



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended March 26, 2010

Commission File Number 1-7635

TWIN DISC, INCORPORATED
(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
Incorporation or organization)

39-0667110
(I.R.S. Employer
Identification No.)

1328 Racine Street, Racine, Wisconsin 53403
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At April 30, 2010, the registrant had 11,191,826 shares of its common stock outstanding.

Part I. FINANCIAL INFORMATION**Item 1. Financial Statements****TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS**

(In Thousands, Unaudited)

	March 26, <u>2010</u>	June 30, <u>2009</u>
Assets		
Current assets:		
Cash	\$ 14,533	\$ 13,266
Trade accounts receivable, net	42,211	53,367
Inventories, net	79,083	92,331
Deferred income taxes	5,413	6,280
Other	<u>7,298</u>	<u>8,677</u>
Total current assets	148,538	173,921
Property, plant and equipment, net	61,059	65,799
Goodwill, net	17,228	17,509
Deferred income taxes	14,053	14,386
Intangible assets, net	7,039	7,855
Other assets	<u>6,309</u>	<u>6,095</u>
Total assets	\$ <u>254,226</u>	\$ <u>285,565</u>
Liabilities and Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 3,978	\$ 4,421
Accounts payable	22,949	24,864
Accrued liabilities	<u>28,784</u>	<u>40,967</u>
Total current liabilities	55,711	70,252
Long-term debt	31,122	46,348
Accrued retirement benefits	60,754	60,241
Other long-term	<u>2,498</u>	<u>899</u>
Total liabilities	150,085	177,740
Equity		
Twin Disc shareholders' equity:		
Common shares authorized: 30,000,000; issued: 13,099,468; no par value	10,592	13,205
Retained earnings	146,462	150,257
Accumulated other comprehensive loss	<u>(26,082)</u>	<u>(26,218)</u>
	130,972	137,244
Less treasury stock, at cost (1,907,642 and 2,070,124 shares, respectively)	<u>27,690</u>	<u>30,256</u>
Total Twin Disc shareholders' equity	103,282	106,988
Noncontrolling interest	<u>859</u>	<u>837</u>
Total equity	<u>104,141</u>	<u>107,825</u>
Total liabilities and equity	\$ <u>254,226</u>	\$ <u>285,565</u>

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

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(In Thousands Except Per Share Data, Unaudited)

	Three Months Ended		Nine Months Ended	
	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>
Net sales	\$ 60,977	\$ 69,292	\$ 163,220	\$ 223,562
Cost of goods sold	<u>44,472</u>	<u>50,141</u>	<u>122,182</u>	<u>161,386</u>
Gross profit	16,505	19,151	41,038	62,176
Marketing, engineering and administrative expenses	<u>14,555</u>	<u>14,517</u>	<u>42,228</u>	<u>47,843</u>
Earnings (loss) from operations	1,950	4,634	(1,190)	14,333
Interest expense	639	526	1,821	1,837
Other (income) expense, net	<u>(433)</u>	<u>1,049</u>	<u>(236)</u>	<u>37</u>
	<u>206</u>	<u>1,575</u>	<u>1,585</u>	<u>1,874</u>
Earnings (loss) before income taxes and noncontrolling interest	1,744	3,059	(2,775)	12,459
Income taxes	<u>244</u>	<u>362</u>	<u>(1,454)</u>	<u>3,639</u>
Net earnings (loss)	1,500	2,697	(1,321)	8,820
Less: Net (earnings) loss attributable to noncontrolling interest, net of tax	<u>(49)</u>	<u>153</u>	<u>(122)</u>	<u>(72)</u>
Net earnings (loss) attributable to Twin Disc	\$ <u>1,451</u>	\$ <u>2,850</u>	\$ <u>(1,443)</u>	\$ <u>8,748</u>
Dividends per share	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21
Earnings (loss) per share data:				
Basic earnings (loss) per share attributable to Twin Disc common shareholders	\$ 0.13	\$ 0.26	\$ (0.13)	\$ 0.79
Diluted earnings (loss) per share attributable to Twin Disc common shareholders	\$ 0.13	\$ 0.26	\$ (0.13)	\$ 0.78
Weighted average shares outstanding data:				
Basic shares outstanding	11,065	11,006	11,062	11,127
Dilutive stock awards	<u>85</u>	<u>35</u>	-	<u>70</u>
Diluted shares outstanding	<u>11,150</u>	<u>11,041</u>	<u>11,062</u>	<u>11,197</u>
Comprehensive (loss) income:				
Net earnings (loss)	\$ 1,500	\$ 2,697	\$ (1,321)	\$ 8,820
Adjustment for amortization of net actuarial loss and prior service cost, net of tax	488	470	1,405	1,412
Foreign currency translation adjustment	<u>(7,124)</u>	<u>(1,004)</u>	<u>(1,209)</u>	<u>(19,574)</u>
Comprehensive (loss) income	(5,136)	2,163	(1,125)	(9,342)
Comprehensive (earnings) loss attributable to noncontrolling interest	<u>(49)</u>	<u>153</u>	<u>(122)</u>	<u>(72)</u>
Comprehensive (loss) income attributable to Twin Disc	\$ <u>(5,185)</u>	\$ <u>2,316</u>	\$ <u>(1,247)</u>	\$ <u>(9,414)</u>

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

TWIN DISC, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Unaudited)

	Nine Months Ended	
	March 26, 2010	March 27, 2009
Cash flows from operating activities:		
Net (loss) earnings	\$ (1,321)	\$ 8,820
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	7,338	7,308
Other non-cash changes, net	270	345
Net change in working capital, excluding cash	<u>16,827</u>	<u>(15,830)</u>
Net cash provided by operating activities	<u>23,114</u>	<u>643</u>
Cash flows from investing activities:		
Acquisitions of fixed assets	(2,791)	(6,631)
Other, net	(263)	1,167
Net cash used by investing activities	<u>(3,054)</u>	<u>(5,464)</u>
Cash flows from financing activities:		
Proceeds from notes payable	89	1,779
Payments of notes payable	(531)	(881)
(Payments of) proceeds from long-term debt	(15,244)	7,939
Proceeds from exercise of stock options	80	110
Purchase of treasury stock	-	(1,813)
Dividends paid to shareholders	(2,352)	(2,333)
Dividends paid to noncontrolling interest	(160)	(143)
Other	(466)	(252)
Net cash (used) provided by financing activities	<u>(18,584)</u>	<u>4,406</u>
Effect of exchange rate changes on cash	<u>(209)</u>	<u>(1,729)</u>
Net change in cash	1,267	(2,144)
Cash:		
Beginning of period	<u>13,266</u>	<u>14,447</u>
End of period	\$ <u>14,533</u>	\$ <u>12,303</u>

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A. Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, in the opinion of the Company, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation of results for each period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest Annual Report. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Certain balances in prior fiscal years have been reclassified to conform to the presentation adopted in the current year. This reclassification impacted the Company’s Condensed Consolidated Statements of Cash Flow, resulting in an immaterial transfer from operating activities to financing activities.

New Accounting Releases

In February 2010, the Financial Accounting Standards Board (“FASB”) issued a standards update removing the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This update was effective upon issuance, and has been incorporated in this report.

In August 2009, the FASB issued a clarification on fair value measurements. This clarification provides that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. This clarification was effective in the first reporting period following issuance (the Company’s first quarter of fiscal 2010), and did not have a material impact on the Company’s financial statements.

In June 2009, the FASB issued the FASB Accounting Standards Codification (“Codification”). The Codification is the single source of authoritative US generally accepted accounting principles recognized by the FASB, and is to be applied for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification is not intended to change GAAP and did not have an effect on our financial position, results or liquidity.

In June 2009, the FASB issued an amendment changing how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. New disclosures will be required regarding involvement with variable interest entities and any significant changes in risk exposure due to that involvement. This change will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010 for the Company) and is not expected to have a material impact on the Company’s financial statements.

In June 2009, the FASB issued a revision which will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” and changes the requirements for derecognizing financial assets, and requires additional disclosures. This change will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010 for the Company) and is not expected to have a material impact on the Company’s financial statements.

In April 2009, the FASB issued an update that requires disclosure about the fair value of financial instruments whenever summarized financial information for interim periods is issued, and requires disclosure of the fair value of all financial instruments (where practicable) in the body or accompanying notes of interim and annual financial statements. This update was effective for the Company’s first quarter of fiscal 2010, and appropriate disclosures have been included herein.

In March 2009, the FASB concluded that vested share-based payment awards that entitle holders to receive nonforfeitable dividends declared on common stock are participating securities. Accordingly, those awards should be considered in the calculation of earnings per share using the two class method. This guidance is effective for fiscal years beginning after December 15, 2008. The Company implemented this provision in the first fiscal quarter of 2010, with no material impact to the financial statements.

In December 2008, the FASB issued additional guidance on an employer’s disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this guidance are to provide users of financial statements with an understanding of:

- a) How investment allocation decisions are made;
- b) The major categories of plan assets;
- c) The inputs and valuation techniques used to measure the fair value of plan assets;
- d) The effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and
- e) Significant concentrations of risk within plan assets.

These disclosures about plan assets are required for fiscal years ending after December 15, 2009, and earlier application is permitted.

In April 2008, the FASB issued an update that amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this update is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This change was effective for the Company’s first quarter of fiscal 2010, and had no material impact on the Company’s financial statements.

In December 2007, the FASB established new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary, and includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company implemented this new standard in the first fiscal quarter of 2010, with minimal impact to the presentation of the financial statements.

B. Inventory

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

March 26,

June 30,

	<u>2010</u>	<u>2009</u>
Inventories:		
Finished parts	\$50,892	\$62,498
Work in process	9,055	8,726
Raw materials	<u>19,136</u>	<u>21,107</u>
	<u>\$79,083</u>	<u>\$92,331</u>

C. Warranty

The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers. However, its warranty obligation is affected by product failure rates, the extent of the market affected by the failure and the expense involved in satisfactorily addressing the situation. The warranty reserve is established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. When evaluating the adequacy of the reserve for warranty costs, management takes into consideration the term of the warranty coverage, historical claim rates and costs of repair, knowledge of the type and volume of new products and economic trends. While we believe the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable in the future could differ materially from what actually transpires. The following is a listing of the activity in the warranty reserve during the three and nine month periods ended March 26, 2010 and March 27, 2009 (in thousands):

	Three Months Ended		Nine Months Ended	
	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>
Reserve balance, beginning of period	\$7,115	\$8,231	\$8,028	\$8,125
Current period expense	414	2,068	2,833	4,175
Payments or credits to customers	(819)	(2,372)	(4,260)	(3,928)
Translation	(238)	(161)	(129)	(606)
Reserve balance, end of period	<u>\$6,472</u>	<u>\$7,766</u>	<u>\$6,472</u>	<u>\$7,766</u>

D. Contingencies

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

E. Business Segments

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

	Three Months Ended		Nine Months Ended	
	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>
Manufacturing segment sales	\$ 50,249	\$ 65,931	\$ 129,908	\$ 201,308
Distribution segment sales	24,165	25,741	75,601	83,712
Inter/Intra segment elimination - manufacturing	(10,338)	(16,738)	(27,818)	(45,973)
Inter/Intra segment elimination - distribution	(3,099)	(5,642)	(14,471)	(15,485)
Net sales	<u>\$ 60,977</u>	<u>\$ 69,292</u>	<u>\$ 163,220</u>	<u>\$ 223,562</u>
Manufacturing segment earnings (loss)	\$ 1,861	\$ 3,165	\$ (2,535)	\$ 11,608
Distribution segment earnings	1,939	1,531	5,680	7,026
Corporate and eliminations	(2,056)	(1,637)	(5,920)	(6,175)
Earnings (loss) before income taxes and noncontrolling interest	<u>\$ 1,744</u>	<u>\$ 3,059</u>	<u>\$ (2,775)</u>	<u>\$ 12,459</u>
Assets	Mar. 26, <u>2010</u>	June 30, <u>2009</u>		
Manufacturing segment assets	\$ 330,025	\$ 355,672		
Distribution segment assets	58,959	67,856		
Corporate assets and elimination of inter-company assets	<u>(134,758)</u>	<u>(137,963)</u>		
	<u>\$ 254,226</u>	<u>\$ 285,565</u>		

F. Stock-Based Compensation

In the first nine months of fiscal 2010 and 2009, the Company granted a target number of 91,807 and 88,500 performance stock unit awards, respectively, to various employees of the Company, including executive officers. The performance stock unit awards granted in fiscal 2010 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Unit Award Grant Agreement) in the cumulative three fiscal year period ending June 30, 2012. The performance stock unit awards granted in fiscal 2010 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance stock units that can be awarded if the target objective is exceeded is 110,168. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock unit awards granted in fiscal 2010. The performance stock unit awards granted in fiscal 2009 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Unit Award Grant Agreement) in the cumulative three fiscal year period ending June 30,

2011. The performance stock unit awards granted in fiscal 2009 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance stock units that can be awarded if the target objective is exceeded is 106,200. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock unit awards granted in fiscal 2009. There were 233,065 and 214,300 unvested performance stock unit awards outstanding at March 26, 2010 and March 27, 2009, respectively. The performance stock unit awards are remeasured at fair-value at the end of each reporting period. The fair-value of the stock unit awards are expensed over the performance period for the shares that are expected to ultimately vest. There was no compensation expense for the three and nine months ended March 26, 2010 due to the low probability of achieving threshold performance levels. The compensation expense (income) for the three and nine months ended March 27, 2009, related to the performance stock unit awards, approximated \$64,000 and \$(607,000), respectively.

In the first nine months of fiscal 2010 and 2009, the Company granted a target number of 74,173 and 66,500 performance stock awards, respectively, to various employees of the Company, including executive officers. The performance stock awards granted in fiscal 2010 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Award Grant Agreement) in the cumulative three fiscal year period ending June 30, 2012. The performance stock awards granted in fiscal 2010 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 89,008. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock awards granted in fiscal 2010. The performance stock awards granted in fiscal 2009 will vest if the Company achieves a specified target objective relating to consolidated economic profit (as defined in the Performance Stock Award Grant Agreement) in the cumulative three fiscal year period ending June 30, 2011. The performance stock awards granted in fiscal 2009 are subject to adjustment if the Company's economic profit for the period falls below or exceeds the specified target objective, and the maximum number of performance shares that can be awarded if the target objective is exceeded is 79,800. Based upon actual results to date and the low probability of achieving the threshold performance levels, the Company is not accruing the performance stock awards granted in fiscal 2009. There were 177,983 and 176,868 unvested performance stock awards outstanding at March 26, 2010 and March 27, 2009, respectively. The fair value of the stock awards (on the date of grant) is expensed over the performance period for the shares that are expected to ultimately vest. There was no compensation expense for the three and nine months ended March 26, 2010 due to the low probability of achieving threshold performance levels. The compensation expense for the three and nine months ended March 27, 2009, related to performance stock awards, approximated \$320,000 and \$920,000, respectively.

In addition to the performance shares mentioned above, the Company has unvested restricted stock outstanding that will vest if certain service conditions are fulfilled. The fair value of the restricted stock grants is recorded as compensation over the vesting period, which is generally 1 to 4 years. During fiscal 2010 and 2009, the Company granted 109,123 and 17,700 service based restricted shares, respectively, to employees and non-employee directors in each year. There were 126,423 and 23,700 unvested shares outstanding at March 26, 2010 and March 27, 2009, respectively. The compensation expense for the three and nine months ended March 26, 2010, related to these service-based awards approximated \$121,000 and \$341,000, respectively. The compensation expense for the three and nine months ended March 27, 2009, related to these service-based awards approximated \$43,000 and \$164,000, respectively.

G. Pension and Other Postretirement Benefit Plans

The Company has non-contributory, qualified defined benefit plans covering substantially all domestic employees hired prior to October 1, 2003 and certain foreign employees. Additionally, the Company provides health care and life insurance benefits for certain domestic retirees. Components of net periodic benefit cost for the defined benefit pension plans and the other postretirement benefit plan are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>	Mar. 26, <u>2010</u>	Mar. 27, <u>2009</u>
Pension Benefits:				
Service cost	\$ 70	\$ 298	\$ 205	\$ 885
Interest cost	1,829	1,769	5,476	5,296
Expected return on plan assets	(1,521)	(2,237)	(4,554)	(6,698)
Amortization of prior service cost	3	(180)	9	(539)
Amortization of transition obligation	18	17	51	48
Amortization of net loss	656	801	1,969	2,402
Net periodic benefit cost	\$ <u>1,055</u>	\$ <u>468</u>	\$ <u>3,156</u>	\$ <u>1,394</u>
Postretirement Benefits:				
Service cost	\$ 7	\$ 9	\$ 21	\$ 28
Interest cost	336	325	1,010	973
Amortization of net actuarial loss	46	137	136	412
Net periodic benefit cost	\$ <u>389</u>	\$ <u>471</u>	\$ <u>1,167</u>	\$ <u>1,413</u>

The Company expects to contribute \$547,000 to its pension plan in fiscal 2010. As of March 26, 2010, \$84,000 in contributions have been made.

H. Income Taxes

The Company has approximately \$823,000 of unrecognized tax benefits, excluding related interest and penalties, as of March 26, 2010, which, if recognized, would favorably impact the effective tax rate. The Company anticipates that the net amount of unrecognized tax benefits will decline by approximately \$60,000 during the next twelve months.

There was no significant change in the total unrecognized tax benefits due to the settlement of audits, the expiration of statute of limitations, or for other items during the quarter ended March 26, 2010.

Annually, the Company files income tax returns in various taxing jurisdictions inside and outside the United States. In general, the tax years that remain subject to examination are 2006 through 2009 for the major operations in the U.S., Italy, Belgium, and Japan. The U.S. Internal Revenue Service is currently auditing the consolidated income tax return for fiscal 2003 through 2006. Other audits currently underway include those in Italy. It is reasonably possible that at least one of these audit cycles will be completed during fiscal 2010.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. Due to operating losses in certain foreign jurisdictions in the first three quarters of the fiscal year, the

Company has evaluated the realizability of the net deferred tax assets related to these jurisdictions (approximately \$1,508,000 at March 26, 2010). This evaluation concluded that it continues to be more likely than not that the net deferred tax assets will be realized, and no valuation allowance is warranted. The Company will continue to evaluate the realizability of its net deferred tax assets in the future, and will establish a valuation allowance in the event that it becomes more likely than not that all or a portion of a net deferred tax asset will not be realized.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of March 26, 2010, total accrued interest and penalties with respect to income taxes was approximately \$116,000 that would favorably affect the effective tax rate if recognized.

During the third quarter of 2010, the Company completed and filed its 2009 Federal and State income tax returns. Subsequently, the Company completed its return-to-provision reconciliation to determine differences between positions taken per the year-end 2009 book tax provision and the actual positions taken per the 2009 returns. This reconciliation identified an error in the fiscal 2009 tax provision, which resulted in understating fiscal 2009 earnings by \$188,000. To correct this error, the Company reduced tax expense by \$188,000 in the third quarter of fiscal 2010. The Company believes that the error was not material to the current or any previously issued financial statements.

I. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill, substantially all of which is allocated to the manufacturing segment, for the nine months ended March 26, 2010 were as follows (in thousands):

Balance at June 30, 2009	\$17,509
Translation adjustment	(281)
Balance at March 26, 2010	<u>\$17,228</u>

The gross carrying amount and accumulated amortization of the Company's intangible assets that have defined useful lives and are subject to amortization as of March 26, 2010 and June 30, 2009 are as follows (in thousands):

	March 26, 2010	June 30, 2009
Intangible assets with finite lives:		
Licensing agreements	\$ 3,015	\$ 3,015
Non-compete agreements	2,050	2,050
Other	<u>5,991</u>	<u>5,991</u>
	11,056	11,056
Accumulated amortization	(6,792)	(6,184)
Translation adjustment	<u>582</u>	<u>711</u>
Total	\$ <u>4,846</u>	\$ <u>5,583</u>

The weighted average remaining useful life of the intangible assets included in the table above is approximately 8 years.

Intangible amortization expense was \$199,000 and \$608,000 for the three and nine months ended March 26, 2010, respectively, and \$244,000 and \$760,000 for the three and nine months ended March 27, 2009, respectively. Estimated intangible amortization expense for the remainder of fiscal 2010 and each of the next five fiscal years is as follows (in thousands):

Fiscal Year	
2010	\$195
2011	779
2012	779
2013	732
2014	732
2015	437

The gross carrying amount of the Company's intangible assets that have indefinite lives and are not subject to amortization as of March 26, 2010 and June 30, 2009 are \$2,193,000 and \$2,272,000, respectively. These assets are comprised of acquired tradenames.

J. Long-term Debt

Long-term debt at March 26, 2010 and June 30, 2009 consisted of the following (in thousands):

	March 26, 2010	June 30, 2009
Revolving loan	\$ 9,250	\$ 22,450
10-year unsecured senior notes	25,000	25,000
Other	<u>850</u>	<u>3,319</u>
Subtotal	35,100	50,769
Less: current maturities and short-term borrowings	<u>(3,978)</u>	<u>(4,421)</u>
Total long-term debt	\$ <u>31,122</u>	\$ <u>46,348</u>

The revolving loan and unsecured senior notes listed above are subject to certain covenants, including restrictions on investments, acquisitions and indebtedness. Financial covenants include a minimum consolidated net worth, as defined, a minimum EBITDA for the most recent four fiscal quarters, and a maximum total funded debt to EBITDA ratio. As of March 26, 2010, the Company was in compliance with these covenants. The current margin surrounding ongoing compliance with the above covenants, in particular, minimum EBITDA for the most recent four fiscal quarters and total funded debt to EBITDA, may narrow in the Company's fourth fiscal quarter with an improvement beginning in the first quarter of fiscal 2011 and continuing thereafter. Based on its current projections, including the Company's results in the first nine months of fiscal 2010, the Company believes it will generate sufficient earnings EBITDA levels

throughout fiscal 2010 in order to maintain compliance with the above covenants. However, as with all forward-looking information, there can be no assurance that the Company will achieve the planned results in future periods due to the uncertainties in certain of its markets.

The fair value of long-term debt is estimated by discounting the future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. This rate was represented by the US Treasury Three-Year Yield Curve Rate (1.64% and 1.64% for March 26, 2010 and June 30, 2009, respectively), plus the current add-on related to the revolving loan agreement (3.00% and 2.50% for March 26, 2010 and June 30, 2009, respectively). The fair value of the Company's 10-year unsecured senior notes due April 10, 2016 was approximately \$26,218,000 and \$23,250,000 at March 26, 2010 and June 30, 2009, respectively. The Company's revolving loan agreement approximates fair value at March 26, 2010 and June 30, 2009.

In the third fiscal quarter, the Company used roughly \$2 million of cash at its Swiss operation to pay down a portion of its local debt included in the Other line item in the table above.

K. Shareholders' Equity

On February 1, 2008, the Board of Directors authorized the purchase of 500,000 shares of Common Stock at market values. The Company purchased no shares of its outstanding Common Stock in the first nine months of fiscal 2010. In the second quarter of fiscal 2009, the Company repurchased 250,000 shares of its outstanding Common Stock at an average price of \$7.25 per share for a total cost of \$1,812,500.

The following is a reconciliation of the Company's equity balances for the first fiscal nine months of 2009 and 2010 (in thousands):

	Twin Disc, Inc. Shareholders' Equity					
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- Controlling Interest	Total Equity
Balance - June 30, 2008	\$14,693	\$142,361	\$2,446	(\$29,854)	\$679	\$130,325
Net income		8,748			72	8,820
Translation adjustments			(19,643)		69	(19,574)
Benefit plan adjustments, net of tax			1,412			1,412
Cash dividends		(2,333)			(143)	(2,476)
Compensation expense and windfall tax benefits	1,860					1,860
Shares (acquired) issued, net	(2,328)			(402)		(2,730)
Balance-March 27, 2009	\$14,225	\$148,776	(\$15,785)	(\$30,256)	\$677	\$117,637

	Twin Disc, Inc. Shareholders' Equity					
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- Controlling Interest	Total Equity
Balance-June 30, 2009	\$13,205	\$150,257	(\$26,218)	(\$30,256)	\$837	\$107,825
Net (loss) income		(1,443)			122	(1,321)
Translation adjustments			(1,269)		60	(1,209)
Benefit plan adjustments, net of tax			1,405			1,405
Cash dividends		(2,352)			(160)	(2,512)
Compensation expense and windfall tax benefits	190					190
Shares (acquired) issued, net	(2,803)			2,566		(237)
Balance-March 26, 2010	\$10,592	\$146,462	(\$26,082)	(\$27,690)	\$859	\$104,141

L. Subsequent Events

Subsequent events have been evaluated. There were no events that required disclosure.

Item 2. Management Discussion and Analysis

In the financial review that follows, we discuss our results of operations, financial condition and certain other information. This discussion should be read in conjunction with our consolidated fiscal 2009 financial statements and related notes.

Some of the statements in this Quarterly Report on Form 10-Q are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the Company's description of plans and objectives for future operations and assumptions behind those plans. The words "anticipates," "believes," "intends," "estimates," and "expects," or similar anticipatory expressions, usually identify forward-looking statements. In addition, goals established by Twin Disc, Incorporated should not be viewed as guarantees or promises of future performance. There can be no assurance the Company will be successful in achieving its goals.

In addition to the assumptions and information referred to specifically in the forward-looking statements, other factors, including but not limited to those factors discussed under Item 1A, Risk Factors, of this Form 10-Q could cause actual results to be materially different from what is presented here.

Results of Operations

(In thousands)

	Three Months Ended				Nine Months Ended			
	March 26, 2010		March 27, 2009		March 26, 2010		March 27, 2009	
	\$	%	\$	%	\$	%	\$	%
Net sales	60,977		69,292		163,220		223,562	
Cost of goods sold	44,472		50,141		122,182		161,386	

Gross profit	16,505	27.1%	19,151	27.6%	41,038	25.1%	62,176	27.8%
Marketing, engineering and administrative expenses	<u>14,555</u>	23.9	<u>14,517</u>	21.0	<u>42,228</u>	25.9	<u>47,843</u>	21.4
Earnings from operations	\$ <u>1,950</u>	3.2	\$ <u>4,634</u>	6.7	\$ <u>(1,190)</u>	(0.7)	\$ <u>14,333</u>	6.4

Comparison of the Third Quarter of FY 2010 with the Third Quarter of FY 2009

Net sales for the third quarter decreased 12.0%, or \$8.3 million, to \$61.0 million from \$69.3 million in the same period a year ago. Compared to the third quarter of fiscal 2009, the U.S. Dollar weakened against the Euro and Asian currencies. The net translation effect of this on foreign operations was to increase revenues by approximately \$1.5 million versus the prior year, before eliminations. Adjusting for the impact of foreign currency translation on the third fiscal quarter, sales would have been down just over 14% versus the same period last fiscal year. Sales continued to be affected by the impact the global recession is having on the Company's markets, specifically from customers in the mega yacht and industrial markets. This weakness was partially offset by strengthening demand from customers in the oil and gas market as well as continued demand from the airport, rescue and fire fighting (ARFF) market and stable demand from land- and marine-based military, and Asian-Pacific commercial marine markets. On a sequential basis, third quarter sales were 11% and 30% higher than in the second and first fiscal quarters, respectively.

