

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

MTS Systems Corporation
14000 Technology Drive
Eden Prairie, MN 55344

Attention: Sidney W. Emery, Jr.
Chairman and Chief Executive Officer

Dear Mr. Emery:

The Bureau of Industry and Security, U.S. Department of Commerce ("BIS"), has reason to believe that MTS Systems Corporation of Eden Prairie, Minnesota ("MTS") has committed four violations of the Export Administration Regulations (the "Regulations"),¹ which are issued under the authority of the Export Administration Act of 1979, as amended (the "Act").² Specifically, BIS charges that MTS committed the following violations:

Charge 1 15 C.F.R. §764.2(a) - Export to a listed entity without the required license

On or about December 25, 2000, MTS engaged in conduct prohibited by the Regulations by exporting a thermal mechanical fatigue test system ("fatigue test system"), an item subject to the Regulations, to the Indira Gandhi Center for Atomic Research ("IGCAR") in India, an organization on BIS's Entity List, without the Department of Commerce license required by Section 744.11 of the Regulations. The Entity List is set forth in Supplement 4 of Part 744 of the Regulations. In so doing, MTS committed one violation of Section 764.2(a) of the Regulations.

Charge 2 15 C.F.R. §764.2(e) - Transferring an item with knowledge that a violation of the Regulations would occur

On or about December 25, 2000, MTS transferred an item subject to the Regulations from the United States with knowledge that a violation of the Regulations would occur in connection with that item. More specifically, MTS transferred the fatigue test system to India with

¹ The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2005). The violations charged occurred in 2000. The Regulations governing the violations at issue are found in the 2000 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774 (2000)). The 2005 Regulations govern the procedural aspects of this case.

² 50 U.S.C. app. §§ 2401- 2420 (2000). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp., p. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 2, 2005 (70 FR 45273 (August 5, 2005)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. §§ 1701 - 1706 (2000)) ("IEEPA").

knowledge that the test system was going to an unauthorized recipient without the required license. Facts that prove that MTS knew the fatigue test system was going to an unauthorized recipient include but are not limited to: MTS had received a copy of India's Department of Atomic Energy tender for a fatigue test system for IGCAR, MTS had previously applied for a Department of Commerce license to export to IGCAR, an MTS employee working on the sale of the fatigue test system sent an e-mail stating that "all kinds of flags are being raised here regarding this order; we will not accept until letter of credit and export license are issued..." and the Shipper's Export Declaration stated that the port of unloading was Chennai. In transferring the fatigue test system with knowledge that it was going to unauthorized recipient without the required Department of Commerce license, MTS committed one violation of Section 764.2(e) of the Regulations.

Charge 3: 15 C.F.R. §764.2(g) False statement as to authority to export in connection with an export subject to the Regulations

On or about December 25, 2000, MTS made a false representation to the U.S. Government in connection with effecting an export subject to the Regulations. More specifically, MTS filed a Shipper's Export Declaration, an export control document as defined in Section 772.1 of the Regulations, that stated no license was required ("NLR") for the export of the fatigue test system. This statement was false as a Department of Commerce license was required to export the fatigue test system to IGCAR. In so doing, MTS committed one violation of Section 764.2(g) of the Regulations.

Charge 4: 15 C.F.R. §764.2(e) - Transferring an item with knowledge that a violation of the Regulations would occur

On or about December 25, 2000, MTS transferred an item subject to the Regulations from the United States with knowledge that a violation of the Regulations would occur in connection with that item. More specifically, MTS transferred the fatigue test system to India with knowledge that a false statement would be made to the U.S. Government in connection with the export. In transferring the fatigue test system, MTS filed a Shipper's Export Declaration that stated no license was required for the export ("NLR"). This statement was false as Section 744.11 of the Regulations provided that a license was required to export the item to IGCAR. Facts that prove that MTS knew a license was required include but are not limited to: MTS had received a copy of India's Department of Atomic Energy tender for a fatigue test system for IGCAR, MTS had previously applied for a Department of Commerce license to export to IGCAR, an MTS employee working on the sale of the test system sent an e-mail stating that "all kinds of flags are being raised here regarding this order; we will not accept until letter of credit and export license are issued..." and the Shipper's Export Declaration stated that the port of unloading was Chennai. In transferring the fatigue test system with knowledge that a false

statement would be made to the U.S. Government in connection with the transfer, MTS committed one violation of section 764.2(e) of the Regulations.

