

TWIN DISC INC  
Form 11-K  
June 29, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11- K

Annual Report Pursuant to Section 15(d)  
of the Securities Exchange Act of 1934

As of December 31, 2006 and December 31, 2005 and for the year ended December 31, 2006

Commission file number 1 7635

A. Full title of the plan and the address of the plan if different from that of the issuer named below:

TWIN DISC, INCORPORATED THE ACCELERATOR 401 (K) SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office:

TWIN DISC, INCORPORATED

1328 Racine Street Racine, WI 53403

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**TWIN DISC, INCORPORATED**  
**THE ACCELERATOR 401(k) SAVINGS PLAN**  
Racine, Wisconsin

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

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INDEPENDENT AUDITORS REPORT

Benefits Committee  
Twin Disc, Incorporated  
The Accelerator 401(k) Savings Plan  
Racine, Wisconsin

We have audited the accompanying statements of net assets available for benefits of the Twin Disc, Incorporated - The Accelerator 401(k) Savings Plan as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits and supplemental schedule for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets Held for Investment Purposes - December 31, 2006, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Reilly, Penner & Benton, LLP  
June 19, 2007  
Milwaukee, WI

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**TWIN DISC, INCORPORATED**  
**THE ACCELERATOR 401(K) SAVINGS PLAN**  
Racine, Wisconsin

Statements of Net Assets Available for Benefits  
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Investment options at fair value	\$62,642,361	\$54,665,738
Receivables:		
Employer match contribution	8,065	7,129
Participant contribution	<u>25,404</u>	<u>22,857</u>
Total receivables	<u>33,469</u>	<u>29,986</u>
Net assets reflecting all investments at fair value	62,675,830	54,695,724
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	<u>112,560</u>	<u>105,341</u>
Net assets available for plan benefits	<u><b>\$62,788,390</b></u>	<u><b>\$54,801,065</b></u>

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

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**TWIN DISC, INCORPORATED**  
**THE ACCELERATOR 401(K) SAVINGS PLAN**  
Racine, Wisconsin

Statements of Changes in Net Assets Available for Benefits  
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Additions:		
Additions to net assets attributed to:		
Investment income:		
Net appreciation in fair value of investments	\$4,445,722	\$1,559,556
Interest	78,959	74,025
Dividends	<u>3,025,849</u>	<u>1,961,261</u>

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Net investment gain	7,550,530	3,594,842
Contributions:		
Employer	1,081,000	686,948
Participant	2,724,236	2,419,921
Rollovers	<u>83,408</u>	<u>136,255</u>
Total contributions	<u>3,888,644</u>	<u>3,243,124</u>
Total additions	11,439,174	6,837,966
Deductions:		
Deductions from net assets attributed to:		
Administrative fees	2,298	1,853
Benefits paid to participants	<u>3,449,551</u>	<u>3,031,789</u>
Total deductions	<u>3,451,849</u>	<u>3,033,642</u>
Change in net assets available for plan benefits	7,987,325	3,804,324
Net assets available for plan benefits, beginning of year	<u>54,801,065</u>	<u>50,996,741</u>
Net assets available for plan benefits, end of year	<u>\$62,788,390</u>	<u>\$54,801,065</u>

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

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**TWIN DISC, INCORPORATED THE ACCELERATOR 401(k) SAVINGS PLAN**

Racine, Wisconsin

Notes to Financial Statements  
December 31, 2006 and 2005

1. Basis of Presentation and Significant Accounting Policies

General

The following brief description of the Twin Disc, Incorporated The Accelerator 401(k) Savings Plan (the Plan ) is provided for general information purposes only. Participants should refer to the plan agreement for a more complete description of the Plan s provisions. The Plan, established April 1, 1986, is a defined-contribution plan covering substantially all Twin Disc, Incorporated (the Company ) domestic employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

Eligibility

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An employee of the Company is eligible for plan participation after completing two months of employment.