Sales at our manufacturing segment were down 23.8%, or \$15.7 million, to \$50.2 million from \$65.9 million in the same period last year. Sales at our U.S. domestic manufacturing location were down just over 19%, primarily due to continued softening in industrial product, land-based oil and gas transmission, and commercial marine transmission shipments in the quarter. This was partially offset by strong shipments of ARFF and military transmissions, and Arneson Surface Drives in the quarter. This operation saw strong growth in its six month backlog during the quarter, primarily driven by orders for the 8500 series transmission for the land-based oil and gas market. The Company's Belgian and Italian manufacturing operations, which were adversely impacted by the softness in the European mega yacht and industrial markets, experienced decreases of approximately 41% and 18%, respectively, compared to the prior fiscal year's third quarter. The Company's Swiss manufacturing operation, which supplies customized propellers for the global mega yacht and patrol boat markets, experienced a 17% increase in sales, as softness in the mega yacht market was more than offset by growth in the patrol boat market. Compared to the third quarter of fiscal 2009, the U.S. Dollar weakened against the Euro and Asian currencies. The net translation effect of this on foreign manufacturing operations was to increase revenues by approximately \$0.9 million versus the prior year, before eliminations.

Our distribution segment, buoyed by continued growth in Asia Pacific, experienced a decrease of only 6.1% in sales compared to the third quarter of fiscal 2009. The Company's distribution operations in Singapore continued to experience strong demand for marine transmission products for use in various commercial applications. This operation saw a 2% increase in sales versus the same period a year ago, and set a new sales record for its third fiscal quarter. The Company's distribution operation in the Northwest of the United States and Southwest of Canada experienced a double-digit increase in sales due to strong transmission shipments in the oil and gas market. The Company's distribution operations in Italy, which provides boat accessories and propulsion systems for the Italian pleasure craft market, saw a 23% decrease in sales due to continued weakness in that market. Sales at the Company's joint venture in Japan were down 38% due to lower shipments of marine transmissions for commercial markets. Compared to the third quarter of fiscal 2009, the U.S. Dollar weakened against the Euro and Asian currencies. The net translation effect of this on foreign distribution operations was to increase revenues by approximately \$2.1 million versus the prior year, before eliminations.

The elimination for net inter/intra segment sales decreased \$8.9 million, accounting for the remainder of the net change in sales versus the same period last year. This change reflects the overall volume decline in shipments primarily to our European and North American subsidiaries.

Gross profit as a percentage of sales decreased 50 basis points to 27.1% of sales, compared to 27.6% of sales for the same period last year. Profitability for fiscal 2010's third quarter was impacted by lower volumes, unfavorable product mix, higher pension expenses and unfavorable plant absorption, partially offset by lower warranty expense. The Company estimates that the majority of the deterioration was the result of unfavorable absorption due to the impact of lower volumes and the effect of the temporary plant shutdowns along with government sponsored layoffs, and normal seasonal actions, to adjust production levels to near term demand. In the third quarter of fiscal 2009, the Company recorded \$0.2 million of pension expense for its defined benefit pension plans, compared to pension expense of \$0.6 million in the third quarter of fiscal 2010, for a net year over year increase in pension expense of \$0.4 million. It is estimated that the fiscal year impact of the increase in pension expense to cost of goods sold will be \$2.8 million. These were partially offset by a net reduction in warranty expense of \$1.7 million, from \$2.1 million in the prior year's third fiscal quarter to \$0.4 million for the current fiscal quarter. The prior year warranty expense was impacted by a specific quality campaign in the Company's domestic land-based transmission business.

Marketing, engineering, and administrative (ME&A) expenses of \$14.6 million were up slightly compared to last year's third fiscal quarter. As a percentage of sales, ME&A expenses increased to 23.9% of sales versus 21.0% of sales in the third quarter of fiscal 2009. In the prior year's fiscal third quarter, there was a \$0.7 million reversal of corporate bonus expense that reduced ME&A expenses. Stock-based compensation expense for the quarter was \$0.1 million compared to \$0.4 million in fiscal 2009's third quarter, for a net reduction of \$0.3 million. Compared to the third quarter of fiscal 2009, the U.S. Dollar weakened against the Euro and Asian currencies. The net translation effect of this was to increase ME&A expenses by approximately \$0.5 million versus the prior year, before eliminations. The net remaining decrease in ME&A expenses is primarily the result of previously announced cost reduction initiatives across the Company's global operations. The table below summarizes significant changes in certain ME&A Expenses for the fiscal year:

\$ thousands – (Income)/Expense	Three Months Ended		Increase/ (Decrease)
	March 26, 2010	March 27, 2009	
Bonus	\$ -	\$ (733)	\$ 733
Stock Based Compensation	122	428	(306)
Defined Benefit Pension Plans	460	265	<u>195</u>
			622
		Foreign Currency Translation	<u>485</u>
			1,107
		All Other, Net	<u>(1,069)</u>
			<u>\$ 38</u>

Interest expense of \$0.6 million for the quarter was up 21.5% versus last year's third fiscal quarter. For the third quarter of fiscal 2009, the interest rate on the Company's revolving credit facility was in the range of 1.67% to 3.16%, whereas for the third quarter of fiscal 2010 the rate was 4.0%. The average balance of the Company's revolving credit facility decreased by \$14.8 million, or nearly 55%. The net impact of the higher interest rate and lower average balance on the revolver was that the interest expense was flat. The interest expense on the Company's \$25 million Senior Note was flat year over year, at a fixed rate of 6.05%, at \$0.4 million. The net increase in interest of \$0.1 million was primarily driven by higher interest expense at the Company's Swiss manufacturing operation, as the result of a prepayment penalty for the early extinguishment of nearly \$2 million of debt.

Other income, net of \$0.4 million for the quarter compared to other expense, net of \$1.0 million in the prior fiscal year's third quarter. The net change of \$1.4 million from the prior year was primarily due to an increase in exchange gains recognized at the Company's Japanese joint venture versus exchange losses in the prior year caused by the strengthening of the U.S. Dollar in the third quarter of fiscal 2010.

The effective tax rate for the nine months ended March 26, 2010 was 52.4% compared to 29.2% for the nine months ended March 27, 2009. The increase in fiscal 2010 is the result of the magnified impact of foreign non-deductible expenses on the current year rate. While these non-deductible expenses have remained relatively constant year over year, they are a larger percentage of the current year projected foreign earnings which results in a greater impact to the current year annualized effective tax rate. The effective tax rate for the three months ended March 26, 2010 was 14.0% compared to 11.8% for the three months ended March 27, 2009. The effective tax rate for the third quarter was reduced by the impact of applying the new annualized effective tax rate discussed above to the losses recorded in the first six months of fiscal 2010. In addition, during the third quarter of 2010, the Company completed and filed its 2009 Federal and State income tax returns. Subsequently, the Company completed its return-to-provision reconciliation to determine differences between positions taken per the year-end 2009 book tax provision and the actual positions taken per the 2009 returns. This reconciliation identified an error in the fiscal 2009 tax provision, which resulted in understating fiscal 2009 earnings by \$188,000. To correct this error, the company reduced tax expense by \$188,000 in the third quarter of fiscal 2010. The Company believes that the error was not material to the current or any previously issued financial statements. The prior year rate of 11.8% was reduced by foreign tax credits and favorable adjustments following the filing of the prior year tax return. The Company maintains valuation allowances when it is more likely than not that all or a portion of a net deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a net deferred tax asset. Due to the operating losses in the first half of the fiscal year, the Company has evaluated the realizability of the deferred tax assets in all relevant jurisdictions. This evaluation concluded that it continues to be more likely than not that all net deferred tax assets will be realized, and no valuation allowance is warranted. The Company will continue to evaluate the realizability of its net deferred tax assets in the future, and will establish a valuation allowance in the event that it becomes more likely than not that all or a portion of a net deferred tax asset will not be realized.

Comparison of the First Nine Months of FY 2010 with the First Nine Months of FY 2009

Net sales for the first nine months of fiscal 2010 decreased 27.0%, or \$60.3 million, to \$163.2 million from \$223.6 million in the same period a year ago. Compared to the first nine months of fiscal 2009, the Euro and Asian currencies strengthened, on average, against the U.S. Dollar. The translation effect of this strengthening on foreign operations was to increase revenues by approximately \$4.0 million versus the prior year, before eliminations. Sales continued to be affected by the impact the global recession is having on the Company's markets, specifically from customers in the mega yacht and industrial markets. This weakness was partially offset by continued demand from the airport, rescue and fire fighting (ARFF) market and stable demand from land- and marine-based military, and Asian-Pacific commercial marine markets. The Company saw increased order activity in the second and third fiscal quarters, with particularly strong growth in the order backlog for land-based transmissions for its oil and gas markets. The six month backlog for ARFF and military transmissions remain steady. While order activity for pleasure craft and commercial marine markets remains soft, the Company continues to experience growth in its patrol boat business.

Sales at our manufacturing segment were down 35.5% or \$71.4 million, to \$129.9 million from \$201.3 million in the same period last year. Year-to-date, sales at our U.S. domestic manufacturing locations were down over 31%. Except for growth in its ARFF transmission and Arneson Surface Drive businesses, all of the markets served by our domestic operation have seen double-digit decreases on a year-to-date basis. However, the Company saw an increase in both order inquiries and backlog in the second and third fiscal quarters. The Company's European manufacturing operations, which have been adversely impacted by the slowdown in the European mega yacht and industrial markets, experienced 20% to 60% decreases versus the first nine months of fiscal 2009.

Our distribution segment experienced a decrease of 9.7% in sales, or \$8.1 million, to \$75.6 million from \$83.7 million in the same period a year ago. The Company's Asian distribution operations in Singapore continued to experience growth in the commercial marine transmission market, posting a nearly 5% increase in sales year-to-date. Offsetting this increase, the Company's distribution operations in Italy saw a significant decrease in pleasure craft marine transmission and boat management system product sales. In addition, North American distribution operations continue to see weakness in the pleasure craft marine markets as well as continued softness in the Canadian oil and gas markets, although the latter showed increased order activity and shipments in the third quarter of fiscal 2010. Compared to the first nine months of fiscal 2009, the Euro and Asian currencies strengthened, on average, against the U.S. dollar. The translation effect of this strengthening on foreign distribution operations was to increase revenues by approximately \$4.1 million versus the prior year, before eliminations.

The elimination for net inter/intra segment sales decreased \$19.2 million, accounting for the remainder of the net change in sales versus the same period last year. This change reflects the overall volume decline in shipments primarily to our European and North American subsidiaries.

Gross profit as a percentage of sales decreased nearly 270 basis points to 25.1% of sales, compared to 27.8% of sales for the same period last year. Profitability for fiscal 2010's first nine months was significantly impacted by lower volumes, unfavorable product mix, higher pension expenses and unfavorable plant absorption, partially offset by lower warranty expense. The Company estimates that the majority of the deterioration was the result of unfavorable absorption due to the impact of lower volumes and the effect of the temporary plant shutdowns along with government sponsored layoffs, and normal seasonal actions, to adjust production levels to near term demand. In the first nine months of fiscal 2009, the Company recorded \$0.6 million of pension expense for its defined benefit pension plans, compared to pension expense of \$1.8 million in the first nine months of fiscal 2010, for a net year over year increase in pension expense of \$1.2 million. It is estimated that the fiscal year impact of the increase in pension expense to cost of goods sold will be \$2.8 million. These were partially offset by a net reduction in warranty expense of \$1.4 million, from \$4.2 million in the prior fiscal year's first nine months to \$2.8 million for the current fiscal year's first nine months. The prior year warranty expense was impacted by a specific quality campaign in the Company's domestic land-based transmission business.

Marketing, engineering, and administrative (ME&A) expenses of \$42.2 million were down 12% compared to prior year's results through three quarters. As a percentage of sales, ME&A expenses increased to 25.9% of sales versus 21.4% of sales in the first nine months of fiscal 2009. Compared to the first nine months of fiscal 2009, the U.S. Dollar weakened against the Euro and Asian currencies. The translation effect of this weakening was to increase ME&A expenses by approximately \$1.0 million versus the prior year, before eliminations. In addition, the prior year's fiscal first nine months included \$1.3 million of severance costs and approximately \$1.1 million of additional corporate IT expenses primarily related to the Company's implementation of its global ERP system. The net remaining decrease in ME&A expenses is primarily the result of previously announced cost reduction initiatives across the Company's global operations. The table below summarizes significant changes in certain ME&A Expenses for the fiscal year:

\$ thousands – (Income)/Expense	Nine Months Ended		Increase/ (Decrease)
	March 26, 2010	March 27, 2009	
Domestic/Corporate IT Expenses	\$ 3,520	\$ 4,602	\$ (1,082)
Severance	-	1,308	(1,308)
Stock Based Compensation	384	524	(140)
Defined Benefit Pension Plans	1,379	676	703
			(1,827)
		Foreign Currency Translation	1,033
			(794)

All Other, Net	_(4,821)
Net Decrease	<u>\$_(5,615)</u>

Interest expense of \$1.8 million for the first nine months was flat versus last fiscal year's first nine months. For the first nine months of fiscal 2009, the interest rate on the Company's revolving credit facility was in the range of 1.67% to 4.00%, whereas for the first nine months of fiscal 2010 the rate was 4.0%. The average balance of the Company's revolving credit facility decreased by \$8.1 million, or over 34%, and the total interest on the revolver decreased nearly 11% to \$0.5 million. The interest expense on the Company's \$25 million Senior Note was flat year over year, at a fixed rate of 6.05%, at \$1.1 million. The net remaining increase in interest of \$0.1 million was primarily driven by higher interest expense at the Company's Swiss manufacturing operation, as the result of a prepayment penalty for the early extinguishment of nearly \$2 million of debt.

Other income of \$0.2 million for the nine months ended March 26, 2010 improved from other expense of \$0.0 million for the comparable period in the prior year. This improvement is due primarily to favorable foreign currency movements from period to period.

The effective tax rate for the nine months ended March 26, 2010 was 52.4% compared to 29.2% for the nine months ended March 27, 2009. The increase in fiscal 2010 is the result of the magnified impact of foreign non-deductible expenses on the current year rate. While these non-deductible expenses have remained relatively constant year over year, they are a larger percentage of the current year projected foreign earnings which results in a greater impact to the current year annualized effective tax rate. During the third quarter of 2010, the Company completed and filed its 2009 Federal and State income tax returns. Subsequently, the Company completed its return-to-provision reconciliation to determine differences between positions taken per the year-end 2009 book tax provision and the actual positions taken per the 2009 returns. This reconciliation identified an error in the fiscal 2009 tax provision, which resulted in understating fiscal 2009 earnings by \$188,000. To correct this error, the company reduced tax expense by \$188,000 in the third quarter of fiscal 2010. The Company believes that the error was not material to the current or any previously issued financial statements. The Company maintains valuation allowances when it is more likely than not that all or a portion of a net deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carry-back and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a net deferred tax asset. Due to the operating losses in the first half of the fiscal year, the Company has evaluated the realizability of the deferred tax assets in all relevant jurisdictions. This evaluation concluded that it continues to be more likely than not that all net deferred tax assets will be realized, and no valuation allowance is warranted. The Company will continue to evaluate the realizability of its net deferred tax assets in the future, and will establish a valuation allowance in the event that it becomes more likely than not that all or a portion of a net deferred tax asset will not be realized.

Financial Condition, Liquidity and Capital Resources

Comparison between March 26, 2010 and June 30, 2009

As of March 26, 2010, the Company had net working capital of \$92.8 million, which represents a decrease of \$10.8 million, or 10%, from the net working capital of \$103.7 million as of June 30, 2009.

Cash increased 9.6% to \$14.5 million as of March 26, 2010. The majority of the cash as of March 26, 2010 is at the Company's overseas operations in Europe (\$9.8 million) and Asia-Pacific (\$3.9 million). In the third fiscal quarter, the Company used roughly \$2 million of cash at its Swiss operation to pay down a portion of its local debt.

Trade receivables of \$42.2 million were down \$11.2 million, or nearly 21%, from last fiscal year-end. The net effect of foreign currency translation due to the strengthening of the U.S. Dollar versus the Euro, and the weakening of the U.S. Dollar versus Asian currencies was to decrease trade accounts receivables by just over \$0.3 million versus the end of the prior fiscal year. The overall decrease in accounts receivable was consistent with the lower sales volume experienced in the first nine months of fiscal 2010. Sales for the first nine months of fiscal 2009 were \$223.6 million compared to \$163.2 million for the first nine months of fiscal 2010. Sales in the fourth fiscal quarter of 2009 were \$72.1 million versus \$61.0 in the most recent fiscal quarter, a 15% decrease. Management continues to actively monitor accounts receivables and work with customers on a global basis.

Net inventory decreased by \$13.2 million, or 14.3%, versus June 30, 2009 to \$79.1 million. Foreign currency translation did not have a material effect on the comparison of inventories at March 26, 2010 and June 30, 2009. The majority of the net decrease in inventory came at the Company's European manufacturing locations and Asian distribution operation. On a consolidated basis, as of March 26, 2010, the Company's manufacturing backlog of orders to be shipped over the next six months approximates \$72.8 million, compared to \$60.6 million at June 30, 2009 and \$70.0 million at December 25, 2009. The over 20% increase in backlog since the start of the fiscal year was driven primarily by higher order activity for the 8500 series transmission, which is used by oilfield services companies for pressure pumping oil and natural gas wells. The net effect of foreign currency translation on the six month backlog was to reduce it by nearly \$0.7 million, primarily as a result of a weakening Euro versus the U.S. Dollar since the start of the fiscal year. The continued reduction of inventory levels at both the Company's manufacturing and distribution operations around the world continues to be a priority for the balance of fiscal 2010 and beyond.

Net property, plant and equipment (PP&E) decreased \$4.7 million versus June 30, 2009. This includes the addition of \$2.8 million in capital expenditures, primarily at the Company's domestic and Belgian manufacturing operations, which was offset by depreciation of \$6.7 million. The net remaining decrease is due to foreign currency translation effects. As a result of current external business factors, the Company expects to invest between \$4 and \$7 million in capital assets in fiscal 2010. The Company continues to review its capital plans based on overall market conditions and availability of capital, and may make changes to its capital plans accordingly. In addition, the quoted lead times on certain manufacturing equipment purchases may push some of the capital expenditures into the next fiscal year. This compares to \$8.9 million and \$15.0 million in capital expenditures in fiscal 2009 and fiscal 2008, respectively. The Company's capital program is focusing on modernizing key core manufacturing, assembly and testing processes at its facilities around the world as well as the implementation of a global ERP system.

Accounts payable as of March 26, 2010 of \$22.9 million were down \$1.9 million, or 7.7%, from June 30, 2009. The effect of foreign currency translation due to the weakening U.S. Dollar versus the Euro and Asian currencies was to decrease accounts payable by just under \$0.1 million versus the end of the prior fiscal year. The net decrease in accounts payable was consistent with the overall decrease in inventory at the Company's manufacturing locations in the quarter.

Total borrowings and long-term debt, as of March 26, 2010 decreased by \$15.7 million, or 31%, to \$35.1 million versus June 30, 2009. This decrease was driven by the overall increase in operating cash flow primarily driven by a decrease in inventory and receivables levels. For the first nine months of fiscal 2010, the Company generated \$23.1 million of cash from operating activities. At March 26, 2010, the Company is in compliance with all covenants and other requirements set forth in its revolving loan and note agreements.

Total equity decreased \$3.7 million to \$104.1 million as March 26, 2010 compared to June 30, 2009. Retained earnings decreased by \$3.8 million. The net decrease in retained earnings included \$1.4 million in net losses reported year-to-date and \$2.4 million in dividend payments. Net unfavorable foreign currency translation of \$1.2 million was reported. The remaining movement of \$1.4 million represents an adjustment for the amortization of net actuarial loss and prior service cost on the Company's defined benefit pension plans.

In December 2002, the Company entered into a \$20,000,000 revolving loan agreement with M&I Marshall & Ilsley Bank (“M&I”), which had an original expiration date of October 31, 2005. In September 2004, the revolving loan agreement was amended to increase the commitment to \$35,000,000 and the termination date of the agreement was extended to October 31, 2007. During the first quarter of fiscal 2007, the term was extended by an additional two years to October 31, 2009. An additional amendment was agreed to in the first quarter of fiscal 2008 to extend the term by an additional year to October 31, 2010, and eliminate the covenants limiting capital expenditures and restricted payments (dividend payments and stock repurchases). During the fourth quarter of fiscal 2009, the term was further extended to May 31, 2012 and the funded debt to EBITDA maximum was increased from 2.5 to 3.0. This agreement contains certain covenants, including restrictions on investments, acquisitions and indebtedness. Financial covenants include a minimum consolidated net worth, minimum EBITDA for the most recent four fiscal quarters of \$11,000,000 at March 26, 2010, and a maximum total funded debt to EBITDA ratio of 3.0 at March 26, 2010. As of March 26, 2010, the Company was in compliance with these covenants with a four quarter EBITDA total of \$14,750,000 and a funded debt to EBITDA ratio of 2.38. The minimum net worth covenant fluctuates based upon actual earnings and is subject to adjustment for certain pension accounting adjustments to equity. As of March 26, 2010 the minimum equity requirement was \$101,122,000 compared to an actual result of \$137,282,000 after all required adjustments. The outstanding balance of \$9,250,000 and \$22,450,000 at March 26, 2010 and June 30, 2009, respectively, is classified as long-term debt. In accordance with the loan agreement as amended, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional “Add-On,” between 2% and 3.5%, depending on the Company’s Total Funded Debt to EBITDA ratio, subject to a minimum interest rate of 4%. The rate was 4.0% at March 26, 2010 and June 30, 2009, respectively.

On April 10, 2006, the Company entered into a Note Agreement (the “Note Agreement”) with The Prudential Insurance Company of America and certain other entities (collectively, “Purchasers”). Pursuant to the Note Agreement, Purchasers acquired, in the aggregate, \$25,000,000 in 6.05% Senior Notes due April 10, 2016 (the “Notes”). The Notes mature and become due and payable in full on April 10, 2016 (the “Payment Date”). Prior to the Payment Date, the Company is obligated to make quarterly payments of interest during the term of the Notes, plus prepayments of principal of \$3,571,429 on April 10 of each year from 2010 to 2015, inclusive. The outstanding balance was \$25,000,000 at March 26, 2010 and June 30, 2009, respectively. Of the outstanding balance, \$3,571,000 was classified as a current maturity of long-term debt at March 26, 2010 and June 30, 2009, respectively. The remaining \$21,429,000 is classified as long-term debt. The Company also has the option of making additional prepayments subject to certain limitations, including the payment of a Yield-Maintenance Amount as defined in the Note Agreement. In addition, the Company will be required to make an offer to purchase the Notes upon a Change of Control, and any such offer must include the payment of a Yield-Maintenance Amount. The Note Agreement includes certain financial covenants which are identical to those associated with the revolving loan agreement discussed above. The Note Agreement also includes certain restrictive covenants that limit, among other things, the incurrence of additional indebtedness and the disposition of assets outside the ordinary course of business. The Note Agreement provides that it shall automatically include any covenants or events of default not previously included in the Note Agreement to the extent such covenants or events of default are granted to any other lender of an amount in excess of \$1,000,000. Following an Event of Default, each Purchaser may accelerate all amounts outstanding under the Notes held by such party.

Four quarter EBITDA and total funded debt are non-GAAP measures, and are included herein for the purpose of disclosing the status of the Company’s compliance with the four quarter EBITDA covenant and the total funded debt to four quarter EBITDA ratio covenant described above. In accordance with the Company’s revolving loan agreement with M&I and the Note Agreement:

- “Four quarter EBITDA” is defined as “the sum of (i) Net Income plus, to the extent deducted in the calculation of Net Income, (ii) interest expense, (iii) depreciation and amortization expense, and (iv) income tax expense;” and
- “Total funded debt” is defined as “(i) all Indebtedness for borrowed money (including without limitation, Indebtedness evidenced by promissory notes, bonds, debentures and similar interest-bearing instruments), plus (ii) all purchase money Indebtedness, plus (iii) the principal portion of capital lease obligations, plus (iv) the maximum amount which is available to be drawn under letters of credit then outstanding, all as determined for the Company and its consolidated Subsidiaries as of the date of determination, without duplication, and in accordance with generally accepted accounting principles applied on a consistent basis.”
- “Total funded debt to four quarter EBITDA” is defined as the ratio of total funded debt to four quarter EBITDA calculated in accordance with the above definitions.

The Company’s total funded debt as of March 26, 2010 and June 30, 2009 was equal to the total debt reported on the Company’s March 26, 2010 and June 30, 2009 Consolidated Balance Sheet, and therefore no reconciliation is included herein. The following table sets forth the reconciliation of the Company’s reported Net Earnings to the calculation of four quarter EBITDA for the four quarters ended March 26, 2010:

Four Quarter EBITDA Reconciliation

Net Earnings	\$ 1,311,000
Depreciation & Amortization	9,804,000
Interest Expense	2,471,000
Income Taxes	<u>1,164,000</u>
Four Quarter EBITDA	<u>\$14,750,000</u>

Total Funded Debt to Four Quarter EBITDA

Total Debt	\$35,100,000
Divided by: Four Quarter EBITDA	<u>14,750,000</u>
Total Funded Debt to Four Quarter EBITDA	<u>2.38</u>

As of March 26, 2010, the Company was in compliance with all of the covenants described above. In the fourth fiscal quarter of 2009, the Company announced \$25 million of cost avoidance and savings actions in light of softening that was anticipated in many of its key markets. Based on its annual and long range financial plans, which reflects these actions and the softening forecast, the Company does not expect to violate any of its financial covenants in fiscal 2010. The current margin surrounding ongoing compliance with the above covenants, in particular, minimum EBITDA for the most recent four fiscal quarters and total funded debt to EBITDA, may narrow in the Company’s fourth fiscal quarter with an improvement beginning in the first quarter of fiscal 2011 and continuing thereafter. Please see the factors discussed under Item 1A, Risk Factors, of this Form 10-Q for further discussion of this topic.

