

TWIN DISC INC  
Form DEF 14A  
September 16, 2016  
**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  [ x ]

Filed by a Party Other than the Registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[ x ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Section 240.14a-2.

**Twin Disc, Incorporated**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[ x ] No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transactions computed pursuant to Exchange Act Rule 0-11  
(Set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transactions:

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5) Total fee paid:

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Fee paid previously with preliminary materials.

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1) Amount previously paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**TWIN DISC, INCORPORATED**

**1328 Racine Street, Racine, Wisconsin 53403**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS – OCTOBER 28, 2016**

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

The Annual Meeting of Shareholders of Twin Disc, Incorporated, a Wisconsin corporation (the “Corporation”), will be held at 2:00 P.M. (Central Time) on Friday, October 28, 2016, at the Corporate Offices, 1328 Racine Street, Racine, Wisconsin 53403 (the “Annual Meeting”) for the following purposes:

1. To elect three Directors to serve until the Annual Meeting of Shareholders in 2019 and one Director to serve until the Annual Meeting of Shareholders in 2018.
2. To consider an advisory vote to approve the compensation of the Corporation’s Named Executive Officers.
3. To ratify the appointment of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending June 30, 2017.
4. To transact any other business that may properly come before the Annual Meeting.

Only holders of record of shares of common stock of the Corporation at the close of business on August 26, 2016, shall be entitled to vote at the Annual Meeting.

A proxy appointment card and our proxy statement are enclosed with this notice. The proxy card shows the form in which your shares are registered and affords you the opportunity to direct the voting of those shares, even if you are unable to attend the Annual Meeting in person. Please review these proxy materials and follow the applicable instructions.

Jeffrey S. Knutson

Secretary

**Important Notice Regarding the Availability of Proxy Materials for the  
Shareholder Meeting to be Held on October 28, 2016**

Our proxy materials, including the Proxy Statement and 2016 Annual Report on Form 10-K, are available over the internet at <http://ir.twindisc.com/proxy.cfm>, and most of our stockholders will receive only a notice (“Notice”) containing instructions on how to access the proxy materials over the internet and vote online. If you receive this Notice but would still like to receive paper copies of the proxy materials, please follow the instructions on the Notice or on the website referred to on the Notice.

**YOUR VOTE IS IMPORTANT! WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING OF SHAREHOLDERS IN PERSON, WE ASK YOU TO PLEASE TAKE ADVANTAGE OF ONE OF THE THREE OPTIONS YOU HAVE FOR VOTING YOUR SHARES: (1) YOU MAY SIGN AND RETURN YOUR PROXY APPOINTMENT IN THE ENCLOSED ENVELOPE; (2) YOU MAY DIRECT YOUR VOTE VIA THE INTERNET; OR (3) YOU MAY DIRECT YOUR VOTE BY TELEPHONE. THE APPLICABLE INSTRUCTIONS AND DEADLINES FOR EACH OPTION ARE STATED ON THE PROXY CARD AND IN THE PROXY STATEMENT. IF YOUR PROXY APPOINTMENT / VOTING INSTRUCTIONS ARE NOT RECEIVED BEFORE THE APPLICABLE DEADLINE, THE PROXY WILL BE RULED INVALID. AFTER SUBMITTING YOUR VOTING INSTRUCTIONS, SHOULD YOU FIND IT CONVENIENT TO ATTEND THE MEETING, YOU MAY REVOKE YOUR PRIOR INSTRUCTIONS AND VOTE IN PERSON.**

## **2016 Proxy Statement**

### **TWIN DISC, INCORPORATED**

**September 15, 2016**

#### **DATE, TIME AND PLACE OF MEETING**

This proxy statement is furnished in connection with the solicitation by the Board of Directors of the Corporation of proxies for use at the Annual Meeting of Shareholders to be held at 2:00 P.M. (Central Time), at the Corporate Offices, 1328 Racine Street, Racine, Wisconsin 53403 on Friday, October 28, 2016, or any adjournment thereof. Holders of common stock of record at the close of business on August 26, 2016, are entitled to vote at the Annual Meeting and each shareholder shall have one vote for each share of common stock registered in the shareholder's name. Shares represented by a signed proxy appointment or electronic proxy vote will be voted in the manner specified in the form of proxy or, if no specification is made, in a manner consistent with the Board of Directors' recommendation for each of the proposals mentioned therein. The presence of a majority of the outstanding shares of common stock of the Corporation, either in person or represented by a signed proxy appointment or electronic proxy vote, will constitute a quorum at the Annual Meeting. The Corporation intends to mail this proxy statement to shareholders on or about September 15, 2016.

#### **PROXY APPOINTMENT AND REVOCATION**

Shareholders may vote by delivery, either in person, by mail or by messenger, of the enclosed proxy appointment form. Appointment forms must be received by the Secretary not less than 48 hours prior to the date of the Annual Meeting. The proxy appointment form must be signed in handwriting. The signature must be sufficiently legible to allow the inspector to distinguish it as representing the name of the registered shareholder, or must be accompanied by a rubber stamp facsimile or hand-printed name, including the shareholder's surname and either the shareholder's first or middle name as represented on the corporate records and any titles, offices or words indicating agency which appear in the corporate records. **PROXY APPOINTMENT FORMS NOT MEETING THE ABOVE REQUIREMENTS WILL BE RULED INVALID.**

Shareholders may also vote via the Internet by accessing [www.investorvote.com/twin](http://www.investorvote.com/twin) or by telephone at 1-800-652-8683. The telephone and Internet voting procedures are designed to authenticate the shareholder's identity, to allow the shareholder to give voting instructions and to confirm that such instructions have been properly recorded. Shareholders may vote via the Internet or by telephone up to 11:59 PM Eastern Time on Thursday, October 27, 2016. Shareholders that vote via the Internet should understand that there might be costs associated with electronic access that they must bear, such as usage charges from Internet access providers and telecommunications companies.

The person giving the proxy may revoke it before it is exercised, either in person, by mail or by messenger, by submitting a later dated proxy appointment form to the Secretary at least 48 hours prior to the date of the Annual Meeting. If the proxy was voted via the Internet or by telephone, the person may revoke the proxy by entering a new vote via the Internet or telephone prior to the time that Internet and telephone voting closes. The person giving the proxy may also revoke it by openly stating the revocation at the Annual Meeting, by voting at the Annual Meeting in person, or by delivering a signed written statement revoking the proxy to the Secretary prior to the date of the Annual Meeting. ANY ATTEMPTED REVOCATIONS NOT MEETING THE ABOVE REQUIREMENTS WILL BE RULED INVALID.

## **RECORD DATE**

The record date with respect to this solicitation is August 26, 2016. On that date, there were outstanding 11,438,573 shares of common stock of the Corporation entitled to vote at the Annual Meeting. There also are 200,000 shares of no-par preferred stock authorized, of which 150,000 shares have been designated Series A Junior Preferred Stock, but none are outstanding.

## **SHAREHOLDER PROPOSALS FOR 2017**

If a shareholder wishes to present a proposal for consideration for inclusion in the Notice of the Meeting and Proxy Statement for the 2017 Annual Meeting of Shareholders, the proposal must be received at the Corporation's principal executive offices no later than May 18, 2017. Shareholder proposals received later than July 17, 2017 will be considered untimely, and will not be considered at the Corporation's 2017 Annual Meeting. Any such proposal must comply with the requirements of Section (14)(a) of the Corporation's Restated Bylaws.

If a shareholder wishes to nominate a person for election to the Board of Directors of the Corporation, such nomination shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely for the 2017 Annual Meeting, such notice must be delivered to or mailed and received at the principal executive offices of the Corporation no later than July 17, 2017. Any such notice must comply with the requirements of Section (14)(b) of the Corporation's Restated Bylaws.

## **PERSONS MAKING THE SOLICITATION**

The proxy is being solicited by the Corporation's Board of Directors and will be voted in favor of the Directors' recommendations on each and all matters properly brought before the Annual Meeting, unless the undersigned shareholder specifically instructs the holder or holders of the proxy to the contrary.

## **VOTES REQUIRED FOR PROPOSALS AND HOW VOTES WILL BE COUNTED**

With respect to the election of Directors (Proposal No. 1), votes may be cast in favor or withheld. Votes that are withheld will have no legal effect and will not be counted as votes cast in the election of Directors. Assuming a quorum is present, Directors shall be elected by a plurality of votes cast by the shares entitled to vote at the Annual Meeting (i.e., the individuals with the largest number of votes cast in favor of their election will be elected as Directors, up to the maximum number of Directors to be chosen in the election). In the event two (2) or more persons tie for the last vacancy to be filled, a run-off vote shall be taken from among the candidates receiving the tie vote. Broker non-votes, as defined below, will be counted for purposes of determining a quorum, but will not be counted as votes cast in the election of Directors.

With respect to the advisory vote on the compensation of the Corporation's Named Executive Officers (Proposal No. 2), votes may be cast "For" or "Against" the resolution. Votes "For" must exceed votes "Against" in order for the resolution on compensation of the Named Executive Officers to be considered approved by the shareholders. This vote is not

binding on the Corporation. The Compensation and Executive Development Committee of the Board of Directors will take the results of the vote into consideration in addressing future compensation policies and practices.

With respect to the ratification of the appointment of independent auditors (Proposal No. 3), votes may be cast “For” or “Against.” The appointment will be ratified if a majority of the shares present and entitled to vote on the matter are voted “For” ratification. If the appointment of the independent auditors is not ratified, the Audit Committee will reconsider such appointment.

Brokers who hold shares in street name for customers are not permitted to vote on certain matters without specific instructions from the beneficial owners of the shares. A “broker non-vote” occurs on an item submitted for shareholder approval when the broker does not have the authority to vote on the item in the absence of instructions from the beneficial owner and the broker does not in fact receive such instructions. A broker non-vote is treated as “present” for purposes of determining a quorum, has the effect of a vote against a particular proposal when a majority of the issued and outstanding shares is required for approval of the proposal, and has no effect when a majority of the shares present in person or by proxy and entitled to vote or a plurality or majority of the votes cast is required for approval.



Brokers and other nominees may vote on the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 30, 2017 (Proposal No. 3) without specific instructions from beneficial owners. Therefore, no broker non-votes are expected to exist in connection with this proposal. However, brokers or other nominees may not vote on the election of Directors (Proposal No. 1) or on the advisory vote on Named Executive Officer compensation (Proposal No. 2) without specific instructions from the beneficial owners of the shares. Therefore, an undetermined number of broker non-votes may occur on Proposals No. 1 and 2.

## PRINCIPAL SHAREHOLDERS, DIRECTORS AND EXECUTIVE OFFICERS

### PRINCIPAL SHAREHOLDERS

Based upon the records of the Corporation, filings with the Securities and Exchange Commission as of August 19, 2016 and additional information obtained by the Corporation, the following table sets forth the persons or group of persons having beneficial ownership (as defined by the Securities and Exchange Commission) of more than 5% of the issued and outstanding common stock of the Corporation.

| Name                                | Address                            | Nature of<br>Beneficial<br>Ownership | Amount<br>Owned          | Percent<br>of<br>Class |
|-------------------------------------|------------------------------------|--------------------------------------|--------------------------|------------------------|
| John H. Batten                      | 704 Waters Edge Rd.<br>Racine, WI  | Power to vote                        | 2,531,666 <sup>(1)</sup> | 22.1 %                 |
|                                     |                                    | Beneficial                           | 180,584                  | 1.6 %                  |
| GAMCO Investors, Inc.               | One Corporate Center<br>Rye, NY    | Power to vote &<br>dispose of stock  | 1,728,976 <sup>(2)</sup> | 15.1 %                 |
| Juniper Investments<br>Company, LLC | 555 Madison Avenue<br>New York, NY | Power to vote &<br>dispose of stock  | 672,894                  | 5.9 %                  |
| Wilks Brothers, LLC                 | 17010 Interstate 20<br>Cisco, TX   | Power to vote &<br>dispose of stock  | 569,100                  | 5.0 %                  |

(1) Held as trustee under various trusts and as guardian for non-immediate family member.

(2) Represents shares held by various entities which are directly or indirectly controlled by Mario J. Gabelli and for which he acts as chief investment officer.

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**DIRECTORS AND EXECUTIVE OFFICERS**

Based upon the records of the Corporation, filings with the Securities and Exchange Commission as of August 19, 2016 and additional information obtained by the Corporation, the following table sets forth the number of shares of common stock of the Corporation beneficially owned by each of the Directors of the Corporation, each of the executive officers named in the Summary Compensation Table and the number of shares beneficially owned by all Directors and executive officers of the Corporation as a group.

| <b>Name of Beneficial Owner</b>                              | <b>Amount and Nature of Beneficial Ownership <sup>(1)</sup></b> | <b>Percent of Class</b> |
|--|---|-------------------------|
| John H. Batten   | 2,712,250 <sup>(2)</sup>  | 23.7%                   |
| Jeffrey S. Knutson   | 48,530 <sup>(3)</sup>   | *                       |
| Malcolm F. Moore   | 50,503 <sup>(4)</sup>   | *                       |
| Dean J. Bratel   | 46,763 <sup>(5)</sup>   | *                       |
| Denise L. Wilcox   | 35,379 <sup>(6)</sup>   | *                       |
| Michael Doar   | 29,154 <sup>(7)</sup>   | *                       |
| Janet P. Giesselman  | 5,833 <sup>(7)</sup>  | *                       |
| David W. Johnson   | 1,670 <sup>(7)</sup>  | *                       |
| David B. Rayburn   | 38,528 <sup>(7)</sup>   | *                       |
| Michael C. Smiley  | 16,854 <sup>(7)</sup>   | *                       |
| Harold M. Stratton II  | 31,254 <sup>(7)</sup>   | *                       |
| David R. Zimmer  | 24,504 <sup>(7)</sup>   | *                       |
| All Directors and Executive Officers as a group (14 persons) | 3,065,015 <sup>(7)</sup>  | 26.8%                   |

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

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

(2) Includes 2,531,666 shares held by Mr. Batten as trustee under various family trusts and as guardian for non-immediate family member. Also includes restricted stock grants of 10,736 shares that vest in fiscal 2018, 20,519 shares that vest in fiscal 2019, and 33,496 shares that vest in fiscal 2020.

(3) Includes restricted stock grants of 5,478 shares that vest in fiscal 2018, 8,648 shares that vest in fiscal 2019, and 14,117 shares that vest in fiscal 2020.

(4) Includes restricted stock grants of 11,164 shares that vest in fiscal 2019, and 19,386 shares that vest in fiscal 2020. Also includes 4,800 shares subject to currently exercisable stock options.

(5) Includes restricted stock grants of 4,113 shares that vest in fiscal 2018, 7,862 shares that vest in fiscal 2019 and 12,834 shares that vest in fiscal 2020.

(6) Includes restricted stock grants of 2,633 that vest in fiscal 2018, 5,032 shares that vest in fiscal 2019 and 8,214 shares that vest in fiscal 2020.

(7) Shares subject to currently exercisable stock options included in the above are as follows: Mr. Doar 2,400, Mr. Rayburn 4,800, Mr. Stratton 4,800 and all Directors and executive officers as a group 16,800. Also included above are unvested restricted shares as follows: Mr. Doar 4,555, Ms. Giesselman 4,555, Mr. Johnson 1,670, Mr. Rayburn 4,555, Mr. Smiley 4,555, Mr. Stratton 4,555 and Mr. Zimmer 4,555.

