

## ADMINISTRATIVE AGREEMENT

This Agreement dated 9-19- 2011, is made between MTS Systems Corporation ("MTS" or "Company") and the United States Department of the Air Force ("USAF"). The purpose of this Agreement is to record the actions MTS has taken and has committed to take to satisfy the USAF that it can be trusted to receive Federal Government contracts and subcontracts and the benefits of Federal assistance programs, and the USAF's agreement to terminate the March 11, 2011, suspension of MTS based upon the terms herein, including the removal of its name from the Excluded Parties List System ("EPLS").

### PREAMBLE

- A. MTS, headquartered in Eden Prairie, Minnesota, develops, manufactures, and maintains high-performing testing and sensing equipment.
- B. On March 11, 2011, the USAF suspended MTS from Federal Government contracting and from directly or indirectly receiving the benefits of Federal assistance programs, pursuant to the authority and procedures of the Federal Acquisition Regulation ("FAR") Subpart 9.4. The USAF's Notice of Suspension and Memorandum in Support of the Suspensions are incorporated by reference herein and are attached as Exhibit A. The suspension is based on evidence that, from 2008 to present, "MTS failed to disclose in its Online Representations and Certifications Application (ORCA)" that MTS had previously been convicted, within a three-year period prior to the Company's ORCA submissions, of two misdemeanor offenses related to making false statements under 18 U.S.C. § 1018, false certification or writing. MTS also failed to give timely notice to the USAF and other agencies of its inaccurate ORCA submissions and an on-going investigation by the U.S. Department of Justice ("DOJ") and the U.S. Department of Commerce's Office of Inspector General ("OIG").
- C. MTS does not contest the facts forming the basis for the USAF's suspension and further acknowledges that there is a basis for its suspension under FAR Subpart 9.4. In response to the USAF's Notice of Suspension, MTS submitted extensive written materials to the USAF on July 14 and August 28, 2011, and met with the USAF on August 4, 2011. In those materials and the meeting, MTS has accepted all responsibility for its inaccurate ORCA filings and its failure to report to the appropriate Federal contracting agencies the fact of these erroneous filings and the resulting DOJ and OIG investigation. Most importantly, MTS has provided the USAF with information relating to significant remedial measures it has taken and is taking to strengthen its internal controls and to re-establish its corporate integrity and present responsibility. These measures include management changes, increased emphasis on improving its culture of ethics and compliance,

improvements to its internal controls, restructuring of legal and compliance functions, and full transparency and cooperation with the U.S. Government. The USAF has agreed that these measures, if properly implemented by MTS, will protect the U.S. Government's interests.

D. The USAF has concluded that FAR 9.407 and the facts and information presented by MTS provide an adequate basis for the USAF to terminate the March 11, 2011 suspension.

### TERMS AND CONDITIONS

1. **PERIOD:** The period of this Agreement shall be three years from the date of the execution of this Agreement by the USAF, or if the USAF in its sole reasonable discretion determines at any time during the term of this Agreement that MTS has ceased to be in full compliance with this Agreement for a period of three years following reestablishment of full compliance as reasonably determined by the USAF.
2. **CULTURAL TRANSFORMATION:** Prior to and immediately following the receipt of the March 11, 2011, Notice of Suspension, MTS initiated a set of measures that demonstrate a profound shift in its corporate culture. MTS hereby commits to continuing such measures and to tracking progress in periodic and transparent reports to the USAF as required by this Agreement.
3. **EMPLOYEES:** The word employee(s) in this Agreement includes MTS's officers, contract employees, consultants, full-time and part-time employees, and members of its Board of Directors. The definition shall in no way impact the oversight and independence roles of the members of the Board of Directors.
4. **ETHICS AND COMPLIANCE PROGRAM:** MTS has been adopting, implementing, and maintaining a self-governance program that includes a business ethics and compliance program that applies to all employees, both domestic and international. MTS shall continue to implement this program so as to ensure that MTS and each of its employees maintains the business honesty and integrity required of a Government contractor and that MTS operates in strict compliance with all applicable laws, regulations, and the terms of any contract, grant, or cooperative agreement. Specifically:
  - A. MTS has created the positions of General Counsel/Chief Compliance Officer and Director of Compliance. These positions shall be responsible for managing all aspects of MTS's ethics and compliance program and together shall report on the progress of that program

directly to the Chief Executive Officer and the Audit Committee of the Board of Directors. MTS agrees to maintain these or comparable positions throughout the term of this Agreement.

- B. MTS has a Code of Conduct ("Code") in place. A copy is attached as Exhibit B to this Agreement. The Code shall be deemed incorporated by reference into this Agreement. No later than 14 days after execution of this Agreement, MTS will modify the Code as suggested by the Monitor (described below) and MTS shall provide a copy of the Revised Code to the USAF for its review. The Revised Code, including any reasonable comments provided by the USAF, shall be deemed incorporated by reference into this Agreement, and shall replace the original Exhibit B.
- C. In May 2011, MTS provided to each employee a copy of the Code and required each MTS employee worldwide to sign a certification, in records that are maintained by MTS and open for inspection by the USAF, that he or she has read the Code and understands it. No later than 60 days after the adoption of the Revised Code, MTS will require each MTS employee worldwide to sign the same certification, in records that are maintained by MTS and open to inspection by the USAF, that he or she has read the Revised Code and understands it. MTS shall verify to the USAF within 60 days after the adoption of the Revised Code that all employees have signed the certification. Thereafter, at least once in each calendar year, each employee shall repeat the procedure of reading the Revised Code and signing the certification.
- D. MTS agrees to institute and maintain an information and education program designed to assure that all employees are aware of all applicable laws, regulations, and standards of business conduct that employees are expected to follow and the consequences both to the employee and to the Company that will arise from any violation. Training shall consist of Compliance Training for all employees whose duties directly or indirectly involve the particular compliance risk area that is the subject of the compliance training (e.g., representations and certifications, selling to the Government, import/export controls), plus at least one hour of Initial Training in the MTS business ethics and compliance program for every MTS employee, plus, each year for each then-current employee, not less than one additional hour of business ethics and compliance Refresher Training, which shall be provided to employees by their immediate supervisor. Such Initial and Refresher

Training shall embrace values-based ethics and include ethical scenarios for employees to consider. A schedule and subject outline for the information and education program shall be provided to the USAF within 30 days of the date of this Agreement and, when presented to the USAF, shall be deemed incorporated by reference into this Agreement. All written materials and training related to the business ethics and compliance program will be provided in English and in any other language necessary to ensure that each employee understands all elements of any written and oral presentation.

- E. MTS's officers, its General Counsel/Chief Compliance Officer, and Director of Compliance shall attend, at least annually, a formal, in-person, ethics course or Government contracts compliance course offered by an independent organization and retain documentation of their attendance in the event such documentation is requested by the USAF.
- F. For employees hired within the United States, upon adoption of the Revised Code, MTS will implement two measures: (1) ensure that each new U.S. employee will, within five working days of starting employment with MTS, receive and be required to review the Revised Code of Conduct and sign the certification stating that he or she has read and understands that Code; and (2) additionally, each new U.S. employee, within 30 days of starting employment with MTS, will attend Initial Training not less than one hour in length administered by the Chief Compliance Officer or designee, whether in person or via telephone or internet. For employees hired internationally, MTS will implement both of these measures no later than 60 days after the adoption of the Revised Code.
- G. MTS will ensure that its business ethics and compliance program and Revised Code are maintained and updated as necessary, and will provide for periodic, outside and independent audits of MTS's business practices, procedures, policies and internal controls for compliance with this Agreement, and the special requirements of U.S. Government contracting, including monitoring and auditing to detect criminal conduct, periodic evaluation of the effectiveness of the business ethics and compliance program and periodic assessment of the risk of criminal conduct, with appropriate steps to design, implement or modify the business ethics and compliance program as necessary to reduce the risk of criminal conduct as identified through this process. Additionally, MTS's General Counsel/Chief Compliance

Officer reports directly to the Chief Executive Officer and the Audit Committee of the Board of Directors, and will make periodic reports in person and in writing not less than quarterly concerning MTS's Ethics and Compliance Program and compliance with this Agreement and shall provide a copy to the USAF. MTS shall take whatever actions are appropriate and necessary to ensure that it conducts its activities in compliance with the requirements of the law and sound business ethics.

- H. MTS has posted, and will ensure that it maintains, in prominent places accessible to each of its employees, notices encouraging confidential calls to report suspected instances of improper conduct, providing instructions that encourage employees to make such reports, and noting that the third-party administering the toll-free reporting number will maintain confidentiality. A copy of one of these notices is attached as Exhibit C and is deemed incorporated by reference into this Agreement. All calls and information received by the third-party Compliance Line provider will be promptly reported to MTS's General Counsel/Chief Compliance Officer and to the Compliance Monitor (described below), who shall, in turn, report such calls and associated information, including measures taken to investigate and resolve any such investigations in its quarterly report to the USAF.
- I. At least once each calendar year, MTS' Department of Internal Assurance shall conduct, through procedures satisfactory to the Compliance Monitor, an internal audit of its business practices, procedures, policies, and internal controls for compliance with this Agreement, the Revised Code, and the special requirements of Government contracting, including monitoring and auditing to detect criminal conduct and other conduct violating Federal law or regulations, periodic evaluation of the effectiveness of the business ethics and compliance program and periodic assessment of the risk of criminal conduct, with appropriate steps to design, implement or modify the business ethics and compliance program as necessary to reduce the risk of criminal conduct as identified through this process. The results of the audits shall be furnished simultaneously to the USAF and the Compliance Monitor.
- J. The training and certification requirements herein shall not apply to consultants and business partners working with MTS unless their duties directly involve particular compliance risks associated with

MTS and, in such, case, such training and certification requirements shall be reasonably tailored to the circumstances.

K. **OPERATIONS IN COMPLIANCE WITH APPLICABLE LAWS, RULES AND REGULATIONS:** MTS commits and agrees that, from and after the date hereof, MTS will make every effort to ensure that all of its government contracting business and operations shall be conducted in compliance with applicable laws, rules, regulations, and contract requirements, and shall reflect present responsibility and integrity in all respects. To the extent that MTS learns, via internal reviews or otherwise, of any non-compliance with applicable laws, rules, regulations, and contracts, MTS will report such matters responsibly, promptly, and with integrity and transparency to the USAF.