The Company’s balance sheet remains very strong, there are no off-balance-sheet arrangements other than the operating leases listed below, and we continue to have sufficient liquidity for near-term needs. The Company had \$25.8 million of available borrowings on our \$35 million revolving loan agreement as of March 26, 2010, and continues to generate enough cash from operations to meet our operating and investing needs. For the nine months ended March 26, 2010, the Company generated net cash from operating activities of \$23.1 million. As of March 26, 2010, the Company also had cash of \$14.5 million, primarily at its overseas operations. These funds, with limited restrictions, are available for repatriation as deemed necessary by the Company. In the third fiscal quarter, the Company used roughly \$2 million of cash at its European operations to pay down some of its local debt. In fiscal 2010, the Company expects to contribute \$547,000 to its defined benefit plans, the minimum contributions required. However, if the Company elects to make voluntary contributions in fiscal 2010, it intends to do so using cash from operations and, if necessary, from available borrowings under existing credit facilities.

As of March 26, 2010, the Company has obligations under non-cancelable operating lease contracts and loan and senior note agreements for certain future payments. A summary of those commitments follows (in thousands):

Contractual Obligations	Total	Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Revolver borrowing	\$9,250		\$9,250		
Long-term debt	\$25,850	\$3,978	\$7,533	\$7,166	\$7,173
Operating leases	\$9,847	\$3,501	\$4,314	\$1,822	\$210
Total obligations	\$44,947	\$7,479	\$21,097	\$8,988	\$7,383

The table above does not include tax liabilities related to uncertain income tax positions totaling \$823,000, excluding related interest and penalties, as the timing of their resolution can not be estimated. See Note H of the Condensed Consolidated Financial Statements for disclosures surrounding uncertain income tax positions.

The Company maintains defined benefit pension plans for some of its operations in the United States and Europe. The Company has established the Pension Committee to manage the operations and administration of the defined benefit plans. The Company estimates that fiscal 2010 contributions to all defined benefit plans will total \$547,000.

New Accounting Releases

In February 2010, the Financial Accounting Standards Board (“FASB”) issued a standards update removing the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This update was effective upon issuance, and has been incorporated in this report.

In August 2009, the FASB issued a clarification on fair value measurements. This clarification provides that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. This clarification was effective in the first reporting period following issuance (the Company’s first quarter of fiscal 2010), and did not have a material impact on the Company’s financial statements.

In June 2009, the FASB issued the FASB Accounting Standards Codification (“Codification”). The Codification is the single source of authoritative US generally accepted accounting principles recognized by the FASB, and is to be applied for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification is not intended to change GAAP and did not have an effect on our financial position, results or liquidity.

In June 2009, the FASB issued an amendment changing how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. New disclosures will be required regarding involvement with variable interest entities and any significant changes in risk exposure due to that involvement. This change will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010 for the Company) and is not expected to have a material impact on the Company’s financial statements.

In June 2009, the FASB issued a revision which will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” and changes the requirements for derecognizing financial assets, and requires additional disclosures. This change will be effective for the start of the first fiscal year beginning after November 15, 2009 (July 1, 2010 for the Company) and is not expected to have a material impact on the Company’s financial statements.

In April 2009, the FASB issued an update that requires disclosure about the fair value of financial instruments whenever summarized financial information for interim periods is issued, and requires disclosure of the fair value of all financial instruments (where practicable) in the body or accompanying notes of interim and annual financial statements. This update was effective for the Company’s first quarter of fiscal 2010, with no material impact on the financial statements.

In March 2009, the FASB concluded that vested share-based payment awards that entitle holders to receive nonforfeitable dividends declared on common stock are participating securities. Accordingly, those awards should be considered in the calculation of earnings per share using the two class method. This guidance is effective for fiscal years beginning after December 15, 2008. The Company implemented this provision in the first fiscal quarter of 2010, with no material impact to the financial statements.

In December 2008, the FASB issued additional guidance on an employer’s disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this guidance are to provide users of financial statements with an understanding of:

- a) How investment allocation decisions are made;
- b) The major categories of plan assets;
- c) The inputs and valuation techniques used to measure the fair value of plan assets;
- d) The effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and
- e) Significant concentrations of risk within plan assets.

These disclosures about plan assets are required for fiscal years ending after December 15, 2009, and earlier application is permitted.

In April 2008, the FASB issued an update that amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this update is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This change was effective for the Company’s first quarter of fiscal 2010, and had no material impact on the Company’s financial statements.

In December 2007, the FASB established new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary, and includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company implemented this new standard in the first fiscal quarter of 2010, with minimal impact to the presentation of the financial statements.

Critical Accounting Policies

The preparation of this Quarterly Report requires management’s judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Twin Disc's critical accounting policies are described in Item 7 of the Company's Annual Report filed on Form 10-K for June 30, 2009. There have been no significant changes to those accounting policies subsequent to June 30, 2009.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risks from changes in interest rates, commodities and foreign exchange. To reduce such risks, the Company selectively uses financial instruments and other pro-active management techniques. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for trading or speculative purposes.

Interest rate risk - The Company's earnings exposure related to adverse movements of interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to the prime and LIBOR interest rates. In accordance with the \$35,000,000 revolving loan agreement expiring May 31, 2012, the Company has the option of borrowing at the prime interest rate or LIBOR plus an additional "Add-On", between 2% and 3.5%, depending on the Company's Total Funded Debt to EBITDA ratio, subject to a minimum interest rate of 4%. Due to the relative stability of interest rates, the Company did not utilize any financial instruments at March 26, 2010 to manage interest rate risk exposure. A 10 percent increase or decrease in the applicable interest rate would result in a change in pretax interest expense of approximately \$37,000.

Commodity price risk - The Company is exposed to fluctuation in market prices for such commodities as steel and aluminum. The Company does not utilize commodity price hedges to manage commodity price risk exposure.

Currency risk - The Company has exposure to foreign currency exchange fluctuations. Approximately 30% of the Company's revenues in the nine months ended March 26, 2010 were denominated in currencies other than the U.S. Dollar. Of that total, approximately 82% was denominated in Euros with the balance composed of Japanese Yen, the Swiss Franc and the Australian and Singapore Dollars. The Company does not hedge the translation exposure represented by the net assets of its foreign subsidiaries. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Forward foreign exchange contracts are used to hedge the currency fluctuations on significant transactions denominated in foreign currencies.

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

The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. These contracts are highly effective in hedging the cash flows attributable to changes in currency exchange rates. Gains and losses resulting from these contracts offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Gains and losses on these contracts are recorded in Other income (expense), net in the Condensed Consolidated Statement of Operations as the changes in the fair value of the contracts are recognized and generally offset the gains and losses on the hedged items in the same period. The primary currency to which the Company was exposed in fiscal 2010 and 2009 was the Euro. At March 26, 2010, the Company had no outstanding forward exchange contracts. At June 30, 2009, the Company had net outstanding forward exchange contracts to purchase Euros in the value of \$156,000 with a weighted average maturity of 74 days. The fair value of the Company's contracts was immaterial at June 30, 2009.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). During the period covered by this report, no changes were made which have materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The Company's business involves risk. The following information about these risks should be considered carefully together with other information contained in this report. The risks described below are not the only risks the Company faces. Additional risks not currently known or deemed immaterial may also result in adverse results for the Company's business.

As a global company, we are subject to currency fluctuations and any significant movement between the U.S. Dollar and the Euro, in particular, could have an adverse effect on our profitability. Although the Company's financial results are reported in U.S. Dollars, a significant portion of our sales and operating costs are realized in Euros and other foreign currencies. The Company's profitability is affected by movements of the U.S. Dollar against the Euro and the other currencies in which we generate revenues and incur expenses. Significant long-term fluctuations in relative currency values, in particular a significant change in the relative values of the U.S. Dollar or Euro, could have an adverse effect on our profitability and financial condition.

Certain of the Company's products are directly or indirectly used in oil exploration and oil drilling, and are thus dependent upon the strength of those markets and oil prices. In recent years, the Company has seen a significant growth in the sales of its products that are used in oil and energy related markets. The growth in these markets has been spurred by the rise in oil prices and the global demand for oil. In addition, there has been a substantial increase in capital investment by companies in these markets. In the most recent fiscal year, a significant decrease in oil prices, the demand for oil and capital investment in the oil and energy markets had an adverse effect on the sales of these products and ultimately on the Company's profitability. A continued softening or further deterioration in global oil and gas markets could have a further adverse effect on the sales of these products and ultimately on the Company's profitability.

Many of the Company's product markets are cyclical in nature or are otherwise sensitive to volatile or variable factors. A downturn or weakness in overall economic activity or fluctuations in those other factors can have a material adverse effect on the Company's overall financial performance. Historically, sales of many of the products that the Company manufactures and sells have been subject to cyclical variations caused by changes in general economic conditions and other factors. In particular, the Company sells its products to customers primarily in the pleasure craft, commercial and military marine markets, as well as in the energy and natural resources, government and industrial markets. The demand for the products may be impacted by the strength of the economy generally, governmental spending and appropriations, including security and defense outlays, fuel prices, interest rates, as well as many other factors. Adverse economic and other conditions may cause the Company's customers to forego or otherwise postpone purchases in favor of repairing existing equipment.

In the event of an increase in the global demand for steel, the Company could be adversely affected if it experiences shortages of raw castings and forgings used in the manufacturing of its products. With the continued development of certain third world economies, in particular China and India, the global demand for steel has risen significantly in recent years. The Company selects its suppliers based on a number of criteria, and we expect that they will be able to support our growing needs. However, there can be no assurance that a significant increase in demand, capacity constraints or other issues experienced by the Company's suppliers will not result in shortages or delays in their supply of raw materials to the Company. If the Company were to experience a significant or prolonged shortage of critical components from any of its suppliers, particularly those who are sole sources, and could not procure the components from other sources, the Company would be unable to meet its production schedules for some of its key products and would miss product delivery dates which would adversely affect our sales, profitability and relationships with our customers.

If the Company were to lose business with any key customers, the Company's business would be adversely affected. Although there was only one customer that accounted for 10% or more of consolidated net sales in fiscal 2009, deterioration of a business relationship with one or more of the Company's significant customers would cause its sales and profitability to be adversely affected.

The Company continues to face the prospect of increasing commodity costs, including steel, other raw materials and energy that could have an adverse effect on future profitability. To date, the Company has been successful with offsetting the effects of increased commodity costs through cost reduction programs and pricing actions. However, if material prices were to continue to increase at a rate that could not be recouped through product pricing, it could potentially have an adverse effect on our future profitability.

The termination of relationships with the Company's suppliers, or the inability of such suppliers to perform, could disrupt its business and have an adverse effect on its ability to manufacture and deliver products. The Company relies on raw materials, component parts, and services supplied by outside third parties. If a supplier of significant raw materials, component parts or services were to terminate its relationship with the Company, or otherwise cease supplying raw materials, component parts, or services consistent with past practice, the Company's ability to meet its obligations to its customers may be affected. Such a disruption with respect to numerous products, or with respect to a few significant products, could have an adverse effect on the Company's profitability and financial condition.

A significant design, manufacturing or supplier quality issue could result in recalls or other actions by the Company that could adversely affect profitability. As a manufacturer of highly engineered products, the performance, reliability and productivity of the Company's products is one of its competitive advantages. While the Company prides itself on putting in place procedures to ensure the quality and performance of its products and suppliers, a significant quality or product issue, whether due to design, performance, manufacturing or supplier quality issue, could lead to warranty actions, scrapping of raw materials, finished goods or sold products, the deterioration in a customer relation, or other action that could adversely affect warranty and quality costs, future sales and profitability.

The Company faces risks associated with its international sales and operations that could adversely affect its business, results of operations or financial condition. Sales to customers outside the United States approximated 61% of our consolidated net sales for fiscal 2009. We have international manufacturing operations in Belgium, Italy and Switzerland. In addition, we have international distribution operations in Singapore, China, Australia, Japan, Italy and Canada. Our international sales and operations are subject to a number of risks, including:

- ▷ currency exchange rate fluctuations
- ▷ export and import duties, changes to import and export regulations, and restrictions on the transfer of funds
- ▷ problems with the transportation or delivery of our products
- ▷ issues arising from cultural or language differences and labor unrest
- ▷ longer payment cycles and greater difficulty in collecting accounts receivables
- ▷ compliance with trade and other laws in a variety of jurisdictions

These factors could adversely affect our business, results of operations or financial condition.

A material disruption at the Company's manufacturing facilities in Racine, Wisconsin could adversely affect its ability to generate sales and meet customer demand. The majority of the Company's manufacturing, based on fiscal 2009's sales, came from its two facilities in Racine, Wisconsin. If operations at these facilities were to be disrupted as a result of significant equipment failures, natural disasters, power outages, fires, explosions, adverse weather conditions or other reasons, the Company's business and results of operations could be adversely affected. Interruptions in production would increase costs and reduce sales. Any interruption in production capability could require the Company to make substantial capital expenditures to remedy the situation, which could negatively affect its profitability and financial condition. The Company maintains property damage insurance which it believes to be adequate to provide for reconstruction of its facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under this insurance policy may not offset the lost sales or increased costs that may be experienced during the disruption of operations. Lost sales may not be recoverable under the policy and long-term business disruptions could result in a loss of customers. If this were to occur, future sales levels and costs of doing business, and therefore profitability, could be adversely affected.

Any failure to meet our debt obligations and satisfy financial covenants could adversely affect our business and financial condition. Starting in 2008 and continuing into 2010, general worldwide economic conditions have experienced a downturn due to the combined effects of the subprime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. These conditions make it difficult for customers, vendors and the Company to accurately forecast and plan future business activities, and cause U.S. and foreign businesses to slow spending on products, which delay and lengthen sales cycles. These conditions led to declining revenues in several of the Company's divisions in fiscal 2009. The Company's amended revolving credit facility and senior notes agreements require it to maintain specified quarterly financial covenants such as a minimum consolidated net worth, minimum EBITDA for the most recent four fiscal quarters of \$11,000,000 and a funded debt to EBITDA ratio of 3.0 or less. At March 26, 2010, the Company was in compliance with these financial

covenants with a four quarter EBITDA total of \$14,750,000 and a funded debt to EBITDA ratio of 2.38. The minimum net worth covenant fluctuates based upon actual earnings and is subject to adjustment for certain pension accounting adjustments to equity. As of March 26, 2010, the minimum net worth requirement was \$101,122,000 compared to an actual result of \$137,282,000 after all required adjustments. In the fourth fiscal quarter of 2009, the Company announced \$25 million of cost avoidance and savings actions in light of softening that was anticipated in many of its key markets. Based on its annual financial plan, which reflects these actions and the softening forecast, the Company believes that it will generate sufficient EBITDA levels throughout fiscal 2010 in order to maintain compliance with its financial covenants. However, as with all forward-looking information, there can be no assurance that the Company will achieve the planned results in future periods especially due to the significant uncertainties flowing from the current economic environment. If the Company is not able to achieve these objectives and to meet the required covenants under the agreements, the Company may require forbearance from its existing lenders in the form of waivers and/or amendments of its credit facilities or be required to arrange alternative financing. Failure to obtain relief from covenant violations or to obtain alternative financing, if necessary, would have a material adverse impact on the Company.

The Company may experience negative or unforeseen tax consequences. The Company reviews the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income in both the U.S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in U.S. or foreign jurisdictions may require the creation of a valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expense in the period in which the changes are made and could have a material adverse impact on the Company's results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no securities of the Company sold by the Company during the nine months ended March 26, 2010, which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4 (2) of the Act.

During the period covered by this report, the Company offered participants in the Twin Disc, Incorporated - The Accelerator 401(k) Savings Plan (the "Plan") the option to invest their Plan accounts in a fund comprised of Company stock. Participation interests of Plan participants in the Plan, which may be considered securities, were not registered with the SEC. Participant accounts in the Plan consist of a combination of employee deferrals, Company matching contributions, and, in some cases, additional Company profit-sharing contributions. No underwriters were involved in these transactions. On September 6, 2002, the Company filed a Form S-8 to register 200,000 shares of Company common stock offered through the Plan, as well as an indeterminate amount of Plan participation interests.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Dec. 26, 2009 – Jan. 29, 2010	0	NA	0	250,000
Jan. 30, 2010 – Feb. 26, 2010	0	NA	0	250,000
Feb. 27, 2010 – Mar. 26, 2010	0	NA	0	250,000
Total	0		0	

On February 1, 2008, the Board of Directors authorized the purchase of up to 500,000 shares of Common Stock at market values, of which 250,000 shares were purchased during the second quarter of fiscal 2009.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

- 10.1 Loan Agreement By and Between M&I Marshall & Ilsley Bank and Twin Disc, Incorporated Dated as of December 19, 2002
- 10.2 Amendment No. 1 to Loan Agreement - September 13, 2004
- 10.3 Amendment No. 2 to Loan Agreement - April 10, 2006
- 10.4 Amendment No. 3 to Loan Agreement - October 31, 2006
- 10.5 Amendment No. 4 to Loan Agreement - March 1, 2007
- 10.6 Amendment No. 5 to Loan Agreement - August 9, 2007
- 10.7 Amendment No. 6 to Loan Agreement - May 27, 2009
- 31a Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31b Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32a Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32b Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TWIN DISC, INCORPORATED
(Registrant)

Date: May 5, 2010

/s/ JEFFREY S. KNUTSON
Jeffrey S. Knutson
Corporate Controller
Chief Accounting Officer

Exhibit 31a
CERTIFICATION

I, Michael E. Batten, certify that:

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

Date: May 5, 2010

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

Exhibit 31b
CERTIFICATIONS

I, Christopher J. Eperjesy, certify that:

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

Date: May 5, 2010

/s/ CHRISTOPHER J. EPERJESY

Christopher J. Eperjesy

Vice President – Finance, Chief Financial Officer and Treasurer

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

In connection with the Quarterly Report of Twin Disc, Incorporated (the "Company") on Form 10-Q for the fiscal quarter ending March 26, 2010, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Michael E. Batten, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2010

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

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

In connection with the Quarterly Report of Twin Disc, Incorporated (the "Company") on Form 10-Q for the fiscal quarter ending March 26, 2010, as filed with the Securities and Exchange Commission as of the date hereof (the "Report"), I, Christopher J. Eperjesy, Vice President – Finance, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2010

/s/ CHRISTOPHER J. EPERJESY

Christopher J. Eperjesy

Vice President – Finance, Chief Financial Officer and Treasurer



LOAN AGREEMENT

BY AND BETWEEN

M&I MARSHALL & ILSLEY BANK

AND

TWIN DISC, INCORPORATED

DATED AS OF DECEMBER 19, 2002

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LOAN AGREEMENT

THIS LOAN AGREEMENT is made as of December 19, 2002, by and between M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), and TWIN DISC, INCORPORATED, a Wisconsin corporation ("Borrower").

NOW THEREFORE, in consideration of the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

ARTICLE 1

THE LOANS

1.1 Revolving Credit Loans. From time to time prior to the Revolving Credit Termination Date and subject to the terms and conditions set forth in this Loan Agreement, M&I agrees to make Revolving Credit Loans to Borrower. The aggregate amount of Revolving Credit Loans outstanding at any one time shall never exceed the Revolving Credit Commitment. Upon request of M&I, Borrower shall confirm in writing the making of any and all Revolving Credit Loans. All Revolving Credit Loans shall be evidenced by the Revolving Credit Note, Borrower being obligated, however, to pay the amount of Revolving Credit Loans actually made (including any over-advances), together with interest on the amount which remains outstanding from time to time. Borrower may borrow, repay and reborrow under this Section 1.1 subject to the terms and conditions of this Loan Agreement. The Revolving Credit Note shall mature on the Revolving Credit Termination Date.

1.2 Commitment Fee. As consideration for the Revolving Credit Commitment, the Borrower agrees to pay to M&I on the last Business Day of each calendar quarter prior to the Revolving Credit Termination Date, commencing on December 31, 2002, and on the Revolving Credit Termination Date, an unused fee equal to the Add-On applicable to the Commitment Fee per year on the daily average unused amount of the Revolving Credit Commitment during the preceding quarter or other applicable period.

1.3 Interest. (a) Revolving Credit Loans shall be either LIBOR Loans or Prime Rate Loans as selected by the Borrower in Section 1.5 hereof.

(b) In the event that any amount of the principal of, or interest on, the Revolving Credit Note is not paid on the date when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under the Revolving Credit Note shall bear interest, in addition to the interest otherwise payable under the Revolving Credit Note and to the extent permitted by Law, at the annual rate of three percent (3%) from the day following the due date until all such overdue amounts have been paid in full.

(c) All interest, the unused fee and other amounts due under this Loan Agreement and the Revolving Credit Note shall be computed for the actual number of days elapsed on the basis of a 360-day year.

(d) Interest Options.

(b) Prime Rate Loans. The unpaid principal balance of all Prime Rate Loans shall bear interest at the Prime Rate. The interest rate for any outstanding Prime Rate Loans shall change on each day that the Prime Rate changes.

(c) LIBOR Loans. The unpaid principal of all LIBOR Loans shall bear interest at LIBOR quoted on the first Business Day of any calendar month (and such rate shall be the effective interest rate for the entire calendar month) plus the applicable Add-On. The interest rate for any outstanding LIBOR Loans shall change on each day that the applicable Add-On changes (as set forth in the definition of Add-On contained in this Loan Agreement) and also as of the first day of each calendar month. The LIBOR interest rate established on the first Business Day of any calendar month shall apply to all LIBOR Loans during that calendar month, whether previously advanced or advanced thereafter.

1.4 Notice of Borrowing; Conversion.

(a) Each Revolving Credit Loan shall be made on written notice or telephonic notice from an authorized representative of the Borrower to the Person designated by M&I. Such notice shall be given at least one (1) Business Day prior to the day of the requested borrowing date (which must be a Business Day). Each notice shall specify the date and amount of such Revolving Credit Loan. Each new Revolving Credit Loan shall be a LIBOR Loan unless otherwise specified in writing by the Borrower to M&I at least one (1) Business Day in advance of the requested borrowing date. The Revolving Credit Loans shall be all either LIBOR Loans or Prime Rate Loans. Each such notice shall be effective upon receipt, provided that any notice received after 2:00 p.m., Milwaukee time, may be deemed by M&I, in its sole discretion, effective as of the next Business Day. Borrower shall promptly confirm any such telephonic request in writing.

(b) Prime Rate Loans shall continue as such unless and until converted into LIBOR Loans or repaid. LIBOR Rate Loans shall continue as such unless and until they are converted into Prime Rate Loans or repaid.

1.5 Warranty. Each notice of borrowing or conversion, and each request for the issuance of a Letter of Credit, shall automatically constitute a warranty by Borrower to M&I that, on the date of the requested date of such borrowing, or conversion or request for issuance of a Letter of Credit: (a) all of the representations and warranties of Borrower contained in this Loan Agreement shall be true and correct on such date as though made on such date; and (b) no Default or Event of Default shall exist on such date.

1.6 Payments. (a) The outstanding unpaid principal balance plus all accrued and unpaid interest on the Revolving Credit Loans shall be paid in full on the Revolving Credit Termination Date. In the event that the outstanding principal balance of the Revolving Credit Loans at any time exceeds the Revolving Credit Commitment, Borrower shall immediately pay

1.7 the amount necessary to reduce such balance to be less than or equal to the then applicable Revolving Credit Commitment.

(a) Interest accrued on the Revolving Credit Loans through the last day of each calendar month (including in the case of the first interest payment, interest accrued from the Closing Date) shall be payable on such last day of each calendar month, commencing on December 31, 2002 and continuing thereafter until all principal of and accrued interest on the Revolving Credit Loans are repaid in full.

(b) All payments of principal and interest on account of the Revolving Credit Note and all other payments made pursuant to this Loan Agreement shall be delivered to M&I, 770 North Water Street, Milwaukee, Wisconsin 53202, Attention: Commercial Loan Department or at such other place as M&I or any holder of the Revolving Credit Note shall designate in writing to Borrower, in immediately available funds by 12 noon, Milwaukee time on the date when due, and if received after such time on any day shall be deemed to have been made on the next Business Day. Whenever any payment to be made under this Loan Agreement or under the Revolving Credit Note shall be stated to be due on a day which is not a Business Day, the day for such payment shall be extended to the next succeeding Business Day, and such extension of time shall be included in the computation of interest. Borrower hereby authorizes M&I to debit its deposit accounts at M&I for all payments of principal and interest due and owing on the Revolving Credit Loans and for all other payments due and owing under this Loan Agreement.

(c) All payments owed by Borrower to M&I under this Loan Agreement and the Revolving Credit Note shall be made without any counterclaim and free and clear of any restrictions or conditions and free and clear of, and without deduction for or on account of, any present or future taxes, levies, imposts, duties, charges, fees, deductions or withholdings of any nature now or hereafter imposed on Borrower by any governmental or other authority. If Borrower is compelled by Law to make any such deductions or withholdings it will pay such additional amounts as may be necessary in order that the net amount received by M&I after such deductions or withholding shall equal the amount M&I would have received had no such deductions or withholding been required to be made, and it will provide M&I with evidence satisfactory to M&I that it has paid such deductions or withholdings.

1.8 Use of Proceeds. Borrower shall use the proceeds of the Loans for working capital and other general corporate purposes. On the Closing Date, an advance of the Revolving Credit Loans shall be made to the Borrower in an amount sufficient to refinance in full all outstanding loans under the Loan Agreement dated as of September 24, 1999 among the Borrower, Firststar Bank Milwaukee, N.A., now U.S. Bank National Association, as Agent and a Bank, and M&I, as a Bank (the "Firststar Loan Agreement"), and on the Closing Date the Firststar Loan Agreement shall be terminated and no Bank under the Firststar Loan Agreement shall have any further obligation to lend any amounts to the Borrower and all obligations under the Firststar Loan Agreement shall be paid in full by the Borrower on the Closing Date.

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1.9 Optional Prepayments; Reduction of Revolving Credit Commitment.