**PROPOSAL 1: ELECTION OF DIRECTORS**

The Board of Directors has nominated the following persons to serve as Directors for the Corporation, each for a term to expire at the Annual Meeting of Shareholders following the fiscal year ending June 30, 2019 and June 30, 2018, as indicated below. Shares of common stock represented by properly executed proxy appointments in the accompanying form or electronic proxy vote will be voted for the four nominees listed unless authority to do so is withheld.

| Name and Current Age | Principal Occupation and Other Public Company Directorships Held Within Past Five Years | Skills and Qualifications | Served as Director Continuously Since |
|----------------------|---|---------------------------|---------------------------------------|
|----------------------|---|---------------------------|---------------------------------------|

**TERMS EXPIRE IN 2019:**

|                                 |   |   |               |
|---------------------------------|---|---|---------------|
| John H. Batten<br>Age 51        | President and Chief Executive Officer, Twin Disc, Incorporated since July 2013; formerly Chief Operating Officer since July 2008, and Executive Vice President since October 2004.  | Mr. Batten is a sitting President and CEO of a public company. His skill sets include strategic and operational planning, financial oversight, and organizational development as well as extensive domestic and international experience in engineered products and a complex manufacturing environment.                      | December 2002 |
| Harold M. Stratton II<br>Age 68 | Chairman of the Board and retired Chief Executive Officer Strattec Security Corporation, Milwaukee, Wisconsin (A leading manufacturer of mechanical and electro-mechanical locks, latches, power opening/closing systems and related security/access control products for global automotive manufacturers). | Mr. Stratton is Board Chairman and retired CEO of a public company. He is skilled in strategic planning, financial oversight, compensation and organizational matters. In addition, he has experience in international markets and in an industry involving complex manufacturing and products with high engineering content. | July 2004     |
| Michael C. Smiley<br>Age 57     | Chief Financial Officer, Zebra Technologies Corp., Lincolnshire, Illinois (A global provider of enterprise asset intelligence solutions to identify, track, and manage the deployment of critical assets for improved   | Mr. Smiley is a sitting CFO of a public company. His competencies include strategic planning, financial oversight, mergers and acquisitions, extensive domestic and international experience in complex manufacturing and   | April 2010    |

business efficiency).

engineered and technology  
products.

| Name and<br>Current Age | Principal Occupation and Other<br>Public Company Directorships<br>Held Within Past Five Years | Skills and Qualifications | Served as Director<br>Continuously Since |
|-------------------------|---|---------------------------|--|
|-------------------------|---|---------------------------|--|

TERM TO EXPIRE IN 2018:

|                            |  |   |           |
|----------------------------|--|---|-----------|
| David W. Johnson<br>Age 53 | Vice President and<br>Chief Financial Officer,<br>Johnson Outdoors, Inc.,<br>Racine, Wisconsin<br>(A global provider of outdoor<br>recreation products). | Mr. Johnson is a sitting<br>CFO of a public company.<br>His strengths include<br>financial leadership, new<br>business development, operational<br>restructuring , cost saving and<br>strategic analysis. | July 2016 |
|----------------------------|--|---|-----------|

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF ELECTING THE NOMINEES LISTED ABOVE AS DIRECTORS. UNLESS YOU INDICATE OTHERWISE ON YOUR PROXY, YOUR SHARES WILL BE VOTED “FOR” THE ELECTION OF EACH OF THESE NOMINEES AS DIRECTORS.**

The Directors whose terms are continuing, and the classes to which they have been elected, are set forth below. Each Director whose term is continuing was elected to his present term of office by a vote of shareholders at a meeting for which proxies were solicited.

| Name and<br>Current Age | Principal Occupation and Other<br>Public Company Directorships<br>Held Within Past Five Years | Skills and Qualifications | Served as<br>Director<br>Continuously<br>Since |
|-------------------------|---|---------------------------|--|
|-------------------------|---|---------------------------|--|

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2017:

|                                   |   |  |                     |
|-----------------------------------|---|--|---------------------|
| <p>Michael Doar<br/>Age 61</p>    | <p>Chairman and Chief Executive Officer, Hurco Companies, Inc. Indianapolis, Indiana</p> <p>(A global manufacturer of machine tools)</p>  | <p>Mr. Doar is a sitting CEO of a public company. His experience includes strategic planning, financial oversight, compensation and organizational competencies.</p> <p>His career in the capital goods industry has exposed him to complex manufacturing and engineering solutions on a global basis.</p>   | <p>October 2008</p> |
| <p>David R. Zimmer<br/>Age 70</p> | <p>Retired Managing Partner, Stonebridge Equity LLC, Troy, Michigan, (A merger, acquisition and value consulting firm); Formerly Chief Executive Officer, Twitchell Corporation, Dothan, AL (A privately held manufacturer and marketer of highly engineered synthetic yarns, fabrics, extrusions, and coatings);</p> | <p>Mr. Zimmer is a former CEO of a public company and has also held a CFO position in a public company. His skill sets include strategic planning, financial oversight, compensation, and organizational development. His career includes international business in complex manufacturing related industries, as well as mergers and acquisitions.</p> | <p>July 1995</p>    |



Also Director, Detrex Corp.  
and Strattec Security Corp.

|             |  |                           |  |
|-------------|--|---------------------------|--|
| Name and    | Principal Occupation and Other<br>Public Company Directorships |                           | Served as<br>Director<br>Continuously<br>Since |
| Current Age | Held Within Past Five Years                                    | Skills and Qualifications |  |

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2018:

|                               |   |   |           |
|-------------------------------|---|---|-----------|
| David B. Rayburn<br>Age 68    | Retired President and Chief Executive Officer, Modine Manufacturing Company, Racine, Wisconsin (A manufacturer of heat exchange equipment) Also, Director Lindsay Corporation (a provider of irrigation and water management systems).  | As a former CEO of a public company, Mr. Rayburn has experience and skill sets in strategic planning, financial oversight, compensation policy and practices as well as organizational structure. In addition, Mr. Rayburn's background includes international business, mergers and acquisitions, engineering and manufacturing in an industry related to the Corporation. | July 2000 |
| Janet P. Giesselman<br>Age 62 | Retired President and General Manager of Dow Oil & Gas, a business unit of The Dow Chemical Company, Midland, Michigan Also, Director Ag Growth International (A global provider of grain handling and storage equipment) and Director Omnova Solutions (A global provider of emulsion polymers, specialty chemicals and decorative and functional surfaces). | Ms. Giesselman is a retired senior executive of a global public company. Her background includes strategic planning, financial oversight, sales, marketing, start ups, mergers and acquisitions and global regulatory expertise. Ms. Giesselman has extensive international experience and a broad background in the oil and gas and the agricultural sectors.              | June 2015 |

**PROPOSAL 2: ADVISORY VOTE ON THE COMPENSATION OF  
THE CORPORATION'S NAMED EXECUTIVE OFFICERS**

As required by Section 14A of the Securities Exchange Act of 1934 (as amended), the Board of Directors is holding a separate, non-binding advisory vote seeking approval of the compensation of the Corporation's Named Executive Officers, as disclosed in the "Executive Compensation" portion of this Proxy Statement. This proposal, commonly known as "Say on Pay," gives you the opportunity to indicate your support or lack of support for the Corporation's fiscal 2016 compensation practices and programs for the Named Executive Officers by voting on the following resolution:

**RESOLVED**, that the compensation paid to the Corporation's Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby **APPROVED**.

As described in the "Compensation Discussion and Analysis" section of this Proxy Statement, and in particular the "Executive Summary" portion of the Compensation Discussion and Analysis, the Corporation has established a compensation program that is designed to attract and retain key employees, and reward those employees for the short-term and long-term performance of the Corporation.

A significant portion of the potential compensation of the Corporation's Named Executive Officers is directly linked to the Corporation's performance and the creation of shareholder value, and payments under the Corporation's incentive programs have correlated to the Corporation's actual performance. However, the annual incentive plan was suspended shortly after the beginning of the fiscal year as part of a global cost containment and salary reduction program. As a result, no bonuses were paid. In addition, long-term performance stock and performance stock unit awards that were granted in 2013 subject to a three-year profitability objective expired unvested in 2016, based on the cumulative profitability of the Corporation over the past three fiscal years.

The Corporation also maintains compensation practices that are aligned with sound governance practices. For example, the Corporation's agreements with its Named Executive Officers are designed to avoid excess parachute payments under Section 280G of the Internal Revenue Code, and thus do not provide for excise tax gross-ups for excess parachute payments. In addition, the Corporation's change in control severance agreements with its Named Executive Officers contain "double trigger" provisions (i.e., both a change in control and an involuntary termination or resignation for good reason) in order for outstanding equity awards to vest and be paid.

This shareholder vote is advisory, and therefore not binding on the Corporation. However, the Board of Directors and its Compensation and Executive Development Committee will take the results of the vote into consideration in

addressing future compensation policies and practices.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE RESOLUTION TO APPROVE THE COMPENSATION PAID TO THE CORPORATION'S NAMED EXECUTIVE OFFICERS. UNLESS YOU INDICATE OTHERWISE ON YOUR PROXY, YOUR SHARES WILL BE VOTED "FOR" THE RESOLUTION TO APPROVE THE COMPENSATION PAID TO THE CORPORATION'S NAMED EXECUTIVE OFFICERS.**

**PROPOSAL 3: RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected PricewaterhouseCoopers LLP (“PricewaterhouseCoopers”) as our independent registered public accounting firm for the fiscal year ending June 30, 2017, including service to our consolidated subsidiaries. PricewaterhouseCoopers has acted in this capacity since 1928. A representative of PricewaterhouseCoopers will be present at the Annual Meeting, will be given the opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions. Stockholder ratification of the selection of PricewaterhouseCoopers as our independent registered public accounting firm is not required. However, the Audit Committee deems it good corporate governance to submit the selection of PricewaterhouseCoopers to the stockholders for ratification.

**Fees to Independent Registered Public Accounting Firm**

*Audit Fees*

Aggregate fees billed or expected to be billed for professional services rendered by PricewaterhouseCoopers in connection with (i) the audit of the Corporation’s consolidated financial statements as of and for the years ended June 30, 2016 and June 30, 2015, including statutory audits of the financial statements of the Corporation’s affiliates, and (ii) the reviews of the Corporation’s quarterly financial statements were \$1,538,600 and \$1,208,250, respectively.

*Audit-Related Fees*

Aggregate fees billed for professional services rendered by PricewaterhouseCoopers for assurance and services reasonably related to the performance of the audit or review of the Corporation’s financial statements not included in audit fees above were \$0 and \$128,100 for the years ended June 30, 2016 and 2015, respectively.

*Tax Fees*

In addition to the other fees described above, aggregate fees of \$84,200 and \$115,100 were billed by PricewaterhouseCoopers during the years ended June 30, 2016 and 2015, respectively, pertaining to tax compliance, tax advice, and tax planning. Included in this amount are fees for tax compliance services of \$84,200 and \$115,100 during the years ended June 30, 2016 and 2015, respectively.

*All Other Fees*

During the years ended June 30, 2016 and 2015, \$0 and \$0 were billed by PricewaterhouseCoopers for products and services other than those listed above.

The Audit Committee has determined that the provision of services rendered above that were not related to its audit of the Corporation's financial statements were at all times compatible with maintaining PricewaterhouseCoopers' independence.

### **Pre-Approval Policies and Procedures**

The Audit Committee annually pre-approves known or anticipated audit and non-audit services and fees. Additional non-audit services and fees not included in the annual pre-approval are submitted to a designated committee member for approval before the work is performed. These fees are then presented at the next Audit Committee meeting for formal documentation of approval. For the year ended June 30, 2016, 100% of audit-related, tax and other fees were pre-approved.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE TO RATIFY THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING JUNE 30, 2017. UNLESS YOU INDICATE OTHERWISE, YOUR PROXY WILL BE VOTED "FOR" RATIFICATION.**

## **CORPORATE GOVERNANCE**

The Corporation's business is conducted under the direction of the Board of Directors, pursuant to the laws of the State of Wisconsin and our Restated Bylaws. Members of the Board of Directors are kept informed of the Corporation's business through discussions with the President and Chief Executive Officer and with key members of management, by reviewing materials provided to them, and by participating in meetings of the Board of Directors and its committees.

The Corporation has reviewed its corporate governance policies and practices, particularly in light of the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and rule changes made or proposed by the Securities and Exchange Commission and the NASDAQ Stock Market. We believe that our current policies and practices meet all applicable requirements. Our updated corporate governance policies, including updated charters for committees of the Board, are made available to our shareholders on our website, [www.twindisc.com](http://www.twindisc.com), and/or through appropriate mailings.

### **Board Independence**

The Corporation requires, as set forth in its Guidelines for Corporate Governance, that a majority of the Board members be independent outside Directors. "Independent Director," as used here, means a person other than an officer or employee of the Corporation or its subsidiaries or any other individual having a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. At a minimum, to qualify as "independent," a Director must so qualify under governing rules, regulations and standards, including those issued by the SEC and the NASDAQ Stock Market. The Nominating and Governance Committee of the Board assesses independence on an ongoing basis, and the Directors are responsible for bringing to the attention of the Nominating and Governance Committee any changes to their status that may affect independence. In addition, the Directors are required to complete, on at least an annual basis, a questionnaire prepared by the Corporation that is designed to elicit information that relates to the independence assessment. A majority of the current Board of Directors are independent Directors.

The Board has determined that the following Directors are independent within the meaning of SEC regulations, the listing standards of the NASDAQ Stock Market and the Corporation's Guidelines for Corporate Governance: Messrs. Doar, Johnson, Rayburn, Smiley, Stratton and Zimmer, and Ms. Giesselman.

### **Board Leadership Structure**

Prior to his death on May 6, 2015, Michael E. Batten, the former Chief Executive Officer and the father of then and current Chief Executive Officer Mr. J. Batten, served as Chairman of the Board of Directors. The Board of Directors viewed these divided roles as in the best interests of the Corporation, as Mr. J. Batten's long tenure with the Corporation prepared him well to assume the leadership responsibilities of Chief Executive Officer, and the Board continued to have the historical knowledge and guidance that Mr. M. Batten was able to provide.

Following Mr. M. Batten's death, the Board of Directors decided to name Mr. Rayburn, an independent outside director of the Corporation, as Chairman of the Board. The Board determined that this leadership structure is appropriate in light of evolving standards of corporate governance, which place a strong value on having an independent director serve as Chairman, and also in light of Mr. Rayburn's long tenure on the Board and high standing in the Wisconsin business community.



## **Board's Role in Risk Oversight**

The Corporation's Board of Directors is ultimately responsible for overseeing the Corporation's approach to business risks that it faces. The Board receives regular reports from the Corporation's management regarding significant developments in the industries and markets in which the Corporation competes, as well as information regarding the Corporation's financial performance, capital needs and liquidity. With the assistance of management, the Board regularly identifies the risks that are most significant to the Corporation. The Board's agendas are planned so that each of these risks, the potential exposure they create, management's efforts to manage those risks and other mitigating activities, are discussed at least annually. Risk management is also an integral part of the Corporation's annual strategic planning process, and risks identified through that process are also reviewed and discussed by the full Board.

Various committees of the Board also have roles in the oversight of risk management. In particular, the Finance and Risk Management Committee oversees the Company's risk management framework and strategy, management's proposed financial policies and actions, and the financial status of the Company's defined benefit pension plans. The Audit Committee focuses on financial risk, including the Corporation's internal controls regarding finance, accounting, legal compliance and ethical behavior. The Compensation and Executive Development Committee evaluates risks that may be created by the Corporation's compensation policies and practices, and also annually reviews the adequacy and status of the Corporation's management succession plans.

## **Guidelines for Business Conduct and Ethics**

Our Guidelines for Business Conduct and Ethics (the "Guidelines") summarize the compliance and ethical standards and expectations we have for all our employees, officers and Directors with respect to their conduct in furtherance of the Corporation's business. The Guidelines, which are available on the Corporation's website, [www.twindisc.com](http://www.twindisc.com), contain procedures for reporting suspected violations of the provisions contained in the Guidelines, including procedures for the reporting of questionable accounting or auditing matters, or other concerns regarding accounting, internal accounting controls or auditing matters. These materials are also available in print to any shareholder upon request. If we make any substantive amendment to the Guidelines, we will disclose the nature of such amendment on our website at [www.twindisc.com](http://www.twindisc.com) or in a current report on Form 8-K. In addition, if a waiver from the Guidelines is granted to an executive officer or Director, we will disclose the nature of such waiver on our website at [www.twindisc.com](http://www.twindisc.com) or in a current report on Form 8-K.

## **Anti-Hedging and Pledging Policies**

Under our Insider Trading Policy, all executive officers, directors and employees of the Corporation are prohibited from trading in options, warrants, puts and calls or other similar instruments on securities of the Corporation or

engaging in short sales of securities of the Corporation. In addition, our Insider Trading Policy prohibits all executive officers, directors and employees of the Corporation from engaging in any hedging or monetization transactions involving securities of the Corporation, and prohibits directors and executive officers from holding securities of the Corporation in a margin account or pledging securities of the Corporation as collateral for a loan. Our Insider Trading Policy is available on our website, [www.twindisc.com](http://www.twindisc.com)

### **Review, Approval or Ratification of Transactions with Related Persons**

Our Guidelines also specifically require that all employees, officers and Directors refrain from business activities, including personal investments, which conflict with the proper discharge of their responsibilities to the Corporation or impair their ability to exercise independent judgment with respect to transactions in which they are involved on behalf of the Corporation. The Guidelines include policies on the review and approval of significant transactions between the Corporation and its officers or employees, and their relatives or businesses.

At the end of each fiscal year, each Director and officer must respond to a questionnaire that requires him or her to identify any transaction or relationship that occurred during the year or any proposed transaction that involves the Corporation (or any subsidiary or affiliate of the Corporation) and that individual, their immediate family and any entity with which they or such immediate family member are associated. All responses to the questionnaires are reviewed by the Corporation's internal auditing department and shared with the CEO and Audit Committee, as appropriate. Based upon such review, there were no related party transactions with respect to persons who were Directors or officers during fiscal 2016 requiring disclosure under the rules of the Securities and Exchange Commission.

## **DIRECTOR COMMITTEES AND ATTENDANCE**

### **Meetings of the Board of Directors and Board Committees; Attendance**

The Corporation's Board of Directors met seven times during the year ended June 30, 2016. Among incumbent Directors, there were three excused absences from these meetings. The Audit Committee met five times during the year. The Pension Committee met one time during the year. The Nominating and Governance Committee met two times during the year. The Compensation and Executive Development Committee met three times during the year. The Finance and Risk Management Committee met four times during the year. Each incumbent Director attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and of the Committees on which the Director served.

### **Director Committee Functions**

#### *Audit Committee*

The Corporation has a separately-designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The charter of the Audit Committee is available on the Corporation's website, [www.twindisc.com](http://www.twindisc.com). It was most recently reviewed on April 22, 2016.

All of the members of the Audit Committee are independent within the meaning of the SEC regulations, the listing standards of NASDAQ Stock Market and the Corporation's Guidelines for Corporate Governance. The Board of Directors has determined that each Audit Committee member (Mr. Zimmer (Chair), Mr. Doar, Ms. Giesselman and Mr. Smiley) qualifies as an "audit committee financial expert" within the meaning of SEC rules.

The Audit Committee's purpose is to assist the Board of Directors in monitoring the:

Integrity of the Corporation's financial statements;

Independent auditor's qualifications and independence;

Performance of the Corporation's internal audit function and the independent auditors; and

Corporation's compliance with legal and regulatory requirements.