Accordingly, MTS is hereby notified that an administrative proceeding is instituted against it pursuant to Section 13(c) of the Act and Part 766 of the Regulations for the purpose of obtaining an order imposing administrative sanctions, including any or all of the following:

The maximum civil penalty allowed by law of \$11,000 per violation;³

Denial of export privileges; and/or

Exclusion from practice before BIS.

If MTS fails to answer the charges contained in this letter within 30 days after being served with notice of issuance of this letter, that failure will be treated as a default. (Regulations, Sections 766.6 and 766.7). If MTS defaults, the Administrative Law Judge may find the charges alleged in this letter are true without hearing or further notice to MTS. The Under Secretary of Commerce for Industry and Security may then impose up to the maximum penalty on each of the charges in this letter.

MTS is further notified that it is entitled to an agency hearing on the record if MTS files a written demand for one with its answer. (Regulations, Section 766.6). MTS is also entitled to be represented by counsel or other authorized representative who has power of attorney to represent it. (Regulations, Sections 766.3(a) and 766.4).

The Regulations provide for settlement without a hearing. (Regulations, Section 766.18). Should MTS have a proposal to settle this case, MTS or its representative should transmit it to me through the attorney representing BIS named below.

The U.S. Coast Guard is providing administrative law judge services in connection with the matters set forth in this letter. Accordingly, MTS's answer must be filed in accordance with the instructions in Section 766.5(a) of the Regulations with:

U.S. Coast Guard ALJ Docketing Center
40 S. Gay Street
Baltimore, Maryland 21202-4022

³ See 15 C.F.R. §6.4(a)(2).

MTS Systems Corporation
Charging Letter
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In addition, a copy of MTS's answer must be served on BIS at the following address:

Office of Chief Counsel for Industry and Security
Attention: Melissa Mannino, Glenn Kaminsky
Room H-3839
United States Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

Melissa Mannino and Glenn Kaminsky are the attorneys representing BIS in this case; any communications that MTS may wish to have concerning this matter should occur through them. They may be contacted by telephone at (202) 482-5301 or by facsimile at (202) 482-0085.

Sincerely,

Michael D. Turner
Director
Office of Export Enforcement

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY
WASHINGTON, D.C. 20230

In the Matter of:)
)
MTS Systems Corporation)
14000 Technology Drive)
Eden Prairie, MN 55344)
)
Respondent.)
_____)

SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”) is made by and between Respondent, MTS Systems Corporation (“MTS”), and the Bureau of Industry and Security, U.S. Department of Commerce (“BIS”) (collectively referred to as “Parties”), pursuant to Section 766.18(a) of the Export Administration Regulations (currently codified at 15 C.F.R. Parts 730-774 (2005)) (“Regulations”),¹ issued pursuant to the Export Administration Act of 1979, as amended (50 U.S.C. app. §§ 2401-2420 (2000)) (“Act”).²

WHEREAS, BIS has notified MTS of its intention to initiate an administrative proceeding against MTS, pursuant to the Act and the Regulations;

WHEREAS, BIS has issued a proposed charging letter to MTS that alleges that MTS has committed four violations of the Regulations, specifically:

¹ The alleged violations charged occurred in 2000. The Regulations governing the violations at issue are found in the 2000 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774 (2000)). The 2005 Regulations govern the procedural aspects of this case.

² Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp., p. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 2, 2005 (70 FR 45273 (August 5, 2005)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. §§ 1701 - 1706 (2000)) (“IEEPA”).

1. *One Violation of 15 C.F.R. §764.2(a) - Export to a listed entity without the required license:* On or about December 25, 2000, MTS engaged in conduct prohibited by the Regulations by exporting a thermal mechanical fatigue test system (“fatigue test system”), an item subject to the Regulations, to the Indira Gandhi Center for Atomic Research (“IGCAR”) in India, an organization on BIS’s Entity List, without the Department of Commerce license required by Section 744.11 of the Regulations. The Entity List is set forth in Supplement 4 of Part 744 of the Regulations.
2. *One Violation of 15 C.F.R. §764.2(e) - Transferring an item with knowledge that a violation of the Regulations would occur:* On or about December 25, 2000, MTS transferred an item subject to the Regulations from the United States with knowledge that a violation of the Regulations would occur in connection with that item. More specifically, MTS transferred the fatigue test system to India with knowledge that the test system was going to an unauthorized recipient without the required license. Facts that prove that MTS knew the fatigue test system was going to an unauthorized recipient include but are not limited to: MTS had received a copy of India’s Department of Atomic Energy tender for a fatigue test system for IGCAR, MTS had previously applied for a Department of Commerce license to export to IGCAR, an MTS employee working on the sale of the fatigue test system sent an e-mail stating that “all kinds of flags are being raised here regarding this order; we will not accept until letter of credit and export license are issued...” and the Shipper’s Export Declaration stated that the port of unloading was Chennai.

