

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934  
For the quarterly period ended January 2, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-02382



**MTS SYSTEMS CORPORATION**

(Exact name of Registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction  
of incorporation or organization)

**41-0908057**  
(I.R.S. Employer Identification No.)

**14000 Technology Drive**  
**Eden Prairie, Minnesota**  
(Address of principal executive offices)

**55344**  
(Zip Code)

Registrant's telephone number, including area code: (952) 937-4000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.25 par value	MTSC	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Emerging growth company   
Non-accelerated filer  Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of February 4, 2021, there were 19,474,695 shares of common stock outstanding.

**MTS Systems Corporation**  
**Quarterly Report on Form 10-Q**  
**For the Three Months Ended January 2, 2021**

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****MTS SYSTEMS CORPORATION****Consolidated Balance Sheets**

(in thousands, except per share data)

	January 2, 2021	October 3, 2020
	(Unaudited)	(Note)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 112,584	\$ 88,913
Accounts receivable, net of allowance for doubtful accounts of \$3,884 and \$4,528, respectively	123,524	128,733
Unbilled accounts receivable, net	80,673	84,685
Inventories, net	179,643	174,241
Prepaid expenses and other current assets	32,020	24,429
<b>Total current assets</b>	<b>528,444</b>	<b>501,001</b>
Property and equipment, net	90,246	95,110
Goodwill	230,623	228,640
Intangible assets, net	292,933	295,095
Other long-term assets	20,671	23,313
Deferred income taxes	5,326	7,072
<b>Total assets</b>	<b>\$ 1,168,243</b>	<b>\$ 1,150,231</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term borrowings	\$ 10,000	\$ 17,000
Current maturities of long-term debt, net	25,857	25,843
Accounts payable	59,841	51,562
Accrued payroll and related costs	43,754	39,849
Advance payments from customers	84,491	78,774
Accrued warranty costs	5,926	5,974
Accrued income taxes	4,547	4,782
Contingent consideration	28,131	26,497
Other accrued liabilities	51,113	46,570
<b>Total current liabilities</b>	<b>313,660</b>	<b>296,851</b>
Long-term debt, less current maturities, net	541,228	541,730
Deferred income taxes	34,310	35,513
Non-current accrued income taxes	5,354	4,819
Defined benefit pension plan obligation	15,579	15,982
Non-current accrued payroll and related costs	3,847	5,273
Other long-term liabilities	21,302	28,880
<b>Total liabilities</b>	<b>935,280</b>	<b>929,048</b>
<b>Shareholders' Equity</b>		
Common stock, \$0.25 par value; 64,000 shares authorized: 19,448 and 19,264 shares issued and outstanding as of January 2, 2021 and October 3, 2020, respectively	4,862	4,816
Additional paid-in capital	194,602	189,580
Retained earnings	33,483	31,768
Accumulated other comprehensive income (loss)	16	(4,981)
<b>Total shareholders' equity</b>	<b>232,963</b>	<b>221,183</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,168,243</b>	<b>\$ 1,150,231</b>

Note: The Consolidated Balance Sheet as of October 3, 2020 has been derived from the audited consolidated financial statements at that date. The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

**MTS SYSTEMS CORPORATION****Consolidated Statements of Income (Unaudited)**

(in thousands, except per share data)

	Three Months Ended	
	January 2, 2021	December 28, 2019
<b>Revenue</b>		
Product	\$ 174,740	\$ 178,858
Service	24,064	26,985
<b>Total revenue</b>	198,804	205,843
<b>Cost of Sales</b>		
Product	109,558	111,639
Service	14,831	17,595
<b>Total cost of sales</b>	124,389	129,234
<b>Gross profit</b>	74,415	76,609
<b>Operating expenses</b>		
Selling and marketing	28,422	32,719
General and administrative	34,159	21,693
Research and development	7,203	7,039
<b>Total operating expenses</b>	69,784	61,451
<b>Income from operations</b>	4,631	15,158
Interest income (expense), net	(8,467)	(8,272)
Other income (expense), net	6,413	(431)
<b>Income before income taxes</b>	2,577	6,455
Income tax provision (benefit)	862	1,149
<b>Net income</b>	\$ 1,715	\$ 5,306
<b>Earnings per share</b>		
<i>Basic</i>		
Earnings per share	\$ 0.09	\$ 0.28
Weighted average common shares outstanding	19,312	19,146
<i>Diluted</i>		
Earnings per share	\$ 0.09	\$ 0.27
Weighted average common shares outstanding	19,476	19,369
<b>Dividends declared per share</b>	\$ —	\$ 0.30

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

**MTS SYSTEMS CORPORATION****Consolidated Statements of Comprehensive Income (Unaudited)**

(in thousands)

	Three Months Ended	
	January 2, 2021	December 28, 2019
<b>Net income</b>	\$ 1,715	\$ 5,306
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss) adjustments	8,457	3,547
Derivative instruments		
Unrealized net gain (loss)	(4,128)	(114)
Net (gain) loss reclassified to earnings	246	(250)
Defined benefit pension plan		
Unrealized net gain (loss)	665	384
Net (gain) loss reclassified to earnings	194	212
Currency exchange rate gain (loss)	(437)	(182)
<b>Other comprehensive income (loss)</b>	4,997	3,597
<b>Comprehensive income</b>	\$ 6,712	\$ 8,903

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

**MTS SYSTEMS CORPORATION**
**Consolidated Statements of Shareholders' Equity (Unaudited)**

(in thousands)

	Three Months Ended January 2, 2021					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares Issued	Amount				
Balance, October 3, 2020	19,264	\$ 4,816	\$ 189,580	\$ 31,768	\$ (4,981)	\$ 221,183
Total comprehensive income	—	—	—	1,715	4,997	6,712
Exercise of stock options	78	20	3,771	—	—	3,791
Stock-based compensation	108	27	2,621	—	—	2,648
Issuance for employee stock purchase plan	37	9	523	—	—	532
Common stock purchased and retired	(39)	(10)	(1,893)	—	—	(1,903)
<b>Balance, January 2, 2021</b>	<b>19,448</b>	<b>\$ 4,862</b>	<b>\$ 194,602</b>	<b>\$ 33,483</b>	<b>\$ 16</b>	<b>\$ 232,963</b>

	Three Months Ended December 28, 2019					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares Issued	Amount				
Balance, September 28, 2019	19,124	\$ 4,781	\$ 182,422	\$ 315,329	\$ (18,473)	\$ 484,059
Total comprehensive income	—	—	—	5,306	3,597	8,903
Exercise of stock options	1	—	41	—	—	41
Stock-based compensation	49	12	2,316	—	—	2,328
Common stock purchased and retired	(18)	(4)	(831)	—	—	(835)
Dividends, \$0.30 per share	—	—	—	(5,748)	—	(5,748)
<b>Balance, December 28, 2019</b>	<b>19,156</b>	<b>\$ 4,789</b>	<b>\$ 183,948</b>	<b>\$ 314,887</b>	<b>\$ (14,876)</b>	<b>\$ 488,748</b>

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

**MTS SYSTEMS CORPORATION**
**Consolidated Statements of Cash Flows (Unaudited)**

(in thousands)

	Three Months Ended	
	January 2, 2021	December 28, 2019
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,715	\$ 5,306
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Stock-based compensation	2,678	2,167
Fair value adjustment to acquired inventory	—	540
Net periodic pension benefit cost	375	462
Depreciation	5,612	5,662
Amortization	5,655	4,785
Accretion of contingent consideration	468	—
(Gain) loss on sale or disposal of property and equipment and intangible assets	(5,512)	612
Amortization of debt issuance costs	815	867
Deferred income taxes	121	66
Bad debt provision (recovery), net	(109)	(460)
Changes in operating assets and liabilities		
Accounts receivable and unbilled accounts receivable	14,132	4,983
Inventories, net	(4,108)	(9,716)
Prepaid expenses	(4,616)	(177)
Accounts payable	7,202	913
Accrued payroll and related costs	2,924	(12,410)
Advance payments from customers	(1,522)	(7,512)
Accrued warranty costs	(60)	572
Other assets and liabilities	(6,516)	(2,403)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>19,254</b>	<b>(5,743)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(2,606)	(10,572)
Proceeds from sale of property and equipment	8,752	—
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>6,146</b>	<b>(10,572)</b>
<b>Cash Flows from Financing Activities</b>		
Payment of long-term debt	(1,335)	(1,283)
Payment of debt issuance costs for long-term debt	—	(88)
Payment of debt issuance costs for revolving credit facility	—	(564)
Receipts under short-term borrowings	25,000	50,000
Payments under short-term borrowings	(32,000)	(20,000)
Cash dividends	—	(5,739)
Proceeds from exercise of stock options and employee stock purchase plan	4,323	41
Payments to purchase and retire common stock	(1,903)	(835)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(5,915)</b>	<b>21,532</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>4,186</b>	<b>917</b>
<b>Cash and Cash Equivalents</b>		
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>23,671</b>	<b>6,134</b>
Cash and cash equivalents balance, beginning of period	88,913	57,937
<b>Cash and cash equivalents balance, end of period</b>	<b>\$ 112,584</b>	<b>\$ 64,071</b>
<b>Supplemental Disclosures</b>		
Cash paid during the period for		
Interest	\$ 2,672	\$ 1,918
Income taxes	2,509	2,069
Non-cash investing and financing activities		
Dividends declared not yet paid	—	5,704

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

**MTS SYSTEMS CORPORATION**

**Notes to Consolidated Financial Statements (Unaudited)**

(Dollars and shares in thousands, unless otherwise noted)

**NOTE 1 BASIS OF PRESENTATION**

The consolidated financial statements include the accounts of MTS Systems Corporation and its wholly owned subsidiaries. Significant intercompany account balances and transactions have been eliminated.

The terms "MTS," "we," "us," "the Company" or "our" in this Quarterly Report on Form 10-Q, unless the context otherwise requires, refer to MTS Systems Corporation and its wholly owned subsidiaries.

We have prepared the interim unaudited consolidated financial statements included herein pursuant to the rules and regulations of the United States (U.S.) Securities and Exchange Commission (SEC). The information furnished in these consolidated financial statements includes normal recurring adjustments and reflects all adjustments that are, in our opinion, necessary for a fair presentation of such financial statements. The consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). GAAP requires us to make estimates and assumptions that affect amounts reported. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 3, 2020 filed with the SEC. Interim results of operations for the first fiscal quarter ended January 2, 2021 are not necessarily indicative of the results to be expected for the full fiscal year.

We have a 5-4-4 week, quarterly accounting cycle with our fiscal year ending on the Saturday closest to September 30. Fiscal year 2021 ending on October 2, 2021 will consist of 52 weeks. Fiscal year 2020 ended on October 3, 2020 consisted of 53 weeks.

**Definitive Merger Agreement**

On December 8, 2020, we entered into a definitive agreement under which Amphenol Corporation (Amphenol) will acquire MTS for \$58.50 per share in cash, or approximately \$1.7 billion, including the assumption of outstanding debt and liabilities, net of cash. The acquisition is expected to close by the middle of 2021, subject to certain regulatory approvals, shareholder approval and other customary closing conditions. During the three months ended January 2, 2021, we incurred \$11,577 of acquisition-related expenses related to this pending transaction recorded within general and administrative expenses in the Consolidated Statements of Income.

**COVID-19**

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. See Note 17 for further information on our risks and uncertainties related to COVID-19.

**Ransomware Incident**

In November 2020, we were the victim of a ransomware incident that temporarily impacted our operations. As a result of the incident, certain of our data was encrypted, some of our data was exfiltrated from our systems, and business activities at several of our facilities were temporarily disrupted. As of the date hereof, our investigation indicates that the incident has been contained. We recovered the impacted data from the unauthorized actor, and we are not currently aware of any evidence of the impacted data being publicly released. We continue to investigate what information the unauthorized actor may have accessed or exfiltrated and resolve open items related to the incident. During the three months ended January 2, 2021, we incurred \$739 of expenses, net of insurance related to this event. We expect total expenses, net of insurance, related to this event to be approximately \$2.0 to \$3.0 million, with the majority incurred in the first half of fiscal year 2021. The temporary operational disruption that occurred did not have a material impact on our financial results as of January 2, 2021. Any failure or perceived failure by us to comply with applicable privacy or security laws, regulations, policies or obligations in connection with this incident, could result in government enforcement actions, regulatory investigations, litigation, fines and penalties and/or adverse publicity, which could impact expenses associated with the incident.

**Changes to Significant Accounting Policies**

**Accounts Receivable and Long-term Contracts**

We grant credit to customers and generally do not require collateral or other security from domestic customers. When deemed appropriate, receivables from customers located outside the U.S. are supported by letters of credit from financial institutions.



The allowance for doubtful accounts is based on our best estimate of the expected credit losses to be incurred, including credit worthiness, financial condition and history of the specific customers. We record an allowance to reduce receivables to the amount expected to be collectible and consider factors such as the historical write-off experience, current expectations of future credit losses and economic conditions. If there is a deterioration of a customer's financial condition, if we become aware of additional information related to the credit worthiness of a customer, if future actual default rates on trade receivables differ from those currently anticipated or if economic indicators result in additional expected losses, we may adjust the allowance for doubtful accounts, which would affect earnings in the period the adjustments were made.

