

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) January 19, 2006

Twin Disc, Incorporated

(Exact name of registrant as specified in its charter)

Wisconsin 1-7635 39-0667110

(State or other jurisdiction of incorporation) (Commission file number) (IRS Employer Identification No.)

1328 Racine Street, Racine, Wisconsin 53403

(Address of principal executive offices) (Zip Code)

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into Material Definitive Agreements

At its meeting on January 19, 2006, the Compensation Committee of the Board of Directors of Twin Disc, Incorporated (the "Company") issued 500 performance stock awards to Jeffrey S. Knutson. The stock will be awarded if the Company achieves a specified consolidated sales revenue objective in the fiscal year ending June 30, 2008. A copy of the form of the Performance Stock Award Agreement is attached hereto as Exhibit 10.1 and is incorporated herein by reference.

At its meeting on January 20, 2006, the Board of Directors of the Company approved, pursuant to a recommendation by the Compensation Committee, amendments to the Company's 2004 Stock Incentive Plan (the "Plan"). The amendments to the Plan, which are subject to approval by the Company's shareholders at the Company's 2006 annual meeting, permit the Compensation Committee to make Performance Stock Unit Awards (i.e., the right to receive cash payments equal to the fair market value of the Company's common stock as of the date such payments vest, if specified performance goals are achieved) and Performance Unit Awards (i.e., the right to receive predetermined cash payments if specified performance goals are achieved). The amendments also place limitations on the maximum annual awards or payments under the Plan to any particular individual in order to maximize the Company's ability to deduct payments under the Plan. A copy of the amended Plan, which has been renamed the Twin Disc, Incorporated, 2004 Long-Term Incentive Compensation Plan, is attached hereto as Exhibit 10.2 and is incorporated herein by reference.

At its meeting on January 19, 2006, the Compensation Committee also approved the award of Performance Stock Units to various executive officers of the Company, subject to and effective upon Board approval of the amendments to the Plan. A total of 23,755 Performance Stock Units were awarded effective January 20, 2006, with such awards contingent upon shareholder approval of the Plan amendments at the Company's 2006 annual meeting of shareholders. The Performance Stock Units will vest if the Company achieves a specified consolidated sales revenue objective in the fiscal year ending June 30, 2008. A copy of the form of the Performance Stock Unit Award agreement is attached hereto as Exhibit 10.3 and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

10.1 Form of the Performance Stock Award agreement

10.2 Twin Disc, Incorporated, 2004 Long-Term Incentive Compensation Plan

10.3 Form of the Performance Stock Unit Award agreement

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

January 25, 2006

Twin Disc, Inc.

/s/ Christopher J. Eperjesy

Christopher J. Eperjesy
VP-Finance, CFO and Secretary

PERFORMANCE STOCK UNIT AWARD GRANT AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD GRANT AGREEMENT (the "Agreement"), by and between TWIN DISC, INCORPORATED (the "Company") and _____ (the "Employee") is dated as of the 20th day of January, 2006, to memorialize an award of performance stock units of even date herewith.

WHEREAS, the Company adopted a Stock Incentive Plan in 2004 (the "Plan") whereby the Compensation Committee of the Board of Directors (the "Committee") is authorized to grant awards of various types to certain key employees of the Company; and

WHEREAS the Company amended the Plan on January 20, 2006, to authorize the award of performance stock units, which entitle an employee of the Company receiving such an award to a cash payment equal to the value of the common stock of the Company if the Company achieves a predetermined performance objective; and

WHEREAS, effective January 20, 2006, the Committee made an award of performance stock units to the Employee as an inducement to achieve the below described performance objective.

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

1. Performance Stock Unit Award Grant. Subject to the terms of the Plan, a copy of which has been provided to the Employee and is incorporated herein by reference, the Company has granted Employee an award of _____ performance stock units effective January 20, 2006. Such performance stock units entitle the Employee to receive a cash payment equal to the product of the number of units multiplied by the fair market value of the Company's common stock as of June 30, 2008, if the Company achieves at least Two Hundred Fifty Million Dollars (\$250,000,000) in consolidated annual sales revenue in the fiscal year beginning on July 1, 2007 and ending on June 30, 2008 (the "Performance Objective"), as reported in its consolidated financial statements for such fiscal year. The Committee shall certify whether such Performance Objective is satisfied before any payment pursuant to a performance stock unit is made.