5. **COMPLIANCE MONITOR:** MTS has retained, at its sole expense, an independent Compliance Monitor (the "Monitor") and has obtained the approval of the USAF.
- A. The purpose of the Monitor is to inspect on an ongoing basis, and to report to the USAF regarding, MTS's ongoing compliance with this Agreement, applicable laws, regulations, and Company policies.
- B. The Monitor shall report to the USAF on a quarterly basis, and shall be free to communicate with the USAF without interference by MTS. The USAF may communicate with the Monitor on a confidential basis and without disclosure to MTS. Neither the delivery to nor review by the USAF of any Monitor report shall waive, limit or in any way diminish the USAF's right to obtain, review, analyze or evaluate any underlying actual evidence of MTS's compliance or non-compliance with this Agreement or applicable law.
- C. The Monitor shall review and evaluate the existing materials covering the MTS business ethics and government contracts compliance program and relevant training; conduct personal interviews of the MTS audit committee, executive leadership and management; and present his or her initial findings to the USAF within 30 days of the date of this Agreement. The Monitor will also conduct quarterly meetings with the MTS key personnel responsible for the business ethics and government contracts compliance program perform a quarterly review of relevant files and materials. The Monitor shall submit a quarterly report to the USAF and MTS simultaneously on his or her findings.

6. INTERNAL INVESTIGATIONS AND DISCLOSURES:

- A. MTS will assess or investigate (unless expressly directed by the USAF or another governmental agency or investigative body not to do so) all reports of misconduct that may come to its attention. MTS will timely notify the USAF of the outcome of assessments or investigations that may potentially impact any aspect of MTS's Government business. MTS will take corrective action, including prompt restitution of any harm to the Government, where investigation by MTS or the Government results in credible evidence of misconduct. Summary reports of the status of each such investigation will be provided to the USAF as part of the Monitor's periodic reports.
- B. In addition to any disclosure to the agency Office of the Inspector General or other USAF officials required by FAR 3.1003(2) and, as applicable, the contract clause set out in FAR 52.203-13, MTS shall report to USAF and the Monitor, within 15 days of discovery by management, any suspected breach of this Agreement, MTS' policies, or any misconduct that management has reasonable grounds to believe may constitute a violation of criminal or civil law by MTS.
- C. MTS shall notify USAF and the Monitor within five business days of the time MTS learns of any of the following events relating to the business or activities of MTS: (1) the initiation of any additional criminal or civil investigation by any federal, state, or local government entity, if MTS has reason to believe that it or any of its employees is a subject or target or subject of such investigation; (2) service of subpoenas by any such governmental entity (except solely to the extent such notification to the USAF would be prohibited by law), if MTS has reason to believe that it or any of its employees is a subject or target of the investigation; (3) service of search warrants and/or searches carried out in any MTS facility; (4) initiation of legal action against MTS, or any of its affiliates, employees, or agents by any entity alleging fraud or any violations of criminal law; or (5) criminal charges brought by any governmental entity against MTS or any of its affiliates, employees, or agents, relating to the business of MTS. MTS shall provide to the USAF as much information as necessary to allow the USAF to determine the impact of the investigative or legal activity upon the present responsibility of MTS for Federal Contracts. MTS shall fully cooperate with any Government agencies responsible for audits, investigations, or corrective actions.

7. **GOVERNMENT INVESTIGATIONS, AUDITS, AND INQUIRIES:**

- A. The terms of this Agreement in no way restrict the USAF's ability, powers, rights and discretion to exercise any of its regulatory, enforcement or oversight functions with respect to any Federal contract matter whatsoever, including without limitation any such matter relating to MTS. This includes any authority available to the USAF pursuant to statute and regulations.
- B. MTS shall cooperate, to the extent requested by the Government, in any Government inquiry, investigation, or prosecution relating to its practices and conduct while performing a Federal Agreement. Such cooperation shall include, but not be limited to, providing USAF with requested documents and taking all reasonable steps to make available for interviews any current MTS officers or employees and to encourage interviewees to participate fully in those interviews.
- C. In addition to any other right USAF may have by statute, regulation, or contract, the USAF or its duly authorized representative may, upon reasonable notice, examine MTS's books, records, and other company documents and supporting materials for the purpose of verifying and evaluating: (1) MTS's compliance with the terms of this Agreement; (2) MTS's business conduct in its dealings with the Government; (3) MTS's compliance with Federal laws, regulations, and procurement policies and with accepted business practices; and (4) MTS's compliance with the requirements of Federal Contracts. The materials described above shall be made available by MTS for inspection, audit, or reproduction. Further, for purposes of this provision, USAF or its authorized representative may interview any MTS employee at the employee's place of business during normal business hours or at such other place and time as may be mutually agreed between the employee and the USAF. The employee may be represented by counsel if requested by the employee.

8. **NOTIFICATION OF ALL EMPLOYEES:** Within 30 days of the execution of this Agreement, MTS will notify all MTS employees of the fact and substance of this Agreement, the nature of the conduct leading to this Agreement, and the importance of each employee's abiding by the terms of this Agreement and all requirements of law, regulations, MTS policies and procedures, and Federal Contracts held by MTS. MTS shall provide a copy of this notice to the USAF within 45 days of the execution of this Agreement.

9. **NOTIFICATION OF SUPPLIERS AND SUBCONTRACTORS:** Within 30 days of the effective date of this Agreement, MTS will send a letter to all suppliers, subcontractors, and prime contractors with whom it works emphasizing MTS's commitment to ethics and compliance and asking suppliers/subcontractors to report to MTS's Chief Compliance Officer any improper or illegal activity relating to MTS. MTS shall provide the USAF with copies of such correspondence within 45 days of the execution of this Agreement.
10. **EMPLOYMENT OF DEBARRED INDIVIDUALS:** MTS has instituted a written policy stating it shall not knowingly employ an individual who is listed by a Federal Agency as debarred or otherwise listed on the EPLS. This policy is attached as Exhibit D. In order to carry out the policy, MTS shall make reasonable inquiry into the status of any potential employee or consultant. Such reasonable inquiry shall include, at a minimum, review of the EPLS. The policy does not require the MTS to terminate the employment of individuals who become suspended or are proposed for debarment during their employment. MTS, however, will remove such employees from responsibility for or involvement with the MTS's Government contracts until the resolution of such suspension or proposed debarment. In addition, if any employee of MTS is charged with a criminal offense relating to business or otherwise relating to honesty and integrity, MTS will remove that employee immediately from responsibility for or involvement with the MTS's Government contracts. If the employee is debarred, the policy requires that the employee will be terminated from employment with MTS. MTS shall notify the USAF of each such personnel action taken, and the reasons therefore, within 15 days of the action.
11. **BUSINESS RELATIONS WITH SUSPENDED OR DEBARRED ENTITIES:** MTS has instituted a written policy stating it will not knowingly form a contract with or enter into a business relationship with an individual or business entity that is debarred, suspended or proposed for debarment. This policy is attached as Exhibit E. To affect this policy, MTS will review the EPLS before entering into any such arrangement.
12. **MEETINGS:** Six months after the effective date of the Agreement and again four months prior to its termination, MTS's CEO, General Counsel/Chief Compliance Officer, and Director of Compliance shall meet with the USAF Deputy General Counsel for Contractor Responsibility or a designee to discuss the status of compliance with the Agreement and the implementation of the Program.

13. **MTS WAIVER, RELEASE, AND INDEMNIFICATION:**

- A. MTS hereby waives and releases the United States, its instrumentalities, agents, and employees in their official and personal capacities of any and all liability, including all claims, demands, or requests for monies, of any kind or of whatever nature, that MTS and its subsidiaries may have, up through and including the date hereof, related to, or in connection with, the March 11, 2011, suspension of MTS, any investigation or administrative proceedings associated therewith, this Agreement, or the facts that gave rise to the foregoing.
- B. In addition, MTS shall indemnify and hold the United States and all its agents and employees harmless, in their official and individual capacities, from any and all claims, demands, liabilities or damages, or request for any other relief in law or in equity in any other forum be it judicial or administrative in nature, whether existing prior to the date hereof or at any time in the future, which related or relates to, or arose or arises in connection with, the March 11, 2011, suspension of MTS, any ongoing investigation or administrative or other proceedings associated therewith, this Agreement or its performance, or the facts that gave or give rise to the foregoing.

14. **COSTS:**

- A. MTS agrees that all unallowable costs pursuant to FAR 31.205-47, incurred by, for, or on behalf of MTS, shall be expressly unallowable costs for Government contracts accounting purposes. Unallowable costs include, but are not limited to, costs arising from, related to, or in connection with the matters at issue here, the Government's criminal and civil investigations regarding the matters at issue here, and the USAF's independent review of the Company's present responsibility, including the costs of the Company's submissions, presentations, appearances before the USAF Deputy General Counsel for Contractor Responsibility, and the Company's costs of performing and administering the terms of this Agreement. MTS's past, present, and future costs of maintaining, operating, and improving the Company's corporate self-governance/compliance/ethics programs are allowable costs for the purposes of this Agreement.
- B. MTS has paid the USAF \$20,000 in recognition of the time the USAF will expend in administering this Agreement.