(a) Borrower may, from time to time and without premium or penalty, prepay the Revolving Credit Loans in whole or in part. Each partial prepayment shall be in the minimum amount of \$500,000 and in whole multiples of \$100,000 in excess thereof.

(b) Borrower shall have the right, upon not less than five (5) Business Days irrevocable written notice to M&I, to terminate or permanently reduce the Revolving Credit Commitment; provided that (i) such termination or reduction shall be accompanied by a prepayment of Revolving Credit Loans to the extent that the outstanding principal of the Revolving Credit Loans exceeds the Revolving Credit Commitment after giving effect to such termination or reduction and (ii) any such reduction shall be in the minimum amount of \$500,000 and in whole multiples of \$100,000 in excess thereof and (iii) any such reduction shall be a permanent reduction, and the Borrower shall have no right to thereafter increase the amount of the Revolving Credit Commitment.

1.10 Recordkeeping. M&I shall record in its records the date and amount of each Revolving Credit Loan and each repayment of Revolving Credit Loans. The aggregate amounts so recorded shall be rebuttable presumptive evidence of the principal and interest owing and unpaid on the Revolving Credit Note. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the obligations of Borrower under this Loan Agreement or under the Revolving Credit Note to repay the principal amount of the Revolving Credit Loans together with all interest accruing thereon.

1.11 Increased Costs. If Regulation D of the Board of Governors of the Federal Reserve System, or the adoption of any applicable law, rule or regulation of general application, or any change therein, or any interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by M&I with any request or directive of general application (whether or not having the force of law) or any such authority, central bank or comparable agency:

(a) shall subject M&I to any tax, duty or other charge with respect to the Revolving Credit Loans, the Revolving Credit Note, any Letter of Credit or M&I's obligation to make Revolving Credit Loans or issue Letters of Credit, or shall change the basis of taxation of payments to M&I of the principal of or interest on the Revolving Credit Loans or any other amounts due under this Loan Agreement in respect of the Revolving Credit Loans or Letters of Credit or M&I's obligation to make Revolving Credit Loans or issue Letters of Credit (except for changes in the rate of tax on the overall net income of M&I); or

(b) shall impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Board of Governors of the Federal Reserve System, but excluding any reserve included in the determination of interest rates pursuant to this Loan Agreement), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, M&I; or

M&I; or (c) shall affect the amount of capital required or expected to be maintained by M&I or any corporation controlling

Letters of Credit; (d) shall impose on M&I any other condition affecting the Revolving Credit Loans, the Revolving Credit Note or the

and the result of any of the foregoing is to increase the cost to (or in the case of Regulation D referred to above, to impose a cost on) M&I of making or maintaining any Revolving Credit Loan or issuing Letters of Credit, or to reduce the amount of any sum received or receivable by M&I under this Loan Agreement or under the Revolving Credit Note with respect thereto or with respect to Letters of Credit, then within ten (10) days after demand by M&I (which demand shall be accompanied by a statement setting forth the basis of such demand), Borrower shall pay directly to M&I such additional amount or amounts as will compensate M&I for such increased cost or such reduction. Determinations by M&I for purposes of this Section of the effect of any change in applicable laws or regulations or of any interpretations, directives or requests thereunder on its costs of making or maintaining Revolving Credit Loans or issuing Letters of Credit hereunder, or sums receivable by it in respect of Revolving Credit Loans or Letters of Credit, and of the additional amounts required to compensate M&I in respect thereof, shall be conclusive, absent manifest error.

1.12 Deposits Unavailable or Interest Rate Unascertainable.

(a) If M&I is advised that deposits in dollars (in the applicable amount) are not being offered to banks in the relevant market for an Interest Period, or M&I otherwise determines (which determination shall be binding and conclusive on all parties) that by reason of circumstances affecting the interbank London Eurodollar market adequate and reasonable means do not exist for ascertaining the applicable LIBOR; or

(b) If lenders similar to M&I have determined that the LIBOR will not adequately and fairly reflect the cost to such lenders of maintaining or funding such LIBOR Loans for an Interest Period, or that the making or funding of such LIBOR Loans has become impracticable as a result of an event occurring after the date of this Loan Agreement which in the opinion of M&I materially affects such LIBOR Loans;

then so long as such circumstances shall continue, M&I shall not be under any obligation to make or continue LIBOR Loans and on the last day of the then-current Interest Period, such LIBOR Loans shall, unless then repaid in full, be converted to Prime Rate Loans.

1.13 Change in Law Rendering LIBOR Loans Unlawful. In the event that any change in (including the adoption of any new) applicable laws or regulations, or any change in the interpretation of applicable laws or regulations by any governmental or other regulatory body charged with the administration thereof, should make it unlawful for M&I to make, maintain or fund LIBOR Loans, then: (a) M&I shall promptly notify Borrower; (b) the obligation of M&I to make or continue LIBOR Loans shall, upon the effectiveness of such event, be suspended for the duration of such unlawfulness; and (c) on the last day of the current Interest Period for LIBOR

1.14 Loans (or, in any event, if M&I so requests, on such earlier date as may be required by the relevant law, regulation or interpretation), the LIBOR Loans shall, unless then repaid in full, be converted to Prime Rate Loans.

1.15 Discretion of M&I as to Manner of Funding. Notwithstanding any provision of this Loan Agreement to the contrary, M&I shall be entitled to fund and maintain its funding of all or any part of the Revolving Credit Loans in any manner it sees fit, provided that no such funding decision on the part of M&I shall affect any interest option election made by Borrower as to any Revolving Credit Loan.

1.16 Letters of Credit. (a) From time to time prior to the Revolving Credit Termination Date, Borrower may request, and M&I may issue, Letters of Credit up to an aggregate undrawn face amount of \$10,000,000. The aggregate undrawn face amount of all Letters of Credit shall reduce the amount available for borrowing under the Revolving Credit Commitment. In the event the Borrower does not reimburse M&I in full on the date M&I is required to make a payment with respect to any Letter of Credit, the Borrower shall be deemed to have borrowed, as of the date such payment is made, a Revolving Credit Loan bearing interest at the rate option applicable to other Revolving Credit Loans in an amount equal to the amount drawn under such Letter of Credit which shall be used to satisfy the Borrower's reimbursement obligation with respect to such Letter of Credit. No expiration date of any Letter of Credit shall be beyond the Revolving Credit Termination Date.

(b) Borrower shall pay to M&I upon issuance of each Letter of Credit all customary fees, commissions and charges as established by M&I and agreed to by Borrower and execute all letter of credit applications and other agreements as may be required by M&I in connection with the issuance of any letters of credit.

(c) As consideration for issuing Letters of Credit, the Borrower agrees to pay to M&I with respect to each Letter of Credit, a per annum letter of credit fee equal to the Add-On for LIBOR Loans on the undrawn face amount of each Letter of Credit, payable in advance upon the issuance of each Letter of Credit and, if applicable, upon each anniversary of the issuance date for each Letter of Credit.

ARTICLE 2

CONDITIONS

2.1 General Conditions. The obligation of M&I to make any Revolving Credit Loan or issue any Letter of Credit under this Loan Agreement is subject to the satisfaction, on the date hereof and on the date of making each Revolving Credit Loan and issuing each Letter of Credit, of the following express conditions precedent:

- as of such date;
- (a) the representations and warranties of Borrower contained in this Loan Agreement shall be true and accurate on and
 - (b) there shall not exist on such date any Default or Event of Default;

(c) the making of the relevant Revolving Credit Loan or the issuance of the relevant Letter of Credit shall not be prohibited by any applicable Law and shall not subject M&I to any penalty under or pursuant to any applicable Law; and

(d) all proceedings to be taken in connection with the Revolving Credit Loans or Letter of Credit and all documents incident thereto shall be reasonably satisfactory in form and substance to M&I and its counsel.

2.2 Deliveries at Closing. The obligation of M&I to make the initial Revolving Credit Loans is further subject the satisfaction on or before the Closing Date of each of the following express conditions precedent:

(a) M&I shall have received each of the following (each to be properly executed, dated and completed), in form and substance satisfactory to M&I:

(i) this Loan Agreement;

(ii) the Revolving Credit Note;

(iii) a certificate from an authorized officer of the Borrower, dated as of the Closing Date, certifying that (a) all of the representations and warranties contained in Article 3 of this Agreement are true and (b) no Default or Event of Default exists;

(iv) a certificate of the Secretary of Borrower, in the form of Exhibit A attached to this Loan Agreement, dated the Closing Date, as to: (A) the incumbency and signature of the officers of the Borrower who have signed or will sign this Loan Agreement, the Revolving Credit Note, and any other documents or materials to be delivered by Borrower to M&I pursuant to this Loan Agreement; (B) the adoption and continued effect of resolutions of the board of directors of Borrower authorizing the execution, delivery and performance of this Loan Agreement and the Revolving Credit Note together with copies of those resolutions; and (C) the accuracy and completeness of copies of the articles of incorporation and bylaws of Borrower, as amended to date, attached thereto;

(b) M&I shall have received a certificate of the Wisconsin Department of Financial Institutions as to the existence of the Borrower dated as of a recent date;

(c) M&I shall have received a search of the Uniform Commercial Code records of the Wisconsin Department of Financial Institutions and of the real estate records for Racine county, against the name of the Borrower;

(d) M&I shall have received a copy of a waiver and amendment to the Mass Mutual Agreement, in form and substance satisfactory to M&I and its counsel;

(e) M&I shall have received a favorable opinion of Borrower's counsel, in form and substance satisfactory to M&I and its counsel;

(f) a payoff statement for all amounts owed under the Firststar Loan Agreement, including any outstanding letters of credit, and a termination of the Firststar Loan Agreement on the Closing Date; and

(g) M&I shall have received such other agreements, instruments, documents, certificates and opinions as M&I or its counsel may reasonably request.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to M&I as follows:

3.1 Organization and Qualification; Subsidiaries. Borrower and each Subsidiary is a corporation duly and validly organized and existing under the Laws of the state of its incorporation and has the corporate power and all necessary licenses, permits and franchises to own its assets and properties and to carry on its business as now conducted or presently contemplated. Each of Borrower and each Subsidiary is duly licensed or qualified to do business and is in active status or good standing in all jurisdictions in which failure to do so would have a material adverse effect on its business or financial condition. All of the Subsidiaries of the Borrower, together with the Borrower's percentage of ownership of each Subsidiary, are set forth on Schedule 3.1.

3.2 Financial Statements. All of the financial statements of Borrower and its Subsidiaries heretofore furnished to M&I by Borrower are accurate and complete in all material respects and fairly present the financial condition and the results of operations of Borrower and its Subsidiaries for the periods covered thereby and as of the relevant dates thereof, all financial statements were prepared in accordance with GAAP, subject in the case of interim financial statements to audit and year-end adjustments. There has been no material adverse change in the business, properties or condition (financial or otherwise) of Borrower and its Subsidiaries since the date of the latest of such financial statements. Borrower has no knowledge of any material liabilities of any nature not disclosed in writing to M&I.

3.3 Authorization; Enforceability. The making, execution, delivery and performance of this Loan Agreement and the Revolving Credit Note, and compliance with their respective terms, have been duly authorized by all necessary corporate action of Borrower. This Loan Agreement and the Revolving Credit Note are the valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws generally affecting the rights of creditors and subject to general equity principles.

3.4 Absence of Conflicting Obligations; Defaults. The making, execution, delivery and performance of this Loan Agreement and the Revolving Credit Note, and compliance with

3.5 their respective terms, do not violate any presently existing provision of Law or the articles or certificate of incorporation or bylaws of Borrower or any agreement material to the business of Borrower or any Subsidiary to which either Borrower or any Subsidiary is a party or by which Borrower or any Subsidiary or any of their respective assets is bound. Neither Borrower nor any Subsidiary is in default in the payment of the principal of or interest on any of its Indebtedness or in default under any instrument or instruments or agreements under and subject to which any Indebtedness has been issued and no event has occurred and is continuing under the provisions of any such instrument or agreement which with the lapse of time, or with the giving of notice, or both, would constitute an event of default thereunder or an Event of Default under this Loan Agreement.

3.6 Taxes. Each of the Borrower and each Subsidiary has filed all federal, state, foreign and local tax returns which were required to be filed (subject to any valid extensions of the time for filing), the failure to file of which would have a material adverse effect on the Borrower's or such Subsidiary's business or financial condition, and has paid, or made provision for the payment of, all taxes owed by it, and no tax deficiencies have been assessed or, to Borrower's knowledge, proposed against Borrower or any Subsidiary.

3.7 Absence of Litigation. Except as set forth on Schedule 3.6, neither the Borrower nor any Subsidiary is a party to, and so far as is known to Borrower there is no threat of, any litigation or administrative proceeding which would, if adversely determined, impair the ability of Borrower to perform its obligations under this Loan Agreement or the Revolving Credit Note, cause any material adverse change in the assets and properties of Borrower or any Subsidiary, cause any material impairment of the right to carry on the business of Borrower or any Subsidiary, or cause any material adverse effect on the financial condition of Borrower or any Subsidiary.

3.8 Indebtedness. Neither the Borrower nor any Subsidiary has incurred any Indebtedness except for Permitted Indebtedness.

3.9 Title to Property. Each of Borrower and each Subsidiary has good title to, or a valid leasehold interest in, all assets and properties necessary to conduct its business as now conducted or proposed to be conducted, and there are no Liens on any of the assets or properties of Borrower or any Subsidiary other than Permitted Liens. Each of Borrower and each Subsidiary has all licenses, permits, franchises, patents, copyrights, trademarks and trade names, or rights thereto, reasonably necessary to conduct its business as now conducted or proposed to be conducted, and Borrower does not know of any conflict with or violation of any valid rights of others with respect thereto.

3.10 ERISA. Borrower has no knowledge that any Plan is in noncompliance in any material respect with the applicable provisions of ERISA or the Internal Revenue Code. Borrower has no knowledge of any pending or threatened litigation or governmental proceeding or investigation against or relating to any Plan, and has no knowledge of any reasonable basis for any material proceedings, claims or actions against or relating to any Plan. Borrower has no knowledge that Borrower has incurred any "accumulated funding deficiency" within the meaning of Section 302(a)(2) of ERISA in connection with any Plan. Borrower has no knowledge that there has been any Reportable Event or Prohibited Transaction (as such terms are

3.11 defined in ERISA) with respect to any Plan, the occurrence of which would have a material adverse effect on the business or condition (financial or otherwise) of Borrower or any Subsidiary, or both, or that Borrower or any Subsidiary, or both, has incurred any liability to the PBGC under Section 4062 of ERISA in connection with any Plan.

3.12 Fiscal Year. The Borrower's fiscal year ends on June 30.

3.13 Compliance With Laws. Each of the Borrower and each Subsidiary is in compliance in all material respects with all Laws applicable to Borrower or any Subsidiary, their respective assets or operations, the failure to comply with which could have a material adverse effect on the Borrower's or such Subsidiary's business or financial condition.

3.14 Dump Sites. To the Borrower's knowledge after reasonable investigation, with respect to any period during which Borrower or any Subsidiary has occupied the Facilities and with respect to the time before Borrower or any Subsidiary occupied the Facilities, no Person has caused or permitted petroleum products or hazardous substances or other materials to be stored, deposited, treated, recycled or disposed of on, under or at the Facilities, which materials, if known to be present, might require investigation, clean-up, removal or some other remedial action under Environmental Laws except as set forth in Schedule 3.12 hereto, and the Borrower hereby certifies to M&I that all such petroleum products or hazardous substances or other materials are being stored, deposited, treated, recycled or disposed of in accordance with all applicable Environmental Laws and none of such items or matters shall have a material adverse effect upon the financial condition of the Borrower or any Subsidiary or any of their assets or properties.

3.15 Tanks. There are not now nor, to Borrower's knowledge after reasonable investigation, have there ever been tanks, containers or other vessels on, under or at the Facilities that contained petroleum products or hazardous substances or other materials which, if known to be present in soils or ground water, might require investigation, clean-up, removal or some other remedial action under Environmental Laws except for those tanks, containers or other vessels described in Schedule 3.13 hereto, and the Borrower hereby certifies to M&I that all such tanks, containers or other vessels are being treated or have been treated in accordance with all applicable Environmental Laws and have not caused and shall not cause any material adverse effect upon the financial condition of the Borrower or any Subsidiary or any of their assets or properties.

3.16 Other Environmental Conditions. To the best of Borrower's knowledge after reasonable investigation, there are no conditions existing currently or likely to exist during the term of this Loan Agreement that would subject Borrower or any Subsidiary to damages, penalties, injunctive relief or clean-up costs under any Environmental Laws, or that might require investigation, clean-up, removal or some other remedial action by Borrower or any Subsidiary under Environmental Laws except as set forth in Schedule 3.14 hereto, and the Borrower hereby certifies to M&I that none of such conditions would cause a material adverse effect upon the financial condition of Borrower or any Subsidiary or any of their properties or assets.

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3.17 Environmental Judgments, Decrees and Orders. No judgment, decree, order or citation related to or arising out of Environmental Laws is applicable to or binds Borrower, any Subsidiary, the Facilities or the owner of any of the Facilities except as set forth in Schedule 3.15 hereto and the Borrower hereby certifies to M&I that none of such matters shall have a material adverse affect upon the financial condition of the Borrower or any Subsidiary or any of their assets or properties.

3.18 Environmental Permits and Licenses. All permits, licenses and approvals required under Environmental Laws necessary for each of Borrower and each Subsidiary to operate the Facilities and to conduct its business as now conducted or proposed to be conducted, which are currently obtainable have been obtained and are in full force and effect.

3.19 Use of Proceeds; Margin Stock. Borrower shall use the proceeds of the Revolving Credit Loans solely for the purposes set forth in Section 1.8 hereof. No part of the proceeds of the Revolving Credit Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

3.20 Investment Company. The Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

3.21 Accuracy of Information. All information, certificates or statements by Borrower given in, or pursuant to, this Loan Agreement (whether in writing, by electronic messaging or otherwise) shall be accurate, true and complete when given.

ARTICLE 4

NEGATIVE COVENANTS

From and after the date of this Loan Agreement and until: (i) the entire amount of principal of and interest due on the Revolving Credit Loans, and all other amounts of fees and payments due under this Loan Agreement and the Revolving Credit Note are paid in full; and (ii) the commitment of M&I to make Revolving Credit Loans under Section 1.1 of this Loan Agreement has ended; and (iii) there are no outstanding Letters of Credit, Borrower shall not, and Borrower shall not permit any Subsidiary to, without the prior written consent of M&I, which consent shall not be unreasonably withheld:

4.1 Revolving Credit Loans. Permit the sum of the amount of outstanding Revolving Credit Loans to exceed the Revolving Credit Commitment.

4.2 Liens. Incur, create, assume or permit to be created or allow to exist any Lien upon or in any of its real estate, assets or properties, except Permitted Liens.

4.3 Indebtedness. Incur, create, assume, permit to exist, guarantee, endorse or otherwise become directly or indirectly or contingently responsible or liable for any Indebtedness, except Permitted Indebtedness.

4.4 Consolidation or Merger. Consolidate with or merge into any other Person, or permit another Person to merge into it, or acquire substantially all of the assets of any other Person, whether in one or a series of transactions, except that (a) Borrower may permit any Subsidiary to merge into it or into a wholly owned Subsidiary, and (b) provided that (i) no Default or Event of Default then exists or would be created thereby and (ii) the Fixed Charge Coverage Ratio of the Borrower is at least 1.10:1 on an historical and pro forma basis taking into account such transaction, the Borrower may acquire substantially all of the assets or business or stock or other evidences of beneficial ownership of, any Person, provided further that the aggregate consideration paid and liabilities assumed for all such transactions may not exceed \$10,000,000 during the term of this Loan Agreement.

4.5 Disposition of Assets. Sell, lease, assign, transfer or otherwise dispose of any of its now owned or hereafter acquired assets or properties except, prior to the occurrence of an Event of Default: (a) sales of inventory in the ordinary course of business; (b) sales or other disposition of equipment, provided that such equipment is replaced by equipment of a similar kind and equivalent value; (c) sales or other dispositions of any asset that is no longer used or useful in the business of the Borrower or any Subsidiary, and (d) other dispositions of assets provided that such assets, in the aggregate for all such dispositions after the Closing Date, (i) represent no more than 5% of the consolidated assets of the Borrower and its consolidated Subsidiaries and (ii) are responsible for no more than 5% of the consolidated net revenues or of the consolidated net income of the Borrower and its consolidated Subsidiaries, in both cases as of the end of the fiscal quarter preceding the disposition date.

4.6 Investments. Make any new Investment in or to other Persons, except Permitted Investments.

4.7 Restricted Payments. (a) Declare or pay any non-cash dividends; or (b) purchase, redeem, retire, or otherwise acquire for value any of its capital stock now or hereafter outstanding; or (c) make any distribution of assets to its stockholders as such, whether in assets or in obligations of Borrower; or (d) allocate or otherwise set apart any sum for the purchase, redemption, or retirement of any shares of its capital stock; or (e) make any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock; or (f) declare or pay any cash dividends to any stockholders; provided, however, so long as no Default or Event of Default then exists or would be created thereby, the Borrower may (i) pay cash dividends not to exceed \$2,200,000 in any rolling four-quarter period and (ii) purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding provided that the aggregate of the amount paid or consideration paid or extended for any such stock shall not exceed \$500,000 in any rolling four-quarter period.

4.8 Transactions with Affiliates. Engage in any transaction with an Affiliate on terms materially less favorable to Borrower than would be available at the time from a Person who is not an Affiliate.

4.9 Guarantees. Guarantee the Indebtedness of any Person, except guaranties in favor of M&I.

4.10 Change in Control. Permit a Change in Control.

4.11 Capital Expenditures. Make, or enter into any binding agreement to make, expenditures for fixed or capital assets (including expenditures financed with Permitted Indebtedness) in excess of \$7,000,000 in the aggregate for any fiscal year, on a noncumulative basis.

ARTICLE 5

AFFIRMATIVE COVENANTS

From and after the date of this Loan Agreement and unless otherwise consented to in writing by M&I, which consent shall not be unreasonably withheld, until: (i) the entire amount of principal of and interest due on the Revolving Credit Loans, and all other amounts of fees and payments due under this Loan Agreement and the Revolving Credit Note are paid in full; and (ii) the commitment of M&I to make Revolving Credit Loans under Section 1.1 of this Loan Agreement has ended; and (iii) there are no outstanding Letters of Credit:

5.1 Payment. Borrower shall timely pay or cause to be paid the principal of and interest on the Revolving Credit Loans and all other amounts due under this Loan Agreement, the Revolving Credit Note and the Letters of Credit.

5.2 Corporate Existence; Properties; Ownership. Borrower shall, and Borrower shall cause each Subsidiary to: (a) maintain its corporate existence; except that Borrower may permit any Subsidiary to merge into it or into a wholly owned Subsidiary; (b) conduct its business substantially as now conducted or as described in any business plans delivered to M&I prior to the Closing Date; (c) maintain all assets (other than assets no longer used or useful in the conduct of its business) in good repair, working order and condition, ordinary wear and tear excepted; and (d) maintain accurate records and books of account in accordance with GAAP consistently applied throughout all accounting periods.

5.3 Licenses. Borrower shall maintain in full force and effect each license, permit and franchise granted or issued by any federal, state or local governmental agency or regulatory authority that is reasonably necessary to or used in Borrower's or any Subsidiary's business.

5.4 Reporting Requirements. Borrower shall furnish to M&I such information respecting the business, assets and financial condition of Borrower and its Subsidiaries as M&I may reasonably request and, without request:

(a) As soon as available, and in any event within thirty (30) days after the end of each month, (i) a consolidated balance sheet of Borrower and its consolidated Subsidiaries as of the end of each such month; and (ii) consolidated statements of income and surplus of the Borrower and its consolidated Subsidiaries for each such month, all in reasonable detail and certified as true and correct, subject to audit and normal year-end adjustments, by the vice president of finance or treasurer of the Borrower; and

(b) as soon as available, and in any event within ninety (90) days after the close of each fiscal year, a copy of the detailed annual audit report for such year and accompanying consolidated financial statements of Borrower and its

(c) consolidated Subsidiaries prepared in reasonable detail and in accordance with GAAP and audited by independent certified public accountants of recognized standing selected by Borrower, and reasonably satisfactory to M&I, which audit report shall be unqualified and shall be accompanied by: (i) an unqualified opinion of such accountants, in form and substance reasonably satisfactory to M&I, to the effect that the same fairly presents the financial condition and the results of operations of Borrower and its consolidated Subsidiaries for the periods and as of the relevant dates thereof, and (ii) a certificate of such accountants setting forth their computations as to Borrower's compliance with Section 5.13 of this Loan Agreement stating that in the ordinary course of their audit, conducted in accordance with generally accepted auditing practices, they did not become aware of any Event of Default or, if their audit disclosed an Event of Default, a specification of the Event of Default and the actions taken or proposed to be taken by Borrower with respect thereto; and

(d) within forty-five (45) days after the end of each fiscal quarter, an executed Officer's Certificate, in the form of Exhibit B attached to this Loan Agreement; and

(e) promptly upon its becoming available, furnish to M&I one copy of each financial statement, report, notice, or proxy statement sent by the Borrower to its shareholders generally and of each regular or periodic report, registration statement or prospectus filed by the Borrower with any securities exchange or the Securities and Exchange Commission or any successor agency; and

(f) as soon as received, but in any event not later than ten (10) days after receipt, copies of all management letters and other reports submitted to Borrower by independent certified public accountants in connection with any examination of the financial statements of Borrower and notify M&I promptly of any change in any accounting method used by Borrower in the preparation of the financial statements to be delivered to M&I pursuant to this Section; and

(g) No later than June 30 of each year, a detailed forecast for the next fiscal year of the Borrower and its Subsidiaries in a form reasonably satisfactory to M&I.

5.5 Taxes. Borrower shall, and Borrower shall cause each Subsidiary to, pay all taxes and assessments prior to the date on which penalties attach thereto, except for any tax or assessment which is either not delinquent or which is being contested in good faith and by proper proceedings and against which adequate reserves have been provided.