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

3. Voluntary Termination of Employment Prior to Retirement/Termination for Cause. If prior to attaining the Performance Objective an Employee voluntarily terminates employment prior to the Employee becoming eligible for normal or early retirement under the Company's defined benefit pension plan covering the Employee or the employment of an Employee is terminated for cause, the performance stock units granted to such Employee shall be forfeited. The Committee shall conclusively determine whether an Employee was terminated for cause for purposes of this performance stock unit award.

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

- (a) The prorated award shall be determined by multiplying the cash payment due pursuant to the vesting of the award by a fraction, the numerator of which is the number of days from July 1, 2005, through the Employee's last day of employment, and the denominator of which is the number of days from July 1, 2005, through June 30, 2008.
- (b) Except as otherwise provided in Section 4(c), the payment of such prorated award shall be paid in the ordinary course after the determination by the Committee that the Performance Objective has been achieved (and no later than 2-1/2 months after June 30, 2007).
- (c) The Committee has the authority in its sole discretion to immediately vest the prorated portion of the performance stock units granted hereunder of an Employee who experiences a Qualifying Event and to make a cash payment pursuant to such prorated awards as if the Performance Objective had been fully achieved. In such event, the calculation of the cash payment due to the Employee shall be based on the fair market

value of the Company's common stock as of the effective date of such Employee's termination of employment.

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

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

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

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

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

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

TWIN DISC, INCORPORATED

By: _____

Its: _____

EMPLOYEE :

TWIN DISC, INCORPORATED
2004 LONG-TERM INCENTIVE COMPENSATION PLAN

ARTICLE I

PURPOSE

1.1 Purpose. The purpose of the Twin Disc, Incorporated 2004 Long-Term Incentive Compensation Plan (the "Plan") is to promote the overall financial objectives of Twin Disc, Incorporated (the "Company") and its majority owned subsidiaries ("Subsidiaries") by providing opportunities for the officers and key employees selected to participate in the Plan (each a "Participant") to acquire Common Stock of the Company ("Common Stock"), and to receive Common Stock or cash bonuses upon attainment of specified financial goals of the Company or its Subsidiaries. The Plan gives the Compensation Committee of the Company's Board of Directors, or such other committee as the Board of Directors shall designate (the "Committee"), the authority and discretion to award stock options, stock appreciation rights, restricted stock awards, performance stock awards, performance stock unit awards, performance unit awards, and/or annual long-term incentive awards (collectively, "Awards") to eligible employees of the Company.

ARTICLE II

EFFECTIVE DATE AND TERM

2.1 Effective Date. The Plan shall become effective on the date that it is approved by a majority of the outstanding shares of Common Stock of the Company (the "Effective Date"), provided that such approval occurs within twelve months after the date that the Plan is adopted by the Company's Board of Directors (the "Board"). The effective date of the 2006 amendments to the Plan (adding possible grants of performance stock unit awards and performance unit awards, and making other changes in order to maximize the deductibility of performance-based awards under Section 162(m) of the Internal Revenue Code) (the "Code") shall be the date that such amendments are approved by a majority of the outstanding shares of Common Stock of the Company.

2.2 Term. No Award may be granted more than ten years after the Effective Date.

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

ARTICLE III

STOCK SUBJECT TO PLAN

3.1 Maximum Number. The maximum number of shares of Common Stock that may be issued pursuant to Awards under the Plan is 164,000, subject to the adjustments provided in Article X, below. Such shares may be newly-issued shares, authorized but unissued shares or shares reacquired by the Company on the open market or otherwise. Because Performance Stock Units are payable only in cash, the number of such Performance Stock Units shall not count against the 164,000 maximum described in this paragraph.

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

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

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

ARTICLE IV

ADMINISTRATION

4.1 General Administration. The Committee shall supervise and administer the Plan. The Committee shall have discretionary authority to determine all issues with respect to the interpretation of the Plan and Awards granted under the Plan, and with respect to all Plan administration issues.