In carrying out these responsibilities, the Audit Committee, among other things:

Appoints the independent auditor for the purpose of preparing and issuing an audit report and to perform related work, and discusses with the independent auditor appropriate staffing and compensation;

Retains, as necessary or appropriate, independent legal, accounting or other advisors;

Oversees management's implementation of systems of internal controls, including review of policies relating to legal and regulatory compliance, ethics and conflicts of interests, and reviews the activities and recommendations of the Corporation's internal auditing program;

Monitors the preparation of quarterly and annual financial reports by the Corporation's management, including discussions with management and the Corporation's independent auditors about draft annual financial statements and key accounting and reporting matters;

Determines whether the outside auditors are independent (based in part on the annual letter provided to the Corporation pursuant to the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communication with the audit committee concerning independence); and

Annually reviews management's programs to monitor compliance with the Corporation's Guidelines for Business Conduct and Ethics.

*Finance and Risk Management Committee*

The Finance and Risk Management Committee assists the Board in fulfilling its oversight responsibilities for considering management's proposed financial policies and actions, and making appropriate recommendations to the Board regarding: debt and capital structure, acquisitions, capital budgets, dividend policy, pension funding, cyber security and other financial and risk management matters. The Committee also oversees the Company's risk management framework and strategy.

*Nominating and Governance Committee*

The Nominating and Governance Committee recommends nominees for the Board to the Board of Directors. The Committee will consider nominees recommended by shareholders in writing to the Secretary. In addition, the Committee develops and recommends to the Board a set of effective corporate governance policies and procedures applicable to the Corporation, and reviews proposed changes in corporate structure and governance, committee structure and function, and meeting schedules, making recommendations to the Board as appropriate. The charter of the Nominating and Governance Committee is available on the Corporation's website, [www.twindisc.com](http://www.twindisc.com). The independence of the Committee is in compliance with SEC regulations, the listing standards of the NASDAQ Stock Market and the Corporation's Guidelines for Corporate Governance.

The Nominating and Governance Committee identifies candidates for Director nominees in consultation with the Chairman and Chief Executive Officer, through the use of search firms or other advisers, or through such other methods as the Committee deems to be helpful to identify candidates, including the processes identified herein. The Committee will also consider Director candidates recommended to the Committee by shareholders. The procedures for recommendation of nominees by shareholders are available on the Corporation's web site, [www.twindisc.com](http://www.twindisc.com). Shareholder recommendations to the Committee for Director candidates shall follow the following procedures:

- a. The Committee must receive any such shareholder recommendations for Director candidates on or before the last business day in the month of March preceding that year's annual meeting.
- b. Such recommendation for nomination shall be in writing and shall include the following information:
  - i. Name and address of the shareholder, whether an entity or an individual, making the recommendation;
  - ii. A written statement of the shareholder's beneficial ownership of the Corporation's securities;
  - iii. Name and address of the individual recommended for consideration as a Director nominee;

- iv. A written statement from the shareholder making the recommendation stating why such recommended candidate would be able to fulfill the duties of a Director;
- v. A written statement from the shareholder making the recommendation stating how the recommended candidate meets the independence requirements established by the SEC and the NASDAQ Stock Market;
- vi. A written statement disclosing the recommended candidate's beneficial ownership of the Corporation's securities;
- vii. A written statement disclosing relationships between the recommended candidate and the Corporation which may constitute a conflict of interest; and
- viii. Any other information relating to the recommended candidate that would be required to be disclosed in solicitations of proxies for the election of Directors under the Securities Exchange Act.

c. Recommendation for nomination must be sent to the attention of the Committee via the U.S. Mail or by expedited delivery service, addressed to:

Twin Disc, Incorporated

1328 Racine Street

Racine, WI 53403

Attn: Nominating and Governance Committee

c/o Secretary of Twin Disc, Incorporated

In identifying potential candidates, the Nominating and Governance Committee confirms that the candidates meet all of the minimum qualifications for Director nominees set forth below. The Committee does not have a formal diversity policy, but it does consider a candidate's potential to contribute to the diversity of viewpoints, backgrounds or experiences to the Board as one of many factors in choosing a candidate for the Board. In the end, candidates are selected based on their qualifications and skills and the needs of the Board as a whole, with the goal of having a Board composed of Directors with a diverse mix of financial, business, technological and other skills and experiences. The Committee may gather information about the candidates through interviews, background checks, or any other means that the Committee deems to be helpful in the evaluation process. The Committee then meets as a group to discuss and evaluate the qualities and skills of each candidate, both on an individual basis and taking into account the overall composition and needs of the Board. There is no difference in the manner by which the Committee evaluates potential Director nominees, whether recommended by the Board or by a shareholder. Mr. Johnson was nominated for the open Board position by Mr. John Batten, Chief Executive Officer.

The Nominating and Governance Committee evaluates each individual candidate in the context of the overall composition and needs of the Board, with the objective of recommending a group that can best manage the business and affairs of the Corporation and represent shareholder interests using its diversity of experience. A Director must have substantial or significant business or professional experience or an understanding of technology, finance, marketing, financial reporting, international business or other disciplines relevant to the business of the Corporation. A Director must be free from any relationship that, in the opinion of the Board, would interfere with the exercise of

his or her judgment as a member of the Board or of a Board committee. This does not preclude an otherwise qualified employee of the Corporation from serving as a Director, as long as the majority of Directors satisfies the independence requirements of the regulatory bodies. Each Director will be expected to review and agree to adhere to the Corporation's Guidelines for Business Conduct and Ethics, as in effect from time to time. The Committee will consider these and other qualifications, skills and attributes when recommending candidates for the Board's selection as nominees for the Board and as candidates for appointment to the Board's committees.

*Compensation and Executive Development Committee*

Scope of Authority - The primary purpose of the Compensation and Executive Development Committee is: (i) to assist the Board in discharging its responsibilities in respect to the compensation of the Corporation's Directors and executive officers; (ii) to produce an annual report for inclusion in the Corporation's proxy statement on executive compensation; and (iii) to lead the process of management succession. The Committee approves the design of, assesses the effectiveness of, and administers executive compensation programs in support of compensation policies of the Corporation.

The Compensation and Executive Development Committee charter expressly grants the Committee the authority and responsibility required by the listing standards of the NASDAQ Stock Market, which includes the ability to retain or obtain advice from a compensation consultant, legal counsel or other adviser, and to compensate and oversee the work of any compensation consultant, legal counsel or other adviser retained by the Committee. The Committee charter also requires the Committee to determine the independence of any such compensation consultant, legal counsel or other adviser in accordance with the rules of the NASDAQ Stock Market.

The charter of the Compensation and Executive Development Committee is available on the Corporation's website, [www.twindisc.com](http://www.twindisc.com). The Corporation last updated the Compensation and Executive Development Committee charter on January 28, 2016.

Composition - The Compensation and Executive Development Committee is composed exclusively of non-employee, independent Directors none of whom has a business relationship with the Corporation, other than in their capacity as Directors. The Compensation and Executive Development Committee reports to the entire Board.

Role of Consultants - The Compensation and Executive Development Committee periodically engages an independent consultant to review its compensation program for the officers of the Corporation, in order to ensure market competitiveness. In general, the Committee has engaged an independent compensation consultant for this purpose every two years. Toward the end of FY2013, the Compensation Committee engaged Willis Towers Watson ("WTW"), a global human resources consulting firm, for this review for purposes of setting executive compensation for FY2014. WTW provides the Compensation Committee with information regarding market compensation practices and alternatives to consider when making compensation decisions for the executives. The Committee did not engage a compensation consultant in connection with setting executive compensation for FY2015, but it did review updated WTW survey information, which was increased by 3% for the base salary information and by 4% for long-term incentive compensation to reflect current compensation trends in the market. For FY2016, the Corporation again engaged WTW to provide a detailed review of the officer's compensation program. The results of that review were used by the Committee when making base salary, annual incentive and long-term compensation decisions for fiscal 2016. For FY2017, the Committee did not engage a compensation consultant for review of competitive compensation data, consistent with their historical practice. Due to the continuing wage and salary freeze at all operations, all



executive officers' salaries were maintained at their reduced FY2016 levels, with the exception of Mr. Moore who received a 6.4% increase due to his promotion to Executive Vice President, Chief Operating Officer.

WTW provided additional services to the Corporation in amounts exceeding \$120,000 during FY2016. Specifically, the Corporation paid WTW \$186,970 for pension and actuarial services and \$43,231 for executive compensation consulting. The decision to engage WTW to provide pension and actuarial services to the Corporation was made by the Pension Committee of the Board of Directors after a competitive RFP process, and was not separately approved by the Compensation and Executive Development Committee or the Board of Directors.

Role of Executive Officers - The Compensation and Executive Development Committee makes all compensation decisions for the President and CEO, Mr. J. Batten, and approves recommendations for compensation actions for all other elected officers of the Corporation. As President and CEO, Mr. J. Batten annually reviews the performance of each elected officer with the Compensation and Executive Development Committee. Recommendations based on these reviews, including those pertaining to salary adjustments, bonus payouts and equity compensation, are presented to the Compensation and Executive Development Committee, which may exercise its discretion in modifying any of the recommendations presented. The Compensation and Executive Development Committee also reviews the performance of the President and CEO. It alone determines the salary adjustment, bonus payment and equity awards for Mr. J. Batten.

Compensation Committee Interlocks and Insider Participation – During FY2016, the members of the Compensation and Executive Development Committee were David R. Zimmer (Chair from 7/1/15 – 12/10/15), Janet Giesselman (chair from 12/11/15 – 6/30/16), Michael C. Smiley and Harold M. Stratton II. None of the Compensation and Executive Development Committee members are former executive officers of the Corporation. See the “Board Independence” section for additional information concerning Director independence. The Corporation had no “Compensation Committee Interlocks” as described by the SEC during fiscal 2016.

*Pension Committee*

The responsibilities of the Pension Committee have been reviewed and consolidated into the Finance and Risk Management Committee and the Benefits Committee (a management committee, not a Board committee) effective November 2015. The former Pension Committee reviewed and recommended to the Board for approval the pension fund’s professional advisors and auditors. The Pension Committee annually reviewed actuarial assumptions, actuarial valuations, investment performance, funding policies and investment policies.

*Committee Membership*

In October of each year, the Board considers and approves committee membership for the coming year. The Board’s committees are currently comprised of the following Directors, with the Chairman of each Committee listed first:

|         |            |                |                |
|---------|------------|----------------|----------------|
|         | Finance    | Compensation & |                |
|         | And Risk   | Executive      | Nominating and |
| Audit   | Management | Development    | Governance     |
| Zimmer  | Stratton   | Giesselman     | Doar           |
| Doar    | Doar       | Smiley         | Giesselman     |
| Johnson | Johnson    | Stratton       | Johnson        |

Giesselman Smiley      Zimmer      Stratton  
Smiley      Zimmer

**Attendance at Annual Meeting**

The Corporation does not have a formal policy that its Directors attend the Annual Meeting of Shareholders because it expects them to do so and because the Corporation's Directors historically have attended these meetings. All of the members of the Board of Directors, with the exception of Ms. Giesselman, attended last year's annual meeting. The Board of Directors conducts its annual meeting in conjunction with the Annual Meeting of Shareholders at the Corporation's headquarters.

**Stockholder Communication with the Board**

The Board provides to every stockholder the ability to communicate with the Board as a whole, and with individual Directors on the Board, through an established process for stockholder communication (“Stockholder Communication”) as follows:

1. Stockholder Communication to Entire Board. For Stockholder Communication directed to the Board as a whole, stockholders may send such communication to the attention of the Chairman of the Board via U.S. Mail or by expedited delivery service:

Twin Disc, Incorporated

1328 Racine Street

Racine, WI 53403

Attn: Chairman of the Board of Directors

2. Stockholder Communication to Individual Director. For Stockholder Communication directed to an individual Director in his or her capacity as a member of the Board, stockholders may send such communication to the attention of the individual Director via U.S. Mail or by expedited delivery service:

Twin Disc, Incorporated

1328 Racine Street

Racine, WI 53403

Attn: [Name of Individual Director]

The Corporation will forward by U.S. mail any such Stockholder Communication to each Director, and the Chairman of the Board in his or her capacity as a representative of the Board, to whom such Stockholder Communication is addressed to the address specified by each such Director and the Chairman of the Board.

Communications from an officer or Director of the Corporation and proposals submitted by stockholders to be included in the Corporation's definitive proxy statement, pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, (and related communications) will not be viewed as a Stockholder Communication. Communications from an employee or agent of the Corporation will be viewed as a Stockholder Communication only if such communications are made solely in such employee's or agent's capacity as a stockholder.

From time to time, the Board may change the process by which stockholders may communicate with the Board or its members. Please refer to the Corporation's website, [www.twindisc.com](http://www.twindisc.com), for any changes to this process.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### Introduction

This *Compensation Discussion and Analysis* describes the material components of compensation paid to the Corporation's Chief Executive Officer, Chief Financial Officer, and its three most highly compensated executive officers for the fiscal year ended June 30, 2016 (the "Named Executive Officers"). For the fiscal year ended June 30, 2016, the Named Executive Officers are:

John H. Batten, President and Chief Executive Officer;

Jeffrey S. Knutson, Vice President – Finance, Chief Financial Officer, Treasurer and Secretary;

Malcolm F. Moore, Executive Vice President, Chief Operating Officer;

Dean J. Bratel, Vice President – Sales and Applied Technology; and

Denise L. Wilcox, Vice President – Human Resources.

In this *Compensation Discussion and Analysis*, we will also explain the objectives of our compensation programs, why we pay the compensation we do and how that fits with the Corporation's commitment to provide value to our shareholders.

### Executive Summary

Through the Board's Compensation and Executive Development Committee (the "Committee"), the Corporation has established a compensation program that is designed to attract and retain key employees, and reward those employees for short-term and long-term performance of the Corporation. To fulfill these goals, the compensation of the Corporation's Named Executive Officers consists of a mix of base salary, annual incentives and long-term incentives. Base salary is intended to compensate the Corporation's Named Executive Officers for services rendered during the fiscal year, their level of responsibility and experience within the industry and the Corporation, and their sustained individual performance. Annual incentives are designed to compensate the Named Executive Officers for achieving short-term corporate, business unit and individual performance goals. Long-term incentives are intended to reward executives for sustained performance of the Corporation and are heavily weighted in favor of equity-related awards (performance stock, performance stock units and restricted stock) that are tied to the Corporation's stock price.

A significant objective of the Corporation's compensation philosophy is to align the interests of the Named Executive Officers with those of shareholders by paying for performance. Key elements of the Corporation's compensation program that support the pay for performance philosophy include the following:

The Corporation seeks to set compensation of its Named Executive Officers at the market median for companies of comparable size and in comparable industries, but also allows actual pay to vary from the market median depending on individual and company performance and length of service within the industry and the Corporation.

A significant portion of the compensation of the Corporation's Named Executive Officers is tied to the performance of the Corporation, including annual incentives based on financial measurements that management of the Corporation considers important and long-term incentives that are heavily weighted in favor of equity-related awards (performance stock, performance stock units and restricted stock).

The Corporation has stock ownership guidelines for each of its Named Executive Officers, thereby aligning their long-term interests with those of shareholders.

In FY2016, the Corporation added relative total shareholder return as one of the performance goals in its long-term incentive awards. The Corporation also awarded only performance stock and restricted stock as long-term incentive awards in FY2016, in order to promote additional equity ownership beyond the performance period for the long-term incentive awards.

The Corporation also maintains compensation practices that we believe are consistent with good governance. For example:

The Corporation's agreements with its Named Executive Officers are designed to avoid excess parachute payments under Section 280G of the Internal Revenue Code, and thus do not provide for excise tax gross-ups for excess parachute payments.

The Corporation's long-term incentive compensation plan is designed to maximize the deduction for performance-based compensation under Section 162(m) of the Internal Revenue Code. In addition, in FY 2016, the Corporation amended its long-term incentive compensation plan to: (i) prohibit repricing of stock options and the repurchase of underwater options; (ii) further limit the recycling of shares that may be awarded under the plan; (iii) more clearly state that neither the Corporation nor the Committee may exercise discretion to increase awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code; and (iv) expressly state that all awards are subject to the clawback requirements of any applicable law and the listing standards of the NASDAQ Stock Market, and provide mechanisms for the Corporation to enforce its recovery rights.

The Corporation's change in control severance agreements with its Named Executive Officers contain "double trigger" provisions (i.e., both a change in control and an involuntary termination or resignation for good reason) in order for outstanding equity awards to vest and be paid.

The Committee considers internal pay equity when making compensation decisions.

The annual Corporate Incentive Plan is performance-based and has caps on bonus payments.

The Committee annually evaluates the Corporation's compensation programs to ensure that they do not encourage unnecessary risk-taking.

The following provides a brief overview of the highlights of the compensation received by the Corporation's Named Executive Officers for the fiscal year that ended June 30, 2016:

At the beginning of FY2016, the Committee decided to maintain the base salaries of all of the Corporation's Named Executive Officers at their then-current level due to a global salary and wage freeze at all operations. In November 2015, due to a continued weakening of the Corporation's performance, all Named Executive Officers received a 6% reduction in base salary, except the CEO and President, whose base salary was reduced 10%.

The Corporation's annual incentive plan (the "Corporate Incentive Plan") was suspended shortly after the beginning of FY2016 as part of a global cost-containment and salary reduction program. As a result, none of the Named Executive Officers received an annual incentive under the Corporate Incentive Plan for FY2016.

The Corporation did not achieve the cumulative profitability objective for performance stock and performance stock units granted in 2013 under the Twin Disc, Incorporated 2010 Long-Term Incentive Compensation Plan. As a result, the performance stock and performance stock unit awards did not vest.

