



## **MTS SYSTEMS CORPORATION COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE CHARTER**

### **A. PURPOSE**

The purpose of the Compensation and Leadership Development Committee (the “Committee”) is to assist the Board of Directors in fulfilling its responsibilities relating to (a) fair, reasonable and competitive compensation practices for executive officers and other key employees of the Company which are consistent with company objectives; (b) oversight of broad-based employee compensation policies and programs; (c) oversight of the Company’s retirement and employee benefit plans, and (d) oversight of the Company’s talent review and leadership development processes and planning as they relate to the Company’s executive officers and key employees.

### **B. MEMBERSHIP**

The Committee shall be comprised of at least three non-employee directors. The members of the Committee shall be appointed and may be removed by the Board of Directors. The Board will designate one member of the Committee as its chairperson; the Board will designate a new chairperson as appropriate.

Each member of the Committee shall be: (a) an “independent director” and shall meet the independence standards contained in the Nasdaq Marketplace Rules; (b) a “non-employee director” within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended; and (c) an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Committee may make such delegations of its authority and responsibilities, as it deems appropriate, and shall periodically review such delegations.

### **C. MEETINGS**

The Committee will meet at least three times per year. The Committee Chair shall determine whether additional meetings are necessary or desirable in response to the needs of the Company or any issues that may arise. Meetings may be held either in person or telephonically, and at such times and places as it determines. A majority of the members of the Committee shall constitute a quorum for transacting business at a meeting. The Committee may also take action by unanimous written consent.

The Committee shall meet in executive session on a regular basis to provide an opportunity for private discussion of matters independent of any members of management. The Committee may invite outside advisors to such executive sessions, as it deems appropriate.

### **D. DUTIES AND RESPONSIBILITIES**

The Committee will perform the following key duties and responsibilities:

**1. Compensation Plans, Salaries, and Agreements**

- a. Review the Company's compensation philosophy, policies and processes used to compensate employees to ensure that they provide the appropriate motivation to achieve superior corporate performance and shareowner value.
- b. Oversee development and implementation of compensation plans for the corporate officers.
- c. Review and recommend for approval to the Independent Directors of the Board all compensation actions for the Chief Executive Officer based on the Committee's evaluation, including base salary changes, annual and long-term incentive targets, goals, and payouts and discuss such actions with the Chair of the Board and in executive session with the Independent Directors of the Board. The CEO will not be present during any deliberations or voting with respect to his or her compensation.
- d. Approve all compensation actions for the Company's executive officers (other than the CEO), including base salary changes, annual and long-term incentive targets, goals, and payouts, and discuss such actions with the Board of Directors.
- e. Approve the Yield for Deferred Compensation Plans.
- f. Recommend any Agreements to the Independent Directors of the Board for the Chief Executive Officer and to the Board of Directors for the executive officers (other than the CEO).

**2. Performance Management**

- a. Review and approve annually the process for the Board's evaluation of the Chief Executive Officer.
- b. Review and recommend for approval to the Independent Directors of the Board goals and objectives for the Chief Executive Officer, conduct an annual performance evaluation of the Chief Executive Officer against such goals and objectives, and discuss the results of this review with the Chair of the Board and in executive session with the Independent Directors of the Board.

**3. Stock Plans and Retirement Plans**

- a. Recommend stock incentive and employee stock purchase plans to the Board of Directors for submittal to shareowners.
- b. Review and recommend for approval to the Independent Directors of the Board restricted stock and stock incentive awards for the Chief Executive Officer, and discuss such awards with the Chair of the Board and the Independent Directors of the Board; approve restricted stock and stock incentive awards for the other executive officers, and discuss such awards with the Board of Directors.

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- c. Review and approve the retirement plans in which executives participate and approve amendments to such plans, except as otherwise delegated by the Committee or the Board of Directors.
- d. Approve the corporation's discretionary matching contribution for the 401K Plan for U.S. based employees.

### 4. General

- a. Review and approve stock ownership guidelines for executives and review the progress executives achieve toward satisfying established guidelines.
- b. In its sole discretion, select, retain and terminate or obtain the advice of a compensation consultant, legal counsel or other advisor, including negotiating fees and retention terms, to provide the Committee independent advice, as needed. The Committee shall be directly responsible for the appointment, compensation and oversight of the work of any such advisor retained by the Committee. The Company must provide for appropriate funding, as determined by the Committee, for payment of reasonable compensation to such advisor retained by the Committee. If outside advisors are retained, the Committee will evaluate, prior to retention, their independence using the following guidelines: the provision of other services to the Company by the advisor's employer; the amount of fees received from the Company by the advisor's employer, as a percentage of the total revenue of the employer; the policies and procedures of the advisor's employer that are designed to prevent conflicts of interest; any business or personal relationship of the advisor with a member of the Committee; whether the advisor owns Company stock; and, any business or personal relationship of the advisor or the advisor's employer with an executive officer of the Company.
- c. Provide verbal or written periodic reports to the Board of Directors describing significant actions taken by the Committee.
- d. Review and discuss with management the annual Compensation Discussion and Analysis required by Securities and Exchange Commission regulations and, based on the review and discussions, recommend to the Board of Directors whether the Compensation Discussion and Analysis should be included in the Company's annual proxy statement.
- e. Prepare the Compensation Committee report for inclusion in the Company's annual proxy statement in accordance with Securities and Exchange Commission regulations.
- f. Review peer group used to reference compensation data as a supplemental data source.
- g. Review the compensation risk assessment prepared by Company management and determine whether risks arising from the Company's compensation policies and practices for its employees are reasonably likely to have a material adverse affect on the Company.
- h. Review and assess the Committee Charter annually and provide recommended changes to the Board of Directors.
- i. Perform all other duties and responsibilities delegated to the Committee by the Board of Directors.

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- j. Review the shareholder non-binding vote regarding the compensation of the Company's Named Executives to determine if any action is deemed appropriate.
- k. Oversee the Company's talent review and leadership development processes and planning as they relate to the Company's executive officers and key employees and succession planning for executive officers, other than the CEO. Company management will provide an annual update on the talent review and development discussions and initiatives undertaken by the Company as they relate to the Company's executive officers and key employees to ensure the Company has both the quality and the quantity of candidates for key roles in the organization.