15. **PROPOSED CHANGES:** MTS shall notify the USAF of any proposed changes to relevant instructions, directives, or procedures implemented in furtherance of its Program and compliance with this Agreement. The USAF retains the right to verify, approve, or reject such changes. No changes will be implemented without prior approval of the USAF.
16. **PRESENT RESPONSIBILITY:** MTS's compliance with the terms and conditions of this Agreement constitutes an element of its present responsibility for Government contracting. MTS's failure to meet any obligations pursuant to the terms and conditions of this Agreement as determined by the USAF constitutes a separate cause for suspension or debarment. By entering into this Agreement, the USAF is not determining that MTS is presently responsible for any specific Government contract.
17. **PUBLIC DOCUMENT:** This Agreement, including all attachments and reports submitted pursuant to this Agreement, are public documents and may be distributed by the USAF.
18. **ADVERSE ACTIONS:** MTS avers that adverse actions taken or to be taken by MTS against any employee or other individual associated with MTS arising out of or relating to the wrongdoing at issue here were solely the result of MTS's initiatives and decisions and were not the result of any action by or on behalf of agents or employees of the United States.
19. **NO SUSPENSION OR DEBARMENT:** Provided the terms and conditions of this Agreement are fulfilled, the USAF will not suspend or debar MTS based upon the facts and circumstances set forth; however, this does not restrict the USAF or any other agency of the Government from instituting administrative actions, including without limitation, suspension or debarment should other information indicating the propriety of such action come to the attention of the USAF or such other agency or additional information concerning the facts at issue here is discovered by the Government, which facts were not disclosed by MTS or by the exercise of reasonable diligence would not have been discovered by the Government as of the date of the Agreement.
20. **PURCHASE OF BUSINESS:** In the event MTS purchases or establishes new business units after the effective date of this Agreement, MTS will implement all provisions of this Agreement with respect to the new unit within 60 days following such purchase or establishment.
21. **SALE OF BUSINESS:** In the event MTS sells or in any way transfers ownership of any part of its business, MTS will notify the USAF in advance

and require the acquiring entity as a condition of the sale to remain bound by the terms of this Agreement for the duration of this Agreement including but not limited to all reporting requirements.

22. **USAF RELIANCE:** MTS represents that all written materials and other information supplied to the USAF by its authorized representative(s) during the course of discussions with the USAF preceding this Agreement are true and accurate, to the best information and belief of MTS. Further, MTS understands that this Agreement is executed on behalf of the USAF in reliance upon the truth, accuracy, and completeness of all such representations.
23. **RESTRICTION OF USE:** MTS shall not use this Agreement or the fact of the existence of this Agreement for any purpose related to the defense or litigation of, or in mitigation of any criminal, civil, or administrative investigation or proceeding.
24. **DELIVERABLES:** All deliverables under the terms of this Agreement will be set forth in Exhibit F, which shall be prepared by MTS and submitted to the USAF for review and concurrence within three days from date of execution of this Agreement.
25. **BANKRUPTCY:** Bankruptcy will not affect the enforcement of this Agreement in the interest of the Government.
26. **NOTICES:** Any notices, reports, or information required hereunder shall be mailed by registered or certified mail and e-mailed as follows:

**MTS:**

William Murray  
Chief Executive Officer  
MTS Systems Corp.  
14000 Technology Drive  
Eden Prairie, MN 55344-2290  
(952) 937-4777  
[Bill.Murray@mts.com](mailto:Bill.Murray@mts.com)

**USAF:**

Deputy General Counsel for  
Contractor Responsibility (SAF/GCR)  
Department of the Air Force  
Attention: Todd J. Canni  
1235 South Clark Street, Suite 301  
Arlington, VA 22202-3258  
Todd.Canni@pentagon.af.mil

27. **MODIFICATION:** This Agreement may be amended or modified only by a written document signed by both parties.
28. **ENTIRE AGREEMENT.** This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether oral or written, relating to the subject matter hereof. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns.
29. **AUTHORIZED SIGNATORY.** MTS represents and agrees that the person signing on its behalf below is authorized to execute this Agreement and has the authority to bind MTS to all terms and conditions herein.
30. **COUNTERPARTS.** This Agreement may be executed in one or more counterparts, each of which shall be an original, but all of which taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the date first written above.



William Murray  
Chief Executive Officer  
For MTS Systems Corp.

19 Sept. 2011  
DATE



Steven A. Shaw  
Deputy General Counsel  
Suspending and Debarring Official  
For the U.S. Department of the Air Force

9/19/11  
DATE

**EXHIBIT A**

To Susan



DEPARTMENT OF THE AIR FORCE  
ARLINGTON, VA 22203-1613

MAR 11 2011

Office of the Deputy General Counsel

VIA FEDERAL EXPRESS

MTS Systems Corporation  
Attention: Laura B Hamilton, CEO  
[REDACTED]

Re: Notice of Suspension

Ms. Hamilton:

You are hereby notified that the Air Force has suspended MTS Systems Corporation (DUNS Nos. 006452312, 191929124; Cage Codes 34145, 58830), (hereinafter Company) from federal Government contracting and from directly or indirectly receiving the benefits of federal assistance programs. The suspension is initiated pursuant to the authority and the procedures of the Federal Acquisition Regulation ("FAR") Subpart 9.4. Copies of FAR 9.4, Defense FAR Supplement 209.4 and Appendix H, and 2 C.F.R. Part 1125 are provided on our website at <http://www.safgc.hq.af.mil/organizations/gcr/index.asp>. 2 C.F.R. Part 1125 is the Defense Department's implementation of the Nonprocurement Common Rule referenced in FAR 9.401. If you do not have access to the Internet and wish to receive a hardcopy of the aforementioned regulations, please submit a written request to my counsel as designated below.

The suspension is based upon the information in the attached Memorandum in Support of the Suspension(s) (Encl. 1).

The suspension is effective this date and has the following consequences during the period of suspension:

1. The Company name will be published in the Excluded Parties List System, available at: <https://www.epls.gov/>, a publication of the General Services Administration that contains the names of contractors debarred, suspended, proposed for debarment, or declared ineligible by any agency of the Federal Government. Suspension is effective throughout the executive branch of the Federal Government and applies to procurement and nonprocurement programs.
2. Offers will not be solicited from, contracts will not be awarded to, existing contracts will not be renewed or otherwise extended for, and subcontracts requiring Government approval will not be approved for the Company by any agency in the executive branch of the Federal Government, unless the head of the agency taking the contracting action or a designee states in writing the compelling reason for continued business dealings between the Company and the agency.

3. The Company may not conduct business with the Federal Government as an agent or representative of other contractors.

4. No Government contractor may award the Company a subcontract equal to or in excess of \$30,000 unless there is a compelling reason to do so and the contractor first notifies the contracting officer and further complies with the provisions of FAR 9.405-2(b).

5. No agency in the executive branch shall enter into, renew, or extend primary or lower-tier covered transactions in which the Company is either a participant or principal, unless the head of the agency grants an exception in writing. (Covered transactions are defined at 2 C.F.R. Section 1125.30.)

6. The Company may not act as an agent or representative of other participants in federal assistance programs.

7. The Company's affiliation with or relationship with any organization doing business with the Government or receiving the benefits of federal assistance will be carefully examined to determine the impact of those ties on the responsibility of that organization to be a Government contractor or to receive federal assistance.

Within 30 calendar days after receipt of this notice, the Company may submit, either in person or in writing, or both, information and argument in opposition to the suspension. If the Company provides a written response, an original and one hardcopy must be submitted, and an electronic copy is appreciated. The Company is encouraged to Bates number its submission, including attachments thereto.

If the Company designates a representative to respond on its behalf, please notify my counsel, in writing, of the identity of the representative. The designation should specifically state the names and addresses of all individuals or companies the designee has the authority to represent in this matter.

The Company's submission, if any, should include any specific information that may raise a genuine dispute over facts material to the suspension. If it is found that the information or argument submitted raises a genuine dispute over material facts, fact-finding may be conducted to determine the disputed facts. Facts set forth in an indictment, criminal information, or other charging document, however, are not subject to dispute in this proceeding.

This suspension has been ordered on the basis of the administrative record. A copy of the record will be furnished upon request. Any written information submitted by the Company will be added to the administrative record.

Any communications regarding this matter should be directed to my counsel, whose contact information is provided below: Todd J. Canni, SAF/GCR, 4040 N. Fairfax Drive, Suite 204, Arlington, VA 22203, (703) 588-0049, and Todd.Canni@pentagon.af.mil.

Sincerely,



STEVEN A. SHAW  
Deputy General Counsel  
(Contractor Responsibility)

1 Encl.  
a/s



DEPARTMENT OF THE AIR FORCE  
ARLINGTON, VA 22203-1013

MAR 11 2011

Office of the Deputy General Counsel

MEMORANDUM IN SUPPORT OF THE SUSPENSIONS OF:

MTS SYSTEMS CORPORATION  
[REDACTED]

Effective this date, the Department of the Air Force has suspended MTS Systems Corporation (MTS), [REDACTED] and [REDACTED] (hereinafter Subjects), from Government contracting and from directly or indirectly receiving the benefits of Federal assistance programs. The action is initiated pursuant to Federal Acquisition Regulation (FAR) Subpart 9.4.

INFORMATION IN THE RECORD

There is adequate evidence in the record establishing that:

1. MTS, a public company located in Eden Prairie, Minnesota, manufactures and sells test systems to the U.S. Government.
2. On March 11, 2008, the U.S. Department of Justice (DOJ) charged MTS by Information, alleging two counts of violations of 18 U.S.C. § 1018, false certification or writing, pertaining to license applications submitted by MTS to the U.S. Department of Commerce, Bureau of Industry and Security (BIS) concerning exports to India, a country subject to certain sanctions. The Information alleged that MTS's applications contained false statements due to MTS's omission of knowledge of "red flags" of a nuclear end-use.
3. MTS pleaded guilty to the charges and on March 20, 2008, the U.S. District Court for the District of Minnesota sentenced MTS to two years probation and assessed a \$400,000.00 fine, among other assessments.
4. Thereafter, from 2008 to present, MTS failed to disclose in its Online Representations and Certifications Application (ORCA) its prior conviction for making false statements.
5. Specifically, FAR clause 52.209-5, Certification Regarding Responsibility Matters, requires, in relevant part, that the offeror certify, to the best of its knowledge and belief, whether it and/or any of its principals has, within a three-year period, been convicted of making false statements.
6. In its ORCAs, MTS certified, through a corporate representative, that it is "attesting to the accuracy of the representations and certifications contained therein. I understand that I may be

subject to penalties if I misrepresent MTS SYSTEMS CORPORATION in any of the above representations or certifications to the Government.”

7. In each of MTS's ORCAs filed from 2008 to present, a corporate representative falsely certified to the accuracy of the representations and certifications as set forth below:

- a. July 17, 2008, to July 17, 2009 – [REDACTED];
- b. July 13, 2009, to June 25, 2010 – [REDACTED];
- c. July 13, 2009, to July 13, 2010 – [REDACTED];
- d. July 8, 2010, to July 8, 2011 – [REDACTED]; and
- e. December 22, 2010, to December 22, 2011 – [REDACTED].