As required by Section 14A of the Securities Exchange Act of 1934, the Corporation held its fifth shareholder advisory vote on executive compensation at its October 23, 2015, Annual Meeting of Shareholders. For the fifth year



in a row, the shareholders overwhelmingly approved the say on pay proposal, with more than 96% of the votes cast in favor of the compensation paid to the Corporation's Named Executive Officers.

### Overview

The Compensation and Executive Development Committee (the "Committee") of the Board has responsibility for establishing, implementing and monitoring the total compensation of the Corporation's executive officers. The Committee approves the design of, assesses the effectiveness of, and administers executive compensation programs in support of compensation policies of the Corporation. The Committee has adopted a charter that it uses when setting agendas and schedules for their meetings. The charter can be found at <http://ir.twindisc.com/corporate-governance.cfm>

### Compensation Philosophy and Objectives

Twin Disc believes that knowledgeable, motivated and dedicated employees can make the difference in our Corporation's ability to execute business strategy and excel in the marketplace. The Committee believes it is in the best interest of the Corporation and its shareholders to fairly compensate our executive team to encourage high-level performance, resulting in increased profitability of the Corporation. Executives are compensated on the value of their contribution to the success of the Corporation, in addition to their assigned scope of responsibilities.

Compensation includes opportunities for shared risks and rewards, and reflects the results of both individual performance and performance of the Corporation. In setting compensation, the Committee tries to ensure that the employees' pay is fair when compared to others within the Corporation as well as when compared to employees at similar positions in other companies. Twin Disc will pay for the value of the job to the Corporation, considering the knowledge, skills and abilities required for each job and will pay market competitive compensation, in order to attract, retain and motivate top talent.

The key elements of our officers' total compensation package are base salary, an annual incentive program, a long-term incentive program, and other benefits. Base salary is intended to compensate the executive for the responsibilities and scope of the job, reward sustained performance, and aid in retention. The annual incentive program is intended to reward the achievement of corporate and business unit annual operating goals that are key to the Corporation's overall performance. The long-term incentive program is intended to reward achievement of sustainable, long-term performance goals, and aid in the retention of the executive, aligning the executive's rewards with those of the shareholder. The goal of the Corporation's compensation program is to provide competitive compensation that encourages and rewards individual and team performance for producing both short-term and long-term shareholder value.

The Corporation believes that its executive officers should hold a meaningful stake in Twin Disc in order to align their economic interests with those of the shareholders. To that end, the Corporation has adopted stock ownership guidelines. Stock ownership targets are equal to five times annual base salary for the President and CEO, two times annual base salary for the CFO and Executive Vice President and COO, and one times annual base salary for the remainder of the officer team. Officers have a period of four years to attain their targeted ownership level. The Committee monitors compliance with this guideline, using its discretion to address non-attainment issues. Compliance is reviewed annually.

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over \$1,000,000 for any fiscal year paid to the corporation's chief executive officer and three other most highly compensated executive officers (other than the chief financial officer) in service as of the end of any fiscal year. However, Section 162(m) also provides that qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The Committee generally seeks to structure long-term

compensation amounts and plans to meet the deductibility requirements under this provision.

The Committee also seeks to structure compensation amounts and arrangements so that they do not result in penalties for the executive officers under the Internal Revenue Code. For example, Section 409A of the Internal Revenue Code imposes substantial penalties and results in the loss of any tax deferral for nonqualified deferred compensation that does not meet the requirements of that section. The Committee has structured the elements of the Corporation's compensation program so that they either are not characterized as deferred compensation under Section 409A or meet the distribution, timing and other requirements of Section 409A. Sections 280G and 4999 of the Internal Revenue Code and related provisions impose substantial excise taxes on so-called "excess parachute payments" payable to certain executive officers upon a change in control and result in the loss of the compensation deduction for such payments for the executive's employer. The Committee has structured the change in control payments under its severance agreements with the executive officers to avoid having benefits exceed the limitations and provisions of Sections 280G and 4999.

Each year, the Committee reviews with management the design and operation of the Corporation's compensation programs, including the performance objectives and target levels used in connection with awards under the Corporation's annual and long-term incentive programs. In addition, the Committee reviews all incentive plans for any risk-mitigating factors such as stock ownership guidelines, claw-back provisions, multiple performance metrics, a cap on the incentive payout, mix of incentive compensation to total direct compensation, discretionary evaluation components and vesting requirements. The Committee also reviews the total maximum payout of the plans and the effect it has on the performance of the Corporation. While the goals that the Committee establishes are challenging, the Committee has concluded that these goals do not provide employees of the Corporation an incentive to take unnecessary risk. The Committee has concluded that the Corporation's compensation policies and practices are not likely to have a material adverse effect on the Corporation.

#### Role of Executive Officers in Compensation Decisions

The Committee makes all compensation decisions for the President and CEO (Mr. J. Batten) and approves recommendations for compensation actions for all other elected officers of the Corporation.

As President and CEO, Mr. J. Batten annually reviews the performance of each elected officer with the Committee. Recommendations based on these reviews, including those pertaining to salary adjustments, bonus payouts and equity compensation, are presented to the Committee. The Committee may exercise its discretion in modifying any of the recommendations.

The Committee reviews the performance of the President and CEO. It alone determines the salary adjustment, bonus payment and equity compensation awards for Mr. J. Batten.

#### Setting Executive Compensation

Based on the Corporation's compensation objectives, the Committee has structured the executive officers' total compensation program to motivate executives to achieve the business goals of the Corporation and to reward them for achieving such goals.

The elements of each executive's compensation package include base salary, annual incentive compensation, long-term incentive compensation, benefits and perquisites. Changes to compensation are determined at the beginning of each fiscal year and are dependent upon several factors, including, but not limited to, scope of responsibilities, the Corporation's performance, individual performance, and competitive market practices.

The Corporation looks to establish each element of total direct compensation (i.e., base salary, annual incentive compensation, and the annualized value of long-term incentive compensation granted during the year) near the market median (50<sup>th</sup> percentile) for companies of a similar size and industry. The Committee believes an executive's target compensation is competitive if it falls within a band of plus or minus 15% from the competitive median of data. Because a large portion of each executive's long-term incentive compensation package consists of performance awards, actual payments of long-term incentive compensation and total direct compensation in any given year may fall significantly above or below the market median, based on the performance of the Corporation.

The Committee periodically engages an independent consultant to review its compensation program for the officers of the Corporation, in order to provide information regarding market median compensation levels and the blend of short-term compensation to long-term types of compensation. The consultant provides the Committee with information regarding market compensation practices and alternatives to consider when making compensation decisions for the executives. Historically, the consultant has not selected a peer group of companies to determine market competitiveness, but rather has used survey data compiled from several general industry compensation databases. The consultant provides information to the Committee regarding the competitiveness of each element of compensation for comparable positions. In addition to competitive data, the Committee considers the executive's level of experience, length of service in his or her position, the level of responsibility of the position, the performance of the Corporation and sustained individual performance when setting or approving compensation levels.

Historically, a compensation consultant has been engaged to conduct a detailed review of competitive compensation data every two years. Assuming an executive is at or near the market median for his or her position, salary increases for years that the Committee does not engage an independent consultant are determined using several factors. First, the financial results of the Corporation are used to determine the amount of a merit pool that may be available across the entire Corporation. Next, the Committee obtains general information from various sources regarding broad market trends in executive compensation. The Committee also reviews whether the Corporation and the executive team have achieved their overall objectives for the fiscal year. Finally, the Committee evaluates whether each executive's individual performance objectives have been achieved and to what level. These factors will determine whether the executive will achieve an average increase (based on the merit pool and broad market trends), an above average increase or a below average increase.

For FY2014, the Committee engaged Willis Towers Watson (formerly Towers Watson), a global human resources firm, to conduct a detailed review of competitive compensation levels for similar positions in similar industries. For this analysis, Willis Towers Watson referenced several data sources, including:

2012 Towers Watson Compensation  
Databank (CDB)

2012 Towers Watson U.S. Top Management Compensation Study

Relative to each of the data sources, Willis Towers Watson referenced a broad sample of both general industry companies with revenues of less than \$1 billion (CDB survey) and durable goods manufacturing companies with revenues between \$100 million and \$450 million (U.S. Top Management Compensation Study). The complete survey participant lists for each of the data sources are provided in Appendix B.

The Committee received information on the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles of each element of executive compensation for comparable executive positions. Because the samples included companies of similar size, only tabular data was used in the analysis, and not regression analysis as had been used in past analyses. The Committee did not consider any specific peer group of companies when making competitive comparisons or compensation decisions, and the

Committee did not specify targeted individual companies from among the Willis Towers Watson survey participants.

For FY2014, the base salary of each Named Executive Officer was set within 10% of the competitive median, except for the base salary of Mr. Bratel, whose base salary was set slightly below 25% of the competitive median due to his lack of tenure in the new position. The target annual incentive bonus as a percent of base salary was set at the competitive median for each Named Executive Officer except for Ms. Wilcox, whose target annual incentive bonus as a percent of base salary was set at the 75<sup>th</sup> percentile. The target total cash compensation (consisting of base salary and annual incentive bonus payments) and target total direct compensation (consisting of base salary, annual incentive bonus and long-term incentive payments) of each named executive officer for FY2014 was set within 15% of the competitive median, with the exception of Mr. Bratel, whose target total cash compensation and target total direct compensation were 24% and 20% below the competitive median, respectively. In addition, the target total direct compensation of Mr. J. Batten and Ms. Wilcox were 17% and 24% higher than the competitive median due to several factors that include impending promotion to CEO (Mr. J. Batten), the value of the position to the organization and internal equity considerations.

For FY2015, the Committee followed the above-described historic practice and did not engage a compensation consultant to conduct a detailed review of competitive compensation data. It reviewed updated Willis Towers Watson survey information which was increased by 3% for the base salary information and by 4% for long-term incentive compensation, to reflect compensation trends in the market. It used that information, along with the recommendations from Mr. J. Batten as described above, the company-wide merit pool, and the FY2014 shareholder advisory vote on executive compensation, in determining the elements of each executive's compensation package for FY2015.

For FY2016, the Corporation again engaged Willis Towers Watson to provide a detailed review of the officer's compensation program. The results of that review were used by the Committee for informational purposes only. Due to a global salary and wage freeze at all operations, the Committee voted to maintain Officer salaries at their current levels. In November of 2015, due to continued weakening in the Corporation's performance, all company officers participated in a Racine-based salary reduction program. Named Executive Officers received a 6% reduction in their base salary, except for Mr. J. Batten, who received a 10% reduction.

For FY2017, the Committee did not engage a compensation consultant for review of competitive compensation data, consistent with their historical practice. Due to the continuing wage and salary freeze at all operations, all Named Executive Officers, salaries were maintained at their reduced FY2016 levels, with the exception of Mr. Moore who received a 6.4% increase due to his promotion to Executive Vice President, Chief Operating Officer.

### ***Base Salary***

The Corporation provides executive officers with a base salary to compensate them for services rendered during the fiscal year, their level of responsibility and experience within the Corporation, and their sustained individual performance. Individual performance is measured through the Corporation's annual performance evaluation process. Pay for individual performance rewards executives for achieving goals that may not be immediately evident in common financial measurements.

Base salaries are reviewed each year by the Committee. As discussed above, salary levels are compared to the market median (i.e. 50<sup>th</sup> percentile), as determined by using survey data and as determined by external consultants, in order to ensure executives are paid a competitive salary, aiding in attraction and retention.

Base salary adjustments, as may be appropriate, are determined annually and may be based on individual, team or Corporation performance results, as well as other factors including changes to job scope or responsibilities.



The Corporation uses a performance management system to set individual objectives for each executive. This system allows for the annual evaluation of both performance goal achievement and competency development. When evaluating individual performance, the Committee considers the executive's effort in promoting corporate values; achieving both short and longer-term objectives; improving product quality; developing relationships with customers, suppliers, and employees; demonstrating leadership abilities among coworkers; and achievement of other individualized goals set as a part of the performance management system.

Market adjustments to base salary may be indicated when an incumbent is more than 15% below the market median and has been in the job longer than 2-3 years. Market adjustments may also be used to retain valuable employees in a competitive labor market.

The Committee determines and approves base salary adjustments for the President and CEO, and approves base salary adjustments for the members of the executive officer team, based on the recommendations from the President and CEO. Generally, executive base salaries are increased at rates comparable to the increases provided at other comparable companies and are at or near market levels.

For FY2015, the Committee adjusted the base salaries for the Named Executive Officers, effective beginning the first payroll period in October 2014, using the company-wide merit pool, as well as the information provided from Willis Towers Watson as a guide. The Committee determined that a base salary increase of approximately 4% would be appropriate for most of the Named Executive Officers to keep their base salaries near the market median, but that a greater increase would be appropriate for Mr. J. Batten, Mr. Knutson and Mr. Bratel due to their recent promotions and the need to move toward the midpoint of salaries for the market. The base salaries for the Named Executive Officers changed by the following percentages as compared to FY2014: Mr. J. Batten, 11.1%; Mr. Knutson, 8.9%; Mr. Bratel, 10.0%; and Ms. Wilcox, 4%. The Committee also approved increases in Mr. Knutson's base salary of 12.7% in February 2015 and 14.5% in June 2015 due to his promotion to interim CFO and permanent CFO.

In July 2015, the Committee decided to maintain salaries at current levels in FY2016 for the Named Executive Officers due to a global salary and wage freeze at all operations. Effective in November 2015, the Named Executive Officers participated in a Racine-based salary reduction program. All Officers received a 6% reduction in base salary, with the exception of Mr. J. Batten who received a 10% reduction.

For FY2017, the Committee maintained all Named Executive Officers' current salaries, with the exception of Mr. Moore, at their current levels, due to a continuing salary and wage freeze at all operations. Mr. Moore received a 6.4% salary increase due to his promotion to Executive Vice President, Chief Operating Officer.

### ***Annual Incentive Compensation***

Executive officers and selected key management participate in an annual incentive plan called the Corporate Incentive Plan ("CIP"). This plan provides executives with the opportunity to receive annual cash incentives for achieving corporate, business unit and individual performance goals. Specific annual performance goals are based on Economic Profit measures (earnings in excess of the Corporation's cost of capital) and other initiatives of the Corporation that are determined annually.

The Committee reviews the CIP's design annually and approves any CIP design changes or amendments. It also reviews and approves annual goals, and certifies the achievement of performance targets, based on the financial statements of the Corporation. Cash incentive payments are made after the end of each fiscal year, dependent upon corporate or subsidiary goal achievement. In no event may the payout be more than 200% of the target.

For FY2016, the target bonuses as a percentage of base salary were set at 65% for Mr. J. Batten, 50% for Messrs. Moore, Knutson, and Bratel, and 40% for Ms. Wilcox and the CIP targets for the Named Executive Officers were set as listed below. However, the CIP was suspended shortly after the beginning of the year as part of a global cost containment and salary reduction program. As a result, no bonuses were paid.

| <u>Objective</u>   | <u>Weight</u> | <u>Target</u>   |
|--|---------------|---|
|  |               | Target: Economic Profit = \$1   |
| Economic Profit (defined as earnings in excess of the Company's cost of capital) | 70%           | Threshold: Economic Profit = \$ (3,527,000)<br><br>Maximum: Economic Profit = \$ 3,000,000<br>Target = 2.24 |
| Corporate Inventory (turns)  | 15%           | Threshold = 2.10<br><br>Maximum = 2.50<br>Target = \$292,369  |
| Sales Revenue  | 15%           | Threshold = \$265,790<br><br>Maximum = \$318,948  |

An executive's incentive payment under the CIP may be increased or decreased by up to 20%, at the discretion of the Committee, based on the recommendations of the President and CEO, if the executive's individual performance goals are either exceeded or not achieved and other factors deemed important by the Committee. The Committee alone makes decisions regarding the President and CEO's annual incentive award.

The following definitions are used in the calculations of "Economic Profit," a key component of the CIP:

Economic Profit is defined as the return on investment in excess of the Cost of Capital. It is calculated by taking Net Operating Profit after Tax ("NOPAT") less (or as a percentage of) a Capital Charge (Average Invested Capital x Cost of Capital).

Average Invested Capital is defined as total assets less non-interest bearing liabilities less accrued retirement benefits less excess cash, computed on monthly trailing 13 month basis. For FY2015, excess cash was defined as cash in

excess of \$3 million, or roughly 1% of sales.

Cost of Capital is defined as the weighted average expectation of Twin Disc's sources of capital, debt and equity. For FY2015, the cost of capital has been calculated at 10% (after taxes).

For FY2017, the Committee reviewed and approved the performance goals recommended for the CIP. The CIP will pay out if certain EBITDA, trade working capital, sales growth, and strategic objectives (individual achievement) are achieved.

The Committee reviewed the recommendations and approved the target bonus percentages for each officer. The Committee discussed and determined the bonus percentage amount for Mr. J. Batten. For FY2017, the target bonus percentage of base salary will be 65% for Mr. J. Batten, 50% for Messrs. Knutson, Moore and Bratel, and 40% for Ms. Wilcox.

### ***Long-Term Incentive Compensation***

The Twin Disc, Incorporated 2010 Long-Term Incentive Compensation Plan ("2010 LTI Plan"), which was amended and restated on July 31, 2015 and approved by the Corporation's shareholders at the annual meeting in October 2015, provides for the opportunity for officers and key employees of the Corporation (and its subsidiaries) to acquire common stock of the Corporation or cash payments via stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock awards, performance stock unit awards or performance unit awards. In keeping with the Corporation's commitment to provide a total compensation package that includes at-risk components of pay, the Committee makes annual decisions regarding the appropriate type of long-term incentives for each executive.