We enter into long-term contracts for customized equipment sold to our customers. Under the terms of such contracts, revenue recognized over time may be invoiced upon completion of contractual milestones, shipment to the customer or installation and customer acceptance. Unbilled amounts relating to these contracts are included in unbilled accounts receivable, net in the Consolidated Balance Sheets and are net of expected credit losses for lack of fulfilling contractual billing milestones. Amounts unbilled are expected to be invoiced during the next twelve months.

## **NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In April 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides relief for companies preparing for discontinuation of interest rates such as LIBOR. The standard can be applied immediately through December 31, 2022, which is our fiscal year 2023. We have not yet evaluated the impact the adoption of this guidance may have on our financial condition, results of operations or disclosures.

### **Adopted**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, followed by related amendments, which changes the accounting for credit losses on instruments measured at amortized cost by adding an impairment model that is based on expected losses rather than incurred losses. An entity will recognize as an allowance its estimate of expected credit losses, which is believed to result in more timely recognition of such losses as the standard eliminates the probable initial recognition threshold. We adopted the new credit losses standard at the beginning of our fiscal year 2021 under the modified retrospective approach. As a result, we did not adjust our comparative period financial information for periods before the effective date. See Note 1 for our new accounts receivable and long-term contracts policy. The adoption of this standard did not have a significant impact on our financial condition, results of operations or disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, amends and adds disclosure requirements for fair value measurements. We adopted the new standard with disclosure changes implemented as part of the filing of our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2021. The adoption of this standard did not have a significant impact on our disclosures. See Note 7 for our fair value measurement disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which eliminates, amends and adds disclosure requirements for defined benefit pension and other postretirement plans. We adopted the new standard under a retrospective approach for our fiscal year 2021 with disclosure changes to be implemented as part of the filing of our Annual Report on the Form 10-K for fiscal year 2021. We do not expect the adoption of this standard to have a significant impact on our disclosures.

## **NOTE 3 REVENUE**

### **Revenue Recognition**

Revenue is recognized when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for transferring those goods or providing those services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are known, the contract has commercial substance and collectability of consideration is probable. We perform the determination of whether a contract meets all these criteria at contract inception and only reassess upon significant changes in facts and circumstances.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Many of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. In situations when our contract includes distinct goods or services that are substantially the same and have the same pattern of transfer to the customer over time, they are recognized as a series of distinct goods or services. For contracts with

multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

We do not adjust the promised amount of consideration for the effects of a significant financing component if we expect, at contract inception, that the period between when we transfer a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Revenue is recorded net of taxes collected from customers, and taxes collected are recorded as current liabilities until remitted to the relevant government authority. Shipping and handling costs associated with outbound freight after control of a product has transferred are accounted for as a fulfillment cost under the practical expedient and are included in cost of sales in the Consolidated Statements of Income.

The following is a description of the product offerings, end markets, typical revenue transactions and payment terms for each of our two reportable segments. See Note 14 for further information on reportable segments.

#### ***Test & Simulation***

Our Test & Simulation segment (Test & Simulation) manufactures and sells equipment and related software and services which are used by customers to characterize a product's mechanical properties or performance or to create a desired human experience. Our solutions simulate forces and motions that customers expect their products to encounter in use or are necessary to properly characterize the product's performance. Primary Test & Simulation markets include transportation, infrastructure, energy, aerospace, materials science, medical, flight training and amusement parks. A typical system is a comprehensive solution which includes a platform on which a human or prototype specimen resides or a reaction frame to hold the prototype specimen; a hydraulic or electromechanical power source; actuators to create the force or motion; and a computer controller with specialized software to coordinate the actuator movement and to measure, record, analyze and manipulate results. Our portfolio of Test & Simulation solutions includes standard, configurable products; engineered products which combine standard product configurations with a moderate degree of customization per customer specifications; and highly customized, highly engineered solutions built to address the customer's unique business need, which can include development of first-of-a-kind technology. To complement our Test & Simulation products, we provide our customers with a spectrum of services to maximize product performance including installation, product life cycle management, professional training, calibration and metrology, technical consulting and onsite and factory repair and maintenance. In addition, we sell a variety of accessories and spare parts. The manufacturing cycle for a typical system ranges from weeks to 12 months, depending on the complexity of the system and the availability of components, and can be several years for larger, more complex systems. For certain contracts, the order to revenue cycle may extend beyond the manufacturing cycle, such as when the manufacturing start date is driven by the customer's project timeline or when the contract terms require equipment installation and commissioning and customer acceptance prior to point-in-time revenue recognition.

Test & Simulation contracts often have multiple performance obligations, most commonly due to the contract covering multiple phases of the product life cycle (i.e., equipment design and production, installation and commissioning, extended warranty and software maintenance). The primary method used to estimate standalone selling price is the expected cost plus a margin approach under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.

Test & Simulation revenue is recognized either over time as work progresses or point-in-time, depending on contract-specific terms and the pattern of transfer of control of the product or service to the customer. Revenue from services is recognized in the period the service is performed. Revenue is recognized over time when: (i) control is transferred to the customer over time as work progresses; or (ii) contract terms evidence customer control of the work in process or an enforceable right to payment with no alternative use. Revenue, including an estimate of profit, is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying the performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include materials, component parts, labor and overhead costs.

Revenue is recognized point-in-time when either: (i) control is transferred to the customer at a point-in-time when obligations under the terms of the contract are satisfied; or (ii) contract terms do not evidence customer control of the work in process or an enforceable right to payment with no alternative uses. Satisfaction of performance obligations under the terms of the contract occurs either upon product shipment (as evidenced by delivery or shipment terms), completion of equipment installation and commissioning, or customer acceptance.

For our Test & Simulation contracts with customers, payment terms vary and are subject to negotiation. Typical payment terms include progress payments based on specified events or milestones. For some contracts, we are entitled to receive an advance payment.

### Sensors

Our Sensors segment (Sensors) manufactures and sells high-performance sensors which provide measurements of vibration, pressure, position, force and sound in a variety of applications. Our Sensors products are used to enable automation, enhance precision and safety, and lower our customers' production costs by improving performance and reducing downtime. Primary Sensors markets include automotive, aerospace and defense, industrial, and research and development. Our Sensors products are sold as configurable, standard units; utilize piezoelectric or magnetostriction technology; and are ideal for use in harsh operating environments to provide accurate and reliable sensor information. To complement our Sensors products, we also provide spare parts and services. The cycle from contract inception to shipment of equipment is typically one to three months, with the exception of certain high-volume contracts which are fulfilled in a series of shipments over an extended period.

Our Sensors contracts generally have performance obligations which are satisfied at a point in time. The performance obligation is a stand-alone sensor product, accessory, service or software license. Sensors contracts are generally fixed-price purchase order fulfillment contracts, and the transaction price is in the contract. Revenue is recognized when obligations under the terms of the contract with our customer are satisfied; generally, this occurs with the transfer of control upon product shipment (as evidenced by shipment or delivery terms) or with the performance of the service. Certain contracts are measured using the as invoiced practical expedient as we have a right to consideration from a customer in an amount that corresponds directly with the value to the customer of our performance completed to date.

For our Sensors contracts with customers, payment terms are generally within 90 days. The timing of satisfying our Sensors performance obligations does not vary significantly from the typical timing of payment. For certain high-volume contracts, we are entitled to receive an advance payment.

### Disaggregation of Revenue

We disaggregate our revenue by reportable segment, sales type (product or service), the timing of recognition of revenue for transfer of goods or services to customers (point-in-time or over time), and geographic market based on the billing location of the customer. See Note 14 for further information on our reportable segments and intersegment revenue.

	Three Months Ended							
	January 2, 2021				December 28, 2019			
	Test & Simulation	Sensors	Intersegment	Total	Test & Simulation	Sensors	Intersegment	Total
<b>Sales type</b>								
Product	\$ 90,933	\$ 84,029	\$ (222)	\$ 174,740	\$ 95,496	\$ 83,774	\$ (412)	\$ 178,858
Service	22,290	1,774	—	24,064	25,234	1,761	(10)	26,985
<b>Total revenue</b>	<b>\$ 113,223</b>	<b>\$ 85,803</b>	<b>\$ (222)</b>	<b>\$ 198,804</b>	<b>\$ 120,730</b>	<b>\$ 85,535</b>	<b>\$ (422)</b>	<b>\$ 205,843</b>
<b>Timing of recognition</b>								
Point-in-time	\$ 46,702	\$ 77,773	\$ (222)	\$ 124,253	\$ 60,104	\$ 77,163	\$ (422)	\$ 136,845
Over time	66,521	8,030	—	74,551	60,626	8,372	—	68,998
<b>Total revenue</b>	<b>\$ 113,223</b>	<b>\$ 85,803</b>	<b>\$ (222)</b>	<b>\$ 198,804</b>	<b>\$ 120,730</b>	<b>\$ 85,535</b>	<b>\$ (422)</b>	<b>\$ 205,843</b>
<b>Geographic market</b>								
Americas	\$ 26,382	\$ 41,577	\$ (222)	\$ 67,737	\$ 37,848	\$ 46,545	\$ (422)	\$ 83,971
Europe	37,525	23,942	—	61,467	26,515	22,542	—	49,057
Asia	49,316	20,284	—	69,600	56,367	16,448	—	72,815
<b>Total revenue</b>	<b>\$ 113,223</b>	<b>\$ 85,803</b>	<b>\$ (222)</b>	<b>\$ 198,804</b>	<b>\$ 120,730</b>	<b>\$ 85,535</b>	<b>\$ (422)</b>	<b>\$ 205,843</b>

### Contract Assets and Liabilities

Contract assets and contract liabilities are as follows:

	January 2, 2021	October 3, 2020
Contract assets	\$ 80,673	\$ 84,685
Contract liabilities	90,052	90,354

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled accounts receivable (contract assets) and advance payments from customers (contract liabilities). Contract balances are classified as assets or liabilities on a contract-by-contract basis at the end of each reporting period. Contract liabilities represent payments received from customers at contract inception and at milestones per contract provisions. These payments are recorded in advance payments from customers and other long-term liabilities in the Consolidated Balance Sheets (current and non-current portions, respectively) and are liquidated as revenue is recognized. Conversely, when billing occurs subsequent to revenue recognition for contracts recognized over time, balances are recorded in unbilled accounts receivable, net in the Consolidated Balance Sheets. As customers are billed, unbilled accounts receivable balances are transferred to accounts receivable, net in the Consolidated Balance Sheets.

Significant changes in contract assets and contract liabilities are as follows:

	Contract Assets	
Balance, October 3, 2020	\$	84,685
Changes in estimated stage of completion		33,602
Transfers to accounts receivable, net		(33,128)
Other		(4,486)
Balance, January 2, 2021	\$	80,673

	Contract Liabilities	
Balance, October 3, 2020	\$	90,354
Revenue recognized included in balance at beginning of period		(25,519)
Increases due to payments received, excluding amounts recognized as revenue during period		30,236
Other		(5,019)
Balance, January 2, 2021	\$	90,052

#### **Remaining Performance Obligations**

As of January 2, 2021, we had approximately \$229,910 of remaining performance obligations on contracts with an original expected duration of one year or more which are primarily related to Test & Simulation. As of January 2, 2021, we expect to recognize approximately 58% of these remaining performance obligations as revenue within one year, an additional 23% within two years and the balance thereafter. We do not disclose the value of remaining performance obligations for contracts with an original expected duration of one year or less.

#### **Contract Estimates**

For contracts recognized over time, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over time as work progresses. Contract estimates are based on various assumptions to project the outcome of future events that may span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, and internal and subcontractor performance.

Pricing is established at the time of sale with our customers, and we record sales at the agreed-upon selling price. The terms of a contract or the historical business practice can give rise to variable consideration due to but not limited to volume discounts, penalties and early payment discounts. We estimate variable consideration at the most likely amount we will receive from customers. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized for such transaction will not occur, or when the uncertainty associated with the variable consideration is resolved. In general, variable consideration in our contracts relates to the entire contract. As a result, the variable consideration is allocated proportionately to all performance obligations. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us at contract inception. There are no significant instances where variable consideration is constrained and not recorded at the initial time of sale.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the

period it is identified. Our review of contract-related estimates has not resulted in adjustments that are significant to our results of operations.

#### **Contract Modifications**

When contracts are modified to account for changes in contract specifications and requirements, we consider whether the modification either creates new, or changes existing, enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original product or service provided, are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price, and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) under the cumulative catch-up method. When the modifications include additional performance obligations that are distinct and at a relative stand-alone selling price, they are accounted for as a new contract and performance obligation and recognized prospectively.

#### **Warranties and Returns**

Both Test & Simulation and Sensors provide a manufacturer's warranty on our products and systems which is included in customer contracts. For sales that include installation services, warranty obligations generally extend for a period of 12 to 24 months from the date of either shipment or acceptance based on contract terms. Product obligations generally extend 12 to 24 months from the date of purchase. Certain products offered in our Sensors segment include a lifetime warranty.

Under the terms of these warranties, we are obligated to repair or replace any components or assemblies deemed defective due to workmanship or materials. We reserve the right to reject warranty claims where it is determined that failure is due to normal wear, customer modifications, improper maintenance or misuse. At the time a sale is recognized, we record estimated future warranty costs. The percentage applied reflects our historical warranty claims experience over the preceding 12-month period. Both the experience percentage and the warranty liability are evaluated on an ongoing basis for adequacy. Warranty provisions are also recognized for certain unanticipated product claims that are individually significant. We also offer separately-priced extended warranties or service-type contracts on certain products for which revenue is recognized over the contractual period or as services are rendered.