### Contributions

Participants may elect to contribute on a pre-tax basis up to 100% of annual gross income with contributions limited under provisions of the Internal Revenue Code.

For participants who are employed by Twin Disc, Inc., the Company contributes an amount equal to a percentage of each participant's 401(k) contributions, up to 6% of compensation. The contribution percentages for the years ended December 31, 2006 and 2005 was 50%. For participants who are employed by the Twin Disc South East subsidiary, the Company contributes a matching contribution equal to 25% of each participant's 401(k) contributions, up to 6% of compensation, and a profit sharing contribution equal to 2.5% of each participant's compensation. The Internal Revenue Code has set a maximum of \$15,000 and \$14,000 for tax-deferred contributions that may be excluded for any individual participant in 2006 and 2005, respectively. The Internal Revenue Code also allows additional catch-up contributions for participants age fifty and over. The maximum additional contribution allowed was \$5,000 and \$4,000 in 2006 and 2005, respectively. No federal income tax is paid on the tax-deferred contributions and growth thereon until the participant withdraws them from the Plan.

The Plan enables participants to allocate their contributions and account balances among various investment options offered by the Plan. Assets of the Plan are segregated and invested based upon the total allocation of the participants' accounts. Participants may direct such allocations in any whole percentage increment and allocations can be changed at any time.

### Vesting

Participants are immediately 100% vested in their individual account balances.

### Withdrawals

After-tax contributions may be withdrawn at any time upon receipt of written notice by the Trustee. Pre-tax contributions may only be withdrawn, prior to employment termination, in the event of severe financial hardship or once annually upon attainment of age 59½. A final distribution is paid to the participant upon termination of employment with the Company. Final distributions in excess of \$5,000 may be deferred as elected by the participant until age 70 ½.

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## TWIN DISC, INCORPORATED THE ACCELERATOR 401(K) SAVINGS PLAN

Racine, Wisconsin

Notes to Financial Statements

December 31, 2006 and 2005

(Continued)

### 1. Basis of Presentation and Significant Accounting Policies (Continued)

#### Participant Accounts

The trusteeship of the Plan is T. Rowe Price Trust Company, and the recordkeeping services for the Plan T. Rowe Price Retirement Plan Services, Inc. ( T. Rowe Price ). T. Rowe Price maintains individual accounts for each participant for their respective investment in each of twelve available investment funds. For all investment programs which are mutual funds or collective trust funds, participant balances are maintained on a share or unit method, as appropriate. Participant investments in the Twin Disc, Inc. Stock were accounted for on a share method. Shares and share values as of December 31, 2006 and 2005 were as follows:

Shares

December 31,

Share Value

December 31,

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	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Twin Disc, Inc. Stock	73,173	32,553	\$35.50	\$44.69

Participant Loans

Participants may be granted a loan against their individual account balance limited to the lesser of \$50,000 or 50% of the account balance. Loans are granted in a uniform and nondiscriminatory manner based on the loan policy as set forth by the Benefits Committee. The loan proceeds are made pro-rata from the investment elections of the participant. Each participant's individual account and the interest and principal paid on the loan shall be credited only to such participant's account balance. Any such loan shall be repaid over a period not exceeding five years unless the loan is used to purchase a principal residence, in which case the loan shall be repaid over a period not exceeding fifteen years.

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Administrative Expenses

Certain administrative expenses of the Plan are paid by the Company at its discretion. The remaining administrative expenses are paid by the Plan.

Benefit Payments

Benefits are recorded when paid.