8. FAR 52.209-5(e) provides: “The certification in paragraph (a) of this provision is a material representation of fact upon which reliance was placed when making award. If it is later determined that the Offeror knowingly rendered an erroneous certification, in addition to other remedies available to the Government, the Contracting Officer may terminate the contract resulting from this solicitation for default.”

9. Since 2008, MTS has been awarded millions of dollars in federal contracts, including contracts with the Air Force and, thus, its false ORCAs have been relied upon by the Government in making such awards.

10. A federal criminal investigation into MTS's improper conduct concerning its ORCA submissions is pending in Minnesota.

#### BASES FOR THE SUSPENSIONS

1. The improper conduct of Subjects is of so serious or compelling a nature that it affects their present responsibility to be Government contractors or subcontractors and provides a separate independent basis for their suspensions pursuant to FAR 9.407-2(c).
2. There is adequate evidence in the administrative record establishing that Subjects committed an offense indicating a lack of business integrity or business honesty that seriously and directly affects their present responsibility to be Government contractors or subcontractors, thereby providing a separate independent basis for their suspension pursuant to FAR 9.407-2(a)(9).
3. There is adequate evidence in the administrative record establishing that Subjects committed fraud or a criminal offense in connection with obtaining, attempting to obtain, and/or performing a public contract, thereby providing a separate independent basis for their suspensions pursuant to FAR 9.407-2(a)(1).
4. There is adequate evidence in the administrative record establishing that Subjects made false statements, which provides a separate independent basis for their suspensions pursuant to FAR 9.407-2(a)(3).

5. Pursuant to FAR 9.406-5(a), the seriously improper conduct of the individual Subjects identified above is imputed to MTS because their improper conduct occurred in connection with the performance of their duties for or on behalf of MTS, or with the knowledge, approval, or acquiescence of MTS. The imputation of their conduct provides a separate independent basis for the suspension of MTS by the incorporation of FAR 9.406-5(a) pursuant to FAR 9.407-5.

#### FINDINGS

Each of the independent causes specified above directly affects the present responsibility of the Subjects to be Government contractors or subcontractors, or participants in Federal assistance programs, and reflects negatively upon the propriety of doing business with each of them.

Based on the administrative record before me, I find that protection of the Government's business interests requires the immediate suspensions of the Subjects pending completion of the criminal investigation and any ensuing legal proceedings.

#### DECISION

Pursuant to the authority granted by FAR Subpart 9.4, the Defense FAR Subpart 209.4, and 2 C.F.R. Section 1125, and based upon the evidence contained in the administrative record and the findings therein, the Subjects are hereby suspended this day. The suspensions are temporary pending completion of the criminal investigation and any ensuing legal proceedings.

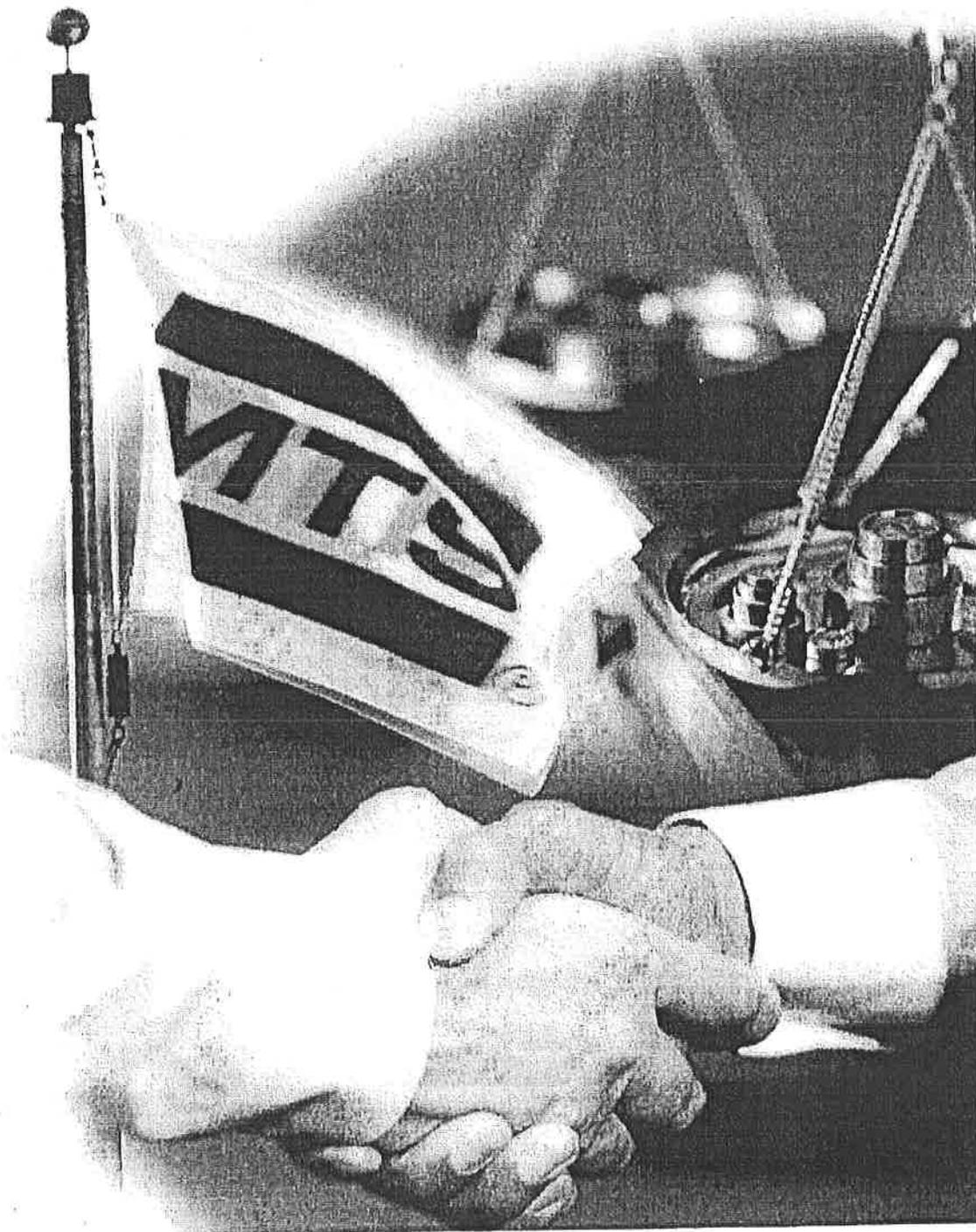
  
STEVEN A. SHAW  
Deputy General Counsel  
(Contractor Responsibility)

**EXHIBIT B**

**MTS Systems Corporation**  
**Code of Conduct**



*Committed to Ethics, Integrity and Compliance*





April, 2011

Dear MTS Employee:

At MTS, we believe that how we do things is as important as what we do. As such, we are committed to ethics, integrity and compliance. This commitment has been with us since our founding, and it is vital to this Company's continued growth and success. As we strive for business success, it must never be at the expense of our ethical standards.

Our Code of Conduct addresses how we, as MTS employees and all representatives, including directors and consultants, align our individual behavior with the Company's expectations. It guides us to conduct ourselves with the highest level of ethics and integrity and to comply with the laws wherever we do business. Our Code of Conduct also includes an Interim Policy for U.S. Government Contracts for all employees who work in this area.

We are each personally responsible, individually and collectively, to represent the very best of MTS – to our customers, suppliers, shareholders, communities and each other. If you face an issue that you need help to address, or if you know of or believe there might be a violation of laws or company policies, please talk to your supervisor, manager or the Legal Department.

MTS' reputation for integrity depends on every one of us continuing to make and keep commitments to ethical conduct in all we do. Thank you.

Sincerely,

Laura Hamilton  
Chief Executive Officer, Chair of Board



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## INTRODUCTION

This MTS Code of Conduct ("the Code") provides an overview of MTS policies and procedures for conducting business in a legal and ethical way. It applies to all employees and officers, representatives, agents, contractors, consultants and members of the Board of Directors ("Representatives"). This Code is neither a contract nor a comprehensive manual that covers every situation. Rather, the Code is a guideline for expected behavior when conducting business. Employees should refer to the MTS policies/procedures for more detailed information.

Employees and Representatives are expected to comply with all applicable rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies, including the Securities and Exchange Commission (SEC) and the NASDAQ Stock Market (NASDAQ), as well as the laws of all countries where we do business.

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts.*



In addition to following the laws, employees and Representatives are expected to make ethical business decisions. When faced with a business decision that may trigger ethical concerns, refer to the questions below to help determine the proper course of action:

- Am I adhering to the spirit of any law or the Code?
- Would I want my actions reported on the front page of a newspaper?
- What would my family, friends, or neighbors think of my actions?
- Will there be any direct or indirect negative consequences for MTS?
- How will the decision stand up over time?
- How would I feel if it happened to me?

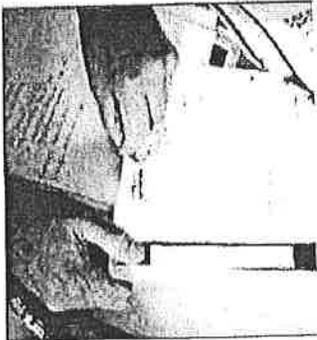
If the course of action still is unclear, contact your manager or MTS' Legal Department for further guidance. Managers are designated as the first contact for raising a concern regarding a potential violation of the Code. Directors should contact the Chairman of the Board. More details on the process for reporting violations can be found in the "Resolution of Issues and Concerns" section.

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item II, "Resources and Contract Information."*

## ETHICAL BUSINESS CONDUCT

### ACCURACY OF RECORDS

Accurate business records are a key factor in maintaining the trust of employees, shareholders, and other stakeholders.



Information that employees and Representatives record and submit either inside or outside MTS must be accurate, verifiable, and complete. At MTS, we do not engage

in inaccurate, false or misleading record-keeping. This includes reporting information or organizing it in a way that is intended to mislead or misinform those who receive it. No undisclosed or unrecorded funds or assets of MTS may be maintained for any purpose.

Keeping accurate books and records is not only about good corporate citizenship, the law also requires it. In addition to various federal and state laws, MTS is required to comply with the rules and regulations of both the SEC and NASDAQ. MTS also maintains internal controls and procedures for reporting financial data according to applicable laws of each country where we conduct business.