Our sales terms generally do not allow for a right of return except for situations where the product fails. When the right of return exists, we recognize revenue for the transferred products at the expected amount of consideration for which we will be entitled.

#### **Shipping and Handling**

Freight revenue billed to customers is reported within revenue in the Consolidated Statements of Income. Expenses incurred for shipping products to customers are reported within cost of sales in the Consolidated Statements of Income.

#### **Pre-contract Costs**

We recognize an asset for the incremental costs of obtaining a contract with a customer (i.e., pre-contract costs) when costs are considered recoverable. Capitalized pre-contract costs, consisting primarily of Test & Simulation sales commissions, are amortized as the related revenue is recognized. We recognized total capitalized pre-contract costs of \$3,585 and \$3,581 in prepaid expenses and other current assets and other long-term assets in the Consolidated Balance Sheets as of January 2, 2021 and October 3, 2020, respectively. We incurred pre-contract expense of \$889 and \$1,463 in the Consolidated Statements of Income during the three months ended January 2, 2021 and December 28, 2019, respectively.

#### **NOTE 4 INVENTORIES**

Inventories consist of material, labor and overhead costs and are stated at the lower of cost or net realizable value determined under the first-in, first-out accounting method. Certain inventories are measured using the weighted average cost method. Inventories, net are as follows:

	January 2, 2021	October 3, 2020
Components, assemblies and parts	\$ 119,200	\$ 117,865
Customer projects in various stages of completion	43,665	39,156
Finished goods	16,778	17,220
Total inventories, net	\$ 179,643	\$ 174,241

**NOTE 5 LEASES**

We determine if an arrangement contains a lease at inception based on whether or not we have the right to control the asset during the contract period and other facts and circumstances. We are the lessee in a lease contract when we obtain the right to control the asset. Operating leases are included in other long-term assets, other accrued liabilities and other long-term liabilities in the Consolidated Balance Sheets. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Leases with a lease term of 12 months or less at inception are not recorded on the Consolidated Balance Sheet and are expensed on a straight-line basis over the lease term in the Consolidated Statements of Income. We determine the lease term by assuming the exercise of renewal options that are reasonably certain. Most leases have remaining lease terms of one to ten years, some of which include options to extend the lease terms one to five years or more.

As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. The incremental borrowing rate is used in determining the present value of lease payments, unless an implicit rate is specified. When our contracts contain lease and non-lease components, we account for both components as a single lease component.

We have operating leases for facilities, vehicles and equipment. We also have financing leases for certain vehicles. Our lease agreements do not contain any material residual value guarantees, material bargain purchase options or material restrictive covenants. We have no material sublease arrangements with third parties or lease transactions with related parties.

During the three months ended January 2, 2021 and December 28, 2019, rent expense was \$2,583 and \$2,818, respectively, primarily related to operating lease costs. Costs associated with short-term leases, variable rent and subleases were immaterial.

Supplemental balance sheet information related to leases is as follows:

	Classification	January 2, 2021	October 3, 2020
<b>Assets</b>			
Operating leases	Other long-term assets	\$ 16,176	\$ 18,522
Finance leases	Other long-term assets	783	956
Total leased assets		\$ 16,959	\$ 19,478
<b>Liabilities</b>			
Current			
Operating leases	Other accrued liabilities	\$ 6,181	\$ 7,014
Finance leases	Other accrued liabilities	441	445
Non-current			
Operating leases	Other long-term liabilities	9,995	11,508
Finance leases	Other long-term liabilities	342	511
Total lease liabilities		\$ 16,959	\$ 19,478

Supplemental cash flow information related to leases is as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 2,114	\$ 2,536
Operating cash flows from finance leases	7	17
Financing cash flows from finance leases	101	147
Operating leased assets obtained in exchange for new lease liabilities	\$ 304	\$ 1,116

The weighted average remaining lease terms and weighted average discount rates are as follows:

	January 2, 2021	December 28, 2019
Weighted average remaining lease term		
Operating leases	4.8 years	4.4 years
Finance leases	2.2 years	2.2 years
Weighted average discount rate		
Operating leases	3.3 %	3.3 %
Finance leases	3.6 %	5.0 %

Future lease payments under non-cancelable leases for the next five years and thereafter are as follows:

	January 2, 2021	
	Operating Leases	Finance Leases
Remainder of 2021	\$ 5,357	\$ 348
2022	4,419	278
2023	3,006	122
2024	2,224	58
2025	927	—
2026	494	—
Thereafter	1,566	—
Total lease payments	17,993	806
Less imputed interest	(1,817)	(23)
Total reported lease liability	\$ 16,176	\$ 783

Future lease payments presented above are based on information as of January 2, 2021. Actual future lease payments may be different due to fluctuations in foreign currency exchange rates, the addition of new lease agreements or other factors.

As of January 2, 2021, we have one material additional operating lease right that has not yet commenced in Asia with a future right-of-use asset and lease liability of \$956 at the date of commencement. We have no material additional finance leases that have not yet commenced.

## NOTE 6 CAPITAL ASSETS

### *Property and Equipment*

Property and equipment, net are as follows:

	January 2, 2021	October 3, 2020
Land and improvements	\$ 3,967	\$ 3,963
Buildings and improvements	72,076	75,689
Machinery and equipment	231,802	228,155
Total property and equipment	307,845	307,807
Less: Accumulated depreciation	(217,599)	(212,697)
Total property and equipment, net	\$ 90,246	\$ 95,110

### *Goodwill*

Changes to the carrying amount of goodwill are as follows:

	Test & Simulation	Sensors	Total
Balance, October 3, 2020 <sup>1</sup>	\$ 48,840	\$ 179,800	\$ 228,640
Currency translation	1,948	35	1,983
Balance, January 2, 2021	\$ 50,788	\$ 179,835	\$ 230,623

<sup>1</sup> Goodwill is net of impairment charges recorded in fiscal year 2020 of \$53,344 in Test & Simulation and \$188,174 in Sensors.

### Intangible Assets

Intangible assets are as follows:

	January 2, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (in Years)
Software development costs <sup>2</sup>	\$ 55,441	\$ (16,365)	\$ 39,076	6.9
Technology and patents	59,267	(20,360)	38,907	14.7
Trademarks and trade names	25,332	(5,229)	20,103	17.6
Customer lists	197,403	(48,347)	149,056	15.7
Land-use rights	1,201	(997)	204	5.4
Other	5,291	(3,804)	1,487	1.7
Trade names	44,100	—	44,100	Indefinite
Total intangible assets	\$ 388,035	\$ (95,102)	\$ 292,933	14.0

	October 3, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (in Years)
Software development costs <sup>2</sup>	\$ 53,171	\$ (16,299)	\$ 36,872	6.9
Technology and patents	58,575	(19,033)	39,542	14.7
Trademarks and trade names	24,688	(4,752)	19,936	17.6
Customer lists	196,251	(45,079)	151,172	15.7
Land-use rights	2,345	(1,223)	1,122	26.1
Other	5,070	(2,719)	2,351	1.7
Trade names	44,100	—	44,100	Indefinite
Total intangible assets	\$ 384,200	\$ (89,105)	\$ 295,095	14.1

<sup>2</sup> The gross carrying amount of software development costs as of January 2, 2021 and October 3, 2020 includes \$37,736 and \$35,466, respectively, of software not yet available for general release to the public.

Amortization expense recognized related to finite-lived intangible assets is as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Amortization expense	\$ 5,655	\$ 4,785

Assessing goodwill, indefinite-lived intangible asset and long-lived assets for impairment requires management to make assumptions and apply judgment, including forecasting future sales and expenses, and selecting appropriate discount rates, which can be affected by economic conditions and other factors that can be difficult to predict. Due to the uncertainty stemming from the COVID-19 pandemic, as described in Note 17, we assessed whether there has been an event or change in circumstances that would indicate that it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit and indefinite-lived intangible asset were less than their carrying value. We determined that it was more likely than not that the fair value exceeds the carrying amount for all of our reporting units and our indefinite-lived intangible asset as of the end of the first quarter of fiscal year 2021. Therefore, a quantitative analysis was not necessary. In performing this assessment, we believe we have made reasonable accounting conclusions based on the facts and circumstances that were available as of the reporting date considering the evolving situation resulting from the COVID-19 pandemic and the pending merger with Amphenol. However, if actual results are not consistent with the estimates and assumptions used in the calculations, we may be exposed to future impairment losses that could be material.



Estimated future amortization expense related to finite-lived intangible assets is as follows:

	Amortization Expense	
Remainder of 2021	\$	16,611
2022		21,738
2023		21,636
2024		21,398
2025		21,210
2026		20,942
Thereafter		125,298

Future amortization amounts presented above are estimates. Actual future amortization expense may be different due to fluctuations in foreign currency exchange rates, future acquisitions, impairments, changes in amortization periods or other factors.

#### NOTE 7 FAIR VALUE MEASUREMENTS

In determining the fair value of financial assets and liabilities, we currently utilize market data or other assumptions that we believe market participants would use in pricing the asset or liability in the principal or most advantageous market and adjust for non-performance and/or other risk associated with the company as well as counterparties, as appropriate. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- **Level 1:** Unadjusted quoted prices which are available in active markets for identical assets or liabilities accessible to us at the measurement date.
- **Level 2:** Inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level 3:** Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The hierarchy gives the highest priority to Level 1, as this level provides the most reliable measure of fair value, while giving the lowest priority to Level 3.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Financial assets and liabilities subject to fair value measurements on a recurring basis are as follows:

	January 2, 2021			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Currency contracts <sup>1</sup>	\$ —	\$ 42	\$ —	\$ 42
<b>Total assets</b>	<b>—</b>	<b>42</b>	<b>—</b>	<b>42</b>
<b>Liabilities</b>				
Currency contracts <sup>1</sup>	—	789	—	789
Cross currency swap <sup>1</sup>	—	8,735	—	8,735
Contingent consideration <sup>2</sup>	—	—	28,131	28,131
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 9,524</b>	<b>\$ 28,131</b>	<b>\$ 37,655</b>

	October 3, 2020			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Currency contracts <sup>1</sup>	\$ —	\$ 54	\$ —	\$ 54
<b>Total assets</b>	<b>—</b>	<b>54</b>	<b>—</b>	<b>54</b>
<b>Liabilities</b>				
Currency contracts <sup>1</sup>	—	532	—	532
Cross currency swap <sup>1</sup>	—	4,165	—	4,165
Contingent consideration <sup>2</sup>	—	—	26,497	26,497
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 4,697</b>	<b>\$ 26,497</b>	<b>\$ 31,194</b>

<sup>1</sup> Based on observable market transactions of spot currency rates, forward currency rates on equivalently-termed instruments and interest rate curves, as applicable. Carrying amounts of the financial assets and liabilities are equal to the fair value. See Note 8 for additional information on derivative financial instruments.

<sup>2</sup> Based on a discounted cash flow analysis that included revenue estimates, probability of financial performance achievement and a discount rate. Carrying amounts of the financial assets and liabilities are equal to the fair value. See Note 16 for additional information on business acquisitions.

Included in Level 3 fair value measurements as of January 2, 2021 was a contingent consideration liability related to achievement of revenue and value-creating milestones associated with the acquisition of the R&D entities described in Note 16. Changes to the contingent consideration are as follows:

Balance, October 3, 2020	\$ 26,497
Interest accretion	468
Foreign currency translation	1,166
Balance, January 2, 2021	\$ 28,131

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

We measure certain financial instruments at fair value on a nonrecurring basis. These assets primarily include goodwill, intangible assets and other long-lived assets acquired either as part of a business acquisition, individually or with a group of other assets, as well as property and equipment and right-of-use lease assets. These assets were initially measured and recognized at amounts equal to the fair value determined as of the date of acquisition or purchase subject to changes in value only for foreign currency translation. Periodically, these assets are tested for impairment by comparing their respective carrying values to the estimated fair value of the reporting unit or asset group in which they reside. In the event any of these assets were to become impaired, we would recognize an impairment loss equal to the amount by which the carrying value of the reporting unit, impaired asset or asset group exceeds its estimated fair value. Fair value measurements of reporting units are estimated using an income approach involving discounted cash flow models that contain certain Level 3 inputs requiring significant

management judgment, including projections of economic conditions, customer demand and changes in competition, revenue growth rates, gross profit margins, operating margins, capital expenditures, working capital requirements, terminal growth rates and discount rates. Fair value measurements of the reporting units associated with our goodwill balances and our indefinite-lived intangible assets are estimated at least annually in the fourth quarter of each fiscal year for purposes of impairment testing if a quantitative analysis is performed. Fair value measurements associated with our intangible assets, other long-lived assets, property and equipment and right-of-use lease assets are estimated when events or changes in circumstances such as market value, asset utilization, physical change, legal factors or other matters indicate that the carrying value may not be recoverable.

See Note 6 for additional information on goodwill, indefinite-lived intangible asset, other long-lived assets, property and equipment. See Note 5 for additional information on right-of-use lease assets.

#### **Assets and Liabilities Not Measured at Fair Value**

Certain financial instruments are not measured at fair value but are recorded at carrying amounts approximating fair value based on their short-term nature or variable interest rate. These financial instruments include cash and cash equivalents, accounts receivable, unbilled accounts receivable, accounts payable and short-term borrowings.