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**TWIN DISC, INCORPORATED THE ACCELERATOR 401(k) SAVINGS PLAN**

Racine, Wisconsin

Notes to Financial Statements

December 31, 2006 and 2005

(Continued)

1. Basis of Presentation and Significant Accounting Policies (Continued)

Investment Valuation

Investments of the Plan are stated at fair value. The values of investments in mutual funds and common stocks are determined by the last reported market price on the last business day of the year. Investments in collective trust funds, other than the T. Rowe Price Stable Value Common Trust Fund (see below), are valued at redemption prices established by the trustee of the funds based on the quoted market prices of the underlying investments. Participant loans are valued at cost which approximates fair value. The Plan presents in the statement of changes in net assets, the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest is recognized when earned.

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The fair value of the T. Rowe Price Stable Value Common Trust Fund is determined by T. Rowe Price Retirement Plan Services, Inc. The collective trust fund invests in short-term and long-term conventional and synthetic investment contracts issued by insurance companies and other institutions that meet the high credit quality standards established by T. Rowe Price. There is an adjustment made on the Statements of Net Assets Available for Benefits to adjust the investment contracts from fair value to contract value (which represents contributions received, plus interest, less plan withdrawals).

### 2. Investments

The following presents investments that represent 5 % or more of the Plan's net assets:

	<u>2006</u>	<u>December 31,</u> <u>2005</u>
<b>Mutual Funds:</b>		
Dodge & Cox Balanced Fund	\$ 4,252,755	\$ 3,277,303
Pimco Total Return Fund	4,877,746	4,648,094
T. Rowe Price Equity Income Fund	4,266,658	3,306,322
T. Rowe Price Growth Stock Fund	12,879,405	11,485,150
T. Rowe Price Mid Cap Value Fund	10,671,556	8,773,858
T. Rowe Price Small Cap Value Fund	3,155,645	---
T. Rowe Price Stable Value Common Trust Fund	13,242,352	12,623,980

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## TWIN DISC, INCORPORATED THE ACCELERATOR 401(k) SAVINGS PLAN

Racine, Wisconsin

Notes to Financial Statements

December 31, 2006 and 2005

(Continued)

### 2. Investments (Continued)

During 2006 and 2005, the Plan's investments (including gains and losses on investments bought and sold as well as held during the year) appreciated in value by \$4,445,722 and \$1,559,556, respectively, as follows:

	<u>2006</u>	<u>December 31,</u> <u>2005</u>
Mutual funds	\$ 3,273,040	\$ 729,780
Common stock	955,179	786,542
Collective trust fund	<u>217,503</u>	<u>43,234</u>
	<b><u>\$ 4,445,722</u></b>	<b><u>\$ 1,559,556</u></b>

### 3. T. Rowe Price Stable Value Common Trust Fund

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The Plan has assets invested in the T. Rowe Price Stable Value Common Trust Fund. This fund holds Guaranteed and Synthetic Investment Contracts. Information pertaining to the funds for the year ended December 31, 2006 is as follows:

Average <u>Yield</u>	Crediting Interest <u>Rate</u>	Investments at <u>Fair Value</u>	Investments at <u>Contract Value</u>	Adjustment to Contract <u>Value</u>
4.81%	4.68%	\$7,422,984,000	\$7,486,776,000	\$63,792,000

Information pertaining to the fund for the year ended December 31, 2005 is as follows:

Average <u>Yield</u>	Crediting Interest <u>Rate</u>	Investments at <u>Fair Value</u>	Investments at <u>Contract Value</u>	Adjustment to Contract <u>Value</u>
4.33%	4.42%	\$7,027,409,000	\$7,086,543,000	\$59,134,000

#### 4. Income Tax Status

The Plan obtained its latest determination letter on March 19, 2002, in which the Internal Revenue Service stated the Plan as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

#### 5. Termination of Plan

Although the Company has not expressed any intent to terminate the Plan, it may do so at any time.

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### TWIN DISC, INCORPORATED THE ACCELERATOR 401(k) SAVINGS PLAN

Racine, Wisconsin

Notes to Financial Statements

December 31, 2006 and 2005

(Continued)

#### 6. Party-in-Interest Transactions

Transactions involving employer securities, funds administered by T. Rowe Price Retirement Plan Services, Inc., the current trustee and recordkeeper of the Plan, and participant loans are considered party-in-interest transactions. These transactions are not, however, considered prohibited transactions under 29 CFR 408(b) of the ERISA regulations.