5.6 Inspection of Properties and Records. Borrower shall, and Borrower shall cause each Subsidiary to, permit M&I or its agents or representatives to visit any of its properties and examine any of its books and records upon reasonable prior notice, at any reasonable time and as often as may be reasonably desired, and Borrower shall facilitate each such inspection, audit and examination; provided, however, that nothing in this Loan Agreement shall require the Borrower to disclose, or shall entitle M&I to examine, copy or otherwise have access to, the Borrower's

5.7 trade secrets, which Borrower has informed M&I are trade secrets of the Borrower, prior to any Event of Default nor thereafter, unless the Borrower and M&I shall enter into a confidentiality and nondisclosure agreement with respect to such trade secrets which agreement shall have terms reasonably acceptable to the Borrower.

5.8 Reference in Financial Statements. Borrower shall include, to the extent required by applicable Law, or cause to be included, a reference to this Loan Agreement in all financial statements of Borrower which are furnished to stockholders, financial reporting services, creditors and prospective creditors.

5.9 Compliance with Laws. Borrower shall, and Borrower shall cause each Subsidiary to: (a) comply in all material respects with all applicable Environmental Laws, and orders of regulatory and administrative authorities with respect thereto, and, without limiting the generality of the foregoing, promptly undertake and diligently pursue to completion appropriate and legally authorized containment, investigation and clean-up action in the event of any release of petroleum products or hazardous materials or substances on, upon or into any real property owned, operated or within the control of Borrower or any Subsidiary; and (b) comply in all material respects with all other Laws applicable to Borrower, its Subsidiaries, or their respective assets or operations.

5.10 Compliance with Agreements. Borrower shall, and Borrower shall cause each Subsidiary to, perform and comply in all respects with the provisions of any agreement (including without limitation any collective bargaining agreement), license, regulatory approval, permit and franchise binding upon Borrower or any Subsidiary or their respective assets or properties, if the failure to so perform or comply would have a material adverse effect on the condition (financial or otherwise) of the business, assets or properties of Borrower or any Subsidiary.

5.11 Notices. Borrower shall:

(a) as soon as possible and in any event within five (5) Business Days after Borrower's knowledge of the occurrence of any Default or Event of Default, notify M&I in writing of such Default or Event of Default and set forth the details thereof and the action which is being taken or proposed to be taken by Borrower with respect thereto;

(b) promptly notify M&I of the commencement of any litigation or administrative proceeding that would cause the representation and warranty of Borrower contained in Section 3.6 of this Loan Agreement to be untrue;

(c) promptly notify M&I: (i) of the occurrence of any Reportable Event or Prohibited Transaction (as such terms are defined in ERISA) that has occurred with respect to any Plan; and (ii) of the institution by the PBGC or Borrower or any Subsidiary of proceedings under Title IV of ERISA to terminate any Plan;

(d) unless prohibited by applicable Law, notify M&I, and provide copies, immediately upon receipt but in any event not later than ten (10) days

(e) after receipt, of any notice, pleading, citation, indictment, complaint, order or decree from any federal, state or local government agency or regulatory body, or any other source, asserting or alleging a circumstance or condition that requires or may require a financial contribution in an amount of \$1,000,000 or more by Borrower or any Subsidiary, or both, or an investigation, clean-up, removal, remedial action or other response by or on the part of Borrower or any Subsidiary, or both, under Environmental Laws which would cost \$1,000,000 or more or which seeks damages or civil, criminal or punitive penalties in an amount of \$1,000,000 or more from or against Borrower or any Subsidiary, or both, for an alleged violation of Environmental Laws; and provide M&I with written notice of any condition or event which would make the representations and warranties contained in Sections 3.11 through 3.16 of this Loan Agreement inaccurate, as soon as Borrower becomes aware of such condition or event;

(f) notify M&I at least thirty (30) days prior to any change of Borrower's name or its use of any trade name;

(g) promptly notify M&I of any damage to, or loss of, any of the assets or properties of Borrower if the net book value of the damaged or lost asset or property at the time of such damage or loss exceeds \$1,000,000;

(h) promptly notify M&I of the commencement of any investigation, litigation, or administrative or regulatory proceeding by, or the receipt of any notice, citation, pleading, order, decree or similar document issued by, any federal, state or local governmental agency or regulatory authority that results in, or may result in, the termination or suspension of any license, permit or franchise necessary to Borrower's business, or that imposes, or may result in the imposition of, a fine or penalty in an amount of \$1,000,000 or more on Borrower or both; and

(i) promptly notify M&I of any material adverse change in the business, operations, assets, property, prospects or financial condition of the Borrower.

5.12 **Insurance.** Borrower shall, and Borrower shall cause each Subsidiary to obtain and maintain at its own expense the following insurance, which shall be with insurers satisfactory to M&I: (a) "all risks" property insurance in amounts not less than the one hundred percent (100%) replacement cost of all buildings, improvements, fixtures, equipment and other real and personal property of Borrower or such Subsidiary, with a replacement cost agreed amount endorsement; (b) commercial general liability insurance covered under a commercial general liability policy including contractual liability in an amount not less than \$1,000,000 combined single limit for bodily injury, including personal injury, and property damage; (c) product liability insurance in such amounts as is customarily maintained by companies engaged in the same or similar businesses; and (d) worker's compensation insurance in amounts meeting all statutory state and local requirements. The property and commercial general liability policies described above shall require the insurer to provide at least thirty (30) days' prior written notice to M&I of any material change or cancellation of such policy.

5.13 New Subsidiaries; Acquisitions. If the Borrower organizes one or more new Subsidiaries after the Closing Date in compliance with the terms of this Agreement, the Borrower shall promptly deliver to M&I an amended Schedule 3.1 listing all of the Subsidiaries of the Borrower, together with the Borrower's Percentage of ownership of such Subsidiary. Borrower agrees to give prior written notice to M&I of any such new Subsidiary and of any acquisition permitted under Section 4.4.

5.14 Financial Covenants.

(a) Minimum Net Worth. Borrower and its consolidated Subsidiaries shall maintain at all times an aggregate Net Worth of at least \$70,321,000 plus 35% of the positive consolidated Net Income for each fiscal quarter from and after December 31, 2002 on a cumulative basis. For purposes of all computations made pursuant to this Section 5.13(a), the Borrower may exclude from Net Worth adjustments that result from (i) changes to the assumptions used by the Borrower in determining its pension liabilities or (ii) changes in the market value of plan assets up to an aggregate amount of adjustments equal to (1) \$20,000,000 for purposes of calculating the Net Worth at any time during the period ending March 31, 2003 and (2) \$34,000,000 for purposes of computing Net Worth at any time after March 31, 2003.

The Borrower shall document such adjustments in the Officer's Certificate delivered by the Borrower to M&I pursuant to Section 5.4(c) of this Loan Agreement.

(b) Minimum EBITDA. Borrower and its consolidated Subsidiaries shall achieve EBITDA of at least the following amounts as of the following dates, as determined for the four fiscal quarters of the Borrower and its consolidated Subsidiaries ending on the date of determination:

<u>Date of Determination</u>	<u>Minimum EBITDA</u>
March 31, 2003	\$6,000,000
June 30, 2003	6,000,000
September 30, 2003	7,000,000
December 31, 2003	10,000,000
March 31, 2004 and at the end of each fiscal quarter thereafter	11,000,000

(c) Maximum Total Funded Debt to EBITDA Ratio. Borrower and its consolidated Subsidiaries shall not permit the ratio of Total Funded Debt to EBITDA to exceed the following ratios as of the following dates, all as determined, in the case of Total Funded Debt, on the date of determination, and in the case of EBITDA, for the preceding four fiscal quarters of the Borrower and its consolidated Subsidiaries ending on the date of determination:

<u>Date of Determination</u>	<u>Maximum Ratio</u>
March 31, 2003	3.75:1
June 30, 2003	3.75:1
September 30, 2003	3.50:1
December 31, 2003	2.75:1
March 31, 2004	2.75:1
June 30, 2004 and at the end of each fiscal quarter thereafter	2.50:1

ARTICLE 6

REMEDIES

6.1 Acceleration. (a) Upon the occurrence of an Automatic Event of Default, then, without notice, demand or action of any kind by M&I: (i) the obligation of M&I to make any Revolving Credit Loans or to issue any Letters of Credit under this Loan Agreement shall automatically and immediately terminate; and (ii) the entire unpaid principal of, and accrued interest on, the Revolving Credit Note, and any other amount due under this Loan Agreement, shall be automatically and immediately due and payable.

(b) Upon the occurrence of a Notice Event of Default, M&I may, upon written notice and demand to Borrower: (i) terminate its obligation to make any Revolving Credit Loans or to issue any Letters of Credit under this Loan Agreement; and (ii) declare the entire unpaid principal of, and accrued interest on, the Revolving Credit Note, and any other amount due under this Loan Agreement immediately due and payable.

6.2 M&I's Right to Cure Default. In case of failure by Borrower to procure or maintain insurance, or to pay any fees, assessments, charges or taxes arising with respect to any properties and assets pledged under any collateral documents, M&I shall have the right, but shall not be obligated, to effect such insurance or pay such fees, assessments, charges or taxes, as the case may be, and, in that event, the cost thereof shall be payable by Borrower to M&I immediately upon demand together with interest at an annual rate equal to the Prime Rate plus three percent (3%) (to the extent permitted by applicable Law) from the date of disbursement by M&I to the date of payment by Borrower.

6.3 Remedies Not Exclusive. No remedy herein conferred upon M&I is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or the Revolving Credit Note or now or hereafter existing at law or in equity. No failure or delay on the part of M&I in exercising any right or remedy shall operate as a waiver thereof nor shall any single or partial exercise of any right preclude other or further exercise thereof or the exercise of any other right or remedy.

6.4 Setoff. Borrower agrees that M&I and its affiliates shall have all rights of setoff and bankers' Lien provided by applicable Law, and in addition thereto, Borrower agrees that if at any time any payment or other amount owing by Borrower under the Revolving Credit Note or

6.5 this Loan Agreement is then due to M&I, M&I may apply to the payment of such payment or other amount any and all balances, credits, deposits, accounts or moneys of Borrower then or thereafter with M&I or any affiliates of M&I.

6.6 Cash Collateral. If an Event of Default has occurred and is continuing, M&I may make written demand upon Borrower, and Borrower will then immediately cause to be deposited with M&I, in immediately available funds, an amount equal to the maximum amount which could be drawn on all outstanding Letters of Credit, to be held in a special cash collateral account in the name of M&I. Funds on deposit and interest accrued on such funds held in such special cash collateral account may be applied by M&I to the obligations of Borrower to M&I and shall not be subject to withdrawal by Borrower until all outstanding Letters of Credit are canceled or terminated and all obligations to M&I are paid in full, unless otherwise agreed to by M&I.

ARTICLE 7

DEFINITIONS

7.1 Definitions. When used in this Loan Agreement, the following terms shall have the meanings specified:

“Affiliate” shall mean any Person: (a) that directly or indirectly controls, or is controlled by, or is under common control with, Borrower or any Subsidiary; (b) that directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of Borrower or any Subsidiary; (c) five percent (5%) or more of the voting stock of which Person is directly or indirectly beneficially owned or held by Borrower or any Subsidiary; (d) that is an officer or director of Borrower or any Subsidiary; (e) of which an Affiliate is an officer or director; or (f) who is related by blood, adoption or marriage to an Affiliate. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Add-On” shall mean the following percentages for the following types of Loans and fees, based upon the Borrower’s ratio of Total Funded Debt to EBITDA, calculated on a consolidated basis:

<u>Level:</u>	<u>Total Funded Debt to EBITDA Ratio:</u>	<u>Add-On for LIBOR Loans:</u>	<u>Commitment Fee:</u>
I	greater than or equal to 2.5:1	2.50%	.375%
II	less than 2.5:1, but greater than or equal to 2.0:1	2.00%	.25%
III	less than 2.0:1, but greater than or equal to 1.5:1	1.50%	.25%
IV	less than 1.5:1 but greater than or equal to 1.0:1	1.25%	.25%
V	less than 1.0:1	1.00%	.25%
OPEN	N/A	2.75%	.375%

The initial Add-On shall be Level OPEN. Beginning with the date that the quarterly financial statements and Officer’s Certificate is to be delivered to M&I pursuant to Sections 5.4 (a) and 5.4(c) for the fiscal quarter ending on December 31, 2003, the Add-On shall be adjusted by reference to the Total Funded Debt to EBITDA Ratio of the Borrower at the end of the immediately preceding fiscal quarter as determined, in the case of Total Funded Debt, on the date of determination, and in the case of EBITDA, for the preceding four fiscal quarters of the Borrower and its consolidated Subsidiaries ending on the date of determination. Any change in the Add-On shall be effective as of the first day of the calendar month following M&I’s receipt of the quarterly financial statements and Officer’s Certificate required under Sections 5.4(a) and 5.4(c) of this Loan Agreement. If the Borrower fails to deliver timely the financial information required by Section 5.4(a) and the Officer’s Certificate pursuant to Section 5.4(c), then for the period commencing on the date such information was due through the date that is five days after the date on which such information is delivered, the Add-On shall be based on pricing level I.

“Adjusted Interbank Rate” shall mean an annual rate with respect to any Interest Period (rounded upwards, if necessary, to the nearest 1/100 of 1%), determined pursuant to the following formula:

$$\text{Adjusted Interbank Rate} = \frac{\text{Interbank Rate}}{1 - \text{Interbank Reserve Requirement}}$$

“Automatic Event of Default” shall mean any one or more of the following:

- (a) Borrower or any Subsidiary shall become insolvent or generally not pay, or be unable to pay, or admit in writing its inability to pay, its debts as they mature; or
- (b) Borrower or any Subsidiary shall make a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its assets; or

(c) Borrower or any Subsidiary shall become the subject of an “order for relief” within the meaning of the United States Bankruptcy Code, or shall file a petition in bankruptcy, for reorganization or to effect a plan or other arrangement with creditors; or

(d) Borrower or any Subsidiary shall have a petition or application filed against it in bankruptcy or any similar proceeding, or shall have such a proceeding commenced against it, and such petition, application or proceeding shall remain unstayed or undismitted for a period of sixty (60) days or more, or Borrower or any Subsidiary shall file an answer to such a petition or application, admitting the material allegations thereof; or

(e) Borrower or any Subsidiary shall apply to a court for the appointment of a receiver or custodian for any of its assets or properties, or shall have a receiver or custodian appointed for any of its assets or properties, with or without consent, and such receiver shall not be discharged or dismissed within sixty (60) days after his appointment; or

(f) Borrower or any Subsidiary shall adopt a plan of complete liquidation of its assets.

“Business Day” shall mean any day other than a Saturday, Sunday, public holiday or other day when commercial banks in Wisconsin are authorized or required by Law to close.

“Change in Control” shall mean (a) a change in the power to direct or cause the direction of management and policies of the Borrower, either directly or indirectly, through the ownership of voting securities of the Borrower or by contract or otherwise or (b) any Person or group (within the meaning of Rule 13d-5, (as in effect on the date hereof, under the Securities Exchange Act of 1934, as amended) shall become the beneficial owner of more than 50% of the outstanding capital stock of the Borrower entitled to vote for the election of the board of directors or (c) during any period of twelve consecutive months individuals who at the beginning of such period constituted a majority of the board of directors of the Borrower (together with new directors whose election by such board or whose nomination for the election by the shareholders of the Borrower was approved by the majority of the directors still in office who were either directors at the beginning of such period or whose election was previously so approved) shall cease for any reason to constitute a majority of the board of directors of the Borrower then in office or (d) any “Change of Control,” as defined in the Mass Mutual Agreement, has occurred.

“Closing Date” shall mean December 19, 2002 or such later date on which all of the conditions precedent contained in Section 2.2 are satisfied or waived by M&I.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Default” shall mean any event which would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

“EBITDA” shall mean the sum of (i) Net Income plus, to the extent deducted in the calculation of Net Income, (ii) interest expense, (iii) depreciation and amortization expense, (iv) income tax expense, and (v) up to \$2,975,000 of actual restructuring expenses incurred as the result of personnel reductions in the U.S. and Belgium and a non-cash asset impairment charge, all for the period ending December 31, 2002; provided, however, such expenses are acceptable to M&I in its discretion, all as determined for the Borrower and its Subsidiaries on a consolidated basis for the four quarters ending on the date of determination, without duplication, and in accordance with GAAP applied on a consistent basis.

“Environmental Laws” means any Law, including any common law, which relates to or otherwise imposes liability or standards of conduct concerning discharges, emissions, releases or threatened releases of noises, odors or any pollutants, contaminants or hazardous or toxic wastes, substances or materials, into air, water or groundwater, or land, or otherwise relating to the manufacture, processing, generation, distribution, use, treatment, storage, disposal, cleanup, transport or handling of pollutants, contaminants, or hazardous or toxic wastes, substances or materials, including, but not limited to CERCLA as amended, the Resource Conservation and Recovery Act of 1976, as amended, the Toxic Substances Control Act of 1976, as amended, the Federal Water Pollution Control Act Amendments of 1972, the Clean Water Act of 1977, as amended, the Oil Pollution Act of 1990, as amended, any so-called “Superlien” law, and any other similar Federal, state or local statutes.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended and as in effect from time to time.

“Event of Default” shall mean any Automatic Event of Default or any Notice Event of Default.

“Facilities” shall mean all real property and improvements now or hereafter owned or occupied by Borrower or any of its Subsidiaries in the conduct of their respective business.

“Fixed Charge Coverage Ratio” shall mean the relationship, expressed as a numerical ratio of:

(a) the result of (i) EBITDA, minus (i) income tax expense, minus (ii) capital expenditures not financed with Indebtedness (other than with proceeds of the Revolving Credit Loans), minus (iii) the aggregate of cash dividends paid by the Borrower to its shareholders minus (iv) the aggregate purchase price paid, or other consideration extended, by the Borrower for purchases, redemptions, retirements or other acquisitions by the Borrower of any of its stock; to

(b) the sum of (i) interest expense, plus (ii) principal payments (including with respect to leases that have been or should be capitalized according to GAAP),

all as determined for the Borrower and its consolidated Subsidiaries for the four quarter period ending on the date of determination, without duplication, and in accordance with GAAP applied on a consistent basis.

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“GAAP” shall mean generally accepted accounting principles as in effect from time to time in the United States of America, applied by Borrower and its Subsidiaries on a basis consistent with the preparation of Borrower’s most recent financial statements furnished to M&I pursuant to Section 3.2 hereof.

“Indebtedness” shall mean all liabilities or obligations of Borrower or any Subsidiary, whether primary or secondary or absolute or contingent: (a) for borrowed money or for the deferred purchase price of property or services (excluding trade obligations incurred in the ordinary course of business, which are not the result of any borrowing); (b) as lessee under leases that have been or should be capitalized according to GAAP; (c) evidenced by notes, bonds, debentures or similar obligations; (d) under any guaranty or endorsement (other than in connection with the deposit and collection of checks in the ordinary course of business), and other contingent obligations to purchase, provide funds for payment, supply funds to invest in any Person, or otherwise assure a creditor against loss; or (e) secured by any Liens on assets of either Borrower or any Subsidiary, whether or not the obligations secured have been assumed by Borrower or any Subsidiary.

“Interbank Rate” shall mean with respect to any Revolving Credit Loan for any Interest Period, the rate per annum equal to the rate (rounded upwards, if necessary, to the nearest 1/16 of 1%) quoted as the rate at which dollar deposits in immediately available funds are offered on the first Business Day of each calendar month in the interbank Eurodollar market on or about 9:00 A.M. Milwaukee time for a period of one (1) calendar month. Each such determination shall be conclusive and binding upon the parties hereto in the absence of demonstrable error. M&I currently uses the Knight Ridder Information Service to provide information with respect to the interbank Eurodollar market, but M&I may change the service providing such information at any time.

“Interbank Reserve Requirement” shall mean a percentage (expressed as a decimal) equal to the aggregate reserve requirements in effect on the first day of each calendar month (including all basic, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements during each calendar month) specified for “Eurocurrency Liabilities” under Regulation D of the Board of Governors of the Federal Reserve System, or any other regulation of the Board of Governors which prescribes reserve requirements applicable to “Eurocurrency Liabilities” as presently defined in Regulation D, as then in effect, as applicable to the class or classes of banks of which M&I is a member. As of the date of this Loan Agreement, the Interbank Reserve Requirement is 0%.

“Interest Period” shall mean a period commencing on the first day of any calendar month and ending on the last day of that calendar month.

“Investment” shall mean: (a) any transfer or delivery of cash, stock or other property or value by such Person in exchange for Indebtedness, stock or any other security of another Person; (b) any loan, advance or capital contribution to or in any other Person; (c) any guaranty, creation or assumption of any liability or obligation of any other Person; and (d) any investment in any fixed property or fixed assets other than fixed properties and fixed assets acquired and used in the ordinary course of the business of that Person.

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“Law” shall mean any federal, state, local or other law, rule, regulation or governmental requirement of any kind, and the rules, regulations, written interpretations and orders promulgated thereunder.

“Letters of Credit” shall mean any letters of credit which are now or at any time hereafter issued by M&I at the request and for the account of Borrower pursuant to this Loan Agreement and which have not expired or been revoked or terminated.

“LIBOR” shall mean an annual rate of interest equal to the Adjusted Interbank Rate, which rate shall change on the first day of each calendar month. Each change in any rate of interest computed by reference to LIBOR shall take effect on the first day of each calendar month. In addition, any change in interest rate due to a change in the Add-On shall be made as set forth in the definition of Add-On contained in this Loan Agreement.

“LIBOR Loan” shall mean a Revolving Credit Loan bearing interest at a rate determined by reference to LIBOR.

“Lien” shall mean, with respect to any asset: (a) any mortgage, pledge, lien, charge, security interest or encumbrance of any kind in respect of such asset; or (b) the interest of a vendor or lessor under any conditional sale agreement, financing lease or other title retention agreement relating to such asset.

“Loan Agreement” shall mean this Loan Agreement, together with the Exhibits and Schedules attached hereto, as the same shall be amended from time to time in accordance with the terms hereof.

“M&I” shall mean M&I Marshall & Ilsley Bank, a Wisconsin banking corporation.

“Mass Mutual Agreement” shall mean that certain Note Agreement, dated as of June 1, 1996, between the Borrower and Massachusetts Mutual Life Insurance Company, as the same has been or may be amended, supplemented or otherwise modified from time to time.

“Net Income” for any period shall mean the gross revenues of the Borrower and its Subsidiaries for such period less all expenses and other proper charges (including taxes on income), determined in accordance with GAAP on a consolidated basis after eliminating earnings or losses attributable to outstanding minority interests, but excluding in any event:

- (a) any gains or losses on the sale or other disposition of investments or fixed capital assets, and any taxes on such excluded gains and any tax deductions or credits on account of any such excluded losses;
- (b) the proceeds of any life insurance policy;
- (c) net earnings and losses of any Subsidiary accrued prior to the date it became a Subsidiary;

(d) net earnings and losses of any Person (other than a Subsidiary), substantially all the assets of which have been acquired in any manner by the Borrower or any Subsidiary, realized by such Person prior to the date of such acquisition;

(e) net earnings and losses of any Person (other than a Subsidiary) with which the Borrower or a Subsidiary shall have consolidated or which shall have merged into or with the Borrower or a Subsidiary prior to the date of such consolidation or merger;

(f) net earnings of any Person (other than a Subsidiary) in which the Borrower or any Subsidiary has an ownership interest unless such net earnings shall have actually been received by the Borrower or such Subsidiary in the form of cash distributions;

(g) any portion of the net earnings of any Subsidiary which for any reason is unavailable for payment of dividends to the Borrower or any other Subsidiary;

(h) earnings resulting from any reappraisal, revaluation or write-up of assets;

(i) any deferred or other credit representing any excess of the equity in any Subsidiary at the date of acquisition thereof over the amount invested in such Subsidiary;

(j) any gain arising from the acquisition of any securities of the Borrower or any Subsidiary; and

(k) any reversal of any contingency reserve, which reversal is required to be disclosed in the financial statements of the Borrower in accordance with GAAP, except to the extent that provision for such contingency reserve shall have been made from income arising during such period.

“Net Worth” shall mean the total amount of stockholders’ equity of the Borrower and its consolidated Subsidiaries as determined without duplication and in accordance with GAAP consistently applied.

“Notice Event of Default” shall mean any one or more of the following:

(a) Borrower shall fail: (i) to pay when due any installment of the principal of the Revolving Credit Note; or (ii) to pay when due any interest on the Revolving Credit Note or any fee, expense or other amount due under this Loan Agreement or the Revolving Credit Note; or

(b) there shall be a default in the performance or observance of any of the covenants and agreements contained in Article IV or Sections 5.1, 5.2, 5.4, 5.6, 5.10, 5.11 or 5.13 of this Loan Agreement; or

(c) there shall be a default in the performance or observance of any of the other covenants, agreements or conditions contained in this Loan Agreement or the Revolving Credit Note, and such default shall have continued for a period of thirty (30) calendar days after written notice from M&I to Borrower specifying such default and requiring it to be remedied; or

(d) any representation or warranty made by Borrower in this Loan Agreement or in any document or financial statement delivered pursuant to this Loan Agreement shall prove to have been false in any material respect as of the time when made or given; or

(e) any final judgment shall be entered against Borrower or any Subsidiary which, when aggregated with other final judgments against Borrower and its Subsidiaries, exceeds \$1,000,000 in amount, and shall remain outstanding and unsatisfied, unbonded or unstayed after sixty (60) days from the date of entry thereof; provided that no final judgment shall be included in the calculation under this subsection to the extent that the claim underlying such judgment is covered by insurance and defense of such claim has been tendered to and accepted by the insurer without reservation; or

(f) (i) any Reportable Event (as defined in ERISA) shall have occurred which constitutes grounds for the termination of any Plan by the PBGC or for the appointment of a trustee to administer any Plan, or any Plan shall be terminated within the meaning of Title IV of ERISA, or a trustee shall be appointed by the appropriate court to administer any Plan, or the PBGC shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan, or Borrower or any trade or business which together with Borrower would be treated as a single employer under Section 4001 of ERISA shall withdraw in whole or in part from a multi-employer Plan, and (ii) the aggregate amount of Borrower's liability for all such occurrences, whether to a Plan, the PBGC or otherwise, may exceed \$1,000,000, and such liability is not covered for the benefit of Borrower or its Subsidiaries by insurance; or

(g) Borrower or any Subsidiary shall: (i) fail to pay any amount of principal or interest when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) under any Indebtedness (other than the Revolving Credit Note or as provided in (h) below) in an aggregate amount of \$1,000,000 or more and such failure shall continue after the applicable grace period, if any, specified in any agreement or instrument relating to such Indebtedness; or (ii) fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any such Indebtedness in an aggregate amount of \$1,000,000 or more when required to be performed or observed, and such failure shall not be waived and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure to perform or observe is to accelerate, or to permit acceleration of, with the giving of notice if required, the maturity of such Indebtedness; or

(h) Borrower or any Subsidiary shall: (i) fail to pay any amount of principal or interest when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) under any Indebtedness to M&I (other than the Revolving Credit Note) and such failure shall continue after the applicable grace period, if any, specified in any agreement or instrument relating to such Indebtedness; or (ii) fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any such Indebtedness to M&I when required to be performed or observed, and such failure shall not be waived and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure to perform or observe is to accelerate, or to permit acceleration of, with the giving of notice if required, the maturity of such Indebtedness; or

(i) An "Event of Default" under the Mass Mutual Agreement has occurred.