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item III, "Accurate Statements, Submissions, Certifications and Representations."*

All employees and Representatives have a responsibility to ensure that current and full information is provided to MTS management and our auditors. It is against MTS policy to unduly or fraudulently influence, coerce, or

manipulate or mislead independent or internal auditors regarding financial statements, processes or internal controls. Finance employees, in particular, bear a heightened responsibility to ensure MTS finance and accounting practices support the full, fair, accurate, timely and understandable disclosure of MTS financial results.

### ANTITRUST AND COMPETITION

MTS competes in the global marketplace. However, we will only conduct business according to the letter and spirit of the laws that govern and promote free and fair competition. This means we will comply with the antitrust laws of the United States and, where applicable, the antitrust or related laws of any other country or economic union.

All MTS employees and Representatives must refrain from discussing MTS' pricing policies, customers, technologies, sales strategies, R&D, or future plans with an MTS competitor. Any contacts with competitors that could create the appearance of improper agreements or understandings must be avoided.

MTS seeks to outperform its competition fairly and honestly, never through unethical or illegal business practices. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing disclosure of trade secret information by past or present employees of other companies is prohibited.

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item III, "Accurate Statements, Submissions, Certifications and Representations," Item VI, "Independent Pricing," Item VII, "Employment Discussions with Government Personnel," Item VIII, "Restrictions on Former Government Personnel," and Item IX, "Contract Performance Obligations."*



# MTS Systems Corporation

## ELECTRONIC DATA AND COMMUNICATIONS

The MTS electronic data and communication systems, such as email and the Intranet, are the property of MTS and are to be used for legitimate business purposes. Employees and selected Representatives are provided access to the computer network to assist them in the performance of their jobs. It is the responsibility of employees and selected Representatives to use these resources in a professional, lawful, and ethical manner according to MTS policies and procedures.

MTS understands that you may need to use MTS' systems for personal purposes during working hours; however, you are expected to limit your personal use to very brief periods of time and for urgent and critical personal matters.

It is also the policy of MTS that licensed computer software be used in a manner which is consistent with the terms of the software license. Employees and Representatives who use licensed personal computer software are responsible to know, fully understand, and continually conform to the software license terms.

MTS may monitor all electronic or voice communications. This monitoring may include the use of filtering devices and software in order to prevent access to certain sites, estimate incoming and outgoing electronic or phone message flow, and opening professional files and professional correspondence. This monitoring will be carried out consistent with applicable law relating to the obligations to respect personal matters of employees, the privacy of personal correspondence of employees and the rights of the representatives of the employees subject to prior (a) notice to the applicable legal authorities, when required; (b) consultation with the employees' representatives, when required; and (c) notice to the affected employee of MTS.

## INTERNATIONAL BUSINESS

Many of the countries in which we operate have significantly different laws than those of the U.S. MTS complies with all laws of the U.S. and those of all countries where we do business. Laws governing trade matters include the U.S. Foreign Corrupt Practices Act and laws relating to exports/imports, boycotts, and embargoes. Employees and Representatives are expected to comply with the laws of the U.S. and those countries where we do business.

The U.S. Foreign Corrupt Practices Act, foreign anti-corruption laws and MTS policy prohibit making or offering payments or other consideration to foreign officials in order to obtain or retain business. Any MTS employee or Representative, in their relations with governmental agencies, customers, or suppliers, will not directly or indirectly engage in bribery, kickbacks, payoffs or other corrupt business practices.

The U.S. and other countries mandate very specific requirements that must be followed in order to import or export goods, services, software, or technology. Employees and Representatives involved in importing or exporting are required to follow both the specific MTS procedures and all applicable U.S. and international laws.

Under U.S. anti-boycott regulations, MTS will not participate in any foreign economic boycott not sanctioned by the U.S. Government, and will not provide information to third parties concerning business relationships with boycotted countries. This request for information could be included on a purchase order, contract, or letter of credit. Employees or Representatives, who receive a request to support a boycott or to provide information related to a boycott, must contact their manager or MTS' Legal Department immediately. MTS is required to report boycott requests to the U.S. Department of Commerce. Similarly, MTS will not import/export to any countries subject to U.S. trade embargoes.



# MTS Systems Corporation

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item IV-D, "Foreign Corrupt Practices Act."*

## CONFLICTS OF INTEREST

MTS respects the rights of its employees and Representatives to manage their personal lives and to take part in legitimate financial, business and other independent business outside of work. Employees and Representatives should avoid situations that present a real, potential or perceived conflict between their personal interests and the interests of MTS. A conflict of interest occurs when any person or situation compromises the judgment or ability to conduct business in the best interest of MTS. Employees and Representatives are expected to act honestly and ethically and handle actual or apparent conflicts of interest between personal and professional relationships in an ethical manner.

Some examples of situations that may cause a conflict of interest include:

- Using MTS assets for personal use
- Contracting with a supplier or customer managed or owned by a close friend or family member
- Having an undisclosed substantial financial interest in a supplier, competitor, or customer
- Working independently as a consultant to a supplier, competitor or customer
- Giving/receiving gifts and/or business courtesies
- Using inside information for trading securities

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item XI, "Organizational Conflicts of Interest."*

## GIFTS AND BUSINESS COURTESIES

Receiving or giving of gifts and business courtesies by an employee or Representative, any member of the employee's or Representative's immediate family, or anyone designated by the employee or Representative may present potential conflicts of interest. A business courtesy is generally a gift or entertainment such as tickets, discounts or meals to or from someone with whom MTS has a business relationship. Employees and Representatives should never accept or give gifts or business courtesies that will compromise their judgment or actions in the performance of their duties. Business courtesies of nominal value from MTS suppliers or customers may be accepted if they are consistent with common business practices and local laws. However, these nominal gifts or business courtesies should not be received on a regular or frequent basis. When in doubt, ask for clarification by your manager or MTS' Legal Department.

Some business situations may require giving gifts (i.e., may be part of the culture). Employees and Representatives must comply with the legal requirements of the U.S. and each country where business is conducted and should strive for the highest ethical standards in these business dealings. These gifts should be nominal in value and not seek to improperly influence the decisions of customers or suppliers, just as MTS policy requires that the decisions of employees and Representatives at MTS not be affected by having received a gift or business courtesy.

There are very stringent rules that apply to U.S. and foreign government customers where in many cases gifts and business courtesies are absolutely prohibited. Employees involved with current or potential U.S. government contracts are prohibited from giving or receiving anything of value to or from a supplier, customer, or subcontractor for any reason.

# **MTS** MTS Systems Corporation

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item IV, "Gifts, Gratuities, Kickbacks and Political Contributions."*

## **INSIDE INFORMATION AND SECURITIES TRADING**

MTS employees and Representatives, directly or indirectly through their families or others, are prohibited from purchasing or selling MTS stock while



in possession of material, non-public information concerning MTS. Information is considered material if it could influence someone to buy, hold or sell a stock. Material, non-public information is also called "inside" information. If you have learned of "inside" information about other companies, the law also prohibits both trading in that company's stock and disclosure to others who would trade based on that information. Some examples of inside information include:

- Unannounced financial data
- Joint venture, merger, or acquisition plans
- A new major contract, customer, or supplier
- Unannounced products and/or marketing plans
- Government investigations

## **POLITICAL ACTIVITIES AND CONTRIBUTIONS**

MTS supports everyone's right to participate actively in the political process. However, any political activity must take place on an employee's or Representative's own time. By law and by practice, MTS does not make political contributions. Corporate funds or assets may not be contributed directly or indirectly to support a political party, an elected official, or the campaign of any candidate for local, state, or federal office.

The MTS Political Action Committee (PAC) is permitted under U.S. law. This committee's activities are driven by employee membership in the form of voluntary contributions. All MTS PAC contributions are publicly disclosed in accordance with U.S. election laws.

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item IV-E, "Political Contributions."*

## **DISCLOSURE OF INFORMATION**

*For information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item V, "Off-Limits' Information."*

## **CONFIDENTIAL INFORMATION**

Confidential MTS information and trade secrets are important corporate assets that merit the same protection as physical assets. This information is the result of the ideas and hard work of many MTS employees and of substantial investments by MTS. Therefore, all employees and Representatives must not disclose such information to unauthorized persons, either within or outside MTS, and must exercise care to protect the confidentiality of such information received from another party. Employees need to consult with their manager prior to providing confidential information to any third party (for example: legal counsel, government officials, customers, or vendors). Representatives should consult with MTS' Legal Department prior to providing confidential information to any third party.

Confidential information refers to information that is not already in the public domain that a company would normally expect to be non-public and that might affect the company's competitive or financial position. It includes information sometimes referred to as trade secrets. Some examples of confidential information are: technical



# MTS Systems Corporation

Information about current or planned products, projects and processes; procurement plans, vendor lists or purchase prices; cost, pricing, marketing or service strategies; non-public earnings reports and other financial reports; information related to divestitures, mergers and acquisitions, and significant customer orders or relationships.

Employees and Representatives must also adhere to all laws and regulations regarding the protection of U.S. government classified information, which should only be made available to individuals who have a need to know and who hold the proper government security clearance.

Many employees and Representatives are required to sign confidentiality agreements. This serves as a reminder of that obligation not to disclose confidential information, both while employed or retained by and after leaving MTS.

## GOVERNMENTAL REQUESTS/INVESTIGATIONS

MTS will cooperate with government investigations or to answer an official request from an authorized government representative. Unless the law proscribes otherwise, employees are to inform their manager or MTS' Legal Department and ensure the response is appropriate before responding to such a request.

Employees and Representatives **should not:**

- Destroy any MTS documents in anticipation of a request for those documents
- Alter any historical MTS document or record
- Provide untrue or misleading statements
- Try to influence any other MTS employee or any other person to provide untruthful information

## PUBLIC STATEMENTS AND FILINGS; PRESS RELEASES

The disclosures contained in all reports and documents that MTS files with the SEC, or makes public by any other formal or informal means (such as press releases),

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must be full, fair, accurate, timely and understandable. Financial managers bear a heightened responsibility for maintaining disclosure controls and procedures designed to capture all financial and non-financial information required to be disclosed in SEC filings.