4.2 Powers of the Committee. Subject to the terms of the Plan and applicable law (including but not limited to the Sarbanes-Oxley Act of 2002, as amended), the Committee shall have the authority, in its discretion: (i) to prescribe, amend and rescind rules and regulations relating to the Plan; (ii) to select the eligible employees who shall receive Awards under the Plan; (iii) to grant Awards under the Plan and to determine the terms and conditions of such Awards, including without limitation the authority to determine the number of shares subject to issuance with respect to any Award, the vesting or exercise schedule of any Award, and the specific performance goals that shall cause an Award to vest or become payable; (iv) to determine the terms and conditions of the respective agreements (which need not be identical) pursuant to which Awards are granted, and (with the consent of the holder thereof) to modify or amend any Award; (v) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of any Award; (vi) to determine the exercise price per share of options granted under the Plan; (vii) to determine the permissible methods of Award exercise and payment, including cashless exercise arrangements; (viii) to decide whether a Stock Appreciation Right Award shall be settled in cash or Common Stock; (ix) to determine the remaining number of shares of Common Stock available for issuance under the Plan; (x) to appoint and compensate agents, counsel, auditors or other specialists to aid it in the discharge of its duties; (xi) to interpret the Plan and/or any agreement entered into under the Plan; and (xii) to make all other determinations necessary or advisable for the administration of the Plan.

4.3 Committee. The Committee shall consist of at least three directors, each of whom shall be a "non-employee director" as that term is defined in Rule 16b-3(b)(3) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). A majority of the members of the Committee shall constitute a quorum at any meeting thereof (including telephone conference), and all determinations of the Committee shall be made by a majority of the members present, or by a writing by a majority of the members of the entire Committee without notice or meeting.

4.4 Compliance with Code Section 409A. All Awards under this Plan shall be structured in a manner to comply with the requirements of Code Section 409A, or to be exempt from the application of Code Section 409A.

ARTICLE V

ELIGIBILITY

5.1 Eligibility. An Award may be granted under the Plan to those key employees (including officers) of the Company or its present or future Subsidiaries who, in the opinion of the Committee, are mainly responsible for the success and future growth of the Company and/or any of its Subsidiaries.

ARTICLE VI

AWARDS

6.1 Types of Awards. Awards under the Plan may be granted in any one or a combination of the following:

(a) Stock Options. An Option shall entitle the Participant to receive shares of Common Stock upon exercise of such Option, subject to the Participant's satisfaction in full of any conditions, restrictions or limitations imposed in accordance with the Plan or the agreement between the Company and the Participant governing the award of such Option. The agreement governing the award of an option shall designate whether such option is intended to be an incentive stock option or a non-qualified stock option, and to the extent that any stock option is not designated as an incentive stock option (or even if so designated does not qualify as an incentive stock option), it shall constitute a non-qualified stock option. The maximum number of Options that may be granted to any Participant during any fiscal year of the Company is 10,000, subject to the adjustments provided in Article X, below.

(i) Exercise Price. The exercise price per share of the Common Stock purchasable under an Option shall be determined by the Committee. If such option is intended to qualify as an incentive stock option, the exercise price per share shall not be less than the fair market value

per share of Common Stock on the date the option is granted (or not less than 110% of the such fair market value if the option is granted to an individual who owns or is deemed to own stock possessing more than 10% of the combined voting power of all classes of stock or the Company, a corporation which is the parent of the Company or and subsidiary of the Company (each as defined in Section 424 of the Code) (a "10% Shareholder")). For this and all other purposes under the Plan, the fair market value shall be the mean between the highest and lowest quoted selling prices per share of Common Stock on the New York Stock Exchange ("NYSE") or NASDAQ Stock Market ("NASDAQ") (as applicable) on the date of grant; provided, that if the Common Stock ceases to be listed on either the NYSE or NASDAQ, the Committee shall designate an alternative method of determining the fair market value of the Common Stock.

(ii) Option Period. An Option shall be exercisable at such time and subject to such terms and conditions as shall be determined by the Committee. An option that is intended to qualify as an incentive stock option shall not be exercisable more than ten years after the date it is granted (or five years after the date it is granted, if granted to a 10% Shareholder).

(b) Stock Appreciation Rights. A Stock Appreciation Right shall entitle the Participant to surrender to the Company the Stock Appreciation Right and to be paid therefor the amount described in Section 6.1(b)(i)(3) or 6.1(b)(ii) below, subject to the Participant's satisfaction in full of any conditions, restrictions or limitations imposed in accordance with the Plan or the agreement between the Company and the Participant governing the award of such Stock Appreciation Right. Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option under this Plan ("Tandem SAR's"), or may be granted on a stand-alone basis ("Stand Alone SAR's"). The maximum number of Stock Appreciation Rights that may be granted to any Participant during any fiscal year of the Company is 10,000, subject to the adjustments provided in Article X, below.

(i) Tandem SAR's.

(1) Grant. Tandem SAR's may be granted in connection with non-qualified Stock Options at or after the time that such non-qualified Stock Options are granted, but may only be granted in connection with incentive Stock Options at the time of grant of such incentive Stock Options.