#### **Other Financial Instruments**

Other financial instruments subject to fair value measurements include debt, which is recorded at carrying value in the Consolidated Balance Sheets. The carrying amount and estimated fair values of our debt are as follows:

	January 2, 2021				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Tranche B term loan <sup>4</sup>	\$ 167,945	\$ 169,204	\$ —	\$ 169,204	\$ —
Senior unsecured notes <sup>4</sup>	350,000	379,313	—	379,313	—
<b>Total debt</b>	<b>\$ 517,945</b>	<b>\$ 548,517</b>	<b>\$ —</b>	<b>\$ 548,517</b>	<b>\$ —</b>

  

	October 3, 2020				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Tranche B term loan <sup>4</sup>	\$ 169,095	\$ 169,940	\$ —	\$ 169,940	\$ —
Senior unsecured notes <sup>4</sup>	350,000	346,500	—	346,500	—
<b>Total debt</b>	<b>\$ 519,095</b>	<b>\$ 516,440</b>	<b>\$ —</b>	<b>\$ 516,440</b>	<b>\$ —</b>

<sup>4</sup> The fair value of the tranche B term loan and senior unsecured notes is based on the most recently quoted market price for the outstanding debt instrument, adjusted for any known significant deviations in value. The estimated fair value of the debt obligation is not necessarily indicative of the amount that would be realized in a current market exchange. See Note 9 for additional information on financing arrangements.

#### **NOTE 8 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

Our currency exchange contracts are designated as cash flow hedges and qualify as hedging instruments. We also have derivatives that are not designated as cash flow hedges and, therefore, are accounted for and reported under foreign currency guidance. Regardless of designation for accounting purposes, all of our derivative instruments are hedges of transactional risk exposures. The fair value of our outstanding designated and undesignated derivative assets and liabilities are reported in the Consolidated Balance Sheets as follows:

	January 2, 2021	
	Prepaid Expenses and Other Current Assets	Other Accrued Liabilities
<b>Designated hedge derivatives</b>		
Cash flow derivatives	\$ 8	\$ 789
Cross currency swap	—	8,735
<b>Total designated hedge derivatives</b>	<b>8</b>	<b>9,524</b>
<b>Undesignated hedge derivatives</b>		
Balance sheet derivatives	34	—
<b>Total hedge derivatives</b>	<b>\$ 42</b>	<b>\$ 9,524</b>

	October 3, 2020	
	Prepaid Expenses and Other Current Assets	Other Accrued Liabilities
Designated hedge derivatives		
Cash flow derivatives	\$ 54	\$ 489
Cross currency swap	—	4,165
Total designated hedge derivatives	54	4,654
Undesignated hedge derivatives		
Balance sheet derivatives	—	43
<b>Total hedge derivatives</b>	<b>\$ 54</b>	<b>\$ 4,697</b>

A reconciliation of the net fair value of designated hedge derivatives subject to master netting arrangements that are recorded in the Consolidated Balance Sheets to the net fair value that could have been reported in the Consolidated Balance Sheets is as follows:

	Gross Recognized Amount	Gross Offset Amount	Net Amount Presented	Derivatives Subject to Offset	Cash Collateral Received	Net Amount
January 2, 2021						
Assets	\$ 8	\$ —	\$ 8	\$ (8)	\$ —	\$ —
Liabilities	9,524	—	9,524	(8)	—	9,516
October 3, 2020						
Assets	\$ 54	\$ —	\$ 54	\$ (54)	\$ —	\$ —
Liabilities	4,654	—	4,654	(54)	—	4,600

#### Cash Flow Hedging – Currency Risks

Currency exchange contracts utilized to maintain the functional currency value of expected financial transactions denominated in foreign currencies are designated as cash flow hedges. Gains and losses related to changes in the market value of these contracts are reported as a component of accumulated other comprehensive income (AOCI) within shareholders' equity in the Consolidated Balance Sheets and reclassified to earnings in the same line item in the Consolidated Statements of Income and in the same period as the recognition of the underlying hedged transaction. We periodically assess whether our currency exchange contracts are effective and, when a contract is determined to be no longer effective as a hedge, we discontinue hedge accounting prospectively.

As of January 2, 2021 and October 3, 2020, we had outstanding cash flow hedge currency exchange contracts with gross notional U.S. dollar equivalent amounts of \$25,452 and \$24,983, respectively. Upon netting offsetting contracts to sell foreign currencies against contracts to purchase foreign currencies, irrespective of contract maturity dates, the net notional U.S. dollar equivalent amount of contracts outstanding was \$20,525 and \$23,874 as of January 2, 2021 and October 3, 2020, respectively. As of January 2, 2021, the net market value of the foreign currency exchange contracts was a net liability of \$781, consisting of \$8 in assets and \$789 in liabilities. As of October 3, 2020, the net market value of the foreign currency exchange contracts was a net liability of \$435, consisting of \$54 in assets and \$489 in liabilities.

The pretax amounts recognized in AOCI on currency exchange contracts, including (gains) losses reclassified into earnings in the Consolidated Statements of Income and gains (losses) recognized in other comprehensive income (loss) (OCI), are as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Beginning unrealized net gain (loss) in AOCI	\$ (335)	\$ 566
Net (gain) loss reclassified into revenue	511	(19)
Net gain (loss) recognized in OCI	(757)	(150)
<b>Ending unrealized net gain (loss) in AOCI</b>	<b>\$ (581)</b>	<b>\$ 397</b>

As of January 2, 2021, the amount projected to be reclassified from AOCI into earnings in the next 12 months was a net loss of \$581. The maximum remaining maturity of any forward or optional contract as of January 2, 2021 was 1.0 year.

#### **Interest Rate Swap**

On October 20, 2016, we entered into a floating to fixed interest rate swap agreement to mitigate our exposure to interest rate increases related to a portion of our tranche B term loan facility. In connection with the repayment of a portion of the tranche B term loan facility during the fourth quarter of fiscal year 2019, we terminated the interest rate swap agreement. Prior to termination, every month we paid fixed interest at 1.256% in exchange for interest received at one month U.S. LIBOR. The interest rate swap was designated as a cash flow hedge. As a result, changes in the fair value of the interest rate swap were recorded in AOCI within shareholders' equity in the Consolidated Balance Sheets. The unrealized gains on the interest rate swap associated with the interest payments on our tranche B term loan facility that are still forecasted to occur are included in AOCI. These gains will be reclassified into interest expense over the life of the original swap agreement as the hedged interest payments occur.

The pretax amounts recognized in AOCI on the interest rate swap, including (gains) losses reclassified into earnings in the Consolidated Statements of Income and gains (losses) recognized in OCI, are as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Beginning unrealized net gain (loss) in AOCI	\$ 193	\$ 1,079
Net (gain) loss reclassified into interest expense	(193)	(301)
Net gain (loss) recognized in OCI	—	—
Ending unrealized net gain (loss) in AOCI	\$ —	\$ 778

#### **Foreign Currency Balance Sheet Derivatives**

We also use foreign currency derivative contracts to maintain the functional currency value of monetary assets and liabilities denominated in non-functional foreign currencies. The gains and losses related to the changes in the market value of these derivative contracts are included in other income (expense), net in the Consolidated Statements of Income.

As of January 2, 2021 and October 3, 2020, we had outstanding foreign currency balance sheet derivative contracts with gross notional U.S. dollar equivalent amounts of \$62,188 and \$61,984, respectively. Upon netting offsetting contracts by counterparty banks to sell foreign currencies against contracts to purchase foreign currencies, irrespective of contract maturity dates, the net notional U.S. dollar equivalent amount of contracts outstanding at January 2, 2021 and October 3, 2020 was \$14,717 and \$10,644, respectively. As of January 2, 2021 and October 3, 2020, the net market value of the foreign exchange balance sheet derivative contracts was a net asset of \$34 and a net liability of \$43, respectively.

The net gain (loss) recognized in the Consolidated Statements of Income on foreign exchange balance sheet derivative contracts is as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Net gain (loss) recognized in other income (expense), net	\$ (323)	\$ (546)

#### **Net Investment Hedge**

We have net investments in foreign subsidiaries that are subject to changes in foreign currency exchange rates. In fiscal year 2020, we entered into a cross-currency swap with a gross notional U.S. dollar equivalent amount of \$100,485 as a net investment hedge for a portion of our net investments in our Euro denominated subsidiaries. Gains and losses resulting from a change in fair value of the net investment hedge are offset by gains and losses on the underlying foreign currency exposure and included in AOCI in the Consolidated Balance Sheets. As of January 2, 2021, the deferred foreign currency activity associated with the net investment hedge was not considered material.

**NOTE 9 FINANCING**

Long-term debt consists of the following:

	January 2, 2021	October 3, 2020
Long-term debt		
Tranche B term loan, 1.00% amortizing per year, maturing July 5, 2023	\$ 167,945	\$ 169,095
Revolving credit facility, expiring July 5, 2023 <sup>1</sup>	58,576	58,576
Senior unsecured notes, 5.75% coupon, maturing August 15, 2027	350,000	350,000
<b>Total long-term debt</b>	<b>576,521</b>	<b>577,671</b>
Less: Unamortized underwriting discounts, commissions and other expenses	(7,693)	(8,341)
Less: Current maturities of tranche B term loan debt <sup>2,3</sup>	(4,600)	(4,600)
Less: Current maturities of revolving credit facility	(23,000)	(23,000)
<b>Total long-term debt, less current maturities, net</b>	<b>\$ 541,228</b>	<b>\$ 541,730</b>

<sup>1</sup> Excludes short-term borrowings in the Consolidated Balance Sheets of \$10,000 and \$17,000 as of January 2, 2021 and October 3, 2020, respectively, utilized as part of working capital and other general corporate purposes.

<sup>2</sup> In addition to the current maturities above, current maturities of long-term debt, net in the Consolidated Balance Sheets includes the current portion of unamortized underwriting discounts, commissions and other expenses of \$1,743 and \$1,757 as of January 2, 2021 and October 3, 2020, respectively.

<sup>3</sup> As of January 2, 2021 and October 3, 2020, current maturities of tranche B term loan consist of the 1% annual payment and calculated or estimated required annual Excess Cash Flow payment as defined below, as well as planned prepayments.

**Tranche B Term Loan and Revolving Credit Facility**

We have a credit agreement with U.S. Bank National Association and HSBC Bank USA, National Association as Co-Documentation Agents, Wells Fargo Bank, National Association as Syndication Agent, JPMorgan Chase Bank, N.A. as Administrative Agent and JP Morgan Chase Bank, N.A. and Wells Fargo Securities, LLC as Joint Bookrunners and Joint Lead Arrangers (the Credit Agreement). The Credit Agreement, as amended, provides for senior secured credit facilities consisting of a \$200,000 revolving credit facility (the Revolving Credit Facility) and a \$460,000 tranche B term loan facility (the Term Facility) which expire on July 5, 2023. The proceeds of the Revolving Credit Facility can be drawn upon to refinance existing indebtedness, for working capital and for other general corporate purposes, up to a maximum of \$200,000. The Term Facility amortizes in equal quarterly installments equal to 1% annually of the original principal amount.

In the first quarter of fiscal year 2020, we entered into a fourth amendment to the Credit Agreement to increase the borrowing capacity on the Revolving Credit Facility from \$150,000 to \$200,000 and extend the expiration date of the Revolving Credit Facility from July 5, 2022 to July 5, 2023. The amendment also reduced letter of credit commitments from \$60,000 to \$50,000. Additionally, the required performance levels under certain financial covenants were modified. During the three months ended December 28, 2019, we incurred debt financing costs of \$577 as a result of this amendment which were capitalized in prepaid and other current assets and other long-term assets in the Consolidated Balance Sheets.

In the fourth quarter of fiscal year 2020, we entered into a fifth amendment to the Credit Agreement, which governs the Term Facility and Revolving Credit Facility, to increase the maximum leverage ratio to 6.0x through March 31, 2021 with step downs thereafter. In addition, we amended the interest coverage ratio to maintain 3.0x through March 31, 2021 with subsequent revisions thereafter. This amendment was completed to maximize flexibility and available liquidity under our current capital structure in the event we would need to access additional funds. As of January 2, 2021 and October 3, 2020, we were in compliance with these financial covenants.

The primary categories of borrowing include Alternate Base Rate (ABR) Borrowings (ABR Term Loans and ABR Revolving Loans), Swingline Loans and Eurocurrency Borrowings (Eurocurrency Term Loans and Eurocurrency Revolving Loans), each as defined in the Credit Agreement. ABR Borrowings and Swingline Loans made in U.S. dollars under the Credit Agreement bear interest at a rate per annum equal to the ABR plus the Applicable Rate (as defined in the Credit Agreement). The ABR is defined as the greater of (a) the Prime Rate (as defined in the Credit Agreement) in effect on such day, (b) the New York Federal Reserve Bank (NYFRB) rate (as defined in the Credit Agreement) in effect on such day plus ½ of 1.00%, or (c) the Adjusted LIBOR (as defined in the Credit Agreement) for a one-month interest period in dollars on such day plus 1.00%. The ABR for ABR Term Loans is not less than 1.75% per annum. The Applicable Rate for any ABR Revolving Loans will be based

upon the leverage ratio applicable on such date. As of January 2, 2021, the Applicable Rate for ABR Term Loans was 2.25% per annum.