Only authorized officers may make press releases and public statements. Other employees and Representatives may not make public statements regarding MTS. If contacted by a media representative, please obtain the name of the person making the inquiry and immediately notify MTS' Chief Financial Officer.

## EQUAL OPPORTUNITY

MTS provides equal employment opportunity for all qualified individuals without regard to race, color, age, religion, sex, national origin, physical or mental disability, or sexual orientation. This policy applies to all employees, Representatives and applicants for employment and to all aspects of the employment relationship, including recruitment, hiring, compensation, benefits, training, transfer, and any other terms and conditions of employment. MTS locations or activities not subject to U.S. law on this matter should apply the intent and provisions of this policy consistent with the applicable national or local laws.

## HARASSMENT

It is everyone's responsibility to treat one another with courtesy, dignity, and respect. It is the policy of MTS that harassment, of any type, will not be tolerated from any employee, Representative, or other third party dealing with MTS. The term "harassment" includes, but is not limited to slurs, jokes, cartoons, graffiti or verbal, graphic or physical conduct relating to an individual's race, color, age, religion, sex, national origin, physical or mental disability, sexual orientation or other legally protected status.

# **MTS** MTS Systems Corporation

## **HEALTH AND SAFETY**

MTS is committed to providing a work environment that strives to protect employee health and safety and is in compliance with applicable laws and regulations. Employees and Representatives are required to observe applicable workplace safety rules and report injuries or unsafe conditions according to MTS procedures and applicable laws. Workplace violence, including threats, threatening behavior, harassment, intimidation, assaults and similar conduct, will not be tolerated. To provide a safe work environment, firearms are not permitted on any MTS facility.

## **ALCOHOL AND ILLEGAL DRUGS**

Alcohol and illegal drugs in the workplace are inconsistent with a safe and productive work environment. It is the policy of MTS that the production, use, possession, sale, purchase, or transfer of unauthorized or illegal drugs or substances, or the abuse or misuse of legal drugs on MTS or customer premises is prohibited. Employees or Representatives whose behavior, judgment or performance is impaired by drugs or alcohol will be prohibited from engaging in MTS business while under the influence of such substances.

## **RESOLUTION OF ISSUES AND CONCERNS**

If you have questions or concerns about the Code, you should contact your manager or MTS' Legal Department for clarification. Concerns may include, but aren't limited to: clarification about specific policies, questions on what you should do in a particular ethical or legal situation and the reporting process when you suspect a violation has occurred.

## **REPORTING VIOLATIONS OF THE MTS CODE OF CONDUCT**

If you suspect MTS or an employee or Representative may have violated a law, this Code, MTS policy, or 070629

engaged in other improper activities, it is your responsibility to immediately raise these concerns. If applicable law prohibits MTS from requiring you to report your concerns, you are not required to do so; but you may raise them if you suspect MTS may have violated laws relating to accounting, financial audit, anti-bribery or banking. Also, you may report facts which may affect MTS' vital interests or its employees' physical or mental condition (for example: threat to the safety of another employee, moral harassment, sexual harassment, discrimination, insider trading, conflicts of interest, serious environment breaches or threats to public health, disclosure of a manufacturing secret, or serious risk to MTS' information system security)

It is MTS policy to provide various points of contact to respond to your concerns. You may contact your manager, another member of management, MTS' Legal Department or a Human Resources Generalist, as appropriate. Additionally, if you work for MTS in North America, you may report your concern by calling the Compliance Line at 888-321-5562. Compliance Line details and instructions for employees outside of North America are available on the MTS Intranet. The processes described in the Code are not the only options for reporting your concerns; additionally, the process is not intended to limit your rights to refer the matter to other persons such as employee representatives, labor inspector and any other person as indicated by applicable law.

All employees and Representatives will be treated with dignity and respect and the appropriate level of confidentiality will be maintained throughout the process. You will not be subject to any form of retaliation for raising, in good faith, concerns or reporting violations even if the suspected concerns are not supported by MTS' investigation. Unless restricted by applicable law, you may report your concern anonymously. Under certain laws and situations, the people identified in a reported concern are entitled to access to and modification and



## MTS Systems Corporation

suppression of the information in the report if it is not accurate or complete.

If you work for MTS in the European Union, your personal data that is reported to the Compliance Line or that MTS receives through the reporting process may be shared within MTS and, in particular, with MTS Systems Corporation in the U.S. MTS may share your personal data with MTS' advisors if it appears necessary to the requirements of the investigation and such communication results from the corporate reporting structure within MTS and its affiliated companies. When an employee or Representative, who is the subject of a report, works in the European Union, MTS (including any third party receiving the data if it is established in a country outside of the European Union) will treat the personal data about the employee or Representative in compliance with applicable law.

If a manager is notified of a suspected violation of the law, this Code, MTS policy, or other improper activities, they are to immediately report the concern to their assigned Vice President, unless proscribed by applicable law. Vice Presidents should report concerns to the CEO, a member of the Board of Directors or MTS' Legal Department, as appropriate.

### INVESTIGATION

Each report of a known or suspected violation will be promptly and thoroughly investigated. MTS will take reasonable precautions to maintain the confidentiality of the individual who reports the violation and the person about whom the report is made. It is important that individuals involved in an investigation or who have made reports honor this commitment to confidentiality.

Depending on the nature of the investigation, MTS may need to conduct searches or inspections of company-provided property including computers and other equipment. Employees and Representatives are expected to cooperate with investigators. Such investigations will be in compliance with the individual's

rights granted under the applicable law and in particular within the limits set out by local law regarding the protection of personal privacy. If you believe that an investigation is being conducted inappropriately, report your concern to the CEO, Vice President, Director, or MTS' Legal Department as appropriate.

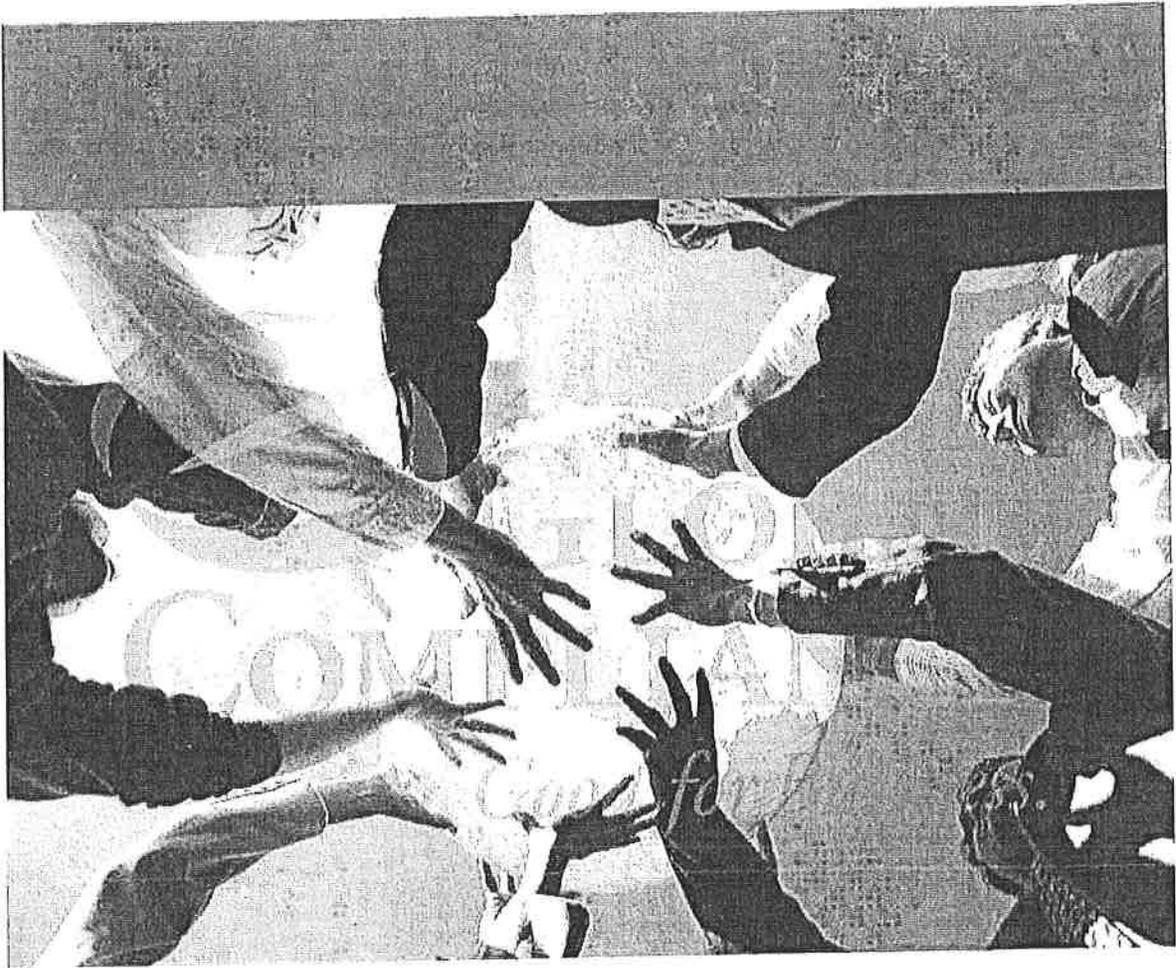
### ENFORCEMENT

Except for your use of the reporting procedure (which you are not required to use if you work for MTS in the European Union), violation of the Code is a serious matter and could subject you or MTS to civil liability or even criminal prosecution. Disciplinary action may also be taken, in compliance with applicable law, against anyone who condones, permits or causes inappropriate action, or fails to take appropriate action against illegal, unethical or other improper conduct, taking into consideration the position and the responsibilities of the employee or Representative concerned. Any employee or Representative who violates the Code will be subject to discipline, up to and including termination. Violations of the Code by directors will be addressed by the Board of Directors and sanctions may include reprimand or dismissal.

Any waiver of application of this Code to officers and directors may only be made by the Board of Directors. Any waiver of application of this Code to other employees or Representatives may be made by the CEO. Waivers of application of this Code to officers, directors and certain financial managers may have to be reported in MTS' publicly available filings with the SEC or on the MTS Internet website.