(2) Term. A Tandem SAR shall have the same term as the Stock Option to which it relates and shall be exercisable only at such time or times and to the extent the related Stock Option would be exercisable.

(3) Exercise. Upon the exercise of a Tandem SAR, the Participant shall be entitled to receive an amount in cash equal in value to the excess of the fair market value per share of Common Stock on the date of exercise over the Option Price per share of Common Stock as specified in the agreement governing the Tandem SAR, multiplied by the number of shares in respect to which the Tandem SAR is exercised. The exercise of Tandem SAR's shall require the cancellation of a corresponding number of Stock Options to which the Tandem SAR's relate, and the exercise of Stock Options shall require the cancellation of a corresponding number of Tandem SAR's to which the Stock Options relate.

(4) Expiration or Termination. A Tandem SAR shall expire or terminate at such time as the Stock Option to which it relates expires or terminates, unless otherwise provided in the agreement governing the grant of the Tandem SAR.

(ii) Stand Alone SAR's. A Stand Alone SAR may be granted at such time and for such term as the Committee shall determine, and shall be exercisable at such time as specified in the agreement governing the grant of the Stand Alone SAR. Upon exercise of a Stand Alone SAR, the Participant shall be entitled to receive, in cash, Common Stock, or a combination of both (as determined by the Committee), an amount equal to the fair market value per share of Common Stock over a value specified in the agreement governing the grant of the Stand Alone SAR, multiplied by the number of shares in respect to which the Stand Alone SAR is exercised.

(c) Restricted Stock Awards. Restricted Stock consists of shares of Common Stock that are transferred or sold to the Participant, but which carry restrictions such as a prohibition against disposition or an option to

repurchase in the event of employment termination, and may be subject to a substantial risk of forfeiture. Until such restrictions lapse, the Participant may not sell, assign, pledge or otherwise transfer, whether voluntarily or involuntarily, the Restricted Stock. A sale of Restricted Stock to a Participant shall be at such price as the Committee determines, which price may be substantially below the fair market value of the Common Stock at the date of grant.

- (i) Lapse of Restrictions. The Committee shall establish the conditions under which the restrictions applicable to shares of Restricted Stock shall lapse. Lapse of the restrictions may be conditioned upon continued employment of the Participant for a specified period of time, satisfaction of performance goals of the Company or a Subsidiary, or any other factors as the Committee deems appropriate.
 - (ii) Rights of Holder of Restricted Stock. Except for the restrictions on transfer and/or the Company's option to repurchase the Restricted Shares, the Participant shall have, with respect to shares of Restricted Stock, all of the rights of a shareholder of Common Stock, including, if applicable, the right to vote the shares and the right to receive any cash or stock dividends. Unless otherwise determined by the Committee and subject to the terms of the Plan, cash or stock dividends on shares of Restricted Stock shall be automatically deferred, and shall be paid to the Participant if and when the restrictions on the shares of Restricted Stock to which such dividends relate lapse. Cash dividends shall be paid with an appropriate rate of interest, as determined by the Committee.
 - (iii) Certificates. The Company may require that the certificates evidencing shares of Restricted Stock be held by the Company until the restrictions thereon have lapsed. If and when such restrictions lapse, certificates for such shares shall be delivered to the Participant. Such shares may have further restrictions on transfer if they have not been registered under the Exchange Act, but shall no longer be subject to a substantial risk of forfeiture.
- (d) Performance Stock Awards. Performance Stock Awards are artificial shares that are contingently granted to a Participant, which entitle the Participant to actual shares of Common Stock, if predetermined objectives are met. Because the payment of a Performance Stock Award is based on a predetermined number of shares of Common Stock, the value of the award may increase or decrease depending on the fair market value of the Common Stock after the date of grant. The maximum number of shares of Performance Stock that may be granted to any Participant during any fiscal year of the Company is 10,000, subject to the adjustments provided in Article X, below.
- (i) Performance Goals. The Committee shall establish one or more performance goals with respect to each grant of a Performance Stock Award. The performance goals may be tailored to meet specific objectives. The performance criteria upon which payment or vesting of a Performance Stock Award intended to qualify for the exemption under Code Section 162(m) may be based shall be limited to one or more of the following, as determined by the Committee: sales, net asset turnover, earnings per share, cash flow, cash flow from operations, return on investment in excess of cost of capital (i.e., net operating profit after taxes minus a capital charge), operating profit or income, net income, operating income, net income margin, return on net assets, return on total sales, return on common equity, return on total capital, or total shareholder return. In the case of Performance Stock Awards that are not intended to qualify for the exemption under Code Section 162(m), the Committee shall designate performance criteria from among the foregoing or such other business criteria as it shall determine in its sole discretion. In addition, performance goals may relate to attainment of specified objectives by the Participant or by the Company or an affiliate, including a division or a department of the Company or an affiliate, or upon any other factors or criteria as the Committee shall determine.
 - (ii) Certification of Satisfaction of Performance Goals. Following the completion of a period for which performance goals have been established, the Committee shall certify the extent to which such goals have been achieved.
- (e) Performance Stock Unit Awards. A Performance Stock Unit shall entitle the Participant to receive a cash payment equal to the fair market value of a share of Common Stock of the Company as of the Vesting Date, if predetermined objectives are met. The "Vesting Date" shall be the

