



## ***MTS SYSTEMS CORPORATION AUDIT COMMITTEE CHARTER***

### **A. PURPOSE**

The Audit Committee shall assist the Board of Directors in fulfilling the oversight responsibilities of the Board of Directors relating to corporate accounting and financial reporting practices, and the quality and integrity of the financial statements of MTS Systems Corporation (the "Corporation"). The Committee's purpose is to oversee the internal and external accounting and financial reporting processes and systems of internal accounting and financial controls of the Corporation and the audits of the financial statements of the Corporation and the independence, qualifications and performance of the Corporation's external auditors.

While the Committee has the duties and responsibilities set forth in this Charter, the role of the Committee is oversight. The Committee is not responsible for planning or conducting the Corporation's financial statements audit and related attestation of the Corporation's internal controls or determining whether the Corporation's financial statements are complete and accurate or in accordance with applicable accounting rules and securities laws. Such activities are the responsibility of management and the Corporation's independent auditors. The Committee does not itself prepare financial statements or perform audits or auditing services, and its members are not auditors, certifiers of the Corporation's financial statements or guarantors of the Corporation's independent auditors' reports. It is not the duty or responsibility of the Committee to ensure that the Corporation complies with all laws and regulations. Each member of the Committee shall be entitled to rely on (a) the integrity of those persons and organizations within and outside of the Corporation from which it receives information, (b) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board), and (c) representations made by management as to any audit and non-audit services provided by the independent auditors to the Corporation.

### **B. ORGANIZATION**

**1. *Membership.*** The Committee will at all times consist of at least three directors appointed by the Board of Directors of the Corporation, each member to serve until his or her successor is duly appointed, or until his or her earlier death, resignation or removal by the Board of Directors.

**2. *Qualifications.***

(a) *Definitions.*

- (i) “Audit Committee Financial Expert” means an audit committee financial expert as defined in rules of the Securities and Exchange Commission (the “SEC”), as now in effect or as amended from time to time.
  - (ii) “Financial Expert” means a director who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.
  - (iii) “Financially Literate” means being able to read and understand fundamental financial statements, including a company’s balance sheet, income statement, and cash flow statement.
  - (iv) “Independent Director” means a director who is independent under Rule 5605(a)(2) of the Nasdaq Marketplace Rules.
  - (v) “Listing Standards” means the rules of the Nasdaq Stock Market applicable to the Corporation.
- (b) *Knowledge and Experience Requirements.* All members of the Committee must be Financially Literate. At least one member of the Committee must be a Financial Expert. At least one member of the Committee (who may also be the Financial Expert) should be an Audit Committee Financial Expert.
- (c) *Independence.* Except as provided in the third sentence of this paragraph, each member of the Committee must be an Independent Director, must satisfy the requirements of Rule 10A-3(b)(1), as amended, promulgated under the Securities Exchange Act of 1934 (the “Act”); must be free of any relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment of the member in carrying out the responsibilities of a director of the Corporation; and must not have participated in the preparation of the financial statements of the Corporation or any current subsidiary at any time during the past three years. Each member of the Committee shall promptly notify the Board of Directors of any circumstance which might compromise his or her independence. The Board of Directors may, if necessary, appoint one member to the Committee who does not qualify as an Independent Director but only if such person (A) meets the criteria of Section 10A(m)(3) of the Act, as amended, and the rules promulgated thereunder and (B) is not an officer or employee of the Corporation or any family member of such officer or employee.

Appointment of a director to the Committee who is not an Independent Director shall be made only in strict compliance with the qualification and disclosure rules governing such appointment.

- (d) *Compliance Determinations.* Compliance with the qualification requirements of this Charter shall be affirmatively determined by the Board of Directors of the Corporation in its sole business judgment and in accordance with applicable laws, rules and regulations in effect from time to time.

### 3. *Meetings.*

- (a) *Frequency.* The Committee shall meet in person or telephonically at least four times during each fiscal year of the Corporation, or as frequently as the Committee deems appropriate. The Committee shall meet with the independent auditors, the Director of Internal Assurance (the “DIA”) (or the then-equivalent leader of the internal assurance group), the Controller, internal and external legal counsel, or any other members of management in separate meetings as often as it deems necessary and appropriate.
- (b) *Agenda and Notice.* The Chair of the Committee shall establish the meeting dates and the meeting agenda and send proper notice of each Committee meeting to each member prior to each meeting. The Chair or a majority of the members of the Committee may call a special meeting of the Committee upon 48 hours’ prior notice.
- (c) *Holding and Recording Meetings.* Committee meetings may be held in person, telephonically or by written action in accordance with Minnesota law. Written minutes shall be prepared by the Committee for all meetings.
- (d) *Chair.* The Board of Directors shall designate a Chair of the Committee. The Chair must be an Independent Director. The Committee may delegate any of its responsibilities to the Chair to the extent permitted by applicable law.
- (e) *Quorum.* A majority of the members of the Committee shall constitute a quorum.