*For additional information regarding U.S. Government Contracting, please refer to the MTS Systems Corporation Interim Policy for U.S. Government Contracts, Item XII, "Penalties and Sanctions," and Item XIII, "Reporting Obligations."*

**EXHIBIT C**



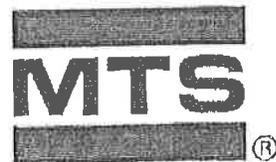
**Together, we can achieve our purpose.**

Nothing is as solid as the integrity of our employees.  
But even the strongest structure needs a foundation.  
We need you to speak up in favor of doing the right thing.

If you know of, or suspect any violations of law or  
company policies, you can safely report any concerns  
by calling the AlertLine:

**888-321-5562**

Confidential, Easy-to-use and Always Available

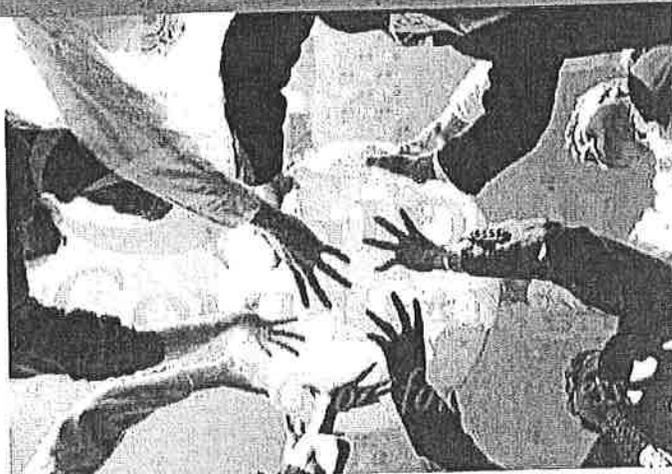


We need you to display your integrity at every opportunity. Sometimes, this is easy. Sometimes, it may be confusing or complicated, but you always have help.

Even the strongest structure needs a foundation – ours is your integrity. Together, we can achieve our purpose by speaking up in favor of doing the right thing. If you know of or suspect any violations of law or our company's policies, you can safely report any concerns by calling the AlertLine:

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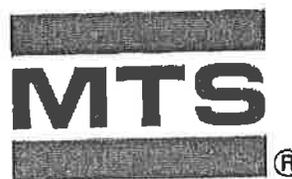


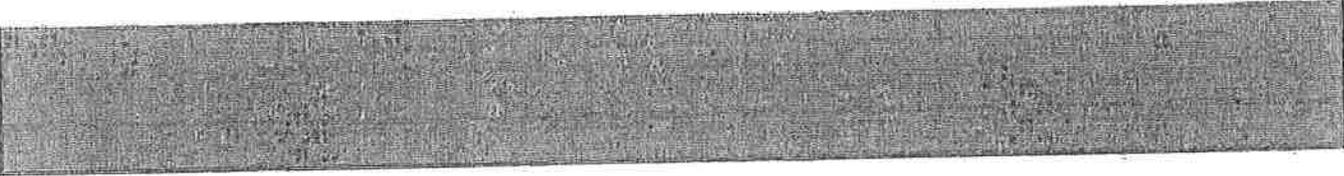
**Together,  
we can achieve  
our purpose.**

Call the AlertLine:

**888-321-5562**

Confidential, Easy-to-use and Always Available





Nothing is as solid as the integrity of our employees. It's a good thing, too, because that integrity is the foundation upon which our entire reputation is based. When we act fairly, honestly and with respect at all times, our customers, suppliers, co-workers, stakeholders – and even our competitors – view us as an ethical company. This enhances our reputation and makes people and other companies want to do business with us. However, the opposite can also be true. If we act dishonestly, unfairly and disrespectfully, our reputation suffers and so does our ability to win new business.

We need you to display your integrity at every opportunity. Sometimes, this is easy. Sometimes, it may be confusing or complicated, but you always have help. Part of your immediate supervisor's role is to be available for you. He or she is often the best option for discussing concerns of an ethical nature. If, however, you have already tried your immediate supervisor and don't feel the situation is resolved, or if you believe that consulting your supervisor might be inappropriate in this case, you have another option. You can contact the AlertLine.

The AlertLine is confidential and easy to use. It is operated by Global Compliance, a third-party provider, which specializes in this type of service. To report, you simply dial the AlertLine number to speak with a live operator who will ask important questions regarding the nature of your report. Calls are toll-free and available 24 hours a day, seven days a week. The system will prepare a report and forward it on to the

appropriate person in our organization for review, and if necessary, investigation.

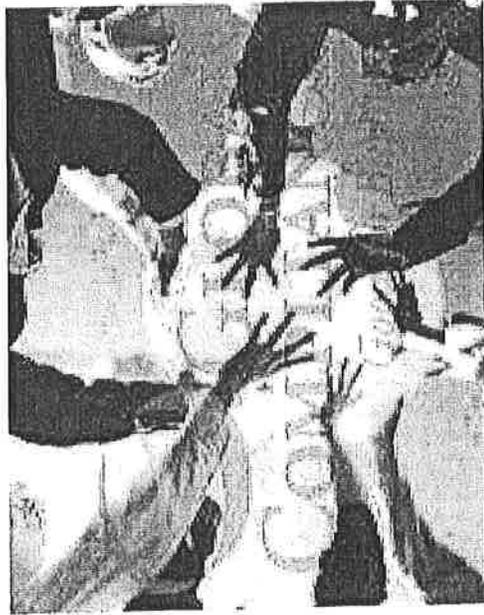
You may provide your name and contact information if you wish, but in most cases it is not necessary. Instead of identifying you by name, the system will assign you a report number, a PIN and a contact date. If you think of something else or additional events occur after you've completed your initial report, you can call with your report number and PIN. If we need additional information from you to resolve your report, the system will ask for it.

Contact the AlertLine to report or ask questions about any of the following or any other situation you believe might threaten our good reputation.

- Accounting or financial irregularities
- Theft, fraud or any other form of dishonesty
- Harassment or other discrimination
- Health, safety and environmental issues
- Violence or threatening behavior
- Violations of applicable laws and regulations
- Violations of company policies or procedures

However, please note that the AlertLine is not a substitute for communication between you and your supervisor and operators will not be able to answer questions directly. If you have questions, concerns or suggestions about normal operating procedures, please raise them directly to your supervisor.

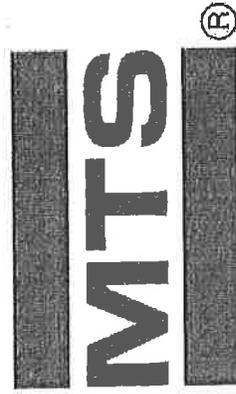
Together, we can achieve our purpose.



Call the AlertLine:

**888-321-5562**

Confidential, Easy-to-use  
and Always Available



- Accounting or financial irregularities
- Theft, fraud or any other form of dishonesty
- Harassment or other discrimination
- Health, safety and environmental issues
- Violence or threatening behavior
- Violations of applicable laws and regulations
- Violations of company policies or procedures

Even the strongest structure needs a foundation – ours is your integrity. We need you to speak up against any of the above or by asking questions whenever the right thing isn't obvious.

## **Exhibits D and E**



MTS SYSTEMS CORPORATION

# POLICY

|                          |                                 |   |                   |                          |                                      |
|--------------------------|---------------------------------|---|-------------------|--------------------------|--------------------------------------|
| TITLE                    |                                 | <b>DOING BUSINESS WITH EXCLUDED PARTIES</b> |                   | NUMBER                   | <b>POL 65-01</b>                     |
| SUPERSEDES               |                                 | New   |                   | PAGE                     | <b>1 of 1</b>                        |
| ISSUE DATE               |                                 | 9/19/2011                                   |                   | EFFECTIVE DATE           | 9/19/2011                            |
| This Policy Applies To:  |                                 |   |                   |                          |                                      |
| <input type="checkbox"/> | MTS Minneapolis                 | <input type="checkbox"/>                    | MTS North America | <input type="checkbox"/> | MTS Sector/Sub/Div – as noted below: |
| <input type="checkbox"/> | MTS Minneapolis & Sales/Service | <input checked="" type="checkbox"/>         | MTS Worldwide     |                          |                                      |

MTS Systems Corporation shall not enter into any contract or any business relationship with any entity or individual that is currently suspended, debarred, or proposed for debarment by the United States Government.

To effectuate this Policy, MTS shall, prior to entering into any contract or business relationship, review the Excluded Parties List System (EPLS) at <http://epls.gov>, to ensure that the entity or individual, with whom a contract or proposed business relationship has been proposed, is not currently listed as suspended, debarred, or proposed for debarment by the United States Government. This prohibition includes all types of contracts or business relationships, including, but not limited to: purchases, sales, consultant arrangements, professional services arrangements, commercial contracts, government contracts, grant awards and subawards, and all others.

|  |  |  |  |  |                   |
|--|--|--|--|--|-------------------|
|  |  |  |  |  | OWNER<br>GC/CCO   |
|  |  |  |  |  | TYPOGRAPHER/DEPT. |



MTS SYSTEMS CORPORATION

# POLICY

|                          |                                 |   |                   |                          |                                      |
|--------------------------|---------------------------------|---|-------------------|--------------------------|--------------------------------------|
| TITLE                    |                                 | <b>EMPLOYMENT OF EXCLUDED INDIVIDUALS</b> |                   | NUMBER                   | <b>POL 66-01</b>                     |
|                          |                                 |   |                   | PAGE                     | <b>1 of 1</b>                        |
| SUPERSEDES               |                                 | ISSUE DATE                                |                   | EFFECTIVE DATE           |                                      |
| New                      |                                 | 9/19/2011                                 |                   | 9/19/2011                |                                      |
| This Policy Applies To:  |                                 |   |                   |                          |                                      |
| <input type="checkbox"/> | MTS Minneapolis                 | <input type="checkbox"/>                  | MTS North America | <input type="checkbox"/> | MTS Sector/Sub/Div – as noted below: |
| <input type="checkbox"/> | MTS Minneapolis & Sales/Service | <input checked="" type="checkbox"/>       | MTS Worldwide     |                          |                                      |

MTS Systems Corporation shall not employ any individual who is listed by the United States Government as debarred. This policy applies to any MTS employee, whether temporary, permanent, part-time, or full-time. This policy also applies to any individual who is proposed for a consultant or personal services contract with MTS. For purposes of this policy, the term "employee" applies to all such individuals.