last day of the performance period for which a performance goal is established. The maximum number of Performance Stock Units that may be granted to any Participant during any fiscal year of the Company is 50,000, subject to the adjustments provided in Article X, below.

- (i) Performance Goals. The Committee shall establish one or more performance goals with respect to each grant of a Performance Stock Unit. The performance goals may be tailored to meet specific objectives. The performance criteria upon which payment or vesting of a Performance Stock Unit intended to qualify for the exemption under Code Section 162(m) may be based shall be limited to one or more of the following, as determined by the Committee: sales, net asset turnover, earnings per share, cash flow, cash flow from operations, return on investment in excess of cost of capital (i.e., net operating profit after taxes minus a capital charge), operating profit or income, net income, operating income, net income margin, return on net assets, return on total sales, return on common equity, return on total capital, or total shareholder return. In the case of Performance Stock Units that are not intended to qualify for the exemption under Code Section 162(m), the Committee shall designate performance criteria from among the foregoing or such other business criteria as it shall determine in its sole discretion. In addition, performance goals may relate to attainment of specified objectives by the Participant or by the Company or an affiliate, including a division or a department of the Company or an affiliate, or upon any other factors or criteria as the Committee shall determine.
 - (ii) Certification of Satisfaction of Performance Goals. Following the completion of a period for which performance goals have been established, the Committee shall certify the extent to which such goals have been achieved.
- (f) Performance Unit Awards. Performance Unit Awards entitle the participant to cash payments (or, at the election of the Committee, their equivalent in shares of Common Stock), if predetermined objectives are met. Because the payment of a Performance Unit Award is based on a predetermined cash amount, the value of each unit remains constant and does not fluctuate with changes in the market value of the Common Stock. The maximum amount that may be paid to any Participant in any fiscal year of the Company pursuant to an award of Performance Units shall be \$500,000.00
- (i) Performance Goals. The Committee shall establish one or more performance goals with respect to each grant of a Performance Unit Award. The performance goals may be tailored to meet specific objectives. The performance criteria upon which payment or vesting of a Performance Unit Award intended to qualify for the exemption under Code Section 162(m) may be based shall be limited to one or more of the following, as determined by the Committee: sales, net asset turnover, earnings per share, cash flow, cash flow from operations, return on investment in excess of cost of capital (i.e., net operating profit after taxes minus a capital charge), operating profit or income, net income, operating income, net income margin, return on net assets, return on total sales, return on common equity, return on total capital, or total shareholder return. In the case of Performance Unit Awards that are not intended to qualify for the exemption under Code Section 162(m), the Committee shall designate performance criteria from among the foregoing or such other business criteria as it shall determine in its sole discretion. In addition, performance goals may relate to attainment of specified objectives by the participant or by the Company or an affiliate, including a division or a department of the Company or an affiliate, or upon any other factors or criteria as the Committee shall determine.
 - (ii) Certification of Satisfaction of Performance Goals. Following the completion of a period for which performance goals have been established, the Committee shall certify the extent to which such goals have been achieved.
- (g) Annual Long-Term Incentive Awards. An Annual Long-Term Incentive Award entitles a Participant to receive a specified payout in common stock, deferred stock, restricted stock or a combination thereof (subject to approval of the Committee), if and when certain conditions are satisfied. To elect the payout of a portion of the award in common stock, the Participant must inform the Committee in writing prior to the start of the fiscal year to which it relates. The maximum annual formula bonus may be fixed at up to 100% of the Participant's base

salary with the Committee designating the percentage level of participation and maximum bonus for each officer of the Company while management designates the percentage level of participation and maximum bonus for other Participants.