#### 7. Amounts Allocated to Withdrawn Participants

Plan assets of \$10,805,445 and \$10,100,943 have been allocated to the accounts of persons who are no longer active participants of the Plan as of December 31, 2006 and 2005, respectively, but who have not yet received distributions as of that date.

#### 8. Use of Estimates



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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of additions and deductions during the reporting periods. Actual amounts could differ from those estimates.

### 9. Risks and Uncertainties

The Plan's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statements of Changes in Net Assets Available for Benefits.

### 10. Subsequent Events

In February 2007, the Company made a one-time discretionary match contribution to all Racine active Twin Disc, Incorporated employees as of December 31, 2006 and to Racine Twin Disc, Incorporated employees who retired during 2006 that participated and contributed to the Plan during 2006. The amount of the contribution was based on the employee's payroll during for 2006.

Effective January 2007, the Company has amended the Plan to allow Roth after-tax employee contributions. Roth contributions are made by employees with after-tax dollars. Federal income tax is paid on the Roth contributions when made to the Plan. A qualified distribution from the Roth component, including any earnings received from the investment of Roth contributions, is tax-free to the participant if taken five years after the year of the first Roth contribution and if the participant has reached the age of 59 1/2, become totally disabled, or deceased. If the distribution is not qualified, any withdrawal from the account will be partially taxable to the participant.

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**TWIN DISC, INCORPORATED**  
**THE ACCELERATOR 401(K) SAVINGS PLAN**  
Racine, Wisconsin

Employer Identification #39-0667110  
Plan 005

Schedule of Assets Held for Investment Purposes - Schedule H, Line 4i  
December 31, 2006

<u>Description of asset</u>	<u>Shares/Units</u>	<u>Fair Value</u>
Dodge & Cox Balanced Fund	48,837	\$4,252,755
Goldman Sachs Growth Opportunities A Fund	24,404	530,305
Pimco Total Return Fund	469,918	4,877,746
* T. Rowe Price Equity Income Fund	144,388	4,266,658
* T. Rowe Price Growth Stock Fund	407,190	12,879,405
* T. Rowe Price Mid Cap Value Fund	419,809	10,671,556
* T. Rowe Price Small Cap Value Fund	76,575	3,155,645
* T. Rowe Price Stable Value Common Trust Fund	13,242,352	13,242,352
Boston Company International Core Equity	110,725	1,770,184
* Twin Disc, Inc. - Common Stock	73,173	2,597,638
Vanguard 500 Index Fund	13,344	1,742,626

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William Blair Small Cap Growth Fund	60,889	1,547,185
* Participant Loans, interest rates ranging between 5.0% and 10.5%, maturities ranging from 2007 to 2019		<u>1,220,866</u>
		<b><u>\$62,754,921</u></b>

\* The party involved is known to be a party-in-interest to the Plan.

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EXHIBITS TO THE ANNUAL REPORT ON FORM 11 K

The exhibits listed below are filed as part of this Annual Report on Form 11 K. Each exhibit is listed according to the number assigned to it in the Exhibit Table of Item 601 of Regulation S K.

Exhibit Number	Description
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23	Consent of Independent Accountants, filed herewith.
99.1	Section 906 Certification
99.2	Section 906 Certification

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the members of the Committee which administers the Plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

TWIN DISC, INCORPORATED  
THE ACCELERATOR 401(K) SAVINGS PLAN

June 29, 2007  
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/s/ Christopher J. Eperjesy  
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Christopher J. Eperjesy  
Vice President Finance, Chief Financial Officer  
and Secretary

/s/ Denise L. Wilcox  
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Denise L. Wilcox  
Vice President Human Resources

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