3. *One Violation of 15 C.F.R. §764.2(g) - False statement as to authority to export in connection with an export subject to the Regulations:* On or about December 25, 2000, MTS made a false representation to the U.S. Government in connection with effecting an export subject to the Regulations. More specifically, MTS filed a Shipper's Export Declaration, an export control document as defined in Section 772.1 of the Regulations, that stated no license was required ("NLR") for the export of the fatigue test system. This statement was false as a Department of Commerce license was required to export the fatigue test system to IGCAR.
4. *One Violation of 15 C.F.R. §764.2(e) - Transferring an item with knowledge that a violation of the Regulations would occur:* On or about December 25, 2000, MTS transferred an item subject to the Regulations from the United States with knowledge that a violation of the Regulations would occur in connection with that item. More specifically, MTS transferred the fatigue test system to India with knowledge that a false statement would be made to the U.S. Government in connection with the export. In transferring the fatigue test system, MTS filed a Shipper's Export Declaration that stated no license was required for the export ("NLR"). This statement was false as Section 744.11 of the Regulations provided that a license was required to export the item to IGCAR. Facts that prove that MTS knew a license was required include but are not limited to: MTS had received a copy of India's Department of Atomic Energy tender for a fatigue test system for IGCAR, MTS had previously applied for a Department of Commerce license to

export to IGCAR, an MTS employee working on the sale of the test system sent an e-mail stating that "all kinds of flags are being raised here regarding this order; we will not accept until letter of credit and export license are issued..." and the Shipper's Export Declaration stated that the port of unloading was Chennai.

WHEREAS, MTS has reviewed the proposed charging letter and is aware of the potential allegations to be made against it and the administrative sanctions which could be imposed against it if the potential allegations are found to be true;

WHEREAS, MTS fully understands the terms of this Agreement and the Order ("Order") that the Assistant Secretary of Commerce for Export Enforcement will issue if he approves this Agreement as the final resolution of this matter;

WHEREAS, MTS enters into this Agreement voluntarily and with full knowledge of its rights;

WHEREAS, this Settlement Agreement constitutes neither an admission nor denial of the allegations contained in the proposed charging letter and MTS denies it has violated any law or regulation;

WHEREAS, the Parties wish to settle and dispose of all matters alleged in the proposed charging letter by entering into this Agreement; and

WHEREAS, MTS agrees to be bound by the Order, if entered;

NOW THEREFORE, the Parties hereby agree as follows:

1. BIS has jurisdiction over MTS, under the Regulations, in connection with the matters alleged in the proposed charging letter.

2. The following sanction shall be imposed against MTS in complete settlement of any alleged civil violations of the Regulations committed by MTS for unlicensed exports it allegedly made to IGCAR through and including May 23, 2001:

- a. MTS shall be assessed a civil penalty in the amount of \$36,000 which shall be paid to the U.S. Department of Commerce within 30 days from the date of entry of the Order.
- b. The timely payment of the civil penalty agreed to in paragraph 2.a. is hereby made a condition to the granting, restoration, or continuing validity of any export license, License Exception, permission, or privilege granted, or to be granted, to MTS. Failure to make timely payment of the civil penalty set forth above may result in the denial of all of MTS's export privileges under the Regulations for a period of one year from the date of imposition of the penalty.

3. Subject to the approval of this Agreement pursuant to paragraph 8 hereof, MTS hereby waives all rights to further procedural steps in this matter (except with respect to any alleged violations of this Agreement or the Order, if entered), including, without limitation, any right to: (a) an administrative hearing regarding the allegations in any charging letter; (b) request a refund of any civil penalty paid pursuant to this Agreement and the Order, if entered; (c) request any relief from the Order, if entered, including without limitation relief from the terms of a denial order under 15 C.F.R. § 764.3(a)(2); and (d) seek judicial review or otherwise contest the validity of this Agreement or the Order, if entered.

4. Upon entry of the Order and timely payment of the \$36,000 civil penalty, BIS will not initiate any further administrative proceeding against MTS for any alleged civil violations of the Regulations committed by MTS for any unlicensed exports made to IGCAR through and including May 23, 2001.