Eurocurrency Borrowings made under the Credit Agreement bear interest at a rate per annum equal to the Adjusted LIBOR Rate plus the Applicable Rate. The Adjusted LIBOR Rate is defined as an interest rate per annum equal to (a) the LIBOR Rate for such interest period multiplied by (b) the Statutory Reserve Rate (as defined in the Credit Agreement). The Applicable Rate for any Eurocurrency Revolving Loan is based upon the leverage ratio applicable on such date. The Adjusted LIBOR Rate for Eurocurrency Term Loans is not less than 0.75% per annum. Based on our leverage ratio as of January 2, 2021, the Applicable Rate for Eurocurrency Revolving Loans was 3.25%. As of January 2, 2021, the Applicable Rate for Eurocurrency Term Loans was 3.25% per annum, plus the applicable Adjusted LIBOR Rate of 0.75%. The weighted average interest rate on the Term Facility debt during the three months ended January 2, 2021 was 4.00%.

We had \$68,576 and \$75,576 of outstanding borrowings under the Revolving Credit Facility as of January 2, 2021 and October 3, 2020, respectively, which is included in short-term borrowings and long-term debt, less current maturities, net in the Consolidated Balance Sheets. We had outstanding letters of credit drawn from the Revolving Credit Facility totaling \$27,502 and \$27,895 as of January 2, 2021 and October 3, 2020, respectively, leaving approximately \$103,922 and \$96,529, respectively, of unused borrowing capacity. Commitment fees are payable on the unused portion of the Revolving Credit Facility at rates between 0.20% and 0.45% based on our leverage ratio. During the three months ended January 2, 2021 and December 28, 2019, commitment fees incurred totaled \$115 and \$100, respectively. The weighted average interest rate on the Revolving Credit Facility outstanding balance during the three months ended January 2, 2021 was 4.06%.

The Credit Agreement governing the Term Facility requires us to prepay outstanding term loans, subject to certain exceptions, depending on the leverage ratio with (a) up to 50% of the annual Excess Cash Flow (as defined in the Credit Agreement) and (b) 100% of the net cash proceeds of (i) certain asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions; and (ii) any incurrence or issuance of certain debt, other than debt permitted under the Credit Agreement. We may voluntarily prepay outstanding loans under the Term Facility at any time without premium or penalty. All obligations under the Credit Agreement are unconditionally guaranteed by certain of our existing wholly-owned domestic subsidiaries, and are secured, subject to certain exceptions, by substantially all of our assets and the assets of our subsidiary guarantors.

Under the Credit Agreement, we are subject to customary affirmative and negative covenants, including, among others, restrictions on our ability to incur debt, create liens, dispose of assets, make investments, loans, advances, guarantees, and acquisitions, enter into transactions with affiliates, and enter into any restrictive agreements and customary events of default (including payment defaults, covenant defaults, change of control defaults and bankruptcy defaults). The Credit Agreement also contains financial covenants, including the ratio of consolidated total indebtedness to adjusted consolidated earnings before income, taxes, depreciation and amortization (Adjusted EBITDA), as defined in the Credit Agreement, as well as the ratio of Adjusted EBITDA to consolidated interest expense. These covenants restrict our ability to purchase outstanding shares of our common stock. As of January 2, 2021 and October 3, 2020, we were in compliance with these financial covenants.

#### **Senior Unsecured Notes**

In the fourth quarter of fiscal year 2019, we issued \$350,000 in aggregate principal amount of 5.750% senior unsecured notes due in 2027 (the Notes). The Notes were issued pursuant to an Indenture dated as of July 16, 2019 among us, the Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee (the Indenture). The Notes will mature on August 15, 2027. Interest accrues at the rate of 5.750% per annum and is payable semi-annually on each February 15 and August 15. We used the net proceeds after discounts and expenses of \$343,352 from the offering to repay all then outstanding debt under the Revolving Credit Facility, to repay a portion of the Term Facility and for general corporate purposes.

The Notes and the guarantees constitute senior unsecured obligations of us and the Guarantors, respectively. The Notes are: (a) equal in right of payment with all existing or future unsecured indebtedness that is not subordinated to the Notes; (b) senior in right of payment to any existing or future indebtedness that is subordinated to the Notes; (c) unconditionally guaranteed by the Guarantors; (d) effectively subordinated to all existing or future indebtedness this is secured, including borrowings under the Credit Agreement, to the extent of the value of assets securing such indebtedness; and (e) structurally subordinated to all indebtedness, other liabilities and preferred stock, of any of our subsidiaries that are not Guarantors.

The Indenture governing the Notes contains covenants that limit, among other things, our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares, create liens; pay dividends, redeem stock or make other distributions; make investments; for our restricted subsidiaries to pay dividends to us or make other intercompany transfers; transfer or sell assets; merge or consolidate; enter into certain transactions with our affiliates; and designate subsidiaries as unrestricted subsidiaries. If we experience a change of control, we must offer to repurchase all of the Notes (unless otherwise redeemed) at a price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid

interest, if any, on such Notes to the repurchase date. If we sell assets under certain circumstances, we must use the proceeds to make an offer to repurchase all of the Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

See Note 7 for additional information on the fair value of the tranche B term loan and the senior unsecured notes.

## **NOTE 10 STOCK-BASED COMPENSATION**

We compensate our officers, directors and employees with stock-based compensation under the 2017 Stock Incentive Plan (the 2017 Plan) approved by our shareholders and administered under the supervision of our Board of Directors. During the second quarter of fiscal year 2020, we registered an additional 500 shares of common stock for issuance under the 2017 Plan. As of January 2, 2021, a total of 883 shares were available for issuance under the 2017 Plan.

We make an annual stock grant under the 2017 Plan of stock options, restricted stock units and performance restricted stock units, as well as stock grants throughout the fiscal year. For fiscal years 2021, 2020 and 2019, the annual stock grant occurred in December of each fiscal year.

### ***Stock Options***

During the three months ended January 2, 2021, no stock options were granted. During the three months ended December 28, 2019, 263 stock options were granted at a weighted average fair value of \$9.32.

### ***Restricted Stock Units and Performance Restricted Stock Units***

We award restricted stock units to directors and key employees and performance restricted stock units to key employees. During the three months ended January 2, 2021, we granted 170 restricted stock units and 41 performance restricted stock units to directors, officers and employees. During the three months ended December 28, 2019, we granted 103 restricted stock units and 49 performance restricted stock units. The fair value of the restricted stock units and performance restricted stock units granted during the three months ended January 2, 2021 and December 28, 2019 was \$53.13 and \$44.37, respectively, representing the market value of our shares as of the date of grant less the present value of estimated foregone dividends over the vesting period.

### ***Employee Stock Purchase Plan***

Our U.S. employees are eligible to participate in the 2012 Employee Stock Purchase Plan (2012 ESPP) approved by our shareholders. During the three months ended January 2, 2021, we issued 37 shares under the 2012 ESPP at a weighted average price per share of \$14.42. During the three months ended December 28, 2019 no shares were issued under the 2012 ESPP. Due to the pending acquisition between Amphenol and MTS, no further phases under the ESPP will occur beyond the phase ended December 31, 2020.

## **NOTE 11 INCOME TAXES**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law to help alleviate the impact of the COVID-19 global pandemic in the United States. Amongst other provisions, the CARES Act allows taxpayers to modify their IRC Section 163(j) business interest limitation in a favorable way that allows for the utilization of more interest deduction for tax years 2019 and 2020. We are analyzing the impacts of these and other provisions of the CARES Act to take full advantage of possible tax savings.

The effective tax rate of 33.4% for the three months ended January 2, 2021 increased primarily due to certain discrete tax expenses of \$443 for stock-based compensation activity and future limitations on the deductibility of officer compensation. Excluding the impact of certain discrete items, the effective tax rate for the three months ended January 2, 2021 would have been 16.3%, a decrease from the prior year period primarily driven by favorable global intangible low-taxed income (GILTI) regulations issued in July 2020.

As of January 2, 2021, the liability for unrecognized tax benefits was \$5,338, of which \$3,685 would favorably affect our effective tax rate, if recognized. As of October 3, 2020, the liability for unrecognized tax benefits was \$4,819, of which \$3,166 would favorably affect our effective tax rate, if recognized. As of January 2, 2021, we do not expect significant changes in the amount of unrecognized tax benefits during the next twelve months.



**NOTE 12 EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income by the daily weighted average number of common shares outstanding during the applicable period. Under the treasury stock method, shares associated with certain stock options have been excluded from the diluted weighted average shares outstanding calculation because the exercise of those options would lead to a net reduction in common shares outstanding or anti-dilution. As a result, stock options to acquire 805 and 858 weighted common shares have been excluded from the diluted weighted average common shares outstanding calculation for the three months ended January 2, 2021 and December 28, 2019, respectively.

Basic and diluted earnings per share are calculated as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Net income	\$ 1,715	\$ 5,306
Weighted average common shares outstanding	19,312	19,146
Effect of dilutive securities		
Stock-based compensation	164	223
Weighted average dilutive common shares outstanding	19,476	19,369
Earnings per share		
Basic	\$ 0.09	\$ 0.28
Diluted	0.09	0.27

**NOTE 13 OTHER COMPREHENSIVE INCOME (LOSS)**

Other comprehensive income (loss), a component of shareholders' equity, consists of foreign currency translation adjustments, gains or losses on derivative instruments and defined benefit pension plan adjustments.

Income tax expense or benefit allocated to each component of other comprehensive income (loss) is as follows:

	Three Months Ended		
	January 2, 2021		
	Pre-tax	Tax	Net
Foreign currency translation gain (loss) adjustments	\$ 8,457	\$ —	\$ 8,457
Derivative instruments			
Unrealized net gain (loss)	(5,327)	1,199	(4,128)
Net (gain) loss reclassified to earnings	318	(72)	246
Defined benefit pension plan			
Unrealized net gain (loss)	952	(287)	665
Net (gain) loss reclassified to earnings	278	(84)	194
Currency exchange rate gain (loss)	(437)	—	(437)
Other comprehensive income (loss)	\$ 4,241	\$ 756	\$ 4,997

	Three Months Ended		
	December 28, 2019		
	Pre-tax	Tax	Net
Foreign currency translation gain (loss) adjustments	\$ 3,547	\$ —	\$ 3,547
Derivative instruments			
Unrealized net gain (loss)	(150)	36	(114)
Net (gain) loss reclassified to earnings	(320)	70	(250)
Defined benefit pension plan			
Unrealized net gain (loss)	550	(166)	384
Net (gain) loss reclassified to earnings	302	(90)	212
Currency exchange rate gain (loss)	(182)	—	(182)
Other comprehensive income (loss)	\$ 3,747	\$ (150)	\$ 3,597

The changes in the net-of-tax balances of each component of AOCI are as follows:

	Three Months Ended			
	January 2, 2021			
	Adjustments			
	Foreign Currency Translation	Unrealized Derivative Instrument	Defined Benefit Pension Plan	Total
Beginning balance	\$ 8,778	\$ (3,339)	\$ (10,420)	\$ (4,981)
Other comprehensive net gain (loss) reclassifications	8,457	(4,128)	228	4,557
Net (gain) loss reclassified to earnings	—	246	194	440
Other comprehensive income (loss)	8,457	(3,882)	422	4,997
Ending balance	\$ 17,235	\$ (7,221)	\$ (9,998)	\$ 16

	Three Months Ended			
	December 28, 2019			
	Adjustments			
	Foreign Currency Translation	Unrealized Derivative Instrument	Defined Benefit Pension Plan	Total
Beginning balance	\$ (8,208)	\$ 1,274	\$ (11,539)	\$ (18,473)
Other comprehensive net gain (loss) reclassifications	3,547	(114)	202	3,635
Net (gain) loss reclassified to earnings	—	(250)	212	(38)
Other comprehensive income (loss)	3,547	(364)	414	3,597
Ending balance	\$ (4,661)	\$ 910	\$ (11,125)	\$ (14,876)

The effect on certain line items in the Consolidated Statements of Income of amounts reclassified out of AOCI are as follows:

	Three Months Ended		Affected Line Item in the Consolidated Statements of Income
	January 2, 2021	December 28, 2019	
<b>Derivative instruments</b>			
Currency exchange contracts gain (loss)	\$ (511)	\$ 19	Revenue
Interest rate swap contracts gain (loss)	193	301	Interest expense, net
Income tax benefit (expense)	72	(70)	Income tax provision (benefit)
<b>Total net gain (loss) on derivative instruments</b>	<b>(246)</b>	<b>250</b>	<b>Net income (loss)</b>
<b>Defined benefit pension plan</b>			
Actuarial loss	(278)	(302)	Other income (expense), net
Income tax benefit	84	90	Income tax provision (benefit)
<b>Total net loss on pension plan</b>	<b>(194)</b>	<b>(212)</b>	<b>Net income (loss)</b>
<b>Total net of tax reclassifications out of AOCI included in net income</b>	<b>\$ (440)</b>	<b>\$ 38</b>	

#### NOTE 14 BUSINESS SEGMENT INFORMATION

Our Chief Executive Officer (the Chief Operating Decision Maker) regularly reviews financial information for our two operating segments, Test & Simulation and Sensors. Test & Simulation manufactures and sells testing and simulation solutions including hardware, software and services that are used by customers in product development to characterize a product's mechanical properties along with simulation systems for human response features. Sensors manufactures and sells precision sensors that provide measurements of vibration, pressure, position, force and sound in a variety of applications.