The granting of performance stock encourages a pay for performance approach, aligning the interests of the executive with the economic goals of the Corporation and the shareholders. The granting of restricted stock is based on a number of factors that include rewarding sustained individual performance, increasing an executive's ownership in the Corporation, and addressing retention concerns. Restricted stock may also be used to incent executives in times of global economic instability when future values of stock options, performance stock and performance stock units become more unpredictable.

The composition of an executive's long-term compensation – i.e. performance stock and restricted stock – is determined by the Committee. The executive has no role or choice whether to receive incentive compensation in the form of performance stock, restricted stock, or other forms.

The Committee establishes the vesting criteria, including the performance goals that must be achieved in order for the award to vest. Grants are made at the beginning of each fiscal year, or as determined by the Committee, for the ensuing multi-year cycle period.

The Committee uses external consultants and survey information as a guideline when considering long-term incentive awards for management. The Committee reviews competitiveness of awards under the LTI Plan annually and obtains a periodic independent review. In addition, the Committee reviews and approves LTI Plan changes as necessary, and ensures the LTI Plan's compliance with shareholder approval requirements.

In FY2016, all of the Named Executive Officers received awards of performance stock. The Committee changed the performance measures that had historically been used in connection with the LTI Plan. Instead of using economic profit as the sole performance measure, the long-term incentive awards granted in FY2016 use a combination of the following performance goals and weightings for the three-year performance period ending in FY2018: (i) average annual sales revenue (40%), (ii) economic profit (40%), and (iii) relative total shareholder return (expressed as the percentile rank of the Corporation's total shareholder return for the performance period relative to the average total shareholder return of the S&P Machinery (Industrial) Index) (20%). In addition, the Corporation expanded the possible range of long-term incentive payments for each performance goal from 80% - 120% of the target to 50% - 150% of the target. These shares will vest on June 30, 2018 if the specific measures are achieved within the payout range.

In order to incent and retain the Corporation's executives, shares of restricted stock were also granted to all Named Executive Officers in FY2016. These shares will vest July 30, 2018 provided the executive remains employed with the Corporation until the vesting date.

In July 2016, the Committee reviewed the performance objective established in July of 2013 for the vesting of performance stock and performance stock units granted in July 2013 under the Twin Disc, Incorporated 2010 Long-Term Incentive Compensation Plan. The objective is listed below:

The Performance Objective is the Company's economic profit (measured as the difference between the Company's cumulative net operating profit after taxes and the Company's cumulative capital charge) for the cumulative three fiscal year period ending June 30, 2016, as specified below:

|           | <u>Performance Objective as</u> |
|-----------|---------------------------------|
|           | <u>of June 30, 2016</u>         |
| Maximum   | \$2,000,000                     |
| Target    | \$1                             |
| Threshold | \$(2,000,000)                   |

For purposes of this performance objective, the Corporation's cumulative capital charge was calculated by multiplying average invested capital times the cost of capital. Average invested capital is defined as total assets less non-interest bearing liabilities, less accrued retirement benefits less excess cash, computed on monthly trailing 13 month basis. Cost of capital is defined as the weighted average expectation of Twin Disc's sources of capital, debt and equity. For FY2014-FY2016, excess cash was defined as cash in excess of \$3,000,000, approximately 1% of net sales, and the cost of capital has been calculated at 10%, after taxes.

The Committee determined, subject to audit, that the Corporation's economic profit for the cumulative three year period ending June 30, 2016 was \$(28,349,152). As a result, both the performance stock and performance stock units granted to Named Executive Officers in July 2013 did not meet the threshold objective and therefore did not vest.

For FY2017, the Committee changed the performance measures that had been used in connection with its long-term incentive plan. The long-term incentive awards granted in FY2017 use a combination of the following performance goals and weightings for the three fiscal year performance period ending June 30, 2019: (i) average return on invested capital (also known as average return on total capital) (40%), (ii) average sales revenue (30%), and (iii) average earnings per share (30%). In addition, the possible range of long-term incentive payments for each performance goal will be 50% - 150% of the target. The Committee awarded only performance stock and restricted stock as long-term incentive awards in FY2017.

### ***Benefits***

In addition to cash compensation and cash/stock incentive programs, the Corporation believes it is necessary to also recognize the efforts of its officer group and senior management in the area of benefits and perquisites. The Committee annually reviews the Corporation's benefit programs for competitiveness and uses external consultants and surveys as a reference when necessary. It approves the addition, modification or deletion of any executive benefit program, as well as the eligibility of a program to any specific executive.

### ***Qualified Retirement Plans***

The Twin Disc, Incorporated Retirement Savings Plan for Salaried Employees ("Savings Plan") provides non-contributory retirement benefits to all Twin Disc, Incorporated salaried employees hired prior to October 1, 2003. The Savings Plan was established August 1, 2009 to provide a retirement benefit similar to the one previously provided under the Twin Disc, Incorporated Retirement Plan for Salaried Employees, discussed below, in a defined contribution format.



Employer contributions under the Savings Plan are based on a percentage of annual compensation, from 4.5% to 6.5%, based on years of service. This contribution is deposited into an individual investment account, in which the individual directs his or her own investment elections, within an array of choices.

The Savings Plan does not allow employee contributions. Employer contributions, which are made annually, are 100% vested.

The Twin Disc, Incorporated Retirement Plan for Salaried Employees (“Retirement Plan”) provides non-contributory retirement benefits to all Twin Disc, Incorporated salaried employees hired prior to October 1, 2003. The Retirement Plan was amended to freeze future benefit accruals as of August 1, 2009.

Prior to January 1, 1997 benefits in the Retirement Plan were based upon both years of service and the employees' highest consecutive 5-year average annual compensation during the last 10 calendar years of service. As of December 31, 1996, the then-current accrued benefits under the Retirement Plan were frozen and the Retirement Plan was amended to provide for future accruals under a cash-balance program. Mr. Bratel is the only Named Executive Officer eligible for an accrued benefit under the pre-1997 Retirement Plan with 9.5 years of pre-January 1, 1997 credited service.

The Retirement Plan was amended on January 1, 1997 to add a cash balance formula for post January 1, 1997 accruals. Benefits under the Retirement Plan are generally equal to the sum of the benefits as frozen on December 31, 1996, plus benefits that accumulated under the cash balance formula from January 1, 1997 through July 31, 2009. Benefits under the cash balance formula are generally stated as a lump sum amount, but may be distributed as a lump sum or as an annuity. Prior to August 1, 2009, accruals under the cash balance formula were based on a percentage of compensation, from 4.5% to 6.5%, based on years of service, with interest credits at the thirty-year U.S. Treasury Bond rate, or other such rate mandated by the IRS in substitution of the 30-year Treasury rate, with a minimum guarantee of 3%.

The Twin Disc, Incorporated – The Accelerator 401(k) Savings Plan (“401(k) Plan”) is a tax-qualified retirement savings plan to which all Twin Disc, Incorporated employees, including the Named Executive Officers, are able to contribute up to the limit prescribed by the Internal Revenue Service on a pre-tax or after-tax (Roth) basis. The Corporation will match 50% of the first 6% of pay that is contributed to the 401(k) Plan. All contributions to the 401(k) Plan, as well as any matching contributions, are fully vested upon contribution.

#### *Supplemental Executive Retirement Plan*

The Corporation extends a supplemental retirement plan, called the Twin Disc, Incorporated, Supplemental Executive Retirement Plan (“SERP”), to certain qualified officers. It is the Corporation's current practice to not add new officers to the SERP. For those eligible participants (including Mr. J. Batten, Mr. Bratel and Ms. Wilcox) the SERP benefit is calculated as the additional benefit that the participant would have received at retirement under the Twin Disc, Incorporated Retirement Savings Plan for Salaried Employees and the frozen Twin Disc, Incorporated Retirement Plan for Salaried Employees, but for the limitation on compensation used in determining benefits under those plans. SERP benefits of all Named Executive Officers who are eligible participants are stated as individual accounts.

The SERP benefit is payable in two lump sum payments, which are paid on the first and second February 1 in the years following retirement. However, if the commencement of benefits is based on the participant's separation from service, the first payment will not be made sooner than six months after the participant's separation. The maximum payment in any given year is \$500,000 and any amounts in excess of \$500,000 will be paid in the third and subsequent years following retirement.

*Executive Life Insurance*

The Corporation provides an endorsement split-dollar life insurance benefit to certain Named Executive Officers who were in their positions prior to January 1, 2015. The Corporation's current practice is to not provide this benefit to new officers. While employed, the death benefit for an executive is generally equal to three times his or her annual base salary, although exceptions may occur due to other compensation arrangements. At the later of retirement or the 15th anniversary of the policy, the Corporation will recover its share of the total premiums paid throughout the life of the policy from the cash value. At that time, the ownership of the remaining policy and corresponding cash values are transferred to the executive. Information regarding this benefit is detailed in the "All Other Compensation" column of the Summary Compensation Table.

Officers who obtained their positions on or after January 1, 2015 are eligible for a term life insurance benefit equal to three times their base salary, subject to certain limitations that may apply regarding insurability.

*Change in Control Agreements*

The Corporation has change in control severance agreements with each of its executive officers, which were most recently updated in July 2014. If a change in control occurs (as defined in the agreements) and the executive thereafter terminates employment under circumstances specified in the agreements, the executive is entitled to certain severance benefits. Severance benefits for Named Executive Officers would consist of the sum of the executive's annual base salary (as defined in the agreements) in effect immediately prior to the circumstances giving rise to the executive's termination, plus the greater of the executive's annual bonus for the fiscal year preceding termination (or, if no annual bonus was paid in that year, the average of the annual bonuses for the three fiscal years preceding termination) or target annual bonus for the fiscal year of termination, times a multiple (2.5 for Mr. J. Batten, 2.0 for Mr. Knutson and Mr. Moore, and 1.5 for Mr. Bratel and Ms. Wilcox). In addition, the executive would be entitled to the cash value over the exercise price of any shares of common stock subject to unexercised stock options held by the executive, all performance stock and performance stock unit awards would vest and fringe benefits would continue for 24 months following termination. The agreements are specifically designed to avoid having benefits exceed the limitations and provisions of Section 280G of the Internal Revenue Code.

The performance stock and performance stock unit award agreements and restricted stock agreements between the Corporation and its Named Executive Officers have certain change in control provisions. Specifically, if a change in control (as defined in the agreements) occurs and the employee thereafter terminates employment under circumstances specified in the agreements, all performance stock and performance stock units shall immediately vest as if the performance objectives had been fully achieved, and all restricted shares shall become freely transferable and non-forfeitable.

*Other Personal Benefits and Perquisites*

Twin Disc's Named Executive Officers, along with other executive officers and senior management, are occasionally provided a limited number of perquisites whose primary purpose is to minimize distractions from personal issues to focus the executive's attention on important initiatives of the Corporation. An item is not a perquisite if it is integrally related to the performance of the executive's duties.

**Summary Compensation Table**

The following table summarizes the “total compensation” of the Corporation’s Chief Executive Officer, Chief Financial Officer, and its three most highly compensated executive officers for the fiscal year ended June 30, 2016. It should be noted that the total compensation as reported by the Summary Compensation Table follows specific SEC requirements for reporting compensation, and does not reflect the target or actual compensation for the Named Executive Officers for the fiscal year.

| Name and Principal Position  | Year | Salary     | (1)<br>Bonus | (2)<br>Stock Awards | (3)<br>Non-Equity Incentive Plan Compensation | (4)   | (5)                    | Total        |
|--|------|------------|--------------|---------------------|---|---|------------------------|--------------|
|  |      |            |              |                     |   | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation |              |
| John H. Batten<br>President and<br>Chief<br>Executive<br>Officer                     | 2016 | \$ 469,232 | -            | \$ 495,542          | \$ 0  | \$ 4,581  | \$ 95,404              | \$ 1,064,759 |
|  | 2015 | \$ 486,540 | -            | \$ 587,287          | \$ 290,550                                    | \$ 4,426  | \$ 86,091              | \$ 1,454,924 |
|  | 2014 | \$ 426,580 | -            | \$ 587,317          | \$ 0  | \$ 4,427  | \$ 80,241              | \$ 1,098,565 |
| Jeffrey S.<br>Knutson<br>Vice President –<br>Finance,<br>CFO, Sec’y and<br>Treasurer | 2016 | \$ 303,368 | -            | \$ 208,849          | \$ 0  | -   | \$ 32,856              | \$ 545,073   |
|  | 2015 | \$ 248,748 | -            | \$ 197,361          | \$ 140,805                                    | -   | \$ 32,018              | \$ 618,932   |
| Malcolm F.<br>Moore<br>Executive Vice<br>President,<br>Chief Operating<br>Officer    | 2016 | \$ 351,057 | -            | \$ 323,219          | \$ 0  | -   | \$ 39,759              | \$ 714,035   |
| Dean J. Bratel<br>Vice President –<br>Sales<br>and Applied<br>Technology             | 2016 | \$ 264,847 | -            | \$ 189,867          | \$ 0  | \$ 15,515   | \$ 60,236              | \$ 530,465   |
|  | 2015 | \$ 268,273 | -            | \$ 225,036          | \$ 122,925                                    | \$ 6,861  | \$ 51,459              | \$ 674,554   |
|  | 2014 | \$ 240,923 | \$ 5,000     | \$ 245,286          | \$ 0  | \$ 9,841  | \$ 49,028              | \$ 550,078   |

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|                                  |      |            |          |            |           |          |           |            |
|----------------------------------|------|------------|----------|------------|-----------|----------|-----------|------------|
| Denise L. Wilcox                 | 2016 | \$ 221,507 | -        | \$ 121,523 | \$ 0      | \$ 3,271 | \$ 72,339 | \$ 418,640 |
| Vice President - Human Resources | 2015 | \$ 227,710 | -        | \$ 144,019 | \$ 82,248 | \$ 3,131 | \$ 67,999 | \$ 525,107 |
|                                  | 2014 | \$ 219,204 | \$ 5,000 | \$ 165,881 | \$ 0      | \$ 3,214 | \$ 66,509 | \$ 459,808 |

(1) Discretionary bonuses approved by the Compensation and Executive Development Committee on July 30, 2014.

Reflects the aggregate grant date fair value for each Named Executive Officer computed in accordance with Financial Accounting Standards Board ASC Topic 718, excluding the effect of estimated forfeitures. The performance awards are calculated as of the grant date, based on the most probable outcomes of the respective performance goals. The aggregate grant date fair values of the performance-based awards granted in fiscal 2016, assuming the maximum performance goal is achieved, are as follows: Mr. J. Batten, \$495,542; Mr. Knutson, \$208,849; Mr. Moore, \$269,611; Mr. Bratel, \$189,867; and Ms. Wilcox, \$121,523. These calculations are based on the closing share price on the date of grant of \$16.10 for those shares granted on 7/31/15. The amount shown for Mr. Moore includes the value of 2,942 fully-vested shares of the Corporation's stock awarded to him on July 1, 2015, the first day of his employment as an executive officer of the Corporation, valued at the closing share price of \$18.29 on that date.

The following table presents separately the compensation expense recognized in FY2016, 2015, and 2014 for outstanding awards of performance stock, performance stock units and restricted stock for Messrs. J. Batten, Bratel and Ms. Wilcox, the compensation expense recognized in FY2016 and FY2015 for outstanding awards of performance stock, performance stock units and restricted stock for Mr. Knutson; and the compensation expense recognized in FY2016 for Mr. Moore:

| Name               | Year | Performance Stock | Performance Stock Units | Restricted Stock |
|--------------------|------|-------------------|-------------------------|------------------|
| John H. Batten     | 2016 | \$ 18,539         | \$ 0                    | \$ 313,785       |
|                    | 2015 | \$ 0              | \$ 0                    | \$ 290,098       |
|                    | 2014 | \$ 0              | \$ 0                    | \$ 271,451       |
| Jeffrey S. Knutson | 2016 | \$ 7,816          | \$ 0                    | \$ 128,208       |
|                    | 2015 | \$ 0              | \$ 0                    | \$ 100,646       |
| Malcolm F. Moore   | 2016 | \$ 10,084         | \$ 0                    | \$ 109,695       |
| Dean J. Bratel     | 2016 | \$ 7,101          | \$ 0                    | \$ 125,600       |
|                    | 2015 | \$ 0              | \$ 0                    | \$ 115,487       |
|                    | 2014 | \$ 0              | \$ 0                    | \$ 111,013       |
| Denise L. Wilcox   | 2016 | \$ 4,547          | \$ 0                    | \$ 83,210        |
|                    | 2015 | \$ 0              | \$ 0                    | \$ 83,621        |
|                    | 2014 | \$ 0              | \$ 0                    | \$ 87,923        |

Reflects cash bonuses earned in connection with achievement of specific performance targets under the Corporate Incentive Plan, described under the “Annual Incentive Compensation” portion of the Compensation Discussion and Analysis, above. There were no bonuses paid for FY2016 or FY2014 as the threshold performance targets in each year were not met.

(4) The figures for FY2016 reflect the change in qualified pension amounts for each of the Named Executive Officers.