5. BIS will make the proposed charging letter, this Agreement, and the Order, if entered, available to the public.

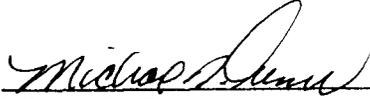
6. This Agreement is for settlement purposes only. Therefore, if this Agreement is not accepted and the Order is not issued by the Assistant Secretary of Commerce for Export Enforcement pursuant to Section 766.18(a) of the Regulations, no Party may use this Agreement in any administrative proceeding relating to any potential violations covered herein and the Parties shall not be bound by the terms contained in this Agreement in any subsequent administrative proceeding conducted relating to any potential violations covered herein.

7. No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, if entered, nor shall this Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the U.S. Government with respect to the facts and circumstances addressed herein.

8. This Agreement shall become binding on the Parties only if the Assistant Secretary of Commerce for Export Enforcement approves it by entering the Order, which will have the same force and effect as a decision and order issued after a full administrative hearing on the record.

9. Each signatory affirms that he has authority to enter into this Settlement Agreement and to bind his respective party to the terms and conditions set forth herein.

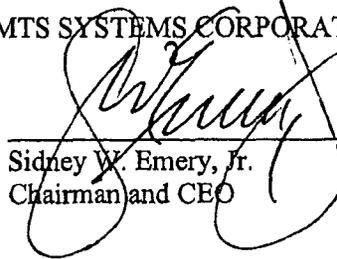
BUREAU OF INDUSTRY AND SECURITY



Michael D. Turner
Director
Office of Export Enforcement

Date: 3/29/06

MTS SYSTEMS CORPORATION



Sidney W. Emery, Jr.
Chairman and CEO

Date: 3/28/06

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY
WASHINGTON, D.C. 20230

In the Matter of:)
)
MTS Systems Corporation)
14000 Technology Drive)
Eden Prairie, MN 55344)
)
Respondent.)
_____)

ORDER RELATING TO MTS SYSTEMS CORPORATION

The Bureau of Industry and Security, U.S. Department of Commerce (“BIS”) has notified MTS Systems Corporation (“MTS”) of its intention to initiate an administrative proceeding against MTS pursuant to Section 766.3 of the Export Administration Regulations (currently codified at 15 C.F.R. Parts 730-774 (2005)) (“Regulations”),¹ and Section 13(c) of the Export Administration Act of 1979, as amended (50 U.S.C. app. §§ 2401-2420 (2000)) (“Act”),² by issuing a proposed charging letter to MTS that alleged that MTS committed four violations of the Regulations. Specifically, BIS’ proposed charges were:

¹ The alleged violations charged occurred in 2000. The Regulations governing the violations at issue are found in the 2000 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774 (2000)). The 2005 Regulations govern the procedural aspects of this case.

² Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp., p. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 2, 2005 (70 FR 45273 (August 5, 2005)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. §§ 1701 - 1706 (2000)) (“IEEPA”).

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regarding this order; we will not accept until letter of credit and export license are issued....” and the Shipper’s Export Declaration stated that the port of unloading was Chennai.

WHEREAS, BIS and MTS have entered into a Settlement Agreement pursuant to Section 766.18(a) of the Regulations whereby they have agreed to settle this matter in accordance with the terms and conditions set forth therein; and

WHEREAS, I have approved of the terms of such Settlement Agreement;

IT IS THEREFORE ORDERED:

FIRST, that a civil penalty of \$36,000 is assessed against MTS, which shall be paid to the U.S. Department of Commerce within 30 days from the date of entry of this Order. Payment shall be made in the manner specified in the attached instructions.

SECOND, that, pursuant to the Debt Collection Act of 1982, as amended (31 U.S.C. §§ 3701-3720E (2000)), the civil penalty owed under this Order shall accrue interest as more fully described in the attached Notice, and, if payment is not made by the due date specified herein, MTS will be assessed, in addition to the full amount of the civil penalty and interest, a penalty charge and an administrative charge, as more fully described in the attached Notice.

THIRD, that the timely payment of the civil penalty set forth above is hereby made a condition to the granting, restoration, or continuing validity of any export license, license exception, permission, or privilege granted, or to be granted, to MTS. Accordingly, if MTS should fail to pay the civil penalty in a timely manner, the undersigned may enter an Order denying all of MTS’s export privileges under the Regulations for a period of one year from the date of entry of this Order.

FOURTH, that the proposed charging letter, the Settlement Agreement, and this Order shall be made available to the public.

This Order, which constitutes the final agency action in this matter, is effective immediately.


Darryl W. Jackson
Assistant Secretary of
Commerce for Export Enforcement

Entered this 3rd day of April 2006.