In evaluating each segment's performance, our Chief Executive Officer focuses on income from operations. This measure excludes interest income and expense, income taxes and other non-operating items. Corporate expenses, including costs associated with various support functions such as human resources, information technology, legal, finance and accounting, and general and administrative costs are allocated to the reportable segments on the basis of revenue. The accounting policies of the reportable segments are the same as those described in Note 1 and Note 3 to the Consolidated Financial Statements found in our Annual Report on Form 10-K for the fiscal year ended October 3, 2020.

Intersegment revenue is based on standard costs with reasonable mark-ups established between the reportable segments. All significant intersegment amounts are eliminated to arrive at consolidated financial results.

Financial information by reportable segment is as follows:

	Three Months Ended	
	January 2, 2021	December 28, 2019
<b>Revenue</b>		
Test & Simulation	\$ 113,223	\$ 120,730
Sensors	85,803	85,535
Intersegment eliminations	(222)	(422)
<b>Total revenue</b>	<b>\$ 198,804</b>	<b>\$ 205,843</b>
<b>Income (Loss) from operations</b>		
Test & Simulation	\$ (2,951)	\$ 6,996
Sensors	7,581	8,159
Intersegment eliminations	1	3
<b>Total income from operations</b>	<b>\$ 4,631</b>	<b>\$ 15,158</b>

**NOTE 15 RESTRUCTURING AND RELATED COSTS*****Fiscal Year 2020 Restructuring***

In the second quarter of fiscal year 2020, we initiated a series of global workforce reductions and facility closures, including the reorganization of our European operations within Test & Simulation intended to increase organizational effectiveness, gain operational efficiencies and provide cost savings that can be reinvested in our growth initiatives. As a result, during the three months ended January 2, 2021, we recorded \$672 of pre-tax severance and related expense. As of January 2, 2021, we have incurred a total of \$6,227 of pre-tax severance and related expense since this action was initiated. In fiscal year 2021, we expect to incur approximately \$700 to \$1,100 of additional pre-tax severance and related expense and facility closure costs related to these actions. The majority of the remaining unpaid expenses are expected to be paid in the second and third quarters of fiscal year 2021.

In the third quarter of fiscal year 2020, we initiated an additional workforce reduction within Test & Simulation to reduce the overall cost structure in response to COVID-19. These restructuring activities resulted in severance and related pre-tax expense of \$2,028 in fiscal year 2020. As of January 2, 2021, substantially all expenses have been paid.

In the fourth quarter of fiscal year 2020, we initiated further global workforce reductions within Test & Simulation, including a product rationalization of certain product lines in China designed to increase organizational effectiveness, gain operational efficiencies, improve profitability and provide permanent cost savings in response to COVID-19. As a result, during the three months ended January 2, 2021, we recorded \$306 of pre-tax severance and related expense. As of January 2, 2021, we have incurred a total of \$4,571 of pre-tax severance and related expense since this action was initiated. We expect to incur approximately \$50 of additional pre-tax and related expense in the second quarter of fiscal year 2021. The majority of the remaining unpaid expenses are expected to be paid in the first half of fiscal year 2021.

Restructuring expenses included in the Consolidated Statements of Income are as follows:

	Three Months Ended	
	January 2, 2021	
	Test & Simulation	
Cost of sales	\$	594
Selling and marketing		257
General and administrative		127
Research and development		—
<b>Total restructuring expense</b>	<b>\$</b>	<b>978</b>

Restructuring expense accruals included in accrued payroll and related costs in the Consolidated Balance Sheets for the above restructuring action are as follows:

	Test & Simulation	
Balance, October 3, 2020	\$	8,516
Restructuring expense		978
Payments		(4,390)
Other adjustments		—
Currency translation		—
<b>Balance, January 2, 2021</b>	<b>\$</b>	<b>5,104</b>

**NOTE 16 BUSINESS ACQUISITIONS*****Acquisition of R&D Entities***

Effective December 31, 2019, we completed the acquisition of R&D Test Systems, R&D Engineering, R&D Steel, R&D Prague, RGDK Engineering Private Limited and R&D Tools and Structures (collectively, R&D) for an upfront cash purchase price of \$58,373. The acquisition was primarily funded through our existing Revolving Credit Facility. The remaining purchase price is based on earn-out payments of up to an additional \$26,000 contingent on financial performance through June 2021 and further impacted by fluctuations in exchange rates. As of the acquisition date, we estimated the fair value of the earn-out liability (contingent consideration) to be \$16,903. As of January 2, 2021, the fair value of the contingent consideration was

\$28,131. See Note 7 for addition information on the fair value of the contingent consideration. Based in Denmark, R&D is a leader in high-quality, durable, rotating test systems, serving primarily the wind energy markets. During the three months ended January 2, 2021, we included \$21,601 of revenue from R&D in our Consolidated Statements of Income. Costs of \$748 associated with the acquisition of R&D were expensed as incurred during the three months ended January 2, 2021. Pro forma information related to the acquisition of R&D has not been included as the impact on our consolidated results of operations was not considered material.

The following table summarizes the fair value measurement of the assets acquired as of the date of acquisition:

Asset (Liability)	Fair Value	Finite-Lived Intangible Asset Lives (Years)
Accounts receivable	\$ 13,557	
Unbilled accounts receivable	6,325	
Inventories	41	
Prepaid expenses and other current assets	533	
Property and equipment	1,185	
Intangible assets		
Customer lists	24,364	15
Trademarks and trade names	8,546	15
Technology	5,083	10
Other intangible assets	4,258	1
Other long-term assets	3,122	
Purchased goodwill	35,887	
Accounts payable	(12,592)	
Accrued payroll and related costs	(2,193)	
Advanced payments from customers	(3,203)	
Accrued income taxes	(12)	
Other accrued liabilities	(5,074)	
Deferred income taxes	(11,239)	
Other long-term liabilities	(2,230)	
<b>Net assets acquired</b>	<b>\$ 66,358</b>	
<b>Supplemental information</b>		
Consideration paid at closing	\$ 58,373	
Estimated contingent consideration	16,903	
Less: Cash acquired	(8,918)	
<b>Purchase price, net of cash acquired</b>	<b>\$ 66,358</b>	

The allocation of purchase price consideration was completed as of January 2, 2021. Measurement period adjustments were recorded in the first quarter of fiscal year 2021 and have been reflected in the table above. The measurement period adjustments were not material.

Goodwill was calculated as the difference between the acquisition date fair value of the total purchase price consideration and the fair value of the net assets acquired and represents the future economic benefits that we expect to achieve as a result of the acquisition. This resulted in a purchase price in excess of the fair value of identifiable assets acquired. The purchase price also included the fair value of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. All of the goodwill was assigned to Test & Simulation. None of the goodwill is deductible for income tax purposes.

The fair value of the acquired intangible assets was \$42,251. The acquired intangible assets are being amortized on a straight-line basis over the useful lives identified in the table above.

## **NOTE 17      RISKS AND UNCERTAINTIES**

### ***Coronavirus 2019 (COVID-19) Pandemic***

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. As an essential critical infrastructure business, we have continued to operate in the U.S. and other parts of the world as permitted. Our production capacity continues to recover as jurisdictions ease work restrictions throughout the world; however, restrictions on our employees' ability to access our customers and delays in customer spending are anticipated to impact our sales and operating results in fiscal year 2021.

We continue to monitor the impacts of COVID-19 on the fair value of our assets. While we do not currently anticipate any additional material impairments on assets from those recognized in the fourth quarter of fiscal year 2020 as a result of COVID-19, future changes in sales, earnings and cash flows related to goodwill, indefinite-lived intangible asset and long-lived assets could cause these assets to become impaired. We anticipate the challenges posed by COVID-19 will continue to negatively impact our fiscal year 2021 revenue and operating results; however, the future impact COVID-19 will have on our business, operations and financial results remains unknown at this time, and we remain unable to accurately quantify the impact due to the continued global economic uncertainty.

The extent to which COVID-19 impacts our business, operations and financial results will depend on numerous evolving factors that we may or may not be able to accurately predict, including: the duration and scope of the pandemic; governmental, business and individual actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on our customers' demand for our goods and services; our vendors' ability to supply us with raw materials; our ability to sell and provide our goods and services amidst travel restrictions; the ability of our customers to pay for our goods and services; and any further closures of our facilities or the facilities of our customers. Customers have and may continue to slow down decision-making, delay planned work or seek to terminate existing agreements. Any of these events could materially adversely affect our business, financial condition and results of operations.

In response to COVID-19 and the economic uncertainty, we right-sized our operations and managed short-term business risk to allow for bottom-line improvement through the execution of cost savings initiatives including workforce reductions taken in fiscal year 2020 and continued temporary furloughs and workshare arrangements in fiscal year 2021. To the extent we are eligible based on actions taken, we have participated in government aid programs in the United States and Europe, including the employer payroll tax (FICA) deferrals extensions offered under the CARES Act. We have also continued the suspension of our quarterly dividend of \$0.30 per share, allowing us to maximize our liquidity for the foreseeable future as we face uncertain economic times.

Although we believe our financial position is strong, given the level of economic uncertainty, these cost reduction actions have provided and will provide an increased level of flexibility during these challenging times. While we expect that these actions will be sufficient to provide the needed flexibility, we continue to evaluate the ongoing impact of COVID-19 and may need to take further cost reduction or other actions in the future.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in nine sections:

- Overview
- Financial Results
- Cash Flow Comparison
- Liquidity and Capital Resources
- Off-balance Sheet Arrangements
- Critical Accounting Policies
- Recently Issued Accounting Pronouncements
- Other Matters
- Forward-looking Statements

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q. All dollar and share amounts are in thousands unless otherwise noted.

### **Overview**

MTS Systems Corporation's testing and simulation hardware, software and service solutions help customers accelerate and improve their design, development and manufacturing processes and are used to determine the mechanical behavior of materials, products and structures, or create a desired human experience such as amusement rides, vehicle simulators or flight training simulators. Our precision sensors provide measurements of vibration, pressure, position, force and sound in a variety of applications.

Further globalization and expansion of many industries along with growth in emerging markets, such as China and India, provide a strong and vibrant market base from which we can grow revenue. We have aligned our organizational structure to be more flexible to the demands of globalized and volatile markets by adjusting our structure to be more cost effective and nimble in responding to our customers' needs. We continue to deliver distinctive business performance through our commitment to sustain the differentiated competitive advantage that comes from offering an innovative portfolio of Test & Simulation and Sensor solutions that create value for customers and are delivered with total customer satisfaction.

### **Definitive Merger Agreement**

On December 8, 2020, we entered into a definitive agreement under which Amphenol will acquire MTS for \$58.50 per share in cash, or approximately \$1.7 billion, including the assumption of outstanding debt and liabilities, net of cash. The acquisition is expected to close by the middle of 2021, subject to certain regulatory approvals, shareholder approval and other customary closing conditions. During the three months ended January 2, 2021, we incurred \$11,577 of acquisition-related expense recognized in general and administrative expense in the Consolidated Statements of Income.

### **Coronavirus 2019 (COVID-19) Pandemic**

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. As an essential critical infrastructure business, we have continued to operate in the U.S. and other parts of the world as permitted. Our production capacity continues to recover as jurisdictions ease work restrictions throughout the world; however, restrictions on our employees' ability to access our customers and delays in customer spending are anticipated to impact our sales and operating results in fiscal year 2021. We anticipate these challenges to continue to negatively impact our fiscal year 2021 revenue and operating results. The future impact COVID-19 will have on our business, operations and financial results remains unknown at this time, and we are unable to accurately quantify the impact due to the significant global economic uncertainty. In response, we right-sized our operations and managed short-term business risk to allow for bottom-line improvement through the execution of cost savings initiatives including workforce reduction actions taken in fiscal year 2020 and continued temporary furloughs and workshare arrangements in fiscal year 2021. Additionally, we continue to evaluate our global business operations and may take future actions as deemed necessary to improve our profitability and optimize our overall cost structure. See Note 17 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for further discussion of COVID-19.

### **Ransomware Incident**

In November 2020, we were the victim of a ransomware incident that temporarily impacted our operations. As a result of the incident, certain of our data was encrypted, some of our data was exfiltrated from our systems, and business activities at several of our facilities were temporarily disrupted. As of the date hereof, our investigation indicates that the incident has been contained. We recovered the impacted data from the unauthorized actor, and we are not currently aware of any evidence of the

impacted data being publicly released. We continue to investigate what information the unauthorized actor may have accessed or exfiltrated and resolve open items related to the incident. During the three months ended January 2, 2021, we incurred \$739 of expenses, net of insurance related to this event recognized in general and administrative expense in the Consolidated Statements of Income. We expect total expenses, net of insurance, related to this event to be approximately \$2.0 to \$3.0 million, with the majority incurred in the first half of fiscal year 2021. The temporary operational disruption that occurred has not had a material impact on our financial results as of January 2, 2021. Any failure or perceived failure by us to comply with applicable privacy or security laws, regulations, policies or obligations in connection with this incident, could result in government enforcement actions, regulatory investigations, litigation, fines and penalties and/or adverse publicity, which could impact expenses associated with the incident.