## C. **RESPONSIBILITIES**

### 1. *Independent Auditors*

- (a) *Selection and Disengagement of Independent Auditors.* The Committee has the sole authority and direct responsibility for the appointment, compensation, retention and oversight of the Corporation’s independent auditors (including the resolution of disagreements between management and

the independent auditor regarding financial reporting) and the independent auditors shall report directly to the Committee. If the Committee so determines in its sole discretion, or if required by the Corporation's Articles of Incorporation or Bylaws, the selection of independent auditors shall be submitted for ratification by the Corporation's shareholders.

- (b) ***Performance and Independence of Independent Auditors.*** The Committee is expected to evaluate the qualifications and performance and confirm the independence of the independent auditors on an ongoing basis, but not less frequently than annually. The Committee shall ascertain that the lead (or concurring) audit partner from the independent auditor serves in that capacity for no more than five fiscal years of the Corporation, and also that any partner other than the lead (or concurring) partner serves no more than seven years at the partner level on the Corporation's audit. The Committee shall confirm receipt from the independent auditors of a formal written statement delineating all relationships between the Corporation and the independent auditors, consistent with Independence Standards Board Standard 1. The Committee shall actively engage in a dialogue with the auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors and shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the auditors.
- (c) ***Approval of Independent Auditor Services.*** The Committee must review and, in its sole discretion, pre-approve the independent auditors' annual engagement letter and all audit, audit-related, tax, and other permissible services proposed to be provided by the independent auditor in accordance with the applicable Listing Standards and SEC rules, and the fees for such services. Pre-approval of permissible non-audit services may be pursuant to policies and procedures established by the Committee for the pre-approval for such services, provided that any such pre-approved non-audit services are reported to the full Committee at its next scheduled meeting. Prior to the establishment of such policies and procedures, approval of all services to be provided by the independent auditor shall be made by the Committee.
- (d) ***Review of Independent Auditor Report.*** The Committee shall review, prior to the filing of the Corporation's financial report with the SEC: (i) reports, if any, required to be prepared or provided by the independent auditors on all critical accounting policies and practices to be used; (ii) all alternative treatments within applicable accounting rules for policies and practices related to material items that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the independent auditors; and (iii) any other material written communications between the independent auditors and

management, such as any management letter or schedule of unadjusted audit differences.

## 2. *Internal Assurance*

- (a) ***Selection and Disengagement of the Director of Internal Assurance.*** The Committee shall review and concur with management in the appointment, replacement, reassignment, or dismissal of the DIA.
- (b) ***Performance of Internal Assurance.*** The Committee shall review with management and the DIA: (i) significant findings on internal audits during the year and management's responses thereto; (ii) any difficulties the internal audit team encountered in the course of their audits, including any restrictions on the scope of their work or access to required information; (iii) any changes required in the scope of their internal audits; (iv) the internal assurance department budget and staffing; (v) the internal assurance department charter; and (vi) the internal assurance team's compliance with the Institute of Internal Auditors (IIA's) Standards for the Professional Practice of Internal Auditing.
- (c) ***Review of Internal Controls.*** The Committee is expected to consider and review with management and the DIA the adequacy of the Corporation's internal controls, including information systems control and security and recordkeeping controls. The Committee shall also review in this regard any findings and recommendations of the independent auditors, including their management letters.

## 3. *Financial Reporting Process*

- (a) ***Open Communications.*** The Committee is expected to provide and facilitate an open avenue of communications between the independent auditors, the Board of Directors, senior management, and the Corporation's internal assurance and finance departments. The Committee shall also provide and facilitate sufficient opportunity for the independent auditors and the DIA to meet with members of the Committee without members of management present.
- (b) ***Review Audit Scope.*** The Committee is expected to consider and review with management, the DIA, and the independent auditors the scope of the audit for the current fiscal year and the plan of the independent auditors in conducting the audit. The Committee shall address the coordination of efforts among the independent auditors, internal assurance, and other management to assure the completeness of coverage, reduction of redundant

efforts, and the effective use of audit resources.