"Obligations" shall mean: (a) the outstanding principal of, and all interest on, the Revolving Credit Note, and any renewal, extension or refinancing thereof; (a) the undrawn face amount of all outstanding Letters of Credit; (c) all other debts, liabilities, obligations, covenants and agreements of Borrower contained in this Loan Agreement and any Swap Agreements; and (d) any and all other debts, liabilities and obligations of Borrower to M&I.

"PBGC" shall mean Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Permitted Indebtedness" shall mean: (a) Indebtedness of Borrower to M&I; (b) purchase money Indebtedness secured by Purchase Money Liens, which Indebtedness shall not exceed \$500,000 per year on a non-cumulative consolidated basis; (c) unsecured accounts payable and other unsecured obligations of Borrower or any Subsidiary incurred in the ordinary course of business of Borrower or any Subsidiary and not as a result of any borrowing; (d) Indebtedness owed by the Borrower to a Subsidiary; and (e) Indebtedness existing on the Closing Date and set forth on Schedule 7.1 and refinancings thereof which does not increase the principal amount thereof or accelerate the amortization thereof.

"Permitted Investments" shall mean:

(a) Investments in insured savings accounts and certificates of deposit;

(b) bankers' acceptances if issued by a bank organized under the laws of the United States of America or any state having a combined capital and surplus in excess of \$50,000,000 and having a maturity of not more than three months from the date of acquisition;

(c) Investments in prime commercial paper, rated either P-1 by Moody's Investors Service or A-1 by Standard & Poor's Rating Services, or "local rated" commercial paper from M&I, maturing within one year of the date of acquisition;

(d) marketable obligations issued or guaranteed by the United States of America or any agency thereof having a maturity of not more than one year from the date of acquisition;

(e) Investments in money market instruments or funds;

(f) Investments in Subsidiaries and other Investments (i) in existence on the Closing Date and, to the extent they consist of loans, refinancings thereof or amendments or modifications thereto which do not have the effect of increasing the principal amount thereof or accelerating the amortization thereof and (ii) to the extent permitted under Section 4.4 of this Loan Agreement; and

(g) Loans to Subsidiaries.

“Permitted Liens” shall mean:

(a) Liens in favor of M&I;

(b) Liens for taxes, assessments, or governmental charges, or levies that are not yet due and payable or that are being contested in good faith by appropriate proceedings and for which adequate reserves have been established;

(c) easements, restrictions, minor title irregularities and similar matters which have no material adverse effect as a practical matter upon the ownership and use of the affected property;

(d) Liens or deposits in connection with workmen’s compensation, unemployment insurance, social security, ERISA or similar legislation or to secure customs’ duties, public or statutory obligations in lieu of surety, stay or appeal bonds, or to secure performance of contracts or bids (other than contracts for the payment of borrowed money) or deposits required by law as a condition to the transaction of business or other liens or deposits of a like nature made in the ordinary course of business;

(e) Purchase Money Liens securing purchase money Indebtedness which is permitted hereunder; and

(f) Liens set forth on Schedule 7.1.

“Person” shall mean and include an individual, partnership, limited liability entity, corporation, trust, unincorporated association and any unit, department or agency of government.

“Plan” shall mean each pension, profit sharing, stock bonus, thrift, savings and employee stock ownership plan established or maintained, or to which contributions have been made, by Borrower or any Subsidiary or any trade or business which together with Borrower or any Subsidiary would be treated as a single employer under Section 4001 of ERISA.

“Prime Rate” shall mean the rate of interest adopted by M&I from time to time as its base rate for interest determinations.

“Prime Rate Loan” shall mean a Revolving Credit Loan bearing interest at a rate determined by reference to the Prime Rate.

“Purchase Money Liens” shall mean Liens securing purchase money Indebtedness incurred in connection with the acquisition of capital assets by Borrower or any Subsidiary in the ordinary course of business, provided that such Liens do not extend to or cover assets or properties other than those purchased in connection with the purchase in which such Indebtedness was incurred and that the obligation secured by any such Lien so created shall not exceed one hundred percent (100%) of the cost of the property covered thereby.

“Revolving Credit Commitment” shall mean the commitment of M&I to make Revolving Credit Loans to the Borrower up to a maximum principal amount of Twenty Million Dollars (\$20,000,000) minus the undrawn face amount of outstanding Letters of Credit.

“Revolving Credit Loans” shall mean the loans made from time to time to Borrower by M&I pursuant to Section 1.1 of this Loan Agreement.

“Revolving Credit Note” shall mean a promissory note from Borrower to M&I evidencing the Revolving Credit Loans and in substantially the form of Exhibit C attached to this Loan Agreement, as such note may be extended, renewed or refinanced from time to time.

“Revolving Credit Termination Date” shall mean the earlier of: (a) October 31, 2005; and (b) the date that the Revolving Credit Commitment is terminated pursuant to Section 6.1 of this Loan Agreement.

“Subsidiary” shall mean any corporation, more than fifty percent (50%) of the outstanding stock of which (of any class or classes, however designated, having ordinary voting power for the election of at least a majority of the members of the board of directors of such corporation, other than stock having such power only by reason of the happening of a contingency) shall at all time be owned by Borrower directly or through one or more Subsidiaries.

“Swap Agreement” shall mean any agreement governing any transaction now existing or hereafter entered into between the Borrower and M&I or any of M&I’s subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

“Total Funded Debt” shall mean (i) all Indebtedness for borrowed money (including without limitation, Indebtedness evidenced by promissory notes, bonds, debentures and similar interest-bearing instruments), plus (ii) all purchase money Indebtedness, plus (iii) the

principal portion of capital lease obligations, plus (iv) the maximum amount which is available to be drawn under Letters of Credit then outstanding, all as determined for the Borrower and its consolidated Subsidiaries as of the date of determination, without duplication, and in accordance with GAAP applied on a consistent basis.

7.2 Interpretation. The foregoing definitions are equally applicable to both the singular and plural forms of the terms defined. The words “hereof”, “herein”, and “hereunder” as words of like import when used in this Loan Agreement shall refer to this Loan Agreement as a whole and not to any particular provision of this Loan Agreement. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Loan Agreement, it shall be done in accordance with GAAP except where such principles are inconsistent with the specific provisions of this Loan Agreement.

ARTICLE 8

MISCELLANEOUS

8.1 Expenses and Attorneys’ Fees. Borrower shall pay all reasonable fees and expenses incurred by M&I and any loan participants, including the reasonable fees of counsel including in-house counsel, in connection with the preparation, issuance, maintenance and amendment of this Loan Agreement, the Revolving Credit Note and the consummation of the transactions contemplated by this Loan Agreement, and the administration, protection and enforcement of M&I’s rights under this Loan Agreement and the Revolving Credit Note, including without limitation the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceeding involving Borrower, both before and after judgment. Borrower further agrees to pay on demand all internal audit fees and accountants’ fees incurred by M&I in connection with the maintenance and enforcement of this Loan Agreement, the Revolving Credit Note, or any collateral security.

8.2 Assignability; Successors. Borrower’s rights and liabilities under this Loan Agreement are not assignable or delegable, in whole or in part, without the prior written consent of M&I. The provisions of this Loan Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of the parties.

8.3 Survival. All agreements, representations and warranties made in this Loan Agreement or in any document delivered pursuant to this Loan Agreement shall survive the execution and delivery of this Loan Agreement, the issuance of the Revolving Credit Note and the delivery of any such document.

8.4 Governing Law. This Loan Agreement, the Revolving Credit Note, and the other instruments, agreements and documents issued pursuant to this Loan Agreement shall be governed by, and construed and interpreted in accordance with, the Laws of the State of Wisconsin applicable to agreements made and wholly performed within such state.

8.5 Counterparts; Headings. This Loan Agreement may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together

8.6 constitute but one and the same agreement. The table of contents and article and section headings in this Loan Agreement are inserted for convenience of reference only and shall not constitute a part of this Loan Agreement.

8.7 Entire Agreement. This Loan Agreement, the Revolving Credit Note and the other documents referred to herein and therein contain the entire understanding of the parties with respect to the subject matter hereof. There are no restrictions, promises, warranties, covenants or undertakings other than those expressly set forth in this Loan Agreement. This Loan Agreement supersedes all prior negotiations, agreements and undertakings between the parties with respect to such subject matter.

8.8 Notices. All communications or notices required or permitted by this Loan Agreement shall be in writing and shall be deemed to have been given: (a) upon delivery if hand delivered; or (b) two (2) Business Days following deposit in the United States mail, postage prepaid, or with a nationally recognized overnight commercial carrier, airbill prepaid; or (c) upon transmission if by facsimile, and each such communication or notice shall be addressed as follows, unless and until any party notifies the other in accordance with this Section 8.7 of a change of address:

If to Borrower: Twin Disc, Incorporated
1328 Racine Street
Racine, WI 53403
Attention: Vice President - Finance
Fax No.: (262) 638-4481

If to M&I: M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, WI 53202
Attention: Robert Nielsen
Fax No.: (414) 765-7625

with a copy to:

Quarles & Brady LLP
411 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Attention: Ann M. Murphy
Fax No.: (414) 271-3552

8.9 Amendment. No amendment of this Loan Agreement shall be effective unless in writing and signed by Borrower and M&I.

8.10 Taxes. If any transfer or documentary taxes, assessments or charges levied by any governmental authority shall be payable by reason of the execution, delivery or recording of this Loan Agreement, the Revolving Credit Note, or any other document or instrument issued or delivered pursuant to this Loan Agreement, Borrower shall pay all such taxes, assessments and charges, including interest and penalties, and hereby indemnifies M&I against any liability therefor.

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8.11 **Severability.** Any provision of this Loan Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Loan Agreement in such jurisdiction or affecting the validity or enforceability of any provision in any other jurisdiction.

8.12 **Indemnification.** Borrower hereby indemnifies, agrees to defend and holds M&I harmless from and against all loss, liability, damage and expense, including reasonable costs associated with administrative and judicial proceedings and reasonable attorneys' fees, suffered or incurred by M&I on account of: (i) Borrower's or any Subsidiary's failure to comply with any Environmental Law, or any order of any regulatory or administrative authority with respect thereto; (ii) any release of petroleum products or hazardous materials or substances on, upon or into real property owned, operated or controlled by Borrower or any Subsidiary; and (iii) any and all damage to natural resources or real property or harm or injury to Persons resulting or alleged to have resulted from any failure to comply or any release of petroleum products or hazardous materials or substances as described in clauses (i) and (ii) above. All indemnities set forth in this Loan Agreement shall survive the execution and delivery of this Loan Agreement and the Revolving Credit Note and the making and repayment of the Revolving Credit Loans.

8.13 **Participation.** M&I may, at any time and from time to time, grant to any bank or banks a participation in any part of the Revolving Credit Loans. All of the representations, warranties and covenants of Borrower in this Loan Agreement are also made to any participant with the same force and effect as if expressly so made.

8.14 **Inconsistent Provisions.** The provisions of the Revolving Credit Note and this Loan Agreement are not intended to supersede the provisions of each other or this Loan Agreement, but shall be construed as supplemental to this Loan Agreement and to each other. In the event of any inconsistency between the provisions of the Revolving Credit Note and this Loan Agreement, it is intended that the provisions of this Loan Agreement shall control.

8.15 **WAIVER OF RIGHT TO JURY TRIAL.** M&I AND BORROWER ACKNOWLEDGE AND AGREE THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS LOAN AGREEMENT OR WITH RESPECT TO THE TRANSACTION CONTEMPLATED HEREBY WOULD BE BASED UPON DIFFICULT AND COMPLEX ISSUES AND, THEREFORE, THE PARTIES AGREE THAT ANY LAWSUIT ARISING OUT OF ANY SUCH CONTROVERSY SHALL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

8.16 **TIME OF ESSENCE.** TIME IS OF THE ESSENCE FOR THE PERFORMANCE BY BORROWER OF THE OBLIGATIONS SET FORTH IN THIS LOAN AGREEMENT.

8.17 **SUBMISSION TO JURISDICTION; SERVICE OF PROCESS.** AS A MATERIAL INDUCEMENT TO M&I TO ENTER INTO THIS LOAN AGREEMENT:

(a) THE BORROWER AGREES THAT ALL ACTIONS OR PROCEEDINGS IN ANY MANNER RELATING TO
OR ARISING OUT OF

(b) THIS AGREEMENT MAY BE BROUGHT ONLY IN COURTS OF THE STATE OF WISCONSIN LOCATED IN MILWAUKEE COUNTY OR THE FEDERAL COURT FOR THE EASTERN DISTRICT OF WISCONSIN AND THE BORROWER CONSENTS TO THE JURISDICTION OF SUCH COURTS. THE BORROWER WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH COURT AND ANY RIGHT IT MAY HAVE NOW OR HEREAFTER HAVE TO CLAIM THAT ANY SUCH ACTION OR PROCEEDING IS IN AN INCONVENIENT COURT; and

(c) The Borrower consents to the service of process in any such action or proceeding by certified mail sent to the address specified in Section 8.7.

(d) Nothing contained herein shall affect the right of M&I to serve process in any other manner permitted by law or to commence an action or proceeding in any other jurisdiction.

8.18 Termination of Certain Agreements. On the Closing Date, the Borrower will refinance in full all obligations under the Firststar Loan Agreement and the Firststar Loan Agreement shall be terminated. M&I has delivered to the Borrower a commitment letter dated October 23, 2002 (the "Commitment Letter") relating to a \$12,000,000 revolving credit facility to be provided by M&I to the Borrower, which facility would mature on October 31, 2003. The Borrower and M&I have entered into this Loan Agreement in substitution for any credit facilities under such Commitment Letter, and the Borrower and M&I hereby agree that such Commitment Letter is hereby terminated and that M&I shall have no obligation to lend under such Commitment Letter.

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IN WITNESS WHEREOF, the parties hereto have executed this Loan Agreement as of the day and year first above written.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President-Finance and Treasurer

M&I MARSHALL & ILSLEY BANK

By: _____
Its: Vice President

By: _____
Its: Vice President

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SCHEDULE 3.1

Borrower's Subsidiaries and the Borrower's Percentage Ownership of Each

<u>SUBSIDIARY</u>	<u>BORROWER'S OWNERSHIP</u>
1. Twin Disc International, S.A. (a Belgian corporation)	100%
2. Twin Disc Italia S.R.L. (an Italian corporation)	100%
3. Twin Disc (Pacific) Pty. Ltd. (an Australian corporation)	100%
4. Twin Disc (Far East) Ltd. (a Delaware corporation operating in Singapore)	100%
5. Mill-Log Equipment Co., Inc. (an Oregon corporation)	100%
6. Twin Disc Southeast Inc. (a Florida corporation)	100%
7. Technodrive S.p.A. (an Italian corporation)	100%
8. Nico Transmission Co., Ltd (a Japanese corporation)	66%

SCHEDULE 3.6

Litigation

None

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SCHEDULE 3.12

Dump Sites

Plant 3 Broach Pit.

The Borrower has identified oil and VOC contamination of soil and groundwater immediately beneath the building identified as Plant 3. This contamination is believed to be attributable to operation of the broach prior to December of 1995. The Borrower is engaged in ongoing site investigation and remediation under the auspices of the Wisconsin Department of Natural Resources ("WDNR"), principally involving pumping of contaminated groundwater.

Plant 3 Coolant Release. In October 2002, the Borrower detected the release of coolant into the soil at Plant 3. The spill has been reported to WDNR, and the Borrower is in the process of identifying the extent and degree of the release with monitoring wells and geoprobe sampling.

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SCHEDULE 3.13

Tanks

The Borrower has several aboveground storage tanks (ASTs) at its Plant 1 location. The ASTs are located in the waste storage room and contain waste coolant/washing solution, waste oil, and a series of tanks utilized for the make-up of fresh coolant.

The Borrower has approximately 26 ASTs at its Plant 3 site, ranging in size from 450 gallons up to approximately 2,250 gallons. Included in these 26 tanks are nine 600-gallon storage tanks utilized for the storage of bulk liquids. These nine ASTs contain:

- M1 - DTE 25 Lube Oil
- M2 - Omnicrom Cutting Oil
- M3 - Metcut G Cutting fluid
- M4 - Delvac 10W Engine Oil
- M5 - Velocite 6 Hydraulic Fluid
- M6 - MobilMet Nu Cutting Oil
- M1B - DTE 25 Lube Oil
- M2B - Omnicrom Cutting Oil
- M3B - Metcut G Cutting Fluid

The remaining Plant 3 ASTs contain waste coolant/washing solution, waste oil, and a series of tanks utilized for the make-up of fresh coolant.

The Borrower also maintains a 2,425-gallon diesel fuel tank located at its research and development facility.

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SCHEDULE 3.14

Other Environmental Conditions

MIG/DeWane Superfund Site – Rockford, Illinois. The Borrower has been identified as a potentially responsible party (PRP) at this site. The Borrower has cooperated with other PRPs as well as state and federal authorities in the investigation of this site. The Borrower has entered into a tentative settlement of its liability at the MIG/DeWane site. The PRPs are awaiting final approval of the settlement, which will be incorporated into a consent decree with the State of Illinois.

IPC Superfund Site – Rockford, Illinois. The Borrower has been named as a PRP with respect to this site. The Borrower was one of the many PRPs that entered into a consent decree governing interim remedial action at the site. The Borrower is cooperating with other PRPs as well as state and federal authorities in further investigation of this site.

The Illinois EPA has approved the Record Decision at the IPC site, and the Borrower expects to enter into a buyout settlement with the principal PRPs at the site.

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SCHEDULE 3.15

Environmental Judgments, Decrees, and Orders

The Borrower has entered into consent decrees in connection with the MIG/DeWane and IPC Superfund Sites referenced in Schedule 3.14.

In October 2002, the Borrower has inspected by OSHA regarding its documentation of training for lead exposure and its bloodborne pathogens standards; this inspection may result in a citation from OSHA, although none has been issued as of the date of this Agreement.

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SCHEDULE 7.1

Existing Indebtedness and Liens

Indebtedness of the Company and its Subsidiaries existing on the Closing Date is as follows:

	Name of Lender	Available Funds	Outstanding December 16, 2002
Twin Disc, Incorporated	U.S. Bank (agent) and M&I Marshall & Ilsley Bank*	\$35,000,000	\$10,550,000
	Massachusetts Mutual Life Insurance Co. and American Family Life Insurance Co.	\$11,429,000	\$11,429,000
Twin Disc International S.A.	Banque Brussels Lambert (BBL)	\$2,628,000	none
Technodrive S.p.A.	Cari Cento Bank	\$150,000	\$953,498
	Various other banks	\$820,000	
Twin Disc (Far East) Ltd.	Standard Chartered Bank	\$1,500,000	none
Twin Disc Italia SrL	Cassa di Risparmio di Firenze	\$606,760	\$399,880

*to be paid in full and terminated on the Closing Date

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EXHIBIT B

OFFICER'S CERTIFICATE

M&I Marshall & Ilsley Bank

Attention: Robert Nielsen

770 North Water Street

Milwaukee, Wisconsin 53202

Re: Twin Disc, Incorporated

Gentlemen:

This Officer's Certificate is delivered to you pursuant to the terms of a Loan Agreement dated as of December 19, 2002 (the "Loan Agreement") between Twin Disc, Incorporated (the "Borrower") and M&I Marshall & Ilsley Bank ("M&I"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Loan Agreement.

The undersigned hereby represents and warrants on behalf of the Borrower (and not in his individual capacity) to M&I that:

1. The undersigned is an officer of the Borrower and is duly authorized to execute and deliver this Officer's Certificate.
2. The representations and warranties of the Borrower contained in the Loan Agreement are true and accurate in all material respects on and as of the date of this Officer's Certificate.
3. No Default or Event of Default under the Loan Agreement has occurred and is continuing.¹
4. Enclosed with this certificate are the financial statements described in Section 5.4(a) [*or*: 5.4(b)] of the Loan Agreement for the quarter [*or*: year] ended _____, 200_ (the "Financials"). To the best of our knowledge, the Financials were prepared in accordance with generally accepted accounting principles and fairly present, in all material respects, the financial condition and results of operations of the Borrower and an its Subsidiaries as of the date of, and for the period covered by, the Financials, subject to audit and normal year-end adjustments.²

¹ If a Default or an Event of Default exists, specify (a) the facts and circumstances of such Default or Event of Default, and (b) the actions that the Borrower has taken, is taking or proposes to take to remedy such Default or Event of Default.

² For the certificate delivered with the annual financial statements, delete the phrase "subject to audit and normal year-end adjustments."

5. As determined pursuant to the Loan Agreement and based on the consolidated Financials for the Borrower and all consolidated Subsidiaries:

A. the Total Funded Debt to EBITDA Ratio

as of _____, 200_ is: _____:1.0

the maximum Total Funded Debt to EBITDA Ratio covenant is the following ratios as of the following dates:

<u>Date of Determination</u>	<u>Maximum Ratio</u>
March 31, 2003	3.75:1
June 30, 2003	3.75:1
September 30, 2003	3.50:1
December 31, 2003	2.75:1
March 31, 2004	2.75:1
June 30, 2004 and at the end of each fiscal quarter thereafter	2.50:1

B. the Net Worth as of _____, 200_ is: \$_____

the Net Worth covenant is: \$70,321,000 plus 35% of the positive consolidated Net

Income for each fiscal quarter

from and after December 31,

2002 on a cumulative basis

[any adjustment for pension

liabilities permitted by

Section 5.13(a) is

\$_____]

C. the EBITDA as of

_____, 200__ is:

\$ _____

the minimum EBITDA covenant is at least the following amounts as of the following dates:

	<u>Date of Determination</u>	<u>Minimum EBITDA</u>
March 31, 2003		\$6,000,000
June 30, 2003		6,000,000
September 30, 2003		7,000,000
December 31, 2003		10,000,000
March 31, 2004 and at the end of each fiscal quarter thereafter		11,000,000

Dated: _____, 200_.

TWIN DISC, INCORPORATED

By: _____

Its: Vice President-Finance and Treasurer

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EXHIBIT C

REVOLVING CREDIT NOTE

\$20,000,000.00

Milwaukee, Wisconsin
December 19, 2002

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on October 31, 2005 (or such earlier maturity date resulting from acceleration) the principal sum of TWENTY MILLION DOLLARS (\$20,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on December 31, 2002, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

This Note constitutes the Revolving Credit Note described in that certain Loan Agreement (the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President-Finance and Treasurer



AMENDMENT NO. 1 TO LOAN AGREEMENT

THIS AMENDMENT NO. 1 TO LOAN AGREEMENT is made as of September 13, 2004 by and between **M&I MARSHALL & ILSLEY BANK**, a Wisconsin banking corporation ("M&I"), and **TWIN DISC, INCORPORATED**, a Wisconsin corporation (the "Borrower").

IN CONSIDERATION OF the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, it is hereby agreed that:

ARTICLE I - DEFINITIONS

When used herein, the following terms shall have the meanings specified:

- 1.1 Amendment. "Amendment" shall mean this Amendment No. 1 to Amended and Restated Loan Agreement.
- 1.2 Loan Agreement. "Loan Agreement" shall mean the Loan Agreement between M&I and the Borrower, dated as of December 19, 2002 together with the Exhibits and Schedules attached thereto.
- 1.3 Other Terms. The other capitalized terms used in this Amendment shall have the definitions specified in the Loan Agreement.

ARTICLE II - AMENDMENTS

The Loan Agreement is amended as of the date hereof as follows:

- 2.1 Section 4.11 – Capital Expenditures. Section 4.11 is amended by deleting the amount "\$7,000,000" contained therein and inserting "\$10,000,000" in its place.
- 2.2 Section 7.1 – Definitions - Revolving Credit Commitment. The definition of "Revolving Credit Commitment" in Section 7.1 is amended by deleting the amount "Twenty Million Dollars (\$20,000,000)" contained therein and inserting "Thirty-Five Million Dollars (\$35,000,000)" in its place.
- 2.3 Section 7.1 – Definitions - Revolving Credit Termination Date. The definition of "Revolving Credit Termination Date" in Section 7.1 is amended by deleting the date "October 31, 2005" contained therein and inserting "October 31, 2007" in its place.
- 2.4 Exhibit C. Exhibit C to the Loan Agreement is replaced with Exhibit C to this Amendment.
- 2.5 Miscellaneous Amendments. The Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement are deemed hereby to be amended so that any reference therein to the Loan Agreement shall be a reference to such documents as amended by or pursuant to this Amendment.

ARTICLE III - REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to M&I that:

3.1 Loan Agreement. All of the representations and warranties made by the Borrower in the Loan Agreement are true and correct on the date of this Amendment. No Default or Event of Default under the Loan Agreement has occurred and is continuing as of the date of this Amendment.

3.2 Authorization; Enforceability. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance of and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, have been duly authorized by all necessary corporate action by the Borrower. This Amendment and the Revolving Credit Note constitute the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

3.3 Absence of Conflicting Obligations. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, do not violate any presently existing provision of law or the Articles of Incorporation or Bylaws of the Borrower or any Subsidiary or any agreement to which the Borrower or any Subsidiary is a party or by which any of them are bound.

ARTICLE IV - MISCELLANEOUS

4.1 Continuance of the Loan Agreement. Except as specifically amended by this Amendment, the Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement shall remain in full force and effect.

4.2 Expenses and Attorney's Fees. The Borrower shall pay all fees and expenses incurred by M&I, including the reasonable fees of counsel, in connection with the preparation of this Amendment and the consummation of the transactions contemplated by this Amendment, and the protection or enforcement of the rights of M&I under this Amendment.

