock that may be awarded under the Plan; (ii) change the minimum purchase price, if any, of shares of Common Stock that may be made subject to Options under the Plan; (iii) modify the requirements as to eligibility for an Option under the Plan; (iv) extend the term of the Plan; or (v) constitute a material revision of the Plan under the listing standards of the NYSE (or such other listing standards then applicable to the Company).

## ARTICLE XIV

14.1 Withholding Taxes. No later than the date as of which an amount first becomes includible in the gross income of the Participant for federal income tax purposes with respect to the award of Restricted Stock or the exercise of any Option granted under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company or other entity identified by the Board or Committee regarding the payment of any federal, state, local or foreign taxes of any kind required by law to be withheld. Such withholding obligations may be settled with Common Stock, including Common Stock that is received upon the exercise of the Option that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional upon such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant.

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14.2 Tenure. A Participant's right, if any, to continue to serve the Company as a director shall not be enlarged or otherwise affected by his designation as a Participant under the Directors' Plan.

14.3 Controlling Law. The Plan, all Options granted, all Restricted Stock awarded and actions taken hereunder shall be governed by and construed in accordance with the laws of the State of Wisconsin (other than its law respecting choice of law). The Plan shall be construed to comply with all applicable law and to avoid liability to the Company or a Subsidiary, including, without limitation, liability under Section 16(b) of the Exchange Act.

14.4 Headings. The headings contained in the Plan are for reference purposes only, and shall not affect the meaning or interpretation of the Plan.

14.5 Severability. If any provision of the Plan shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereby, and this Plan shall be construed as if such invalid or unenforceable provision were omitted.

14.6 Successors and Assigns. This Plan shall inure to the benefit of and be binding upon each successor and assign of the Company. All obligations imposed upon a Participant, and all rights granted to the Company hereunder, shall be binding upon the Participant's heirs, legal representatives and successors.

14.7 Entire Agreement. This Plan and any agreements governing the grant of Options or Restricted Stock awards hereunder to any Participant constitutes the entire agreement with respect to the subject matter hereof with respect to such Participant, provided that in the event of any inconsistency between the Plan and any such agreement(s), the terms and conditions of the Plan shall control.

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