

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.

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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  
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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 Beneficial Ownership	Amount Owned	Percent of Class
John H. Batten	704 Waters Edge Rd. Racine, WI	Power to vote	2,531,666 <sup>(1)</sup>	22.1 %
		Beneficial	180,584	1.6 %
GAMCO Investors, Inc.	One Corporate Center Rye, NY	Power to vote & dispose of stock	1,728,976 <sup>(2)</sup>	15.1 %
Juniper Investments Company, LLC	555 Madison Avenue New York, NY	Power to vote & dispose of stock	672,894	5.9 %
Wilks Brothers, LLC	17010 Interstate 20 Cisco, TX	Power to vote & 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
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**TERMS EXPIRE IN 2019:**

John H. Batten 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 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 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 Current Age	Principal Occupation and Other Public Company Directorships Held Within Past Five Years	Skills and Qualifications	Served as Director Continuously Since
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TERM TO EXPIRE IN 2018:

David W. Johnson Age 53	Vice President and Chief Financial Officer, Johnson Outdoors, Inc., Racine, Wisconsin (A global provider of outdoor recreation products).	Mr. Johnson is a sitting CFO of a public company. His strengths include financial leadership, new business development, operational restructuring , cost saving and strategic analysis.	July 2016
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**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 Current Age	Principal Occupation and Other Public Company Directorships Held Within Past Five Years	Skills and Qualifications	Served as Director Continuously Since
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CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2017:

Michael Doar Age 61	Chairman and Chief Executive Officer, Hurco Companies, Inc. Indianapolis, Indiana  (A global manufacturer of machine tools)	Mr. Doar is a sitting CEO of a public company. His experience includes strategic planning, financial oversight, compensation and organizational competencies.  His career in the capital goods industry has exposed him to complex manufacturing and engineering solutions on a global basis.	October 2008
David R. Zimmer Age 70	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);	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.	July 1995



Also Director, Detrex Corp.  
and Strattec Security Corp.

Name and	Principal Occupation and Other Public Company Directorships	Skills and Qualifications	Served as Director Continuously Since
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CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2018:

David B. Rayburn 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 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;