Prior to hiring any individual, MTS shall make reasonable inquiry as to whether that individual is currently debarred, suspended, or proposed for debarment by the United States Government. MTS's inquiry shall include, but not be limited to, review of the Excluded Parties List System (EPLS) at <http://epls.com>. If the individual who is proposed for employment is listed on EPLS as currently debarred, MTS shall not hire that individual.

If a current MTS employee becomes suspended or comes to be proposed for debarment by the United States Government, MTS shall remove that individual from responsibility for or involvement with MTS's Government contracting, compliance, or any other activities deemed appropriate by MTS in light of the basis for suspension or proposed debarment. Such removal shall remain in effect at least until the resolution of the suspension or proposed debarment.

If a current MTS employee is debarred by the United States Government, MTS will terminate the individual from employment with MTS.

If any employee is charged by a governmental entity with a criminal offense in circumstances suggesting impaired business ethics, honesty, or integrity, MTS will remove that employee immediately from responsibility for or involvement with MTS's Government contracting, compliance, or any other activities deemed appropriate by MTS in light of the circumstances.

|  |  |  |  |  |  |                   |
|--|--|--|--|--|--|-------------------|
|  |  |  |  |  |  | OWNER<br>GC/CCO   |
|  |  |  |  |  |  | TYPOGRAPHER/DEPT. |

**EXHIBIT F**

**Schedule of Deliverables**  
**Under the September 19, 2011 Administrative Agreement**  
**Between the United States Air Force and MTS Systems Corporation**

| Paragraph | MTS Obligation   | Deliverable From MTS to USAF  | Deliverable Due Date   |
|-----------|--|---|--|
| 4.A       | Maintain positions of GC/CCO and Director of Compliance  | None  | N/A  |
| 4.B       | Modify Code of Conduct   | (1) Deliver Revised Code to USAF;<br>(2) Replace prior Code in Administrative Agreement   | 14 days after execution of Agreement: 10/3/11                          |
| 4.C       | (1) Each employee worldwide to certify to Revised Code;<br>(2) Maintain records of certifications;<br>(3) Employees re-certify annually.   | Verify to USAF that each employee has certified to Revised Code   | 60 days after adoption of Revised Code: due date assumed to be 12/3/11 |
| 4.D       | (1) Maintain an information and education program;<br>(2) Institute Compliance training in specific risk areas;<br>(3) Institute Initial training in business ethics and compliance;<br>(4) Institute Refresher ethics and compliance training annually, presented by supervisors;<br>(5) Provide schedule and subject outline for this program to USAF; | (1) Provide to USAF the schedule and subject outline for the information and education program;<br>(2) Incorporate schedule/outline into Agreement. | 30 days after execution of Agreement: 10/19/11                         |

| Paragraph | MTS Obligation   | Deliverable From MTS to USAF                        | Deliverable Due Date  |
|-----------|--|---|---|
|           | <p>(6) Incorporate schedule/outline into Agreement;</p> <p>(7) Ensure that training materials are in necessary languages.</p>  |   |   |
| 4.E       | <p>(1) MTS officers, GC/CCO, Director of Compliance to attend annual formal, in-person ethics or Government contracts compliance course;</p> <p>(2) Retain documentation of their attendance to provide on request to USAF.</p>  | None unless requested                               | N/A   |
| 4.F       | <p>(1) Ensure each new employee receives and is required to review and execute the Revised Code within 5 days of starting employment;</p> <p>(2) Ensure that each new employee attends Initial Ethics Training no less than one hour in length within 30 days after starting employment.</p> | None unless requested                               | <p>For domestic hires: to be in place upon adoption of Revised Code: due date for receipt of Revised Code assumed to be 10/3/2011; assumed date for initial training to be November 2, 2011;</p> <p>For international hires: to be in place 60 days after adoption of Revised Code. Due date for receipt of Revised Code assumed to be 12/3/2011; assumed date for initial training to be January 3, 2012</p> |
| 4.G       | <p>(1) Maintain and update ethics and compliance program and Revised Code;</p> <p>(2) Provide for periodic, outside, and</p>   | Provide copies of quarterly written reports to USAF | At least quarterly: based on schedule of MTS Board meetings, MTS will submit  |

| Paragraph | MTS Obligation   | Deliverable From MTS to USAF   | Deliverable Due Date   |
|-----------|--|--|--|
|           | <p>independent audits for compliance with this Agreement and U.S. Government contracting;</p> <p>(3) Ensure that GC/CCO reports directly to the CEO and Audit Committee;</p> <p>(4) Ensure that GC/CCO makes periodic reports to Audit Committee in person and in writing at least quarterly concerning ethics and compliance program and compliance with this Agreement;</p> <p>(5) Provide copies of written reports to USAF;</p> <p>(6) Take all necessary actions to ensure compliance and ethics.</p> |  | <p>reports to USAF on or about December 1, 2011; March 1, 2012; June 1, 2012; September 1, 2012</p>  |
| 4.H       | <p>(1) Post and maintain notices regarding Compliance Line;</p> <p>(2) Ensure that Compliance Line calls are reported to GC/CCO and Monitor;</p> <p>(3) Compliance Monitor to report to USAF the calls and MTS follow-up investigations/assessment/resolutions of calls .</p>  | <p>No deliverables from MTS to USAF (Compliance Monitor to report to USAF regarding calls and MTS's investigation/assessment/resolutions of calls)</p> | <p>N/A w/h/t MTS (Monitor to submit quarterly reports to USAF)</p>                                   |
| 4.I       | <p>(1) MTS Internal Assurance to audit compliance with Agreement, Code, and Government contracting requirements on at least an annual basis;</p> <p>(2) Provide results of audits to Monitor and USAF .</p>  | <p>Report to Monitor and USAF on results of IA audit(s).</p>   | <p>Annually: MTS will submit reports annually on or about September 1 for duration of Agreement.</p> |

| Paragraph   | MTS Obligation   | Deliverable From MTS to USAF  | Deliverable Due Date   |
|-------------|--|---|--|
| 4.K         | Report to USAF any noncompliance with laws, rules, regulations, or contracts   | Reports regarding noncompliances, if any  | As needed  |
| 5.B and 5.C | Ensure MTS remains open for inspection to Compliance Monitor to include, but not be limited to, facilitating interviews, providing documents, etc.   | None  | N/A  |
| 6.A         | <p>(1) Assess/investigate all reports of misconduct;</p> <p>(2) Timely notify USAF of outcome of investigations/assessments that may potentially impact MTS Government business;</p> <p>(3) Take corrective action wherever there is credible evidence of misconduct.</p>  | Reports regarding instances of misconduct (if any) and MTS investigations/assessments | As needed  |
| 6.B         | Report to USAF and Monitor any suspected breach of this Agreement, of MTS policies, or any misconduct that management has reasonable grounds to believe may constitute a violation of law by MTS   | Reports regarding breaches or misconduct, if any                                      | Within 15 days of discovery by MTS management                      |
| 6.C         | (1) Notify USAF and Monitor if MTS learns of (a) criminal or civil investigations; (b) service of subpoenas; (c) service of search warrants or carrying out of searches in MTS facilities; (d) initiation of legal action against MTS, affiliates, employees, agents alleging fraud or criminal violations; (e) criminal charges brought against MTS or any affiliate, employee or agent relating to | Notify USAF of events, if any occur   | Notification within 5 days after MTS learns of any of these events |

| Paragraph | MTS Obligation   | Deliverable From MTS to USAF                        | Deliverable Due Date                                   |
|-----------|--|---|--|
|           | <p>MTS business;</p> <p>(2) Provide sufficient information to USAF to allow assessment of present responsibility;</p> <p>(3) Cooperate with investigation.</p>   |   |  |
| 7.B       | Cooperate with any Government inquiry, investigation, or prosecution   | As needed/requested                                 | N/A  |
| 7.C       | Make records and/or MTS employees available to USAF as requested   | As needed/requested                                 | N/A  |
| 8         | <p>(1) Notify MTS employees of this Agreement, nature of conduct leading to this Agreement, and the importance of abiding by this Agreement, requirements of law, regulation, policies, and contracts;</p> <p>(2) Provide a copy of this notice to USAF</p>            | Provide to USAF a copy of notice given to employees | 30 days after execution of Agreement: October 19, 2011 |
| 9         | <p>(1) Send letter to all suppliers, subcontractors, and prime contractors emphasizing MTS commitment to ethics and compliance and asking them to report to GC/CCO any improper/illegal activity relating to MTS;</p> <p>(2) Provide a copy of this letter to USAF</p> | Provide to USAF a copy of letter                    | 45 days after execution of Agreement: November 3, 2011 |
| 10, 11    | <p>(1) Carry out MTS policy prohibiting MTS from doing business with entities listed on EPLS;</p> <p>(2) Carry out MTS policy not to hire individuals listed on EPLS, not to employ debarred individuals, and to</p>   | Notify USAF of qualifying personnel actions, if any | Within 15 days after taking personnel action           |

| Paragraph | MTS Obligation   | Deliverable From MTS to USAF         | Deliverable Due Date  |
|-----------|--|--------------------------------------|---|
|           | <p>restrict activities of any MTS employees who have been suspended or proposed for debarment</p> <p>(3) Remove government contracting responsibilities from any MTS employee charged with a criminal offense relating to integrity/honesty;</p> <p>(4) Notify USAF of any such personnel action</p> |                                      |   |
| 12        | CEO, GC/CCO, Director of Compliance to meet with USAF  | None                                 | <p>6 months after execution of Agreement: March 19, 2012;</p> <p>4 months prior to termination of Agreement: approximately May 19, 2014 unless termination date is modified</p> |
| 14.A      | Ensure that unallowable costs as specified in paragraph 14.A are excluded  | None                                 | N/A   |
| 20        | Implement Agreement with respect to any new business unit that is purchased or established   | None                                 | 60 days after purchase or establishment of new business unit  |
| 21        | <p>(1) Notify USAF of sale or transfer of business or portions of business;</p> <p>(2) Require acquiring entity to be bound by this Agreement</p>  | Notify USAF of sale/transfer, if any | Notification to USAF in advance of sale/transfer  |