6.2 Written Agreements. Each Award granted under the Plan shall be evidenced by a written agreement, the form of which shall be consistent with the terms and conditions of the Plan and applicable law, which shall be signed by an officer of the Company and the Participant. Until such agreement has been entered into between the Company and the Participant, the Participant shall have no rights in any Award approved by the Committee.

6.3 Application of Code Section 162(m). Code Section 162(m) prohibits a publicly-held corporation from taking a deduction for remuneration paid to certain employees in excess of \$1,000,000. Code Section 162(m)(4)(C) provides that remuneration payable solely on account of the attainment of one or more performance goals is not counted toward this limitation, but only if certain conditions are satisfied. To the extent that any Award is intended to satisfy the exception contained in Code Section 162(m)(4)(C), the following shall apply to such Award:

- (a) Determination of Performance Goals. The performance goals pursuant to which an Award is made must be determined by a committee of the Board comprised solely of two or more "outside directors," as that term is defined under Code Section 162 and the regulations thereunder (the "Outside Directors Committee"). The Committee may serve as the Outside Directors Committee if it meets these requirements. The performance goals established by the Outside Directors Committee must be objective, and remuneration intended to be excepted under Code Section 162(m)(4)(C) must be contingent upon the attainment of the performance goals.
- (b) Approval of Performance Goals. The material terms under which the remuneration is to be paid, including the performance goals, are disclosed to shareholders and approved by a majority of the vote in a separate shareholder vote before the payment of such remuneration.
- (c) Certification of Satisfaction of Performance Goals. The Outside Directors Committee must certify that the performance goals and any other material terms and conditions were in fact satisfied.
- (d) Satisfaction of Code Section 162(m). In all other respects, the requirements of Code Section 162(m)(4)(C) and the regulations thereunder must be satisfied.

ARTICLE VII

PAYMENT FOR AWARDS

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

ARTICLE VIII

EFFECT OF TERMINATION OF EMPLOYMENT ON BENEFITS

8.1 Termination by Reason of Death. Unless otherwise provided in an agreement governing the grant of an Award or as determined by the Committee, if a Participant incurs termination of employment due to death:

- (a) Any unexpired and unexercised Options and/or Stock Appreciation Rights held by such Participant shall thereafter be fully exercisable (whether or not such Options or Stock Appreciation Rights were fully vested at the time of the Participant's death) by the deceased Participant's estate or by a person who acquired the right to exercise the Option or Stock Appreciation Right by bequest or inheritance for a period of one year immediately following the date of death, or until the expiration of the Option or Stock Appreciation Right if shorter.
- (b) Any restrictions on shares of Restricted Stock shall lapse and the Participant shall be fully vested in the Restricted Stock.
- (c) The Participant shall receive a prorated payout of any Performance Stock Awards, Performance Stock Unit Awards, Performance Unit Awards and Annual Long-Term Incentive Awards. The prorated payout shall be determined by the Committee, in its sole discretion, and shall be

based upon the length of time that the Participant held such Awards during the period for which performance is measured and the achievement of the established performance goals.

8.2 Termination by Reason of Disability. Unless otherwise provided in an agreement governing the grant of an Award or as determined by the Committee, if a Participant incurs termination of employment due to disability:

- (a) Any unexpired and unexercised Options and/or Stock Appreciation Rights held by such Participant shall thereafter be fully exercisable (whether or not such Options or Stock Appreciation Rights were fully vested at the time the Participant became disabled) for a period of three years (except for incentive stock options, in which case the period shall be one year) immediately following the date of such termination of employment, or until the expiration of the Option or Stock Appreciation Right if shorter. The Participant's death at any time following such termination due to disability shall not affect the foregoing. In the event of termination due to disability, if an incentive stock option is exercised more than one year after such termination of employment (or such other time period as may apply under Section 422 of the Code), such Option shall thereafter be treated as a non-qualified stock option.
- (b) Any restrictions on shares of Restricted Stock shall lapse and the Participant shall be fully vested in the Restricted Stock.
- (c) The Participant shall receive a prorated payout of any Performance Stock Awards, Performance Stock Unit Awards, Performance Unit Awards and Annual Long-Term Incentive Awards. The prorated payout shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time that the Participant held such Awards during the period for which performance is measured and the achievement of the established performance goals.