### Foreign Currency

Over the past 15 years, approximately 60 to 70% of our revenue has been derived from customers outside of the U.S. Our financial results are principally exposed to changes in exchange rates between the U.S. dollar and the Euro, the Japanese yen and the Chinese yuan. A change in foreign exchange rates could positively or negatively affect our reported financial results. The discussion below quantifies the impact of foreign currency translation on our financial results for the periods discussed.

### Terms

The terms "MTS," "we," "us," "the Company" or "our" in this Quarterly Report on Form 10-Q, unless the context otherwise requires, refer to MTS Systems Corporation and its wholly owned subsidiaries.

## Financial Results

### Total Company

#### Results of Operations

The following tables compare results of operations, separately identifying the estimated impact of currency translation, the acquisition of R&D in the second quarter of fiscal year 2020, acquisition-related expenses incurred as a result of the pending merger with Amphenol and restructuring costs incurred in fiscal year 2021.

	Three Months Ended				
	January 2, 2021	Estimated			December 28, 2019
		Business Change	Acquisition / Restructuring <sup>1</sup>	Currency Translation	
<b>Revenue</b>	\$ 198,804	\$ (33,196)	\$ 21,601	\$ 4,556	\$ 205,843
<b>Cost of sales</b>	124,389	(24,531)	16,571	3,115	129,234
<b>Gross profit</b>	74,415	(8,665)	5,030	1,441	76,609
Gross margin	37.4 %				37.2 %
<b>Operating expenses</b>					
Selling and marketing	28,422	(5,908)	886	725	32,719
General and administrative	34,159	(3,348)	15,604	210	21,693
Research and development	7,203	80	—	84	7,039
<b>Total operating expenses</b>	69,784	(9,176)	16,490	1,019	61,451
<b>Income from operations</b>	\$ 4,631	\$ 511	\$ (11,460)	\$ 422	\$ 15,158

<sup>1</sup> The Acquisition / Restructuring column includes operating results and costs incurred as a result of the acquisition of R&D, acquisition-related expenses of \$11,577 incurred as a result of the pending merger with Amphenol and restructuring costs of \$978 for the three months ended January 2, 2021. See Note 1, Note 15 and Note 16 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information on the pending merger with Amphenol, restructuring and the R&D acquisition, respectively.



## Revenue

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Revenue	\$ 198,804	\$ 205,843	\$ (7,039)	(3.4)%

Revenue for the three months ended January 2, 2021 declined 3.4% primarily driven by a decline in Test & Simulation, partially offset by the favorable impact of currency translation. Both businesses continue to be negatively impacted by COVID-19.

Test & Simulation revenue for the three months ended January 2, 2021 decreased \$7,507, primarily driven by lower volume from weakness in all sectors and all regions, excluding the contributions from the acquisition of R&D, as Test & Simulation continues to be negatively impacted by COVID-19. The decline was partially offset by contributions from the acquisition of R&D of \$21,601 and the favorable impact of currency translation.

Sensors revenue for the three months ended January 2, 2021 increased \$268 primarily due to the favorable impact of currency translation, partially offset by lower volume primarily in the industrial sector.

Excluding the impact of currency translation and the R&D acquisition, total Company revenue decreased 16.1%.

## Gross Profit

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Gross profit	\$ 74,415	\$ 76,609	\$ (2,194)	(2.9)%
Gross margin	37.4 %	37.2 %	0.2	ppts

Gross profit for the three months ended January 2, 2021 declined 2.9% primarily driven by lower revenue volume in both Test & Simulation and Sensors, partially offset by the gross profit contribution from the R&D acquisition, lower compensation expense in both businesses and the favorable impact of currency translation. Both businesses continue to be negatively impacted by COVID-19. Gross margin increased 0.2 percentage points primarily due to lower compensation expense in both businesses, improved project execution in Test & Simulation and the Endeveco acquisition inventory fair value adjustment in the prior year of \$540. This increase was partially offset by unfavorable leverage on lower revenue volumes and lower gross margin contribution from product mix in both Test & Simulation and Sensors, along with restructuring costs of \$594. Excluding the impact of currency translation, the R&D acquisition, restructuring costs and the Endeveco acquisition inventory fair value adjustment in the prior year, gross profit declined 11.9% and gross margin increased 1.9 percentage points.

## Selling and Marketing Expense

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Selling and marketing	\$ 28,422	\$ 32,719	\$ (4,297)	(13.1)%
% of revenue	14.3 %	15.9 %		

Selling and marketing expense for the three months ended January 2, 2021 declined 13.1% primarily due to lower compensation, marketing and travel expense driven by the realization of cost savings from restructuring actions taken in fiscal year 2020, along with reduced travel stemming from COVID-19 restrictions. The decline was partially offset by the addition of R&D expenses and restructuring costs of \$257. Excluding the impact of currency translation, R&D expenses, restructuring costs and acquisition-related expenses, selling and marketing expense decreased 18.1%.

### General and Administrative Expense

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
General and administrative	\$ 34,159	\$ 21,693	\$ 12,466	57.5 %
% of revenue	17.2 %	10.5 %		

General and administrative expense for the three months ended January 2, 2021 increased 57.5% primarily due to higher acquisition-related expenses of \$10,089, the addition of R&D expenses and expenses related to the ransomware incident of \$739, partially offset by lower compensation expense in both businesses primarily from the realization of cost savings from Test & Simulation restructuring actions taken in fiscal year 2020. Excluding the impact of currency translation, the addition of R&D expenses, restructuring costs, acquisition-related expenses in both fiscal years and ransomware incident expenses, general and administrative expense decreased 11.7%.

### Research and Development Expense

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Research and development	\$ 7,203	\$ 7,039	\$ 164	2.3 %
% of revenue	3.6 %	3.4 %		

Research and development expense for the three months ended January 2, 2021 increased 2.3% primarily due to continued investment in Test & Simulation technology, partially offset by the realization of cost savings from restructuring actions taken in fiscal year 2020. Excluding the impact of currency translation, restructuring costs and acquisition-related expenses in the prior year, research and development expense increased 1.1%.

### Income from Operations

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Income from operations	\$ 4,631	\$ 15,158	\$ (10,527)	(69.4)%
% of revenue	2.3 %	7.4 %		

Income from operations for the three months ended January 2, 2021 declined 69.4%, primarily due to lower gross profit in both Test & Simulation and Sensors, higher acquisition-related expenses of \$10,111, higher restructuring costs of \$978 and expenses related to the ransomware incident of \$739, partially offset by lower operating compensation expense from the realization of cost savings from Test & Simulation restructuring actions taken in fiscal year 2020. Excluding the impact of currency translation, the R&D acquisition, restructuring costs, the Endevco acquisition inventory fair value adjustment in the prior year, acquisition-related expenses in both fiscal years and ransomware incident expenses, income from operations decreased 5.9%.

### Interest Expense, Net

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Interest expense, net	\$ 8,467	\$ 8,272	\$ 195	2.4 %

Interest expense, net for the three months ended January 2, 2021 increased primarily due to accretion on the contingent consideration purchase price for the R&D acquisition and higher interest on an increased debt level to fund the R&D acquisition, partially offset by debt financing costs incurred in the prior period related to the fourth amendment to the Credit Agreement.

**Other Income (Expense), Net**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Other income (expense), net	\$ 6,413	\$ (431)	\$ 6,844	1,587.9 %

The increase in other income (expense), net for the three months ended January 2, 2021 was primarily driven by the \$5,794 gain on sale of our China manufacturing facility and associated assets along with a gain on foreign currency transactions.

**Income Tax Provision (Benefit)**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Income tax provision (benefit)	\$ 862	\$ 1,149	\$ (287)	(25.0)%
Effective tax rate	33.4 %	17.8 %		

The effective tax rate of 33.4% for the three months ended January 2, 2021 increased primarily due to certain discrete tax expenses of \$443 for stock-based compensation activity and future limitations on the deductibility of officer compensation. Excluding the impact of these discrete items, the effective tax rate for the three months ended January 2, 2021 would have been 16.3%, a decrease from the prior year primarily driven by favorable GILTI regulations issued in July 2020.

**Net Income**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Net income	\$ 1,715	\$ 5,306	\$ (3,591)	(67.7)%
Diluted earnings per share	\$ 0.09	\$ 0.27	\$ (0.18)	(66.7)%

Net income and diluted earnings per share for the three months ended January 2, 2021 decreased primarily due to lower income from operations in both Test & Simulation and Sensors, partially offset by higher other income from the gain on sale of our China manufacturing facility.

## Segment Results

### Test & Simulation Segment

#### Results of Operations

The following tables compare results of operations for Test & Simulation, separately identifying the estimated impact of currency translation, the acquisition of R&D, acquisition-related expenses incurred as a result of the pending merger with Amphenol and restructuring costs incurred in fiscal year 2021. See Note 14 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information on our reportable segments.

	Three Months Ended				
	January 2, 2021	Business Change	Acquisition / Restructuring <sup>1</sup>	Currency Translation	December 28, 2019
<b>Revenue</b>	\$ 113,223	\$ (31,721)	\$ 21,601	\$ 2,613	\$ 120,730
<b>Cost of sales</b>	78,820	(23,547)	16,571	2,036	83,760
<b>Gross profit</b>	34,403	(8,174)	5,030	577	36,970
Gross margin	30.4 %				30.6 %
<b>Operating expenses</b>					
Selling and marketing	15,067	(3,105)	886	407	16,879
General and administrative	19,319	(2,000)	10,150	164	11,005
Research and development	2,968	848	—	30	2,090
<b>Total operating expenses</b>	37,354	(4,257)	11,036	601	29,974
<b>Income from operations</b>	\$ (2,951)	\$ (3,917)	\$ (6,006)	\$ (24)	\$ 6,996

<sup>1</sup> The Acquisition / Restructuring column includes operating results and costs incurred as a result of the acquisition of R&D, acquisition-related expenses of \$6,123 incurred as a result of the pending merger with Amphenol and restructuring costs of \$978 for the three months ended January 2, 2021. See Note 1, Note 15 and Note 16 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information on the pending merger with Amphenol, restructuring costs and the R&D acquisition, respectively.

#### Revenue

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Revenue	\$ 113,223	\$ 120,730	\$ (7,507)	(6.2)%

Revenue for the three months ended January 2, 2021 decreased 6.2%, primarily driven by lower volume from weakness in all sectors and all regions, excluding the contributions from the acquisition of R&D, as Test & Simulation continues to be negatively impacted by COVID-19. The decline was partially offset by contributions from the acquisition of R&D of \$21,601 and the favorable impact of currency translation. Excluding the impact of currency translation and the R&D acquisition, revenue decreased 26.3%.

#### Gross Profit

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Gross profit	\$ 34,403	\$ 36,970	\$ (2,567)	(6.9)%
Gross margin	30.4 %	30.6 %	(0.2) ppts	

Gross profit for the three months ended January 2, 2021 declined 6.9%, primarily due to lower revenue volume and restructuring costs of \$594, partially offset by contributions from the R&D acquisition and lower compensation expense from the realization of cost savings from restructuring initiatives taken in fiscal year 2020. Gross margin declined 0.2 percentage points, primarily driven by reduced leverage on lower revenue volume, lower gross margin contribution from product mix and higher restructuring costs, partially offset by lower compensation expense and improved project execution. Excluding the

impact of currency translation, the R&D acquisition and restructuring costs, gross profit declined 22.1% and gross margin increased 1.8 percentage points.

### **Selling and Marketing Expense**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Selling and marketing	\$ 15,067	\$ 16,879	\$ (1,812)	(10.7)%
% of revenue	13.3 %	14.0 %		

Selling and marketing expense for the three months ended January 2, 2021 declined 10.7%, primarily due to lower compensation, marketing and travel expenses mainly driven by the realization of cost savings from restructuring actions taken in fiscal year 2020, along with reduced travel stemming from COVID-19 restrictions, partially offset by the addition of R&D expenses and restructuring costs of \$257. Excluding the impact of currency translation, R&D expenses, restructuring costs and acquisition-related expenses, selling and marketing expense decreased 18.4%.

### **General and Administrative Expense**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
General and administrative	\$ 19,319	\$ 11,005	\$ 8,314	75.5 %
% of revenue	17.1 %	9.1 %		

General and administrative expense for the three months ended January 2, 2021 increased 75.5% primarily driven by higher acquisition-related expenses of \$5,514, the addition of R&D expenses and expenses related to the ransomware incident of \$391, partially offset by lower compensation expense and the realization of cost savings from restructuring actions taken in fiscal year 2020 in response to COVID-19. Excluding the impact of currency translation, R&D expenses, restructuring costs, acquisition-related expenses in both fiscal years and ransomware incident expenses, general and administrative expense decreased 15.0%.

### **Research and Development Expense**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Research and development	\$ 2,968	\$ 2,090	\$ 878	42.0 %
% of revenue	2.6 %	1.7 %		

Research and development expense for the three months ended January 2, 2021 increased 42.0% primarily due to continued investment in Test & Simulation technology, partially offset by the realization of cost savings from restructuring actions taken in fiscal year 2020. Excluding the impact of currency translation, research and development expense increased 40.6%.

### **Income from Operations**

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Income from operations	\$ (2,951)	\$ 6,996	\$ (9,947)	(142.2)%
% of revenue	(2.6)%	5.8 %		

Income from operations for the three months ended January 2, 2021 declined 142.2%, primarily due to decreased gross profit on lower revenue volume, higher acquisition-related expenses of \$5,536, higher restructuring costs of \$978 and expenses related to the ransomware incident of \$391, partially offset by lower operating compensation expense from the realization of cost savings from restructuring actions taken in fiscal year 2020 and the contributions from the R&D acquisition. Excluding the impact of currency translation, the R&D acquisition, restructuring costs, acquisition-related expenses in both fiscal years and ransomware incident expenses, income from operations decreased 55.9%.