4.3 Survival. All agreements, representations and warranties made in this Amendment or in any documents delivered pursuant to this Amendment shall survive the execution of this Amendment and the delivery of any such document.

4.4 Governing Law. This Amendment and the other documents issued pursuant to this Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed within such state.

4.5 Counterparts; Headings. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. Article and Section headings in this Amendment are inserted for convenience of reference only and shall not constitute a part hereof.

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4.6 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.7 Effectiveness. This Amendment shall be effective as of the date first written above upon receipt by M&I of the following items:

(a) this Amendment duly executed by the Borrower;

(b) the Revolving Credit Note duly executed by the Borrower;

(c) a certificate of the secretary or an assistant secretary of the Borrower dated the date hereof as to: (i) the incumbency and signature of the officers of the Borrower who have signed or will sign this Amendment and the other documents required hereunder; and (ii) the adoption and continuing effect of resolutions of the Board of Directors of the Borrower authorizing the execution and delivery of this Amendment and the other documents required hereunder; and

(d) such additional supporting documents and materials as M&I may reasonably request.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Loan Agreement as of the date first written above.

M&I MARSHALL & ILSLEY BANK

By: _____

Title: Vice President

Attest: _____

Title: Vice President

TWIN DISC, INCORPORATED

By: _____

Title: Vice President-Finance and Treasurer

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EXHIBIT C

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

Milwaukee, Wisconsin

September 13, 2004

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on October 31, 2007 (or such earlier maturity date resulting from acceleration) the principal sum of THIRTY-FIVE MILLION DOLLARS (\$35,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

This Note constitutes the Revolving Credit Note described in that certain Loan Agreement (the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms

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and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$20,000,000 dated as of December 19, 2002 (the "Prior Note") and evidences an extension, continuation and renewal of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President-Finance and Treasurer

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AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

Milwaukee, Wisconsin

September 13, 2004

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on October 31, 2007 (or such earlier maturity date resulting from acceleration) the principal sum of THIRTY-FIVE MILLION DOLLARS (\$35,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

This Note constitutes the Revolving Credit Note described in that certain Loan Agreement (the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part.

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In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$20,000,000 dated as of December 19, 2002 (the "Prior Note") and evidences an extension, continuation and renewal of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President-Finance and Treasurer

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AMENDMENT NO. 2 TO LOAN AGREEMENT

THIS AMENDMENT NO. 2 TO LOAN AGREEMENT is made as of April 10, 2006 by and between **M&I MARSHALL & ILSLEY BANK**, a Wisconsin banking corporation ("M&I"), and **TWIN DISC, INCORPORATED**, a Wisconsin corporation (the "Borrower").

IN CONSIDERATION OF the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, it is hereby agreed that:

ARTICLE I - DEFINITIONS

When used herein, the following terms shall have the meanings specified:

- 1.1 Amendment. "Amendment" shall mean this Amendment No. 2 to Loan Agreement.
- 1.2 Loan Agreement. "Loan Agreement" shall mean the Loan Agreement between M&I and the Borrower, dated as of December 19, 2002 together with the Exhibits and Schedules attached thereto, as amended by an Amendment No. 1 to Loan Agreement dated as of September 13, 2004, a Letter Agreement dated as of March 14, 2005, a Letter Agreement dated as of June 30, 2005, and a Letter Agreement dated as of October 21, 2005.
- 1.3 Other Terms. The other capitalized terms used in this Amendment shall have the definitions specified in the Loan Agreement.

ARTICLE II - AMENDMENTS

The Loan Agreement is amended as of the date hereof as follows:

- 2.1 Section 4.4 – Consolidation or Merger. Section 4.4 of the Loan Agreement is amended in its entirety to read as follows:

4.4 Consolidation or Merger. Consolidate with or merge into any other Person, or permit another Person to merge into it, or acquire substantially all of the assets of any other Person, whether in one or a series of transactions, except that (a) Borrower may permit any Subsidiary to merge into it or into a wholly owned Subsidiary, and (b) provided that (i) no Default or Event of Default then exists or would be created thereby and (ii) the Fixed Charge Coverage Ratio of the Borrower is at least 1.10:1 on an historical and pro forma basis taking into account such transaction, the Borrower may acquire substantially all of the assets or business or stock or other evidences of beneficial ownership of, any Person, provided further that the aggregate consideration paid and liabilities assumed for all such transactions may not exceed (1) \$30,000,000 in the aggregate for the Borrower's fiscal years 2006

and 2007 combined and (2) \$10,000,000 in any fiscal year thereafter, on a non-cumulative basis.

2.2 Section 4.7 – Restricted Payments. Section 4.7 of the Loan Agreement is amended in its entirety to read as follows:

4.7 Restricted Payments. (a) Declare or pay any non-cash dividends; or (b) purchase, redeem, retire, or otherwise acquire for value any of its capital stock now or hereafter outstanding; or (c) make any distribution of assets to its stockholders as such, whether in assets or in obligations of Borrower; or (d) allocate or otherwise set apart any sum for the purchase, redemption, or retirement of any shares of its capital stock; or (e) make any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock; or (f) declare or pay any cash dividends to any stockholders; provided, however, so long as no Default or Event of Default then exists or would be created thereby, the Borrower may (i) pay cash dividends not to exceed \$3,000,000 in any rolling four-quarter period and (ii) purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding provided that the aggregate of the amount paid or consideration paid or extended for any such stock shall not exceed \$2,500,000 in any rolling four-quarter period.

2.3 Section 4.11 – Capital Expenditures. Section 4.11 is amended by deleting the amount “\$12,500,000” contained therein and inserting “\$15,000,000” in its place.

2.4 Section 5.14 – Most Favored Lender. Section 5.14 is hereby added to the Loan Agreement as an additional covenant:

5.14 Most Favored Lender. The Borrower covenants that if, on any date, it or any Subsidiary enters into, assumes or otherwise becomes bound or obligated under any agreement evidencing, securing, guaranteeing or otherwise relating to any Indebtedness (other than the Indebtedness evidenced by this Loan Agreement) in excess of \$1,000,000, or obligations in excess of \$1,000,000 in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries, that contains, or amends any such agreement to contain, one or more Additional Covenants or Additional Defaults, then on such date the terms of this Loan Agreement shall, without any further action on the part of the Borrower or M&I, be deemed to be amended automatically to include each Additional Covenant and each Additional Default contained in such agreement. The Borrower further covenants to promptly execute and deliver at its expense (including the reasonable fees and expenses of counsel for M&I) an amendment

to this Agreement in form and substance satisfactory to M&I evidencing the amendment of this Agreement to include such Additional Covenants and Additional Defaults, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this Section 5.14, but shall merely be for the convenience of the parties hereto.

“Additional Covenant” shall mean any affirmative or negative covenant or similar restriction applicable to the Borrower or any Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a covenant) the subject matter of which either (i) is similar to that of any covenant in Article 4 or 5 of this Agreement, or related definitions in Article 7 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the holders of any Indebtedness (other than the Indebtedness evidenced by this Loan Agreement), or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries (and such covenant or similar restriction shall be deemed an Additional Covenant only to the extent that it is more restrictive or more beneficial) or (ii) is different from the subject matter of any covenants in Section 4 or 5 of this Agreement, or related definitions in Section 7 of this Agreement.

“Additional Default” shall mean any provision contained in any document evidencing Indebtedness (other than the Indebtedness evidenced by this Loan Agreement), or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries, which permits the holder or holders of Indebtedness or obligations in respect of Swap Agreements to accelerate (with the passage of time or giving of notice or both) the maturity thereof, permits any such holder to terminate any such Swap Agreements or otherwise requires the Borrower or any Subsidiary to purchase any such Indebtedness or obligations in respect of Swap Agreements, prior to the stated maturity thereof and which either (i) is similar to any Default or Automatic Event of Default or Event of Default defined in Section 7 of this Agreement, or related definitions in Section 7 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to the holders of any such Indebtedness or obligations in respect of Swap Agreements (and such provision shall be deemed an Additional Default only to the extent that it is more restrictive, has a shorter grace period or is more beneficial) or (ii) is different from the subject matter of any

Default or Automatic Event of Default or Event of Default contained in Section 7 of this Agreement, or related definitions in Section 7 of this Agreement.

2.5 Section 7.1 – Definitions – EBITDA. The definition of “EBITDA” contained in Section 7.1 of the Loan Agreement is amended in its entirety to read as follows:

“EBITDA” shall mean the sum of (i) Net Income plus, (ii) to the extent deducted in the calculation of Net Income, (a) interest expense, (b) depreciation and amortization expense, and (c) income tax expense; provided, however, such expenses are acceptable to M&I in its discretion; and EBITDA will be further adjusted to include EBITDA related to acquisitions which are permitted under Section 4.4 of the Loan Agreement with adjustments made by the Borrower and approved by M&I and The Prudential Insurance Company of America in their judgment (which approval shall not be unreasonably withheld), all as determined for the Borrower and its Subsidiaries on a consolidated basis for the four quarters ending on the date of determination, without duplication, and in accordance with GAAP applied on a consistent basis.

2.6 Section 7.1 – Definitions – Permitted Indebtedness. The definition of “Permitted Indebtedness” contained in Section 7.1 of the Loan Agreement is amended in its entirety to read as follows:

“Permitted Indebtedness” shall mean: (a) Indebtedness of Borrower to M&I; (b) purchase money Indebtedness secured by Purchase Money Liens, which Indebtedness shall not exceed \$1,000,000 per year on a non-cumulative consolidated basis; (c) unsecured accounts payable and other unsecured obligations of Borrower or any Subsidiary incurred in the ordinary course of business of Borrower or any Subsidiary and not as a result of any borrowing; (d) Indebtedness owed by the Borrower to a Subsidiary; (e) Indebtedness existing on the Closing Date and set forth on Schedule 7.1 and refinancings thereof which does not increase the principal amount thereof or accelerate the amortization thereof; (f) Indebtedness of Borrower in an aggregate principal amount not to exceed \$25,000,000 pursuant to a Note Agreement dated as of April 10, 2006, executed by the Borrower and accepted by The Prudential Insurance Company of America, Pruco Life Insurance Company, Pruco Life Insurance Company of New Jersey, Security Benefit Life Insurance Company, Inc., American Skandia Life Assurance Corporation, and Mutual of Omaha Insurance Company, as Noteholders, provided that such Indebtedness is unsecured and provided further that any amendments to the Note Agreement shall require M&I’s consent

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(other than any amendment (1) with respect to (i) the rate of interest on the Notes, (ii) any fee payable with respect to the Notes or (iii) any other amounts payable under the Note Agreement, the Notes or with respect thereto or (2) occurring or entered into as a result of the application of paragraph 6J of the Note Agreement).

2.7 Miscellaneous Amendments. The Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement are deemed hereby to be amended so that any reference therein to the Loan Agreement shall be a reference to such documents as amended by or pursuant to this Amendment.

ARTICLE III -

REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to M&I that:

3.1 Loan Agreement. All of the representations and warranties made by the Borrower in the Loan Agreement are true and correct on the date of this Amendment. No Default or Event of Default under the Loan Agreement has occurred and is continuing as of the date of this Amendment.

3.2 Authorization; Enforceability. The making, execution and delivery of this Amendment, and performance of and compliance with the terms of the Loan Agreement, as amended, have been duly authorized by all necessary corporate action by the Borrower. This Amendment constitutes the valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

3.3 Absence of Conflicting Obligations. The making, execution and delivery of this Amendment, and performance and compliance with the terms of the Loan Agreement, as amended, do not violate any presently existing provision of law or the Articles of Incorporation or Bylaws of the Borrower or any Subsidiary or any agreement to which the Borrower or any Subsidiary is a party or by which any of them are bound.

ARTICLE IV -

MISCELLANEOUS

4.1 Continuance of the Loan Agreement. Except as specifically amended by this Amendment, the Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement shall remain in full force and effect.

4.2 Expenses and Attorney's Fees. The Borrower shall pay all fees and expenses incurred by M&I, including the reasonable fees of counsel, in connection with the preparation of this Amendment and the consummation of the transactions contemplated by this Amendment, and the protection or enforcement of the rights of M&I under this Amendment.

4.3 Survival. All agreements, representations and warranties made in this Amendment or in any documents delivered pursuant to this Amendment shall survive the execution of this Amendment and the delivery of any such document.

4.4 Governing Law. This Amendment and the other documents issued pursuant to this Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed within such state.

4.5 Counterparts; Headings. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. Article and Section headings in this Amendment are inserted for convenience of reference only and shall not constitute a part hereof.

4.6 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.7 Effectiveness. This Amendment shall be effective as of the date first written above upon receipt by M&I of the following items:

- (a) this Amendment duly executed by the Borrower;
- (b) a copy of the fully-executed Note Agreement referenced in Section 2.5 of this Amendment, in a form acceptable to M&I; and
- (c) such additional supporting documents and materials as M&I may reasonably request.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 2 to Loan Agreement as of the date first written above.

M&I MARSHALL & ILSLEY BANK

By: _____

Title: _____

Attest: _____

Title: _____

TWIN DISC, INCORPORATED

By: _____

Title: _____

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AMENDMENT NO. 3 TO LOAN AGREEMENT

THIS AMENDMENT NO. 3 TO LOAN AGREEMENT is made as of October 31, 2006 by and between **M&I MARSHALL & ILSLEY BANK**, a Wisconsin banking corporation ("M&I"), and **TWIN DISC, INCORPORATED**, a Wisconsin corporation (the "Borrower").

IN CONSIDERATION OF the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, it is hereby agreed that:

ARTICLE I - DEFINITIONS

When used herein, the following terms shall have the meanings specified:

1.1 Amendment. "Amendment" shall mean this Amendment No. 3 to Loan Agreement.

1.2 Loan Agreement. "Loan Agreement" shall mean the Loan Agreement between M&I and the Borrower, dated as of December 19, 2002 together with the Exhibits and Schedules attached thereto, as amended by an Amendment No. 1 to Loan Agreement dated as of September 13, 2004, a Letter Agreement dated as of March 14, 2005, a Letter Agreement dated as of June 30, 2005, a Letter Agreement dated as of October 21, 2005 and an Amendment No. 2 to Loan Agreement dated as of April 10, 2006.

1.3 Other Terms. The other capitalized terms used in this Amendment shall have the definitions specified in the Loan Agreement.

ARTICLE II - AMENDMENTS

The Loan Agreement is amended as of the date hereof as follows:

2.1 Section 7.1 – Definitions - Revolving Credit Termination Date. The definition of "Revolving Credit Termination Date" in Section 7.1 is amended by deleting the date "October 31, 2007" contained therein and inserting "October 31, 2009" in its place.

2.2 Exhibit C. Exhibit C to the Loan Agreement is replaced with Exhibit C to this Amendment.

2.3 Miscellaneous Amendments. The Loan Agreement, the Revolving Credit Note, and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement are deemed hereby to be amended so that any reference therein to the Loan Agreement shall be a reference to such documents as amended by or pursuant to this Amendment. Any references contained in the Loan Agreement or any related documents to the Revolving Credit Note shall refer to the Revolving Credit Note in the form of Exhibit C attached to this Amendment.

ARTICLE III - REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to M&I that:

3.1 Loan Agreement. All of the representations and warranties made by the Borrower in the Loan Agreement are true and correct on the date of this Amendment. No Default or Event of Default under the Loan Agreement has occurred and is continuing as of the date of this Amendment.

3.2 Authorization; Enforceability. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance of and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, have been duly authorized by all necessary corporate action by the Borrower. This Amendment and the Revolving Credit Note constitute the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

3.3 Absence of Conflicting Obligations. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, do not violate any presently existing provision of law or the Articles of Incorporation or Bylaws of the Borrower or any Subsidiary or any agreement to which the Borrower or any Subsidiary is a party or by which any of them are bound.

ARTICLE IV - MISCELLANEOUS

4.1 Continuance of the Loan Agreement. Except as specifically amended by this Amendment, the Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement shall remain in full force and effect.

4.2 Expenses and Attorney's Fees. The Borrower shall pay all fees and expenses incurred by M&I, including the reasonable fees of counsel, in connection with the preparation of this Amendment and the consummation of the transactions contemplated by this Amendment, and the protection or enforcement of the rights of M&I under this Amendment.

4.3 Survival. All agreements, representations and warranties made in this Amendment or in any documents delivered pursuant to this Amendment shall survive the execution of this Amendment and the delivery of any such document.

4.4 Governing Law. This Amendment and the other documents issued pursuant to this Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed within such state.

4.5 Counterparts; Headings. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. Article and Section headings in this Amendment are inserted for convenience of reference only and shall not constitute a part hereof.

4.6 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.7 Effectiveness. This Amendment shall be effective as of the date first written above upon receipt by M&I of the following items:

- (a) this Amendment duly executed by the Borrower;
- (b) the Revolving Credit Note duly executed by the Borrower; and
- (c) such additional supporting documents and materials as M&I may reasonably request.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 3 to Loan Agreement as of the date first written above.

M&I MARSHALL & ILSLEY BANK

By: _____
Title: Vice President

Attest: _____
Title: Vice President

TWIN DISC, INCORPORATED

By: _____
Title: Vice President – Finance, Chief Financial Officer and Secretary

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EXHIBIT C

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

Milwaukee, Wisconsin

September 13, 2004
as amended and restated on October 31, 2006

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on the Revolving Credit Termination Date (as defined in the Loan Agreement referred to below) (or such earlier maturity date resulting from acceleration) the principal sum of THIRTY-FIVE MILLION DOLLARS (\$35,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

This Note constitutes the Revolving Credit Note described in that certain Loan Agreement, as amended (the Loan Agreement, as previously amended and as further amended)

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from time to time, is referred to herein as the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that certain Amended and Restated Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$35,000,000 dated as of September 13, 2004 (the "Prior Note") and evidences an extension, continuation and renewal of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note. Moreover, this Note shall be entitled to all security and collateral to which the Prior Note was entitled, without change or diminution in the priority of any lien or security interest granted to secure the Prior Note.

TWIN DISC, INCORPORATED

By: _____

Its: Vice President – Finance, Chief Financial Officer and Secretary

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AMENDMENT NO. 4 TO LOAN AGREEMENT

THIS AMENDMENT NO. 4 TO LOAN AGREEMENT is made as of March 1, 2007 by and between **M&I MARSHALL & ILSLEY BANK**, a Wisconsin banking corporation ("M&I"), and **TWIN DISC, INCORPORATED**, a Wisconsin corporation (the "Borrower").

IN CONSIDERATION OF the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, it is hereby agreed that:

ARTICLE I - DEFINITIONS

When used herein, the following terms shall have the meanings specified:

1.1 Amendment. "Amendment" shall mean this Amendment No. 4 to Loan Agreement.

1.2 Loan Agreement. "Loan Agreement" shall mean the Loan Agreement between M&I and the Borrower, dated as of December 19, 2002 together with the Exhibits and Schedules attached thereto, as amended by an Amendment No. 1 to Loan Agreement dated as of September 13, 2004, a Letter Agreement dated as of March 14, 2005, a Letter Agreement dated as of June 30, 2005, a Letter Agreement dated as of October 21, 2005, an Amendment No. 2 to Loan Agreement dated as of April 10, 2006 and an Amendment No. 3 to Loan Agreement dated as of October 31, 2006.

1.3 Other Terms. The other capitalized terms used in this Amendment shall have the definitions specified in the Loan Agreement.

ARTICLE II - AMENDMENTS

The Loan Agreement is amended as of the date hereof as follows:

2.1 Section 4.11 – Capital Expenditures. Section 4.11 is amended in its entirety to read as follows:

4.11 Capital Expenditures. Make, or enter into any binding agreement to make, expenditures for fixed or capital assets (including expenditures financed with Permitted Indebtedness) in excess of (i) \$17,000,000 in the aggregate for Borrower's fiscal year ending June 30, 2007 and (ii) \$15,000,000 in the aggregate for each fiscal year thereafter, in each case on a noncumulative basis.

2.2 Section 7.1 – Definitions - Revolving Credit Commitment. The definition of "Revolving Credit Commitment" in Section 7.1 is amended in its entirety to read as follows:

"Revolving Credit Commitment" shall mean the commitment of M&I to make Revolving Credit Loans to the Borrower up to a maximum principal amount of (i) Sixty Million Dollars

(\$60,000,000) during the period beginning March 7, 2007 through and including March 16, 2007 and (ii) Thirty-Five Million Dollars (\$35,000,000) at all times before such period and after such period, in each case minus the undrawn face amount of outstanding Letters of Credit.

2.3 Exhibit C. Exhibit C to the Loan Agreement is replaced with Exhibit C to this Amendment.

2.4 Miscellaneous Amendments. The Loan Agreement, the Revolving Credit Note, and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement are deemed hereby to be amended so that any reference therein to the Loan Agreement shall be a reference to such documents as amended by or pursuant to this Amendment. Any references contained in the Loan Agreement or any related documents to the Revolving Credit Note shall refer to the Revolving Credit Note in the form of Exhibit C attached to this Amendment.

ARTICLE III - ITALIAN RESTRUCTURING

Notwithstanding anything in the Loan Agreement to the contrary, the Italian Restructuring shall not be considered for purposes of determining the Borrower's compliance with Section 4.3 (Indebtedness), Section 4.5 (Disposition of Assets), Section 4.6 (Investments) and Section 4.8 (Transactions with Affiliates). The term "Italian Restructuring" shall mean, collectively, the following: a sale by the Borrower to Twin Disc Technodrive Srl, an Italian corporation ("Technodrive") of the stock of three of the Borrower's wholly owned European subsidiaries: B.C.S. Srl, an Italian corporation ("BCS"), B.C.S. Service Srl, an Italian corporation ("BCS Service") and Vetus Italia Srl, an Italian corporation, ("Vetus") for an aggregate purchase price for the stock of the three companies of €16,715,000. The stock purchase would be funded by a loan, in an amount not to exceed €16,715,000, from the Borrower to Twin Disc International, S.A. ("Twinsa"). Twinsa would, in turn, lend these funds to Technodrive to complete the stock purchase from the Borrower. Twinsa would deliver to the Borrower its promissory note in the aggregate amount of €16,715,000, and Technodrive would deliver its promissory note to Twinsa for such amount, in each case representing a purchase price of €12,285,000 for BCS, €75,600 for BCS Service and €4,354,400 for Vetus. Technodrive, BCS, BCS Service and Twin Disc Srl, an Italian corporation, would be consolidated and merged into a single corporation, with Technodrive being the surviving corporation. Technodrive would then be renamed "Twin Disc Srl." The Italian Restructuring shall all be accomplished pursuant to and in accordance with the written proposal provided by the Borrower to M&I on February 5, 2007.

ARTICLE IV - REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to M&I that:

4.1 Loan Agreement. All of the representations and warranties made by the Borrower in the Loan Agreement are true and correct on the date of this Amendment. No Default or Event

of Default under the Loan Agreement has occurred and is continuing as of the date of this Amendment.

4.2 Authorization; Enforceability. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance of and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, have been duly authorized by all necessary corporate action by the Borrower. This Amendment and the Revolving Credit Note constitute the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

4.3 Absence of Conflicting Obligations. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, do not violate any presently existing provision of law or the Articles of Incorporation or Bylaws of the Borrower or any Subsidiary or any agreement to which the Borrower or any Subsidiary is a party or by which any of them are bound.

ARTICLE V - MISCELLANEOUS

5.1 Continuance of the Loan Agreement. Except as specifically amended by this Amendment, the Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement shall remain in full force and effect.

5.2 Expenses and Attorney's Fees. The Borrower shall pay all fees and expenses incurred by M&I, including the reasonable fees of counsel, in connection with the preparation of this Amendment and the consummation of the transactions contemplated by this Amendment, and the protection or enforcement of the rights of M&I under this Amendment.

5.3 Survival. All agreements, representations and warranties made in this Amendment or in any documents delivered pursuant to this Amendment shall survive the execution of this Amendment and the delivery of any such document.

5.4 Governing Law. This Amendment and the other documents issued pursuant to this Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed within such state.

5.5 Counterparts; Headings. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. Article and Section headings in this Amendment are inserted for convenience of reference only and shall not constitute a part hereof.

5.6 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

5.7 Effectiveness. This Amendment shall be effective as of the date first written above upon receipt by M&I of the following items:

(a) this Amendment duly executed by the Borrower;

(b) the Revolving Credit Note duly executed by the Borrower;

(c) a certificate of the secretary or an assistant secretary of the Borrower dated the date hereof as to: (i) the incumbency and signature of the officers of the Borrower who have signed or will sign this Amendment, the Revolving Credit Note and the other documents required hereunder; and (ii) the adoption and continuing effect of resolutions of the Board of Directors of the Borrower authorizing the execution and delivery of this Amendment, the Revolving Credit Note and the other documents required hereunder;

(d) an executed amendment to the Note Agreement dated as of April 10, 2006, described in clause (f) of the definition of Permitted Indebtedness contained in the Loan Agreement, which shall be in a form acceptable to M&I; and

(e) such additional supporting documents and materials as M&I may reasonably request.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 4 to Loan Agreement as of the date first written above.

M&I MARSHALL & ILSLEY BANK

By: _____

Title: _____

Attest: _____

Title: _____

TWIN DISC, INCORPORATED

By: _____

Title: Vice President – Finance, Chief Financial Officer and Secretary

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EXHIBIT C

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$60,000,000.00

Milwaukee, Wisconsin

September 13, 2004
as amended and restated on October 31, 2006
as further amended and restated on March 1, 2007

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on the Revolving Credit Termination Date (as defined in the Loan Agreement referred to below) (or such earlier maturity date resulting from acceleration) the principal sum of SIXTY MILLION DOLLARS (\$60,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below. The Borrower hereby agrees to make all required payments of principal necessary so that the outstanding amount of revolving credit loans plus the undrawn face amount of letters of credit, all as described in the Loan Agreement, shall not at any time, exceed the Revolving Credit Commitment, as defined in the Loan Agreement.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement

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of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

This Note constitutes the Revolving Credit Note described in that certain Loan Agreement, as amended (the Loan Agreement, as previously amended and as further amended from time to time, is referred to herein as the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that certain Amended and Restated Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$35,000,000 dated as of September 13, 2004, as amended and restated on October 31, 2006 (the "Prior Note") and evidences an extension and continuation of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note. Moreover, this Note shall be entitled to all security and collateral to which the Prior Note was entitled, without change or diminution in the priority of any lien or security interest granted to secure the Prior Note. The maximum principal amount of Revolving Credit Loans which may be advanced under the Loan Agreement was increased to \$60,000,000.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President – Finance, Chief Financial Officer and Secretary

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AMENDMENT NO. 5 TO LOAN AGREEMENT

THIS AMENDMENT NO. 5 TO LOAN AGREEMENT is made as of August 9, 2007 by and between **M&I MARSHALL & ILSLEY BANK**, a Wisconsin banking corporation ("M&I"), and **TWIN DISC, INCORPORATED**, a Wisconsin corporation (the "Borrower").