Unless otherwise defined in the agreement governing the grant of an Award, "disability" shall mean a mental or physical illness or injury that entitles the Participant to receive benefits under the long term disability plan of the Company or a Subsidiary, or if the Participant is not covered by such a plan, a mental or physical illness that renders a Participant totally and permanently incapable of performing the Participant's duties for the Company or a Subsidiary. Notwithstanding the foregoing, a "disability" shall not qualify under the Plan if it is the result of: (i) a willfully self-inflicted injury or willfully self-induced sickness; or (ii) an injury or disease contracted, suffered or incurred, while participating in a criminal offense. The determination of disability shall be made by the Committee. The determination of disability for purposes of the Plan shall not be construed as an admission of disability for any other purpose.

8.3 Voluntary Termination Before Retirement or Termination for Cause.

Unless otherwise provided in an agreement governing the grant of an Award or as determined by the Committee, if a Participant voluntarily terminates his or her employment before retirement or is terminated for cause:

- (a) Any unexpired and unexercised Options and/or Stock Appreciation Rights held by such Participant shall immediately terminate. The death or disability of the Participant after such a termination of employment shall not renew the exercisability of any Option or Stock Appreciation Right.
- (b) All shares of Restricted Stock still subject to restriction shall be forfeited by the Participant, except the Committee shall have the discretion in whole or in part to waive any or all remaining restrictions with respect to any or all of such Participant's shares of Restricted Stock.
- (c) All Performance Stock Awards, Performance Stock Unit Awards, Performance Unit Awards and Annual Long-Term Incentive Awards shall be forfeited by the Participant to the Company.

Unless otherwise defined in the agreement governing the grant of an Award, "termination for cause" shall mean termination because of (i) any act or failure to act deemed to constitute cause under the Company's established practices policies or guidelines applicable to the Participant or (b) the Participant's act or omission constituting gross misconduct with respect to the Company or a Subsidiary in any material respect.

8.4 Other Termination. Unless otherwise provided in an agreement governing the grant of an Award or as determined by the Committee, if a Participant's employment terminates for any reason (including retirement) other than the

reasons listed in Section 8.1 through 8.3 above:

- (a) Any unexpired and unexercised Options and/or Stock Appreciation Rights held by such Participant shall thereupon terminate, except that any such Option or Stock Appreciation Right, to the extent vested on the date of the Participant's termination, may be exercised by the Participant for a period of three years (except for incentive stock options, in which case the period shall be (3) three months) immediately following the date of such termination of employment, or until the expiration of the Option or Stock Appreciation Right if shorter. The death or disability of the Participant after such a termination of employment shall not extend the time permitted to exercise an Option or Stock Appreciation Right.
- (b) All shares of Restricted Stock still subject to restriction shall be forfeited by the Participant, except the Committee shall have the discretion in whole or in part to waive any or all remaining restrictions with respect to any or all of such Participant's shares of Restricted Stock.
- (c) The Participant shall receive a prorated payout of any Performance Stock Awards, Performance Stock Unit Awards, Performance Unit Awards and Annual Long-Term Incentive Awards. The prorated payout shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time that the Participant held such Awards during the period for which performance is measured and the achievement of the established performance goals.

Unless otherwise defined in the agreement governing the grant of an Award, "retirement" shall mean the Participant's termination of employment after attaining either normal retirement age or the early retirement age as defined in the principal (as determined by the Committee) tax-qualified plan of the Company or Subsidiary, and if the Participant is not covered by such a plan, then age 65, or age 55 with the accrual of 10 years of service.

ARTICLE IX

NONTRANSFERABILITY

9.1 General. Unless otherwise provided in an agreement governing the grant of an Award, a Participant's rights shall be exercisable during the Participant's lifetime only by the Participant, and no Award may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated; provided, that Options and Stock Appreciation Rights are transferable by will or pursuant to the laws of descent and distribution.

ARTICLE X

ADJUSTMENT PROVISIONS

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

- (a) the total number of shares reserved for issuance under this Plan, the number of shares covered by or subject to each outstanding Award, and the number of outstanding Performance Stock Units, shall be adjusted so that the aggregate consideration payable to the Company, if any, and the value of each such Award shall not be changed; and
- (b) the maximum number of Options, Stock Appreciation Rights, Performance Stock Units and shares of Performance Stock that may be granted to any Participant in any fiscal year of the Company shall be proportionately adjusted to reflect the increase or decrease in the issued shares of Common Stock.