- (c) **Annual Audit Review.** The Committee is expected to review with management, the DIA, and the independent auditors the Corporation's financial statements (including footnotes) for each fiscal year, together with the independent auditor's audit and audit report thereon, prior to their being filed with the SEC. In performing such review, the Committee shall review: (i) the scope of the audit; (ii) the audit procedures utilized; (iii) the independent auditors' judgments about the quality, not just the acceptability, of the Corporation's accounting principles; (iv) any significant changes required to the independent auditors' audit plan; (v) any serious difficulties or disputes with management encountered during the audit; and (iv) matters required to be discussed by SAS No. 61, *Communications with Audit Committees*, as amended, related to the conduct of the audit. The Committee is also expected to review and discuss the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the annual reports filed with the SEC prior to such filings. In connection with the annual reviews, the Committee shall inquire about and review with management, the DIA, and the independent auditors any significant risks or exposures faced by the Corporation and discuss with management and the DIA the steps taken to minimize such risk or exposure. Such risks and exposures include, but are not limited to, threatened and pending litigation, claims against the Corporation, tax matters, regulatory compliance and correspondence from regulatory authorities, environmental exposure, and rules and regulations governing internal controls and financial reporting.
- (d) **Quarterly Reviews.** The Committee is expected to review with management and the independent auditors the Corporation's financial statements for each quarter prior to their filing with the SEC, together with the independent auditors review thereon and any required communications to the Committee pursuant to professional standards and procedures for conducting such reviews, as established by generally accepted auditing standards. The Committee is also expected to review the Corporation's disclosures under "Management Discussion and Analysis of Financial Condition and Results of Operations" included in the quarterly reports filed with the SEC prior to such filings. In connection with the quarterly reviews, the Committee shall inquire about and review with management and the independent auditors any significant risks or exposures faced by the Corporation and discuss with management the steps taken to minimize such risk or exposure.
- (e) **Earnings Announcement Reviews.** The Committee is expected to meet with management and the independent auditors to review the annual and quarterly financial results of the Corporation prior the issuance of any related

press releases or other announcements of earnings. The Committee shall inquire of the CEO and CFO regarding the “quality of earnings” of the Corporation from a subjective as well as an objective standpoint.

- (f) ***Legal Compliance; Investigations.*** In connection with the annual review, the Committee is expected to inquire about and review with management any legal, regulatory, or accounting matters, as well as off-balance-sheet structures, that may have a material impact on the Corporation’s financial statements or financial reporting.

#### 4. ***Disclosures***

- (a) ***Audit Committee Report.*** The Committee shall prepare an Audit Committee Report for inclusion in the Corporation’s Proxy Statement for each annual meeting of shareholders pursuant to the rules governing such Reports.
- (b) ***Recommendation.*** The Committee shall recommend to the Board whether the audited financial statements should be included in the Corporation’s Annual Report on Form 10-K.
- (c) ***Audit Committee Disclosures.*** The Committee shall review all other disclosures made regarding the Committee or the audit engagement in the Corporation’s SEC filings.

#### 5. ***Conflicts of Interest and Complaints***

- (a) ***Conflicts of Interest.*** The Committee shall establish procedures for the approval of all related-party transactions involving executive officers and directors such that all such transactions are approved by the Committee or another independent body of the Board.
- (b) ***Submission of Complaints.*** The Committee shall establish procedures for (i) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by the Corporation’s employees of concerns regarding questionable accounting or auditing matters.

- 6. ***Legal Counsel and Advisers to the Audit Committee.*** The Committee may consult with the Corporation’s legal counsel at such times as the Committee deems appropriate. The Committee shall have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.

- 7. ***Funding of the Audit Committee.*** The Corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor or any other registered public accounting firm engaged for the

purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; to any other advisers engaged by the Committee; and of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

**8. *Other Responsibilities***

- (a) ***Reports to the Board of Directors.*** The Committee is expected to report regularly to the Board of Directors of the Corporation regarding the meetings of the Committee with such recommendations to the Board of Directors as the Committee deems appropriate.
- (b) ***Annual Review of the Committee and this Charter.*** The Committee shall review and reassess the effectiveness of this Committee and the adequacy of this Charter annually and recommend any proposed changes to the Board for its approval.
- (c) ***Review of the Code of Business Conduct.*** The Committee shall periodically review the Corporation's Code of Business Conduct to ensure that it is adequate and up-to-date. It shall review with the DIA and the Corporation's legal counsel the results of their review of the monitoring and compliance with the Code of Business Conduct.
- (d) ***Other Responsibilities.*** The Committee is expected to perform such other duties as may be required by law or requested by the Board of Directors or deemed appropriate by the Committee. Any member of the Committee or management of the Corporation is authorized to certify to the Nasdaq Stock Market the Corporation's compliance with rules governing audit committees in such form as the Nasdaq Stock Market may prescribe. The Committee shall have the authority to initiate and conduct investigations with respect to matters within the scope of the Committee's responsibilities.

This Audit Committee Charter was revised and adopted by the Audit Committee on November 19, 2009 and by the Board of Directors of the Corporation on November 24, 2009.