IN CONSIDERATION OF the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, it is hereby agreed that:

ARTICLE I - DEFINITIONS

When used herein, the following terms shall have the meanings specified:

1.1 Amendment. "Amendment" shall mean this Amendment No. 5 to Loan Agreement.

1.2 Loan Agreement. "Loan Agreement" shall mean the Loan Agreement between M&I and the Borrower, dated as of December 19, 2002 together with the Exhibits and Schedules attached thereto, as amended by an Amendment No. 1 to Loan Agreement dated as of September 13, 2004, a Letter Agreement dated as of March 14, 2005, a Letter Agreement dated as of June 30, 2005, a Letter Agreement dated as of October 21, 2005, an Amendment No. 2 to Loan Agreement dated as of April 10, 2006, an Amendment No. 3 to Loan Agreement dated as of October 31, 2006 and an Amendment No. 4 to Loan Agreement dated as of March 1, 2007.

1.3 Other Terms. The other capitalized terms used in this Amendment shall have the definitions specified in the Loan Agreement.

ARTICLE II - AMENDMENTS

The Loan Agreement is amended as of the date hereof as follows:

2.1 Section 4.7 – Restricted Payments. Section 4.7 is deleted from the Loan Agreement.

2.2 Section 4.11 – Capital Expenditures. Section 4.11 is deleted from the Loan Agreement.

2.3 Section 7.1 – Definitions - Revolving Credit Termination Date. The definition of "Revolving Credit Termination Date" in Section 7.1 is amended in its entirety to read as follows:

"Revolving Credit Termination Date" shall mean the earlier of: (a) October 31, 2010; and (b) the date that the Revolving Credit Commitment is terminated pursuant to Section 6.1 of this Loan Agreement.

2.4 Exhibit C. Exhibit C to the Loan Agreement is replaced with Exhibit C to this Amendment.

2.5 Miscellaneous Amendments. The Loan Agreement, the Revolving Credit Note, and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement are deemed hereby to be amended so that any reference therein to the Loan Agreement shall be a reference to such documents as amended by or pursuant to this Amendment. Any references contained in the Loan Agreement or any related documents to the Revolving Credit Note shall refer to the Revolving Credit Note in the form of Exhibit C attached to this Amendment.

ARTICLE III - REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to M&I that:

3.1 Loan Agreement. All of the representations and warranties made by the Borrower in the Loan Agreement are true and correct on the date of this Amendment. No Default or Event of Default under the Loan Agreement has occurred and is continuing as of the date of this Amendment.

3.2 Authorization; Enforceability. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance of and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, have been duly authorized by all necessary corporate action by the Borrower. This Amendment and the Revolving Credit Note constitute the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

3.3 Absence of Conflicting Obligations. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, do not violate any presently existing provision of law or the Articles of Incorporation or Bylaws of the Borrower or any Subsidiary or any agreement to which the Borrower or any Subsidiary is a party or by which any of them are bound.

ARTICLE IV - MISCELLANEOUS

4.1 Continuance of the Loan Agreement. Except as specifically amended by this Amendment, the Loan Agreement and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement shall remain in full force and effect.

4.2 Expenses and Attorney's Fees. The Borrower shall pay all fees and expenses incurred by M&I, including the reasonable fees of counsel, in connection with the preparation of this Amendment and the consummation of the transactions contemplated by this Amendment, and the protection or enforcement of the rights of M&I under this Amendment.

4.3 Survival. All agreements, representations and warranties made in this Amendment or in any documents delivered pursuant to this Amendment shall survive the execution of this Amendment and the delivery of any such document.

4.4 Governing Law. This Amendment and the other documents issued pursuant to this Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed within such state.

4.5 Counterparts; Headings. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. Article and Section headings in this Amendment are inserted for convenience of reference only and shall not constitute a part hereof.

4.6 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.7 Effectiveness. This Amendment shall be effective as of the date first written above upon receipt by M&I of the following items:

- (a) this Amendment duly executed by the Borrower;
- (b) the Revolving Credit Note duly executed by the Borrower;
- (c) an executed amendment to the Note Agreement dated as of April 10, 2006, described in clause (f) of the definition of Permitted Indebtedness contained in the Loan Agreement, which shall be in a form acceptable to M&I; and
- (d) such additional supporting documents and materials as M&I may reasonably request.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 5 to Loan Agreement as of the date first written above.

M&I MARSHALL & ILSLEY BANK

By: _____

Title: _____

Attest: _____

Title: _____

TWIN DISC, INCORPORATED

By: _____

Title: Vice President – Finance, Chief Financial Officer and Secretary

[Signature Page to Amendment No. 5 to Loan Agreement]

EXHIBIT C

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

Milwaukee, Wisconsin

September 13, 2004
as amended and restated on October 31, 2006,
on March 1, 2007
and on August 9, 2007

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on the Revolving Credit Termination Date (as defined in the Loan Agreement referred to below) (or such earlier maturity date resulting from acceleration) the principal sum of THIRTY-FIVE MILLION DOLLARS (\$35,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

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This Note constitutes the Revolving Credit Note described in that certain Loan Agreement, as amended (the Loan Agreement, as previously amended and as further amended from time to time, is referred to herein as the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that certain Amended and Restated Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$60,000,000 dated as of September 13, 2004, as amended and restated on October 31, 2006 and March 1, 2007 (the "Prior Note") and evidences an extension and continuation of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note. Moreover, this Note shall be entitled to all security and collateral to which the Prior Note was entitled, without change or diminution in the priority of any lien or security interest granted to secure the Prior Note. The principal amount of this Note has been decreased from the Prior Note to reflect the amount of the Revolving Credit Commitment, as defined in the Loan Agreement.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President – Finance, Chief Financial Officer and Secretary

[Signature Page to Amended and Restated Revolving Credit Note]

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

Milwaukee, Wisconsin

September 13, 2004
as amended and restated on October 31, 2006,
on March 1, 2007
and on August 9, 2007

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on the Revolving Credit Termination Date (as defined in the Loan Agreement referred to below) (or such earlier maturity date resulting from acceleration) the principal sum of THIRTY-FIVE MILLION DOLLARS (\$35,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

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This Note constitutes the Revolving Credit Note described in that certain Loan Agreement, as amended (the Loan Agreement, as previously amended and as further amended from time to time, is referred to herein as the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that certain Amended and Restated Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$60,000,000 dated as of September 13, 2004, as amended and restated on October 31, 2006 and March 1, 2007 (the "Prior Note") and evidences an extension and continuation of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note. Moreover, this Note shall be entitled to all security and collateral to which the Prior Note was entitled, without change or diminution in the priority of any lien or security interest granted to secure the Prior Note. The principal amount of this Note has been decreased from the Prior Note to reflect the amount of the Revolving Credit Commitment, as defined in the Loan Agreement.

TWIN DISC, INCORPORATED

By: _____
Its: Vice President – Finance, Chief Financial Officer and Secretary

[Signature Page to Amended and Restated Revolving Credit Note]



AMENDMENT NO. 6 TO LOAN AGREEMENT

THIS AMENDMENT NO. 6 TO LOAN AGREEMENT is made as of May 27, 2009 by and between **M&I MARSHALL & ILSLEY BANK**, a Wisconsin banking corporation (“M&I”), and **TWIN DISC, INCORPORATED**, a Wisconsin corporation (the “Borrower”).

IN CONSIDERATION OF the mutual covenants, conditions and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, it is hereby agreed that:

ARTICLE I - DEFINITIONS

When used herein, the following terms shall have the meanings specified:

1.1 Amendment. “Amendment” shall mean this Amendment No. 6 to Loan Agreement.

1.2 Loan Agreement. “Loan Agreement” shall mean the Loan Agreement between M&I and the Borrower, dated as of December 19, 2002 together with the Exhibits and Schedules attached thereto, as amended by an Amendment No. 1 to Loan Agreement dated as of September 13, 2004, a Letter Agreement dated as of March 14, 2005, a Letter Agreement dated as of June 30, 2005, a Letter Agreement dated as of October 21, 2005, an Amendment No. 2 to Loan Agreement dated as of April 10, 2006, an Amendment No. 3 to Loan Agreement dated as of October 31, 2006, an Amendment No. 4 to Loan Agreement dated as of March 1, 2007, and an Amendment No. 5 to Loan Agreement dated as of August 9, 2007.

1.3 Other Terms. The other capitalized terms used in this Amendment shall have the definitions specified in the Loan Agreement.

ARTICLE II - AMENDMENTS

The Loan Agreement is amended as of the date hereof as follows:

2.1 Section 1.3 – Interest. Section 1.3(a) of the Loan Agreement is hereby amended in its entirety to read as follows:

(a) All Revolving Credit Loans shall be LIBOR Loans unless M&I elects to convert such LIBOR Loans to Prime Rate Loans pursuant to Section 1.12 or Section 1.13 of the Loan Agreement.

2.2 Section 1.4 - Interest Options. The following sentence is hereby added to the end of Section 1.4(a) of the Loan Agreement:

None of the Revolving Credit Loans shall be Prime Rate Loans unless M&I elects to convert LIBOR Loans to Prime Rate Loans pursuant to Section 1.12 or Section 1.13 of the Loan Agreement.

Section 1.4 - Interest Options. A new Section 1.4(c) which shall read as follows is hereby added to the Loan Agreement:

(c) Interest Rate Floor. Notwithstanding anything to the contrary set forth herein and regardless of what actual LIBOR or Prime Rate may be, the interest rate for all Revolving Credit Loans shall never be less than four percent (4.00%) per annum (the "Interest Rate Floor"). The Interest Rate Floor as set forth herein shall be applicable as to all Revolving Credit Loans as of the effective date of this Amendment.

2.3 Section 1.5 - Notice of Borrowing; Conversion. Section 1.5 of the Loan Agreement is hereby amended in its entirety to read as follows:

1.5 Notice of Borrowing.

(a) Each Revolving Credit Loan shall be made on written notice or telephonic notice from an authorized representative of the Borrower to the Person designated by M&I. Such notice shall be given at least one (1) Business Day prior to the day of the requested borrowing date (which must be a Business Day). Each notice shall specify the date and amount of such Revolving Credit Loan. Each new Revolving Credit Loan shall be a LIBOR Loan unless such Revolving Credit Loans have been converted to Prime Rate Loans pursuant to Section 1.12 or Section 1.13 of the Loan Agreement. Each such notice shall be effective upon receipt, provided that any notice received after 2:00 p.m., Milwaukee time, may be deemed by M&I, in its sole discretion, effective as of the next Business Day. Borrower shall promptly confirm any such telephonic request in writing.

(b) LIBOR Rate Loans shall continue as such unless and until they are converted into Prime Rate Loans by M&I pursuant to Section 1.12 or Section 1.13 of this Loan Agreement or repaid.

2.4 Section 1.6 - Warranty. Section 1.6 of the Loan Agreement is hereby amended in its entirety to read as follows:

1.6 Warranty. Each notice of borrowing and each request for the issuance of a Letter of Credit, shall automatically constitute a warranty by Borrower to M&I that, on the date of the requested date of such borrowing or request for issuance of a Letter of Credit: (a) all of the representations and warranties of Borrower contained in this Loan Agreement shall be true and correct on such date as though made on such date; and (b) no Default or Event of Default shall exist on such date.

Section 5.13 - Financial Covenants. Section 5.13(c) of the Loan Agreement is hereby amended in its entirety to read as follows:

(c) Maximum Total Funded Debt to EBITDA Ratio. Borrower and its consolidated Subsidiaries shall not permit the ratio of Total Funded Debt to EBITDA to exceed the following ratios as of the following dates, all as determined, in the case of Total Funded Debt, on the date of determination, and in the case of EBITDA, for the preceding four fiscal quarters of the Borrower and its consolidated Subsidiaries ending on the date of determination:

	<u>Date of Determination</u>	<u>Maximum Ratio</u>
June 30, 2009 and at the end of each fiscal quarter thereafter		3.00:1

2.5 Section 7.1 - Definitions - Add-On. The definition of "Add-On" in Section 7.1 of the Loan Agreement is amended in its entirety to read as follows:

"Add-On" shall mean the following percentages for the following types of Loans and fees, based upon the Borrower's ratio of Total Funded Debt to EBITDA, calculated on a consolidated basis:

<u>Level:</u>	<u>Total Funded Debt to EBITDA Ratio:</u>	<u>Add-On for LIBOR Loans:</u>	<u>Commitment Fee:</u>
I	greater than or equal to 2.5:1	3.50%	.375%
II	less than 2.5:1, but greater than or equal to 2.0:1	3.00%	.25%
III	less than 2.0:1, but greater than or equal to 1.5:1	2.50%	.25%
IV	less than 1.5:1 but greater than or equal to 1.0:1	2.25%	.25%
V	less than 1.0:1	2.00%	.25%

The initial Add-On as of the effective date of the Amendment No. 6 to Loan Agreement shall be Level IV. Effective as of June 1, 2009, the Add-On shall be Level III. Beginning with the date

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that the quarterly financial statements and Officer's Certificate is to be delivered to M&I pursuant to Sections 5.4 (a) and 5.4(c) for the fiscal quarter ending on June 30, 2009, the Add-On shall be adjusted by reference to the Total Funded Debt to EBITDA Ratio of the Borrower at the end of the immediately preceding fiscal quarter as determined, in the case of Total Funded Debt, on the date of determination, and in the case of EBITDA, for the preceding four fiscal quarters of the Borrower and its consolidated Subsidiaries ending on the date of determination. Any change in the Add-On shall be effective as of the first day of the calendar month following M&I's receipt of the quarterly financial statements and Officer's Certificate required under Sections 5.4(a) and 5.4(c) of this Loan Agreement. If the Borrower fails to deliver timely the financial information required by Section 5.4(a) and the Officer's Certificate pursuant to Section 5.4(c), then for the period commencing on the date such information was due through the date that is five days after the date on which such information is delivered, the Add-On shall be based on pricing level I.

2.6 Section 7.1 – Definitions - Revolving Credit Termination Date. The definition of "Revolving Credit Termination Date" in Section 7.1 is amended in its entirety to read as follows:

"Revolving Credit Termination Date" shall mean the earlier of: (a) May 31, 2012; and (b) the date that the Revolving Credit Commitment is terminated pursuant to Section 6.1 of this Loan Agreement.

2.7 Exhibit B. Exhibit B to the Loan Agreement is replaced with Exhibit B to this Amendment.

2.8 Exhibit C. Exhibit C to the Loan Agreement is replaced with Exhibit C to this Amendment.

2.9 Miscellaneous Amendments. The Loan Agreement, the Revolving Credit Note, and all other agreements, documents, instruments and materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement are deemed hereby to be amended so that any reference therein to the Loan Agreement shall be a reference to such documents as amended by or pursuant to this Amendment. Any references contained in the Loan Agreement or any related documents to the Revolving Credit Note shall refer to the Revolving Credit Note in the form of Exhibit C attached to this Amendment.

ARTICLE III

- REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to M&I that:

3.1 Loan Agreement. All of the representations and warranties made by the Borrower in the Loan Agreement are true and correct on the date of this Amendment. No Default or Event of Default under the Loan Agreement has occurred and is continuing as of the date of this Amendment.

3.2 Authorization; Enforceability. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance of and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, have been duly authorized

3.3 by all necessary corporate action by the Borrower. This Amendment and the Revolving Credit Note constitute the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

3.4 Absence of Conflicting Obligations. The making, execution and delivery of this Amendment and the Revolving Credit Note, and performance and compliance with the terms of the Loan Agreement as amended and of the Revolving Credit Note, do not violate any presently existing provision of law or the Articles of Incorporation or Bylaws of the Borrower or any Subsidiary or any agreement to which the Borrower or any Subsidiary is a party or by which any of them are bound.

3.5 Waivers and Consents. The Borrower acknowledges, reaffirms, restates and renews the waivers and consents provided by it in the Loan Agreement, which waivers and consents are incorporated herein by reference and are deemed made as of the date hereof and shall be deemed renewed, automatically and without further action of the Borrower, as of the date of each Revolving Credit Loan and the issuance of any Letter of Credit.

3.6 WAIVER OF RIGHT TO JURY TRIAL. M&I AND THE BORROWER ACKNOWLEDGE AND AGREE THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AMENDMENT OR THE LOAN AGREEMENT OR WITH RESPECT TO THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY WOULD BE BASED UPON DIFFICULT AND COMPLEX ISSUES AND, THEREFORE, THE PARTIES AGREE THAT ANY LAWSUIT ARISING OUT OF ANY SUCH CONTROVERSY SHALL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

3.7 SUBMISSION TO JURISDICTION; SERVICE OF PROCESS. AS A MATERIAL INDUCEMENT TO M&I TO ENTER INTO THIS AMENDMENT:

(a) THE BORROWER AGREES THAT ALL ACTIONS OR PROCEEDINGS IN ANY MANNER RELATING TO OR ARISING OUT OF THIS AMENDMENT OR THE LOAN AGREEMENT MAY BE BROUGHT ONLY IN COURTS OF THE STATE OF WISCONSIN LOCATED IN MILWAUKEE COUNTY OR THE FEDERAL COURT FOR THE EASTERN DISTRICT OF WISCONSIN AND THE BORROWER CONSENTS TO THE JURISDICTION OF SUCH COURTS. THE BORROWER WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH COURT AND ANY RIGHT IT MAY HAVE NOW OR HEREAFTER HAVE TO CLAIM THAT ANY SUCH ACTION OR PROCEEDING IS IN AN INCONVENIENT COURT; and

(b) Nothing contained herein shall affect the right of M&I to serve process in any other manner permitted by Law or to commence an action or proceeding in any other jurisdiction.

ARTICLE IV

- MISCELLANEOUS

4.1 Continuance of the Loan Agreement. Except as specifically amended by this Amendment, the Loan Agreement and all other agreements, documents, instruments and

4.2 materials executed and delivered heretofore or hereafter pursuant to the Loan Agreement shall remain in full force and effect.

4.3 Expenses and Attorney's Fees. The Borrower shall pay all fees and expenses incurred by M&I, including the reasonable fees of counsel, in connection with the preparation of this Amendment and the consummation of the transactions contemplated by this Amendment, and the protection or enforcement of the rights of M&I under this Amendment.

4.4 Survival. All agreements, representations and warranties made in this Amendment or in any documents delivered pursuant to this Amendment shall survive the execution of this Amendment and the delivery of any such document.

4.5 Governing Law. This Amendment and the other documents issued pursuant to this Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed within such state.

4.6 Counterparts; Headings. This Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. Article and Section headings in this Amendment are inserted for convenience of reference only and shall not constitute a part hereof.

4.7 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.8 Effectiveness. This Amendment shall be effective as of the date first written above upon receipt by M&I of the following items:

(a) this Amendment duly executed by the Borrower;

(b) the Revolving Credit Note duly executed by the Borrower;

(c) a certificate of the secretary or an assistant secretary of the Borrower dated the date hereof as to: (i) the incumbency and signature of the officers of the Borrower who have signed or will sign this Amendment, the Revolving Credit Note and the other documents required hereunder; and (ii) the adoption and continuing effect of resolutions of the Board of Directors of the Borrower authorizing the execution and delivery of this Amendment, the Revolving Credit Note and the other documents required hereunder;

(d) an executed amendment to the Note Agreement dated as of April 10, 2006, described in clause (f) of the definition of Permitted Indebtedness contained in the Loan Agreement, which shall be in a form acceptable to M&I; and

(e) such additional supporting documents and materials as M&I may reasonably request.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 6 to Loan Agreement as of the date first written above.

M&I MARSHALL & ILSLEY BANK

By: _____
Title: _____
Attest: _____
Title: _____

TWIN DISC, INCORPORATED

By: _____
Name: Christopher J. Eperjesy
Title: VP – Finance, Chief Financial Officer and Treasurer

[Signature Page to Amendment No. 6 to Loan Agreement]

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EXHIBIT B

OFFICER'S CERTIFICATE

M&I Marshall & Ilsley Bank

Attention: Gina A. Peter

770 North Water Street

Milwaukee, Wisconsin 53202

Re: Twin Disc, Incorporated

Gentlemen:

This Officer's Certificate is delivered to you pursuant to the terms of a Loan Agreement dated as of December 19, 2002, as amended (as amended, the "Loan Agreement") between Twin Disc, Incorporated (the "Borrower") and M&I Marshall & Ilsley Bank ("M&I"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Loan Agreement.

The undersigned hereby represents and warrants on behalf of the Borrower (and not in his individual capacity) to M&I that:

1. The undersigned is an officer of the Borrower and is duly authorized to execute and deliver this Officer's Certificate.
2. The representations and warranties of the Borrower contained in the Loan Agreement are true and accurate in all material respects on and as of the date of this Officer's Certificate.
3. No Default or Event of Default under the Loan Agreement has occurred and is continuing.¹
4. Enclosed with this certificate are the financial statements described in Section 5.4(a) [or: 5.4(b)] of the Loan Agreement for the quarter [or: year] ended _____, 200_ (the "Financials"). To the best of our knowledge, the Financials were prepared in accordance with generally accepted accounting principles and fairly present, in all material respects, the financial condition and results of operations of the Borrower and an its Subsidiaries as of the date of, and for the period covered by, the Financials, subject to audit and normal year-end adjustments.²

¹ If a Default or an Event of Default exists, specify (a) the facts and circumstances of such Default or Event of Default, and (b) the actions that the Borrower has taken, is taking or proposes to take to remedy such Default or Event of Default.

² For the certificate delivered with the annual financial statements, delete the phrase "subject to audit and normal year-end adjustments."

5. As determined pursuant to the Loan Agreement and based on the consolidated Financials for the Borrower and all consolidated Subsidiaries:

- A. the Total Funded Debt to EBITDA Ratio as of _____, 200__ is: _____:1.0
the maximum Total Funded Debt to EBITDA Ratio covenant is the following ratio as of the following dates:
- | <u>Date of Determination</u> | <u>Maximum Ratio</u> |
|--|----------------------|
| June 30, 2009 and at the end of each fiscal quarter thereafter | 3.00 to 1.0 |
- B. the Net Worth as of _____, 200__ is: \$ _____
the Net Worth covenant is: \$70,321,000 plus 35% of the positive consolidated Net Income for each fiscal quarter from and after December 31, 2002 on a cumulative basis [any adjustment for pension liabilities permitted by Section 5.13(a) is \$ _____]
- C. the EBITDA as of _____, 200__ is: \$ _____
the minimum EBITDA covenant is at least the following amount as of the following dates:
- | <u>Date of Determination</u> | <u>Minimum EBITDA</u> |
|---|-----------------------|
| March 31, 2004 and at the end of each fiscal quarter thereafter | \$11,000,000 |

Dated: _____, 200__.

TWIN DISC, INCORPORATED

By: _____

Its: VP-Finance, Chief Financial Officer and Treasurer

[Signature Page to Officer's Certificate]

QB\8070287.4

EXHIBIT C

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

Milwaukee, Wisconsin

September 13, 2004
as amended and restated on October 31, 2006,
on March 1, 2007
on August 9, 2007
and on May 27, 2009

FOR VALUE RECEIVED, TWIN DISC, INCORPORATED, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), on the Revolving Credit Termination Date (as defined in the Loan Agreement referred to below) (or such earlier maturity date resulting from acceleration) the principal sum of THIRTY-FIVE MILLION DOLLARS (\$35,000,000.00) or such lesser amount of revolving credit loans which are owing from the Borrower to M&I under the Revolving Credit Commitment provided for in the Loan Agreement referenced below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as set forth in the Loan Agreement. Interest accrued on the outstanding principal balance shall be payable on the last day of each month, commencing on September 30, 2004, and continuing thereafter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal. Interest will be payable in the amounts in accordance with the terms of the Loan Agreement. The Borrower hereby agrees to pay such interest.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest at the annual rate equal to the rate otherwise in effect under the Loan Agreement plus three percent (3%) from the due date until all such overdue amounts have been paid in full.

Payments of both principal and interest and other amounts due hereunder are to be made in lawful money of the United States of America at the offices of M&I Marshall & Ilsley Bank, Attention: Commercial Loan Department, 770 North Water Street, Wisconsin 53202, or at such other place as the holder shall designate in writing to the maker.

The makers and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Borrower hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder of this Note, including without limitation, the collection of any amounts due under this Note and the protection and enforcement of such rights in any bankruptcy, reorganization or insolvency proceedings involving the Borrower, both before and after judgment.

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This Note constitutes the Revolving Credit Note described in that certain Loan Agreement, as amended (the Loan Agreement, as previously amended and as further amended from time to time, is referred to herein as the "Loan Agreement") dated as of December 19, 2002 by and between M&I and the Borrower to which Loan Agreement reference is hereby made for a statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. In case an Event of Default, as defined in the Loan Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Loan Agreement.

This Note is an amendment and restatement of that certain Amended and Restated Revolving Credit Note executed by the Borrower payable to the order of M&I in the original principal amount of \$35,000,000 dated as of September 13, 2004, as amended and restated on October 31, 2006, March 1, 2007, and August 9, 2007 (the "Prior Note") and evidences an extension and continuation of the indebtedness evidenced by the Prior Note. The Borrower hereby acknowledges and agrees that such indebtedness has not been repaid or extinguished and that the execution hereof does not constitute a novation of the Prior Note. Moreover, this Note shall be entitled to all security and collateral to which the Prior Note was entitled, without change or diminution in the priority of any lien or security interest granted to secure the Prior Note.

TWIN DISC, INCORPORATED

By: _____
Name: Christopher J. Eperjesy
Its: VP- Finance, Chief Financial Officer and Treasurer

[Signature Page to Amended and Restated Revolving Credit Note]

QB\8070287.4

AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$35,000,000.00

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TWIN DISC, INCORPORATED

By: _____
Name: Christopher J. Eperjesy
Its: VP – Finance, Chief Financial Officer and Treasurer

[Signature Page to Amended and Restated Revolving Credit Note]

QB\8070287.4