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

10.3 Substitutions and Assumptions. If the Company acquires an entity which has issued and outstanding stock options or other rights, the Company may substitute stock options or rights for options or rights of such entity, including options or other rights to acquire stock at less than 100% of the fair market price of the stock at grant. The number and kind of such stock options and other rights shall be determined by the Committee and the total

number of shares reserved for issuance under this Plan shall be appropriately adjusted consistent with such determination and in such manner as the Committee may deem equitable to prevent substantial dilution or enlargement of the Awards granted to, or available for, present or future Participants of this Plan. The number of shares reserved for issuance pursuant to Article III may be increased by the corresponding number of options or other benefits assumed, and, in the case of a substitution, by the net increase in the number of shares subject to options or other benefits before and after the substitution.

ARTICLE XI

AMENDMENT AND TERMINATION OF PLAN

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

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

ARTICLE XII

MISCELLANEOUS

12.1 Unfunded Status of Plan. It is intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provides, however, that unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

12.2 Withholding Taxes. No later than the date as of which an amount first becomes includible in the gross income of the Participant for federal income tax purposes with respect to any Award or with respect to any exercise of any Option or Stock Appreciation Right granted under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company or other entity identified by the Committee regarding the payment of any federal, state, local or foreign taxes of any kind required by law to be withheld. Such withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award or that is received upon the exercise of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional upon such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant. If the Participant disposes of shares of Common Stock acquired pursuant to an incentive stock option in any transaction considered to be a disqualifying transaction under the Code, the Participant must give written notice of such transfer and the Company shall have the right to deduct any taxes required by law to be withheld from any amounts otherwise payable to the Participant.

12.3 No Guaranty of Employment. Nothing herein shall be construed to constitute a contract of employment between the Company or Subsidiary and the Participant. Except as may be provided in a written contract, the Company or Subsidiary and each of the Participants continue to have the right to terminate the employment relationship at any time for any reason.

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

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

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

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

12.8 Entire Agreement. This Plan and any agreements governing the grant of Awards hereunder to any Participant constitute the entire agreement with respect to the subject matter hereof with respect to such Participant, provided that in the event of any inconsistency between the Plan and any such agreement(s), the terms and conditions of the Plan shall control.

PERFORMANCE STOCK AWARD GRANT AGREEMENT

THIS PERFORMANCE STOCK AWARD GRANT AGREEMENT (the "Agreement"), by and between TWIN DISC, INCORPORATED (the "Company") and _____ (the "Employee") is dated this 19th day of January, 2006, to memorialize an amendment of an award of performance stock of even date herewith.

WHEREAS, the Company adopted an Stock Incentive Plan in 2004 (the "Plan") whereby the Compensation Committee of the Board of Directors (the "Committee") is authorized to grant performance stock awards that entitle an employee of the Company receiving such award to shares of common stock of the Company if the Company achieves a predetermined performance objective; and

WHEREAS, effective January 19, 2006, the Committee made an award of performance stock to the Employee as an inducement to achieve the below described performance objective.

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

1. Performance Stock Award Grant. Subject to the terms of the Plan, a copy of which has been provided to the Employee and is incorporated herein by reference, the Company has granted Employee a performance stock award effective January 19, 2006. Such performance stock award shall entitle the Employee to receive _____ shares of the Company's common stock (the "Shares") if the Company achieves Two Hundred Fifty Million Dollars (\$250,000,000) in consolidated annual sales revenue in the fiscal year beginning on July 1, 2007 and ending on June 30, 2008 (the "Performance Objective"), subject to the terms and conditions and restrictions set forth below.

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

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

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

- (a) The prorated award shall be determined by multiplying the number of shares underlying the award by a fraction, the numerator of which is the number of days from July 1, 2005, through the Employee's last day of employment, and the denominator of which is the number of days from July 1, 2005, through June 30, 2008. Any fractional share of the Company resulting from such a prorated award shall be rounded up to a whole share of the Company.
- (b) Except as otherwise provided in Section 4(c), shares of the Company underlying such prorated awards shall be delivered in the ordinary course after the determination by the Committee that the Performance Objective has been achieved (and no later than 2-1/2 months after June 30, 2008).
- (c) The Committee has the authority in its sole discretion to immediately vest the prorated portion of the performance stock awards granted hereunder if the Employee experiences a Qualifying Event and deliver shares of Company stock underlying such prorated awards as if the Performance Objective had been fully achieved.
- (d) The Committee shall conclusively determine whether the Employee shall be considered permanently disabled for purposes of this performance stock award.

5. Change of Control. Notwithstanding Sections 3 and 4 above, if an event