(5) All Other Compensation consists of the following:

| Name         | 401(k)<br>Company | Retirement<br>Savings<br>Plan | Defined<br>Contribution<br>SERP | Life<br>Insurance | Perquisites<br>and<br>Personal<br>Benefits | Total     |
|--------------|-------------------|-------------------------------|---------------------------------|-------------------|--|-----------|
|              |                   |                               |                                 |                   |  |           |
| J.H. Batten  | \$ 6,681          | \$ 14,575                     | \$ 29,540                       | \$ 29,000         | \$ 15,608                                  | \$ 95,404 |
| J.S. Knutson | \$ 8,086          | N/A                           | N/A                             | \$ 24,770         | -  | \$ 32,856 |
| M.F. Moore   | \$ 1,696          | N/A                           | N/A                             | \$ 11,397         | \$ 26,666                                  | \$ 39,759 |
| D.J. Bratel  | \$ 7,188          | \$ 17,225                     | \$ 9,163                        | \$ 26,660         | -  | \$ 60,236 |
| D.L. Wilcox  | \$ 6,146          | \$ 14,575                     | \$ 2,968                        | \$ 48,650         | -  | \$ 72,339 |

The Corporation's Supplemental Executive Retirement Plan ("SERP") was restated during FY2011 to provide a defined contribution formula for the benefits of Messrs. J. Batten, Bratel and Ms. Wilcox. Mr. Knutson and Mr. Moore do not participate in the SERP.

Messrs. Batten, Knutson, Bratel and Ms. Wilcox participate in an endorsement split-dollar life insurance plan. Mr. Moore participates in a term life insurance plan.

Perquisites and Personal Benefits for Mr. J. Batten for FY2016 include personal use of company plane, dues, and premiums paid for supplemental long-term disability insurance. Perquisites and Personal Benefits for Mr. Moore consist of temporary housing relocation benefits and premiums paid for supplemental long-term disability insurance. The aggregate total of perquisites and personal benefits for each of the remaining Named Executive Officers was less than \$10,000 for FY2016, and therefore need not be disclosed or included in such Named Executive Officers' "Other Compensation" total.



**Grants of Plan-Based Awards**

The following table provides information on incentive awards granted to our Named Executive Officers during FY2016.

| Name                         | Grant Date | Estimated Future Cash Incentive Payouts Under Non-Equity Incentive Plan Awards |        |         | Estimated Future Share or Unit Payouts Under Equity Incentive Plan Awards |        |         | All other stock awards; Number of shares of stock or units (2) | All other option awards; Number of securities underlying options | Exercise or base price of option awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards (3) |
|------------------------------|------------|--|--------|---------|---|--------|---------|--|--|---|--|
|                              |            | Threshold  | Target | Maximum | Threshold   | Target | Maximum |  |  |   |  |
| <b>J. H. Batten</b>          |            |  |        |         |   |        |         |  |  |   |  |
| Cash Incentive               |            | \$   | \$     | \$      |   |        |         |  |  |   |  |
| Performance Stock Awards (1) | 7/31/15    |  |        |         | 10,260  | 20,519 | 30,779  |  |  |   | \$ 165,186   |
| Restricted Stock Award       | 7/31/15    |  |        |         |   |        |         | 20,519   |  |   | \$ 330,356   |
| <b>J.S. Knutson</b>          |            |  |        |         |   |        |         |  |  |   |  |
| Cash Incentive               |            | -  | -      | -       |   |        |         |  |  |   |  |
| Performance Stock Awards (1) | 7/31/15    |  |        |         | 4,324   | 8,648  | 12,972  |  |  |   | \$ 69,616  |
| Restricted Stock Award       | 7/31/15    |  |        |         |   |        |         | 8,648  |  |   | \$ 139,233   |
| <b>M.F. Moore</b>            |            |  |        |         |   |        |         |  |  |   |  |
| Cash Incentive               |            | -  | -      | -       |   |        |         |  |  |   |  |
| Performance Stock Awards     | 7/31/15    |  |        |         | 5,582   | 11,164 | 16,746  |  |  |   | \$ 89,870  |

|                    |         |   |       |       |        |        |            |
|--------------------|---------|---|-------|-------|--------|--------|------------|
| (1)                |         |   |       |       |        |        |            |
| Restricted         | 7/31/15 |   |       |       |        | 11,164 | \$ 179,540 |
| Stock Award        |         |   |       |       |        |        |            |
| <b>D.J. Bratel</b> |         |   |       |       |        |        |            |
| Cash               |         | - | -     | -     |        |        |            |
| Incentive          |         |   |       |       |        |        |            |
| Performance        |         |   |       |       |        |        |            |
| Stock Awards       | 7/31/15 |   | 3,931 | 7,862 | 11,793 |        | \$ 63,289  |
| (1)                |         |   |       |       |        |        |            |
| Restricted         | 7/31/15 |   |       |       |        | 7,862  | \$ 126,578 |
| Stock Award        |         |   |       |       |        |        |            |
| <b>D.L. Wilcox</b> |         |   |       |       |        |        |            |
| Cash               |         | - | -     | -     |        |        |            |
| Incentive          |         |   |       |       |        |        |            |
| Performance        |         |   |       |       |        |        |            |
| Stock Awards       | 7/31/15 |   | 2,516 | 5,032 | 7,548  |        | \$ 40,508  |
| (1)                |         |   |       |       |        |        |            |
| Restricted         | 7/31/15 |   |       |       |        | 5,032  | \$ 81,015  |
| Stock Award        |         |   |       |       |        |        |            |

- (1) Consists of stock awards with performance-based vesting criteria, as discussed in the “Long-Term Compensation” section of the Compensation Discussion and Analysis; eligible for vesting in 2018.
- (2) Consists of restricted stock with a vesting date of July 31, 2018. This stock will vest if the executive remains employed through the vesting date.  
The grant date fair values are calculated using the closing price of Twin Disc shares on the July 31, 2015 grant
- (3) date (\$16.10). The grant date fair values for the performance stock awards are based on the assumption that the threshold performance objectives for these awards would be met, the most probable outcome as of the grant date.

**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the number of shares covered by exercisable and unexercisable options, as well as the number of restricted stock, performance stock and performance stock unit awards held by our Named Executive Officers on June 30, 2016.

| Name         | Option Awards   |   |   | Option Exercise Price | Option Expiration Date | Stock Awards  |   |   |   |
|--------------|---|---|---|-----------------------|------------------------|---|---|---|---|
|              | Number of Securities Underlying Unexercised Options Exercisable (1) | Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options |                       |                        | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (2) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (3) |
| J.H. Batten  |   |   |   |                       |                        |   |   | 53,013  | \$569,360   |
| J.S. Knutson |   |   |   |                       |                        |   |   | 22,618  | \$242,917   |
| M.F. Moore   |   |   |   |                       |                        |   |   | 16,746  | \$179,852   |
| M.F. Moore   | 1,200   |   |   | 18.0050               | 10/20/2016             |   |   |   |   |
| M.F. Moore   | 1,200   |   |   | 27.5450               | 10/19/2017             |   |   |   |   |
| M.F. Moore   | 1,200   |   |   | 10.0100               | 6/30/2018              |   |   |   |   |
| M.F. Moore   | 1,200   |   |   | 13.6100               | 6/30/2018              |   |   |   |   |
| D.J. Bratel  |   |   |   |                       |                        |   |   | 20,958  | \$225,089   |
| D.L. Wilcox  |   |   |   |                       |                        |   |   | 13,678  | \$146,902   |

(1) The options listed for Mr. Moore represent awards granted during his tenure as director.

Reflects the number of non-vested restricted stock awards, performance stock awards and performance stock unit awards that are scheduled to vest at various times between July 2016 and July 2018. For awards granted in fiscal 2014, only restricted shares are outstanding and are assumed to vest completely. For awards granted in fiscal 2015 and fiscal 2016 with Threshold/Target/Maximum payout levels, the figures presented assume a threshold level of achievement.

(3) Values were calculated using \$10.74 per share, the closing price of the Corporation's common stock as of June 30, 2016.

**Option Exercises and Stock Vested**

The following table sets forth information regarding each exercise of stock options and vesting of restricted stock and performance stock that occurred during FY2016 for each of our Named Executive Officers.

| Name         | Option Awards        | Stock Awards        |                |
|--------------|----------------------|---------------------|----------------|
|              | Number of Shares     | Number of Shares    | Value Realized |
|              | Acquired on Exercise | Acquired on Vesting | Value Realized |
| J.H. Batten  |                      | 12,594              | \$ 193,696     |
| J.S. Knutson |                      | 4,058               | \$62,412       |
| M.F. Moore   |                      | -                   | -              |
| D.J. Bratel  |                      | 4,638               | \$71,332       |
| D.L. Wilcox  |                      | 3,980               | \$61,212       |

**Pension Benefits**

The following table summarizes the actuarial present value of each Named Executive Officer's accumulated benefits as of June 30, 2016 under our defined benefit pension plan.

| Name | Plan Name | Number of Years of Credited Service (Salaried Retirement Plan as of plan | Present Value of Accumulated Benefits (1) | Payments During Last Fiscal Year |
|------|-----------|--|---|----------------------------------|
|------|-----------|--|---|----------------------------------|

|              |   | freeze<br>date) |            |   |
|--------------|---|-----------------|------------|---|
| J.H. Batten  | Retirement<br>Plan for<br>Salaried<br>Employees | 13.0            | \$ 137,907 | - |
| J.S. Knutson | N/A (2)   |                 |            |   |
| M.F. Moore   | N/A (2)   |                 |            |   |
| D.J. Bratel  | Retirement<br>Plan for<br>Salaried<br>Employees | 22.5            | \$ 209,657 | - |
| D.L. Wilcox  | Retirement<br>Plan for<br>Salaried<br>Employees | 11.0            | \$ 99,542  | - |

- The following key assumptions were made in calculating the present value of the qualified retirement plan. For Messrs. J. Batten, Bratel, and Ms. Wilcox, the key assumptions include a 3.57% discount rate and a retirement age of 65. No mortality assumption was used prior to retirement. After retirement, the mortality assumption is the Gender-specific RP-2014 table with generational mortality improvements.
- (1)
  - (2) Mr. Knutson and Mr. Moore do not participate in the Retirement Plan for Salaried Employees because they were hired after October 1, 2003, the date that the plan was closed to new employees.

*Retirement Plan for Salaried Employees*

All full-time Twin Disc, Incorporated salaried employees employed before October 1, 2003 participate in the Twin Disc, Incorporated Retirement Plan for Salaried Employees (“Retirement Plan”). Eligibility for retirement occurs upon reaching one of the following age and service requirements: a) Age 65 with 5 years of service; b) Age 60 with 10 years of service; c) 30 years of service at any age; or d) age plus service equals 85 points. There are currently no executive officers eligible to retire.

Prior to January 1, 1997, Retirement Plan benefits were based upon both years of service and the employees’ highest consecutive 5-year average annual compensation during the last 10 calendar years of service. As of December 31, 1996, the then-current accrued benefits under the Retirement Plan were frozen and the Retirement Plan was amended to provide for future accruals under a cash-balance program. Mr. Bratel is the only Named Executive Officers with a benefit under both the pre-1997 portion of the Retirement Plan and the cash balance program.

Subsequently, the Retirement Plan was amended to freeze all future benefit accruals, effective August 1, 2009.

The definition of compensation for purposes of calculating the pension benefit includes W-2 income, excluding any expense reimbursements or taxable fringe benefits, and is limited by the IRS maximum compensation as determined each year. In calendar year 2014, the annual limit was \$260,000 and in calendar years 2015 and 2016, the annual limit is \$265,000.

Benefits under the frozen Retirement Plan are payable in a monthly annuity form, with either a single life or joint and survivor life benefit option. Benefits under the cash balance program are payable in a lump sum payment, or single life or joint and survivor annuity benefit options.

**Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans**

The following table summarizes accumulated benefits as of June 30, 2016 under our Supplemental Executive Retirement Plan for each Named Executive Officer with a benefit under a defined contribution formula under that plan.



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| Name         | Executive                   | Registrant                         | Aggregate                 | Aggregate                     | Aggregate              |
|--------------|-----------------------------|------------------------------------|---------------------------|-------------------------------|------------------------|
|              | Contributions<br>in Last FY | Contributions<br>in Last FY<br>(1) | Earnings<br>in Last<br>FY | Withdrawals/<br>Distributions | Balance at<br>Last FYE |
| J.H. Batten  | \$ 0                        | \$ 29,540                          | \$ 3,910                  | \$ 0                          | \$ 147,649             |
| J.S. Knutson | N/A                         | N/A                                | N/A                       | N/A                           | N/A                    |
| M.F. Moore   | N/A                         | N/A                                | N/A                       | N/A                           | N/A                    |
| D.J. Bratel  | \$ 0                        | \$ 9,163                           | \$ 869                    | \$ 0                          | \$ 34,119              |
| D.L. Wilcox  | \$ 0                        | \$ 2,968                           | \$ 740                    | \$ 0                          | \$ 26,609              |

The amounts reported in the “Registrant Contributions in Last FY” column are credits to a bookkeeping account (1) maintained by the Corporation for the benefit of the Named Executive Officer, and are included in the “All Other Compensation” figures of the Summary Compensation Table.

*Supplemental Executive Retirement Plan*

The Supplemental Executive Retirement Plan (“SERP”) is available to qualified US-based Named Executive Officers, including Mr. Batten, Mr. Bratel and Ms. Wilcox. It is the Corporation’s current practice to allow no additional participants in this plan. The supplemental retirement benefit is calculated as the additional benefit that the participant would have received at retirement under the Corporation’s frozen Retirement Plan and the Twin Disc, Incorporated Retirement Savings Plan for Salaried Employees (“Salaried Plan”), but for the limitation on compensation used in determining benefits under those plans. In light of the fact that the Salaried Plan is a defined contribution plan with individual accounts, the SERP was amended on July 29, 2010, to restate the SERP benefits of Messrs. J. Batten and Bratel and Ms. Wilcox as individual accounts, with an opening account balance equal to the present value of their SERP benefits as of August 1, 2009. In addition to annual accruals based on the additional benefit that would be received under the Salaried Plan but for limits on compensation in that plan, the accounts of Messrs. Batten, Bratel and Ms. Wilcox will receive interest credits based on the annual rate on 30-year Treasury securities, with a minimum annual interest credit of three percent.

Any benefits payable under the SERP will automatically be paid in a two-payment deferred lump sum form, under which two equal payments will be made to the participant (or his surviving spouse or named beneficiary if the participant dies prior to all of the payments being made). The first payment will be made on the February 1 following the calendar year of retirement (or on the date that is six months after retirement, if later), and the second payment to be made on February 1 of the following year. The two payments shall be the actuarial equivalent of the annual benefit calculated under the single life annuity form.

If each of the two lump sum payments exceed \$500,000, each payment shall be limited to \$500,000 each with additional payments (also limited to \$500,000 each) to be made on each subsequent February 1 until the balance is paid. If the commencement of benefits is based on the participant's separation from service, the first payment will not be made sooner than six months after the participant's separation.

## Potential Payments Upon Termination or Change in Control

The following information and tables set forth the amount of payments to each Named Executive Officer in the event of a termination of employment as a result of retirement, death, disability, termination for cause, voluntary termination prior to retirement, and involuntary termination (or resignation for good cause) following a change in control.

**Normal or Early Retirement.** The normal retirement age for US-based employees, including the Named Executive Officers, is 65. All full-time salaried employees employed before October 1, 2003 participate in the Twin Disc, Incorporated Retirement Plan for Salaried Employees and the Twin Disc, Incorporated Retirement Savings Plan for Salaried Employees. Eligibility for retirement occurs upon reaching one of the following age and service requirements: a) Age 65 with 5 years of service; b) Age 60 with 10 years of service; c) 30 years of service at any age; or d) age plus service equals 85 points. There are no Named Executive Officers who were eligible for retirement at the end of FY2016.

Medical benefits are only available to Twin Disc retirees hired before October 1, 2003 and who are not yet Medicare-eligible. Eligibility for retiree medical benefits ends upon reaching Medicare eligibility.

Restricted stock is forfeited if retirement occurs before the restrictions on such shares have ended.

Performance stock and performance stock units will be paid after the end of the relevant performance period, but only if the performance objective is achieved. The stock or units are prorated based on actual employment during the performance period.

Stock options must be exercised within 30 days of termination or they expire.

A Supplemental Executive Retirement Plan (SERP) is available for several Named Executive Officers who qualify for a retirement benefit under the Corporation's pension plans. Mr. J. Batten, Mr. Bratel and Ms. Wilcox are currently the only participants.

For those executives eligible for an endorsement split-dollar life insurance policy, the ownership of the life insurance will be transferred from the Corporation to the executive at the later of retirement or the 15<sup>th</sup> anniversary of the policy. At the time of transfer, the Corporation will recover its share of the total premiums paid throughout the life of the policy from the cash value or alternatively, receive direct reimbursement from the executive.

**Death while Employed.** In the event of death of a Named Executive Officer while actively employed, the executive's estate would receive payment for any base salary earned, but not yet paid. In addition, any vacation accrual not used would also be paid to the estate.

Restricted stock vests and becomes payable per the terms of the individual grant agreement. The estate would receive the payment.

Performance stock and performance stock units will immediately vest after the Employee's termination of employment due to death and be paid as if the maximum performance target has been achieved. The stock or units are prorated based on actual employment during the performance period.

Options will fully vest and may pass to the estate, or as directed by a will, and must be exercised within one year from date of death.

**Disability.** In the event of termination of employment due to disability, a Named Executive Officer would receive benefits under the Corporation's short-term and long-term disability plans, generally available to full-time salaried employees. Benefits are reduced for any social security or pension eligibility.

Restricted stock vests and becomes payable per the terms of the individual grant agreement.

Performance stock and performance stock units will immediately vest after the Employee's termination of employment due to disability and are paid assuming the maximum performance target has been achieved. The stock or units are prorated based on actual employment during the performance period.

**Termination for Cause.** An executive is not eligible for any additional benefits at termination, unless the Compensation and Executive Development Committee would determine that severance payments are appropriate.

**Voluntary Termination Prior to Retirement.** An executive is not entitled to any additional forms of severance payments in the event of a voluntary termination, prior to becoming eligible for retirement.

**Involuntary Termination (or Resignation for Good Cause) Following Change in Control.** The Corporation has entered into Change in Control Severance Agreements with each of our Named Executive Officers. The versions of the agreements that were in effect on June 30, 2016 provide that, following a change in control of the corporation (as defined in the agreement) if employment of the executive officer is terminated by the Corporation for any reason other than "Good Cause," or terminated by the executive for "Good Reason" within 24 months after the change in control occurs, certain benefits would become payable. These include:

- severance as a multiple of base salary and the greater of (1) the annual bonus awarded to the Employee under the CIP for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs (or, if no annual bonus was received for such fiscal year, the average of the annual bonuses awarded to Employee under the the CIP for the three years preceding the fiscal year in which the Date of Termination occurs) or (2) the Employee's target annual bonus under the CIP for the fiscal year in which the Date of Termination occurs,
- twenty-four months of benefit continuation,
- current value of all outstanding stock options,
- restricted stock, and
- performance stock and performance units immediately vest, and stock or cash is paid under the agreements as if the maximum performance objective was achieved.

In addition, if an event constituting a change in control of the Corporation occurs and the executive thereafter either terminates employment for good reason or is involuntarily terminated by the Corporation without cause, then the performance stock units granted shall immediately vest and a cash payment shall be made as if the maximum performance objective had been fully achieved. 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 Corporation's common stock as of the effective date of such change in control.



The following tables show the amounts payable under different termination scenarios for each Named Executive Officer as if such scenario occurred on June 30, 2016, the last day of the Corporation's most recent fiscal year:

**John H. Batten**

| Termination Event   | Base Salary                  | Bonus                   | (1)<br>Non-Equity<br>Incentive Plan | Value of Accelerated<br>Restricted Stock,<br>Performance Stock and<br>Performance Stock Units,<br>and Stock Options | Other<br>Benefits       | Total                   |
|---|------------------------------|-------------------------|-------------------------------------|---|-------------------------|-------------------------|
|   | (\$)                         | (\$)                    | (\$)                                | (\$)  | (\$)                    | (\$)                    |
| Normal Retirement prior to a Change in Control                                    | Not Eligible on 6/30/16      | Not Eligible on 6/30/16 | Not Eligible on 6/30/16             | Not Eligible on 6/30/16   | Not Eligible on 6/30/16 | Not Eligible on 6/30/16 |
| Death   | Paid through last day worked | \$0                     | \$0                                 | \$806,893 (2)   | \$0                     | \$806,893               |
| Disability  | Paid through last day worked | \$0                     | \$0                                 | \$806,893 (2)   | \$ 372,650 (3)          | \$1,031,894             |
| Termination for Cause   | Paid through last day worked | \$0                     | \$0 (4)                             | \$0 (4)   | \$0                     | \$0                     |
| Voluntary Termination Prior to Retirement   | Paid through last day worked | \$0                     | \$0                                 | \$0 (5)   | \$0                     | \$0                     |
| Involuntary Termination or Resignation for Good Cause Following Change in Control | Paid through last day worked | \$0                     | \$0                                 | \$1,072,830 (6)   | \$1,905,517 (7)         | \$2,978,347             |

(1) The bonus plan for FY16 was suspended as a part of a cost containment program, therefore no bonuses were payable.

(2) Upon death or disability, performance awards immediately vest and the awards will be delivered pro-rata, based on the assumption that the maximum performance target was achieved. In addition, restricted shares become non-forfeitable. The amount in the table was calculated by adding the prorated values of the maximum cash payments for the performance stock unit awards (100% of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2016 (\$72,302), plus 2/3rds of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2017 (\$45,008), plus the value of the prorated maximum number of shares issuable under the performance stock awards (100% of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2016 (6,899 shares), plus 2/3rds of the maximum shares issuable under the performance stock awards for the performance period ending

June 30, 2017 (4,295 shares), plus 1/3rd of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2018 (10,260 shares)). In addition, Mr. Batten has 11,498 shares of restricted stock that vest on July 25, 2016,, 10,736 shares of restricted stock that vest on July,30, 2017, and 20,519 shares of restricted stock that vest on July 31, 2018 if he remains employed with the Corporation through those dates, respectively. The maximum cash payments of the performance stock unit awards were determined by using \$10.48, the mean of the high and low selling prices of Twin Disc shares on June 30, 2016, and the values of performance shares and restricted shares were determined by using \$10.74, the closing price of Twin Disc shares on June 30, 2016.

- (3) Of this amount, \$225,002 is the value of six months of benefits beginning July 1, 2016 under the Corporation's short-term disability program for salaried employees. Any benefits payable after six months are provided by a fully-insured disability carrier. The remainder of this amount is the June 30, 2016 value of Mr. Batten's benefit under the Supplemental Executive Retirement Plan ("SERP"), which vests upon termination of employment due to disability but is not payable until the date that Mr. Batten would have attained early or normal retirement age under the SERP.
- (4) Employees terminated for cause are not eligible for performance awards. This assumes Mr. Batten was involuntarily terminated for cause on June 30, 2016.
- (5) This amount reflects performance stock and performance unit awards payable for the performance period ending June 30, 2016. These awards did not vest, as the performance target was not met.
- (6) Upon involuntary termination without cause or resignation for good cause after a change in control, performance stock and performance units immediately vest, and stock or cash is paid under the agreements as if the maximum performance objective was achieved. In addition, restricted stock becomes fully transferable. This amount represents the total of outstanding shares and units, which consists of restricted shares (42,753) and performance stock (44,120) valued at \$10.74 (the closing price of Twin Disc shares on June 30, 2016), and performance stock units (13,341) valued at \$10.48 (the mean of the high and low selling prices of Twin Disc shares on June 30, 2016).
- (7) Under the Change in Control Severance Agreement as in effect on June 30, 2016, Mr. Batten is entitled to 2.5 times his base salary plus the greater of (1) the annual bonus awarded to the Employee under the CIP for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs (or, if no annual bonus was received for such fiscal year, the average of the annual bonuses awarded to Employee under the CIP for the three years preceding the fiscal year in which the Date of Termination occurs) or (2) the Employee's target annual bonus under the CIP for the fiscal year in which the Date of Termination occurs. This formula would result in a payment of \$1,856,258 as of June 30, 2016. The figure in the table above also includes benefit continuation for 24 months (\$49,259).



**Jeffrey S. Knutson**

| Termination Event   | Base Salary<br>(\$)                | Bonus<br>(\$)                 | (1)<br>Non-Equity<br>Incentive Plan<br>(\$) | Value of<br>Accelerated<br>Restricted Stock,<br>Performance<br>Stock,<br>Performance Stock<br>Units, and Stock<br>Options<br>(\$) | Other Benefits<br>(\$)     | Total<br>(\$)              |
|---|------------------------------------|-------------------------------|---|---|----------------------------|----------------------------|
| Normal Retirement<br>prior to a Change in<br>Control  | Not eligible<br>on 6/30/16         | Not<br>eligible on<br>6/30/16 | Not eligible on<br>6/30/16                  | Not eligible on<br>6/30/16  | Not eligible on<br>6/30/16 | Not eligible on<br>6/30/16 |
| Death   | Paid<br>through last<br>day worked | \$0                           | \$0   | \$ 311,727 (2)  | \$0                        | \$311,727                  |
| Disability  | Paid<br>through last<br>day worked | \$0                           | \$0   | \$ 311,727 (2)  | \$ 140,457 (3)             | \$452,184                  |
| Termination for Cause   | Paid<br>through last<br>day worked | \$0                           | \$0 (4)                                     | \$0 (4)   | \$0                        | \$0                        |
| Voluntary Termination<br>Prior to Retirement  | Paid<br>through last<br>day worked | \$0                           | \$0   | \$0 (5)   | \$0                        | \$0                        |
| Involuntary<br>Termination or<br>Resignation for Good<br>Cause Following<br>Change in Control | Paid<br>through last<br>day worked | \$0                           | \$0   | \$ 417,239 (6)  | \$ 936,869 (7)             | \$1,354,108                |

(1) The bonus plan was suspended as a part of a cost containment program, therefore no bonuses were payable.

(2) Upon death or disability, performance awards immediately vest and the awards will be delivered pro-rata, based on the assumption that the maximum performance target was achieved. In addition, restricted shares become non-forfeitable. The amount in the table was calculated by adding the prorated values of the maximum cash payments for the performance stock unit awards (100% of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2016 (\$21,494), plus 2/3rds of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2017 (\$12,485), plus the value of the prorated maximum number of shares issuable under the performance stock awards (100% of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2016 (2,051 shares), plus 2/3rds of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2017 (1,192 shares), plus 1/3rd of the maximum shares issuable under the performance stock awards for

the performance period ending June 30, 2018 (4,324 shares). In addition, Mr. Knutson has 4,168 shares of restricted stock that vest on July 25, 2016, 5,478 shares of restricted stock that vest on July 30, 2017, and 8,648 shares of restricted stock that vest on July 31, 2018 if he remains employed with the Corporation through those dates, respectively. The maximum cash payments of the performance stock unit awards were determined by using \$10.48, the mean of the high and low selling prices of Twin Disc shares on June 30, 2016, and the values of performance shares and restricted shares were determined by using \$10.74, the closing price of Twin Disc shares on June 30, 2016.

(3) This is the value of six months of benefits beginning July 1, 2016 under the Corporation's short-term disability program for salaried employees. Any benefits payable after six months are provided by a fully-insured disability carrier.

(4) Employees terminated for cause are not eligible for performance awards. This assumes Mr. Knutson was involuntarily terminated for cause on June 30, 2016.

(5) This amount reflects performance stock and performance unit awards payable for the performance period ending June 30, 2016. These awards did not vest, as the threshold performance target was not achieved.

(6) Upon involuntary termination without cause or resignation for good cause after a change in control, performance stock and performance units immediately vest, and stock or cash is paid under the agreements as if the maximum performance objective was achieved. In addition, restricted stock becomes fully transferable. This amount represents the total of outstanding shares and units, which consists of restricted shares (18,294) and performance stock (16,810) valued at \$10.74 (the closing price of Twin Disc shares on June 30, 2016), and performance stock units (3,838) valued at \$10.48 (the mean of the high and low selling prices of Twin Disc shares on June 30, 2016). Under the Change in Control Severance Agreement as in effect on June 30, 2016, Mr. Knutson is entitled to 2.0 times his base salary plus the greater of (1) the annual bonus awarded to the Employee under the CIP for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs (or, if no annual bonus was received for such fiscal year, the average of the annual bonuses awarded to Employee under the CIP for the three years preceding the fiscal year in which the Date of Termination occurs) or (2) the Employee's target annual bonus under the CIP for the fiscal year in which the Date of Termination occurs. This formula would result in a payment of \$888,294 as of June 30, 2016. The figure in the table above also includes benefit continuation for 24 months (\$48,575).

**Malcolm F. Moore**

| Termination Event   | Base Salary                  | Bonus                   | (1)<br>Non-Equity<br>Incentive<br>Plan | Value of Accelerated<br>Restricted Stock,<br>Performance Stock,<br>Performance Stock Units,<br>and Stock Options | Other<br>Benefits       | Total                   |
|---|------------------------------|-------------------------|--|--|-------------------------|-------------------------|
|   | (\$)                         | (\$)                    | (\$)                                   | (\$)   | (\$)                    | (\$)                    |
| Normal Retirement prior to a Change in Control                                    | Not eligible on 6/30/16      | Not eligible on 6/30/16 | Not eligible on 6/30/16                | Not eligible on 6/30/16  | Not eligible on 6/30/16 | Not eligible on 6/30/16 |
| Death   | Paid through last day worked | \$0                     | \$0                                    | \$179,852 (2)  | \$0                     | \$179,852               |
| Disability  | Paid through last day worked | \$0                     | \$0                                    | \$179,852 (2)  | \$122,019 (3)           | \$301,871               |
| Termination for Cause   | Paid through last day worked | \$0                     | \$0 (4)                                | \$0 (4)  | \$0                     | \$0                     |
| Voluntary Termination Prior to Retirement   | Paid through last day worked | \$0                     | \$0                                    | \$0  | \$0                     | \$0                     |
| Involuntary Termination or Resignation for Good Cause Following Change in Control | Paid through last day worked | \$0                     | \$0                                    | \$299,753 (5)  | \$ 1,094,557 (6)        | \$1,394,310             |

(1) The bonus plan for FY2016 was suspended as a part of a cost containment program, therefore no bonuses were payable.

Upon death or disability, performance awards immediately vest and the awards will be delivered pro-rata, based on the assumption that the maximum performance target was achieved. In addition, restricted shares become non-forfeitable. The amount in the table was determined by calculating the prorated values of the maximum cash (2) payments for 1/3rd of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2018 (5,582 shares). In addition, Mr. Moore has 11,164 shares of restricted stock that vest on July 31, 2018, if he remains employed with the Corporation through that date. The values of performance shares and restricted shares were determined by using \$10.74, the closing price of Twin Disc shares on June 30, 2016.

This is the value of six months of benefits beginning July 1, 2016 under the Corporation's short-term disability (3) program for salaried employees. Any benefits payable after six months are provided by a fully-insured disability carrier.

(4) Employees terminated for cause are not eligible for performance awards. This assumes Mr. Moore was involuntarily terminated for cause on June 30, 2016.

(5) Upon involuntary termination without cause or resignation for good cause after a change in control, performance stock and performance units immediately vest, and stock or cash is paid under the agreements as if the maximum

performance objective was achieved. In addition, restricted stock becomes fully transferable. This amount represents the total of outstanding shares, which consists of restricted shares (11,164) and performance stock (16,746) valued at \$10.74 (the closing price of Twin Disc shares on June 30, 2016).

(6) Under the Change in Control Severance Agreement as in effect on June 30, 2016, Mr. Moore is entitled to 2.0 times his base salary plus the greater of (1) the annual bonus awarded to the Employee under the CIP for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs (or, if no annual bonus was received for such fiscal year, the average of the annual bonuses awarded to Employee under the CIP for the three years preceding the fiscal year in which the Date of Termination occurs) or (2) the Employee's target annual bonus under the CIP for the fiscal year in which the Date of Termination occurs. This formula would result in a payment of \$1,057,000 as of June 30, 2016. The figure in the table above also includes benefit continuation for 24 months (\$37,057).

**Dean J. Bratel**

| Termination Event   | Base Salary Bonus            |                         | (1)<br>Non-Equity<br>Incentive Plan | Value of Accelerated<br>Restricted Stock,<br>Performance Stock and<br>Performance Stock Units,<br>and Stock Options | Other<br>Benefits       | Total                   |
|---|------------------------------|-------------------------|-------------------------------------|---|-------------------------|-------------------------|
|   | (\$)                         | (\$)                    | (\$)                                | (\$)  | (\$)                    | (\$)                    |
| Normal Retirement prior to a Change in Control                                    | Not eligible on 6/30/16      | Not eligible on 6/30/16 | Not eligible on 6/30/16             | Not eligible on 6/30/16   | Not eligible on 6/30/16 | Not eligible on 6/30/16 |
| Death   | Paid through last day worked | \$0                     | \$0                                 | \$317,973 (2)   | \$0                     | \$317,973               |
| Disability  | Paid through last day worked | \$0                     | \$0                                 | \$317,973 (2)   | \$163,369 (3)           | \$481,342               |
| Termination for Cause   | Paid through last day worked | \$0                     | \$0                                 | \$0 (4)   | \$0                     | \$0                     |
| Voluntary Termination Prior to Retirement (7)                                     | Paid through last day worked | \$0                     | \$0                                 | \$0 (5)   | \$0                     | \$0                     |
| Involuntary Termination or Resignation for Good Cause Following Change in Control | Paid through last day worked | \$0                     | \$0                                 | \$419,871 (6)   | \$630,200 (7)           | \$1,050,071             |

(1) The bonus plan for FY 2016 was suspended as part of a cost containment program, therefore no bonuses were payable.

(2) Upon death or disability, performance awards immediately vest and the awards will be delivered pro-rata, based on the assumption that the maximum performance target was achieved. In addition, restricted shares become non-forfeitable. The amount in the table was calculated by adding the prorated values of the maximum cash payments for the performance stock unit awards (100% of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2016 (\$28,621), plus 2/3rds of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2017 (\$17,243), plus the value of the prorated maximum number of shares issuable under the performance stock awards (100% of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2016 (2,732 shares), plus 2/3rds of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2017 (1,646 shares), plus 1/3rd of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2018 (3,931 shares). In addition, Mr. Bratel has 5,052 shares of restricted stock that vest on July 25, 2016, 4,113 shares of restricted stock that vest on July 30, 2017, and 7,862 shares of restricted stock that vest on July 31, 2018 if he remains employed with the Corporation through those dates,

respectively. The maximum cash payments of the performance stock unit awards were determined by using \$10.48, the mean of the high and low selling prices of Twin Disc shares on June 30, 2016, and the values of performance shares and restricted shares were determined by using \$10.74, the closing price of Twin Disc shares on June 30, 2016.

- (3) Of this amount, \$129,250 is the value of six months of benefits beginning July 1, 2016 under the Corporation's short-term disability program for salaried employees. Any benefits payable after six months are provided by a fully-insured disability carrier. The remainder of this amount is the June 30, 2016 value of Mr. Bratel's benefit under the Supplemental Executive Retirement Plan ("SERP"), which vests upon termination of employment due to disability but is not payable until the date that Mr. Bratel would have attained early or normal retirement age under the SERP.
- (4) Employees terminated for cause are not eligible for performance awards. This assumes Mr. Bratel was involuntarily terminated for cause on June 30, 2016.
- (5) This amount reflects performance stock and performance unit awards payable for the performance period ending June 30, 2015. These awards did not vest, as the performance target was not achieved.
- (6) Upon involuntary termination without cause or resignation for good cause after a change in control, performance stock and performance units immediately vest, and stock or cash is paid under the agreements as if the maximum performance objective was achieved. In addition, restricted stock becomes fully transferable. This amount represents the total of outstanding shares and units, which consists of restricted shares (17,027) and performance stock (16,994) valued at \$10.74 (the closing price of Twin Disc shares on June 30, 2016), and performance stock units (5,199) valued at \$10.48 (the mean of the high and low selling prices of Twin Disc shares on June 30, 2016). Under the Change in Control Severance Agreement as in effect on June 30, 2016, Mr. Bratel is entitled to 1.5 times his base salary plus the greater of (1) the annual bonus awarded to the Employee under the CIP for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs (or, if no annual bonus was received for such fiscal year, the average of the annual bonuses awarded to Employee under the CIP for the three years preceding the fiscal year in which the Date of Termination occurs) or (2) the Employee's target annual bonus under the CIP for the fiscal year in which the Date of Termination occurs. This formula would result in a payment of \$581,625 as of June 30, 2016. The figure in the table above also includes benefit continuation for 24 months (\$48,575).
- (7)

**Denise L. Wilcox**

| Termination Event   | Base Salary                  | Bonus                   | (1)<br>Non-Equity<br>Incentive Plan | Value of Accelerated<br>Restricted Stock, Performance<br>Stock and Performance Stock<br>Units, and Stock Options | Other<br>Benefits       | Total                   |
|---|------------------------------|-------------------------|-------------------------------------|--|-------------------------|-------------------------|
|   | (\$)                         | (\$)                    | (\$)                                | (\$)   | (\$)                    | (\$)                    |
| Normal Retirement prior to a Change in Control                                    | Not eligible on 6/30/16      | Not eligible on 6/30/16 | Not eligible on 6/30/16             | Not eligible on 6/30/16  | Not eligible on 6/30/16 | Not eligible on 6/30/16 |
| Death   | Paid through last day worked | \$0                     | \$0                                 | \$207,428 (2)  | \$0                     | \$207,428               |
| Disability  | Paid through last day worked | \$0                     | \$0                                 | \$207,428 (2)  | \$134,709 (3)           | \$342,137               |
| Termination for Cause   | Paid through last day worked | \$0                     | \$0                                 | \$0 (4)  | \$0                     | \$0                     |
| Voluntary Termination Prior to Retirement   | Paid through last day worked | \$0                     | \$0                                 | \$0 (5)  | \$0                     | \$0                     |
| Involuntary Termination or Resignation for Good Cause Following Change in Control | Paid through last day worked | \$0                     | \$0                                 | \$272,637 (6)  | \$486,984 (7)           | \$759,621               |

(1) The bonus plan for FY2016 was suspended as part of a cost containment program, therefore there were no bonuses payable.

(2) Upon death or disability, performance awards immediately vest and the awards will be delivered pro-rata, based on the assumption that the maximum performance target was achieved. In addition, restricted shares become non-forfeitable. The amount in the table was calculated by adding the prorated values of the maximum cash payments for the performance stock unit awards (100% of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2016 (\$18,854), plus 2/3rds of the maximum cash payment for performance stock units payable for the performance period ending June 30, 2017 (\$11,032), plus the value of the prorated maximum number of shares issuable under the performance stock awards (100% of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2016 (1,799 shares), plus 2/3rds of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2017 (1,054 shares), plus 1/3rd of the maximum shares issuable under the performance stock awards for the performance period ending June 30, 2018 (2,516 shares)). In addition, Ms. Wilcox has 3,497 shares of restricted stock that vest on July 25, 2016, 2,633 shares of restricted stock that vest on July 30, 2017, and 5,032 shares of restricted stock that vest on July 31, 2018 if she remains employed with the Corporation through those

dates, respectively. The maximum cash payments of the performance stock unit awards were determined by using \$10.48, the mean of the high and low selling prices of Twin Disc shares on June 30, 2016, and the values of performance shares and restricted shares were determined by using \$10.74, the closing price of Twin Disc shares on June 30, 2016.

- (3) Of this amount, \$108,100 is the value of six months of benefits beginning July 1, 2016 under the Corporation's short-term disability program for salaried employees. Any benefits payable after six months are provided by a fully-insured disability carrier. The remainder of this amount is the June 30, 2016 value of Ms. Wilcox's benefit under the Supplemental Executive Retirement Plan ("SERP"), which vests upon termination of employment due to disability but is not payable until the date that Ms. Wilcox would have attained early or normal retirement age under the SERP.
- (4) Employees terminated for cause are not eligible for performance awards. This assumes Ms. Wilcox was involuntarily terminated for cause on June 30, 2016.
- (5) This amount reflects performance stock and performance unit awards payable for the performance period ending June 30, 2016. These awards did not vest, as the performance target was not achieved.
- (6) Upon involuntary termination without cause or resignation for good cause after a change in control, performance stock and performance units immediately vest, and stock or cash is paid under the agreements as if the maximum performance objective was achieved. In addition, restricted stock becomes fully transferable. This amount represents the total of outstanding shares and units, which consists of restricted shares (11,162) and performance stock (10,927) valued at \$10.74 (the closing price of Twin Disc shares on June 30, 2016), and performance stock units (3,378) valued at \$10.48 (the mean of the high and low selling prices of Twin Disc shares on June 30, 2016). Under the Change in Control Severance Agreement as in effect on June 30, 2016, Ms. Wilcox is entitled to 1.5 times the sum of her base salary, plus the greater of (1) the annual bonus awarded to the Employee under the CIP for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs (or, if no annual bonus was received for such fiscal year, the average of the annual bonuses awarded to Employee under the CIP for the three years preceding the fiscal year in which the Date of Termination occurs) or (2) the Employee's target annual bonus under the CIP for the fiscal year in which the Date of Termination occurs. This formula would result in a payment of \$454,018 as of June 30, 2016. The figure in the table above also includes benefit continuation for 24 months (\$32,966).
- (7)
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**Director Compensation**

The following table summarizes information regarding the compensation received by each of our non-employee Directors during FY2016:

| Name               | Year | Fees Earned or Paid in Cash | Value of Stock Awards (1) | Option Awards | Non-Equity Incentive Plan Compensation | Change in Pension Value and Non-qualified Deferred Compensation Earnings | All Other Compensation (2) | Total      |
|--------------------|------|-----------------------------|---------------------------|---------------|--|--|----------------------------|------------|
| Michael Doar       | 2016 | \$ 65,375                   | \$ 62,500                 |               |  |  |                            | \$ 127,875 |
| Janet Giesselman   | 2016 | \$ 63,875                   | \$ 62,500                 |               |  |  |                            | \$ 126,375 |
| David Rayburn      | 2016 | \$ 109,375                  | \$ 62,500                 |               |  |  |                            | \$ 171,875 |
| Michael Smiley     | 2016 | \$ 60,875                   | \$ 62,500                 |               |  |  |                            | \$ 123,375 |
| Harold Stratton II | 2016 | \$ 65,375                   | \$ 62,500                 |               |  |  |                            | \$ 127,875 |
| David Zimmer       | 2016 | \$ 75,875                   | \$ 62,500                 |               |  |  | \$ 3,750                   | \$ 142,125 |

(1) Value of Stock Awards is computed as of the date of grant in accordance with Financial Accounting Standards Board ASC Topic 718.

(2) Special compensation paid for a Board of Director's assignment assisting management in evaluating potential acquisition targets.

**Director Compensation Plan**

Outside Directors of the Corporation (i.e. non-Corporation employees) are eligible to participate in the Twin Disc, Incorporated 2010 Stock Incentive Plan for Non-Employee Directors and are paid an annual retainer fee composed of both cash and restricted shares of Twin Disc stock. The mix of cash and stock is determined by the Board of Directors on an annual basis. The cash portion is paid quarterly, while the stock portion of the retainer is awarded annually, at the annual shareholders meeting in October. The restricted shares will vest as of the subsequent annual shareholders meeting.

For FY2016, the Board reviewed its Director Compensation and maintained its annual retainer at \$125,000, effective as of the date of the annual shareholders meeting in October 2015. They determined that the mix for FY2016 would be 50% cash and 50% restricted stock.

Committee chairs are paid an annual fee in addition to the annual retainer. The chairs of the Finance and Risk Management Committee, the Pension Committee, and the Nominating and Governance Committee each receive an annual fee of \$6,000. The chair of the Audit Committee receives a \$12,000 annual fee and the chair of the Compensation and Executive Development Committee receives a \$9,000 annual fee, due to the larger responsibilities of the positions. The annual Chairman's fee remains at 40% of the retainer, or \$50,000.

Director stock ownership guidelines are in place for the outside Directors of the Corporation. These guidelines will set a target ownership level of three times the value of the Director annual retainer fee, exclusive of committee chair fees. Directors will have a period of five years to attain their targeted ownership level. The Compensation and Executive Development Committee monitors compliance with this guideline, using its discretion to address non-attainment issues.

Outside Directors who reach the age of 72 are required to retire from the Board of Directors effective as of the completion of their current term. Retired outside Directors will be entitled to an annual retirement benefit equal to the cash portion of the total annual retainer amount last paid to the Director prior to retirement, exclusive of committee chair fees. Retirement benefits will be payable for a term equal to the Director's years of service or life, whichever is shorter.

## **Compensation and Executive Development Committee Report**

The Compensation and Executive Development Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis with management. Based on that review and discussion, the Compensation and Executive Development Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Corporation's proxy statement and the Corporation's annual report on Form 10-K.

Members of the Compensation and Executive Development Committee:

Janet P. Giesselman, Chair

Michael C. Smiley

Harold M. Stratton II

David R. Zimmer

## **Audit Committee Report**

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of the Corporation's other filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Corporation specifically incorporates this report by reference therein.

The Audit Committee charter reflects standards set forth in SEC regulations and NASDAQ Stock Market rules. All members of the Audit Committee are independent, as defined in Rule 5605 of the listing standards of the NASDAQ Stock Market.

The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the Committee's charter. To carry out its responsibilities, the Committee met five times during fiscal 2016.

As part of its responsibilities, and as set forth in its charter, the Audit Committee met with both management and the Corporation's independent accountants to review and discuss the audited financial statements prior to their issuance and to discuss significant accounting issues. Management advised the Committee that all financial statements were prepared in accordance with generally accepted accounting principles, and the Committee discussed the statements with both management and the independent accountants. The Committee's review included discussion with the independent accountants of matters required to be discussed pursuant to Auditing Standard No. 16, "Communications with Audit Committees," as adopted by the Public Company Accounting Oversight Board, and SEC Regulation S-X, Rule 2-07, "Communication with Audit Committees."

The Committee received the written disclosures and the letter required from the independent accountants pursuant to Rule 3526, "Communication with Audit Committees Concerning Independence," of the Public Company Accounting Oversight Board regarding the independent accountant's communication with the audit committee concerning independence. The Committee also discussed with PricewaterhouseCoopers LLP matters relating to its independence.

On the basis of these reviews and discussions, the Committee recommended to the Board of Directors that the Board approve the inclusion of the Corporation's audited financial statements in the Corporation's annual report on Form 10-K for the fiscal year ended June 30, 2016, for filing with the Securities and Exchange Commission.

Audit Committee

David R. Zimmer, Chair

Michael Doar

Janet P. Giesselman

Michael C. Smiley

July 29, 2016

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**EQUITY COMPENSATION PLAN INFORMATION**

The following table summarizes certain information regarding the Corporation's equity-based compensation plans as of the end of the most recently completed fiscal year:

| Plan Category  | # of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted Average Price of Outstanding Options, Warrants and Rights | # of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|--|--|--|---|
| Equity Compensation Plans Approved by Shareholders     | 121,600 (1)  | \$16.80 (2)  | 477,710 (3)   |
| Equity Compensation Plans Not Approved By Shareholders | 0  | N/A  | 0   |
| <b>TOTAL</b>   | <b>121,600 (1)</b>   | <b>\$16.80 (2)</b>   | <b>477,710 (3)</b>  |

(1) Includes 16,800 non-qualified stock options awarded under the Twin Disc, Incorporated 2004 Stock Incentive Plan for Non-Employee Directors. Also includes 90,699 shares of performance stock that may be issued as of June 30, 2018 under the Twin Disc, Incorporated 2010 Stock Incentive Plan, assuming the maximum performance level will be achieved. As of June 30, 2016, the Corporation believes that it is unlikely that the threshold performance goals will be achieved. Also includes 14,101 shares of performance stock that may be issued as of June 30, 2017 under the Twin Disc, Incorporated 2010 Stock Incentive Plan, assuming the maximum performance goals are achieved. As of June 30, 2016, the Corporation believes that it is unlikely that the threshold performance goals will be achieved.

(2) Because performance stock awards do not have an exercise price, the weighted-average exercise price does not take performance stock awards into account.

(3) Includes 333,054 shares of the Corporation's common stock issuable under the Amended and Restated Twin Disc, Incorporated 2010 Stock Incentive Plan, and 144,656 shares issuable under the Twin Disc, Incorporated 2010 Stock Incentive Plan for Non-Employee Directors. Assumes that outstanding performance stock awards will be issued at maximum, which may not reflect the most probable outcome. As of June 30, 2016, the Corporation believes that it is unlikely that the threshold performance goals will be achieved.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Securities Exchange Act of 1934 requires the Corporation's Directors, executive officers and certain persons who beneficially own more than 10% of a registered class of the Corporation's equity securities to file reports of ownership and changes in ownership of Twin Disc stock. Based solely on a review of the copies of such forms

furnished to the Corporation and representations from executive officers and Directors, the Corporation believes that during the period from July 1, 2015 to June 30, 2016, all Section 16(a) filing requirements applicable to its executive officers, Directors and greater than 10% beneficial owners were properly filed with the Securities and Exchange Commission with the exception of Ms. Giesselman's July 8, 2015 Form 4 filing (which should have been filed on July 2, 2015) and Mr. Batten's March 2, 2016 Form 4 filing (which should have been filed on December 16, 2015).

## **GENERAL**

The Corporation will bear the cost of the solicitation of proxies. The firm of Georgeson Inc., New York, NY has been retained to assist in solicitation of proxies for the Annual Meeting at a fee not to exceed \$9,500 plus expenses.

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

If you do not contemplate attending in person, we respectfully request that you fill in, sign and return the accompanying proxy at your earliest convenience. However, remember that in order to have your proxy validated, it must be delivered to the Secretary either in person, by mail, or by messenger, and it must be received by the Secretary not less than forty-eight (48) hours prior to the date of the Annual Meeting. Alternatively, shareholders may transmit voting instructions via the Internet by accessing [www.investorvote.com/twin](http://www.investorvote.com/twin) or by telephone at 1-800-652-8683.

APPENDIX A

COMPENSATION SURVEYS: PARTICIPATING COMPANIES UTILIZED

**CDB General Industry**

**Executive**

**Companies Revenues < \$1B**

Acxiom  
 Aerojet  
 Appleton Papers  
 Arctic Cat  
 Aricent Group  
 Bush Brothers  
 E.W. Scripps  
 EnPro Industries  
 ESRI  
 Euro-Pro  
 Fidessa Group  
 GenCorp  
 Globecomm Systems  
 Graco Neustar  
 Hanger Orthopedic Group  
 HNTB Regency Centers  
 Hovnanian Enterprises  
 Hutchinson Technology  
 ION Geophysical  
 Kimco Realty Space  
 LifeCell Sundt Construction  
 Makino  
 Operating Matthews International  
 Medicines Company  
 Milacron  
 Navigant Consulting  
 Polymer Group  
 Ricardo  
 Scientific Research  
 ShawCor  
 Systems Loral  
 Taubman Centers  
 Viad  
 VistaPrint  
 Zebra Technologies

**Durable Goods Companies**

**Revenues < \$450M**

Acumed  
 Alfa Laval Inc.  
 Ames True Temper  
 ASCO VALVE  
 Bemis Mfg. Co.  
 BIC Advertising and Promotional Products (BIC APP)  
 Bosch Rexroth  
 Bradley Corporation  
 Bulk Handling Systems  
 CAMCRAFT  
 Engineered Plastics Company  
 Etnyre International, Ltd.  
 Fleetwood Group, Inc.  
 Flexible Steel Lacing Company  
 Georg Fischer Signet LLC  
 HU-FRIEDY MFG. CO.,  
 Hunter Industries  
 John Crane  
 Johnson Outdoors  
 Kewaunee Scientific Corporation  
 Klein Tools, Inc.  
 Lake Region Medical  
 Lane Enterprises, Inc.  
 Lantech  
 Logic PD  
 Lutron Electronics Co., Inc.  
 Malco Products, Inc.  
 Merit Medical Systems  
 Project Management Institute  
 Rea Magnet Wire Company, Inc.  
 Rite-Hite Holding Corporation  
 Scientific Research Corporation  
 Seaman Corporation  
 SGT, Inc

Southco, Inc.  
 The Bergquist Company  
 United Conveyor Corporation



**CSR Top Management**

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