## Sensors Segment

### Results of Operations

The following tables compare results of operations for Sensors, separately identifying the estimated impact of currency translation and acquisition-related expenses incurred as a result of the pending merger with Amphenol in fiscal year 2021. See Note 14 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information on our reportable segments.

	Three Months Ended					December 28, 2019
	January 2, 2021	Estimated			Currency Translation	
		Business Change	Acquisition <sup>1</sup>			
<b>Revenue</b>	\$ 85,803	\$ (1,675)	\$ —	\$ 1,943	\$ 85,535	
<b>Cost of sales</b>	45,792	(1,186)	—	1,079	45,899	
<b>Gross profit</b>	40,011	(489)	—	864	39,636	
Gross margin	46.6 %				46.3 %	
<b>Operating expenses</b>						
Selling and marketing	13,355	(2,803)	—	318	15,840	
General and administrative	14,840	(1,348)	5,454	46	10,688	
Research and development	4,235	(768)	—	54	4,949	
<b>Total operating expenses</b>	32,430	(4,919)	5,454	418	31,477	
<b>Income (loss) from operations</b>	\$ 7,581	\$ 4,430	\$ (5,454)	\$ 446	\$ 8,159	

<sup>1</sup> The Acquisition column includes costs incurred as a result of the pending merger with Amphenol. See Note 1 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information.

### Revenue

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
	Revenue	\$ 85,803	\$ 85,535	\$ 268

Revenue for the three months ended January 2, 2021 increased 0.3% primarily due to the favorable impact of currency translation, partially offset by lower volume primarily in the industrial sector. Excluding the impact of currency translation, revenue decreased 2.0%.

### Gross Profit

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
	Gross profit	\$ 40,011	\$ 39,636	\$ 375
Gross margin	46.6 %	46.3 %	0.3	ppts

Gross profit for the three months ended January 2, 2021 increased 0.9% primarily due to the favorable impact of currency translation, lower compensation expense and the Endevco acquisition inventory fair value adjustment in the prior year of \$540, partially offset by lower revenue volume. Gross margin increased 0.3 percentage points primarily driven by lower compensation expense and the Endevco acquisition inventory fair value adjustment in the prior year, partially offset by lower gross margin contribution from product mix and the unfavorable leverage on lower revenue volumes. Excluding the impact of currency translation and the Endevco acquisition inventory fair value adjustment in the prior year, gross profit declined 2.6% and gross margin declined 0.3 percentage points.

### ***Selling and Marketing Expense***

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Selling and marketing	\$ 13,355	\$ 15,840	\$ (2,485)	(15.7)%
% of revenue	15.6 %	18.5 %		

Selling and marketing expense for the three months ended January 2, 2021 decreased 15.7% primarily driven by lower compensation, marketing and travel expense driven by temporary cost savings initiatives and travel restrictions stemming from COVID-19. Excluding the impact of currency translation, selling and marketing expense decreased 17.7%.

### ***General and Administrative Expense***

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
General and administrative	\$ 14,840	\$ 10,688	\$ 4,152	38.8 %
% of revenue	17.3 %	12.5 %		

General and administrative expense for the three months ended January 2, 2021 increased 38.8% primarily driven by higher acquisition-related expenses of \$4,575 and expenses related to the ransomware incident of \$348, partially offset by lower compensation expense. Excluding the impact of currency translation, acquisition-related expenses in both fiscal years and ransomware incident expenses, general and administrative expense decreased 8.3%.

### ***Research and Development Expense***

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Research and development	\$ 4,235	\$ 4,949	\$ (714)	(14.4)%
% of revenue	4.9 %	5.8 %		

Research and development expense for the three months ended January 2, 2021 decreased 14.4% primarily driven by lower compensation expense from temporary cost savings initiatives taken in response to COVID-19. Excluding the impact of currency translation, research and development expense decreased 15.5%.

### ***Income from Operations***

	Three Months Ended		Increased / (Decreased)	
	January 2, 2021	December 28, 2019	\$	%
Income from operations	\$ 7,581	\$ 8,159	\$ (578)	(7.1)%
% of revenue	8.8 %	9.5 %		

Income from operations for the three months ended January 2, 2021 declined 7.1% primarily due to higher acquisition-related expenses of \$4,575, expenses related to the ransomware incident of \$348 and reduced revenue volume, partially offset by lower compensation expenses, cost savings initiatives and lower travel and marketing expense. Excluding the impact of currency translation, acquisition-related expenses, and ransomware incident expenses, income from operations increased 35.1%.

**Cash Flow Comparison**

The following table summarizes our cash flows from total operations:

	Three Months Ended	
	January 2, 2021	December 28, 2019
Total cash provided by (used in):		
Operating activities	\$ 19,254	\$ (5,743)
Investing activities	6,146	(10,572)
Financing activities	(5,915)	21,532
Effect of exchange rate changes on cash and cash equivalents	4,186	917
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>23,671</b>	<b>6,134</b>
Cash and cash equivalents balance, beginning of period	88,913	57,937
Cash and cash equivalents balance, end of period	\$ 112,584	\$ 64,071

**Operating Activities**

The increase in cash provided by operating activities was primarily due to an increase in cash provided by working capital associated with timing fluctuations from accounts receivable payments received, accounts payable payments made, advanced payments received from customers, and inventory purchases. These increases were partially offset by lower net income and higher cash used by other assets and liabilities related to accrued project costs.

**Investing Activities**

The increase in cash provided by investing activities was primarily due to proceeds received from the sale of a building in the first quarter of fiscal year 2021, and a decrease in cash used to purchase property and equipment due to cost containment measures.

**Financing Activities**

The increase in cash used in financing activities was primarily due to payments of short-term notes payable. This increase was partially offset by a decrease in payment of cash dividends and an increase in proceeds from exercise of stock options as a result of the increased share price.

**Liquidity and Capital Resources**

We had cash and cash equivalents of \$112,584 as of January 2, 2021. Of this amount, \$12,347 was located in North America, \$60,165 in Europe and \$40,072 in Asia. Repatriation of certain foreign earnings is restricted by local law. The North American cash balance was primarily invested in bank deposits. The cash balances in Europe and Asia were primarily invested in money market funds and bank deposits. In accordance with our investment policy, we place cash equivalent investments with issuers who have high-quality investment credit ratings. In addition, we limit the amount of investment exposure we have with any particular issuer. Our investment objectives are to preserve principal, maintain liquidity and achieve the best available return consistent with our primary objectives of safety and liquidity. As of January 2, 2021, we held no short-term investments.

As a result of the transition tax related to the enactment of the Tax Act, we are able to repatriate cash held in our foreign subsidiaries without such funds being subject to additional federal income tax liability.

As of January 2, 2021, our capital structure was comprised of \$37,600 in short-term debt, \$548,921 in long-term debt and \$232,963 in shareholders' equity. The consolidated balance sheets also included \$9,436 of unamortized debt issuance costs as of January 2, 2021. Total interest-bearing debt as of January 2, 2021 was \$586,521. As of January 2, 2021, we had \$68,576 outstanding borrowings and \$27,502 outstanding letters of credit under the Revolving Credit Facility, leaving approximately \$103,922 of unused borrowing capacity.

We have a credit agreement with a consortium of financial institutions (the Credit Agreement) that provides for senior secured credit facilities consisting of a Revolving Credit Facility and a Term Facility. The maturity date of the Revolving Credit Facility and the loans under the Term Facility is July 5, 2023, unless a term loan lender agrees to extend the maturity date pursuant to a loan modification agreement made in accordance with the terms of the Credit Agreement. The Credit Agreement also requires mandatory prepayments on our Term Facility in certain circumstances, including the potential for an annual required prepayment of a certain percentage of our excess cash flow.

Under the Credit Agreement, we are subject to customary affirmative and negative covenants, including, among others, restrictions on our ability to incur debt, create liens, dispose of assets, make investments, loans, advances, guarantees and acquisitions, enter into transactions with affiliates and enter into any restrictive agreements and customary events of default



(including payment defaults, covenant defaults, change of control defaults and bankruptcy defaults). The Credit Agreement also contains financial covenants, including the ratio of consolidated total indebtedness to adjusted consolidated earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), as defined in the Credit Agreement, as well as the ratio of Adjusted EBITDA to consolidated interest expense. These covenants restrict our ability to pay dividends and purchase outstanding shares of common stock.

On July 30, 2020, we entered into a fifth amendment to the Credit Agreement, which governs the Term Facility and Revolving Credit Facility, to increase the maximum leverage ratio to 6.0x through March 31, 2021 with step downs thereafter. In addition, we amended the interest coverage ratio to maintain 3.0x through March 31, 2021 with subsequent revisions thereafter. This amendment was completed to maximize flexibility and available liquidity under our current capital structure in the event we would need to access additional funds. As of January 2, 2021, we were in compliance with these financial covenants. Specifically, we ended the first quarter of fiscal year 2021 with a leverage ratio of 4.7x, which is below the current maximum leverage ratio of 6.0x under the Credit Agreement.

In fiscal year 2019, we issued \$350,000 in aggregate principal amount of 5.750% senior unsecured notes due in 2027 (the Notes). The Notes were issued pursuant to an Indenture dated as of July 16, 2019 among us, the Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee (the Indenture). The Notes will mature on August 15, 2027.

The Indenture governing the Notes contains covenants that limit, among other things, our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares; create liens; pay dividends, redeem stock or make other distributions; make investments; for our restricted subsidiaries to pay dividends to us or make other intercompany transfers; transfer or sell assets; merge or consolidate; enter into certain transactions with our affiliates; and designate subsidiaries as unrestricted subsidiaries. As of January 2, 2021, we were in compliance with these financial covenants.

See Note 9 to the Consolidated Financial Statements included in Item I of Part I of this Quarterly Report on Form 10-Q for additional information on our financing arrangements.

Shareholders' equity increased by \$11,780 during the three months ended January 2, 2021 primarily due to \$4,997 other comprehensive income, \$3,791 stock options exercised, \$2,648 stock-based compensation and \$1,715 net income. The increase was partially offset by \$1,903 common stock purchased and retired related to stock awards.

As discussed, we have implemented various permanent and temporary cost reduction initiatives to manage and reduce operating costs and further enhance our financial flexibility in response to COVID-19 and as a part of our general global restructuring efforts in Test & Simulation, including the continued suspension of our quarterly dividend. While we cannot predict the overall impact of COVID-19 on our liquidity position, as of January 2, 2021, we believe our current capital resources will be sufficient to fund working capital requirements, capital expenditures and operations for the foreseeable future, including at least the next twelve months.

#### **Off-balance Sheet Arrangements**

As of January 2, 2021, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

#### **Critical Accounting Policies**

The Consolidated Financial Statements have been prepared in accordance with GAAP, which requires us to make estimates and assumptions in certain circumstances that, giving due consideration to materiality, affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of any contingent assets and liabilities at the date of the financial statements. We regularly review our estimates and assumptions, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For further information, see Note 1, Note 3, Note 6 and Note 18 to the Consolidated Financial Statements included in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended October 3, 2020. For a discussion of our critical accounting policies, see Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended October 3, 2020.

#### **Recently Issued Accounting Pronouncements**

Information regarding new accounting pronouncements is included in Note 2 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

## **Other Matters**

### **Dividends**

Our dividend policy is to maintain a payout ratio that allows dividends to increase in conjunction with the long-term growth of earnings per share, while sustaining dividends through economic cycles. Our dividend practice is to target, over time, a payout ratio of approximately 25% of net earnings per share. We have historically paid dividends to holders of our common stock on a quarterly basis. The declaration and payment of future dividends will depend on many factors, including, but not limited to, our earnings, financial condition, debt repayment obligations, business development needs and regulatory considerations and are at the discretion of our Board of Directors. The quarterly dividend has been suspended as of the third quarter of fiscal year 2020. The reinstatement of the dividend will be considered in future periods at the discretion of the Board of Directors subject to the definitive merger agreement between Amphenol and MTS.

### **Forward-looking Statements**

Statements contained in this Quarterly Report on Form 10-Q including, but not limited to, the discussion under Item 2 of Part I, that are not statements of historical fact are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, certain statements in our future filings with the SEC, in press releases and in oral and written statements made by us or with our approval that are not statements of historical fact also constitute forward-looking statements. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, Adjusted EBITDA, net income or loss, earnings or loss per share, the payment or nonpayment of dividends, our capital structure, the adequacy of our liquidity and reserves, the anticipated level of expenditures required and other statements concerning future financial performance; (ii) statements of plans and objectives by our management or Board of Directors, including those relating to products or services, restructuring initiatives, merger or acquisition activity; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators or statements relating to our order cancellation history, our ability to convert our backlog of undelivered orders into revenue, the timing of purchases, competitive advantages and growth in end markets; (v) statements regarding our products and their characteristics, fluctuations in the costs of raw materials for products, our geographic footprint, performance, sales potential or effect in the hands of customers; (vi) statements about the impact of COVID-19 and related economic uncertainty; and (vii) statements about the proposed merger, including the expected timeline to closing and the receipt of certain approvals. Words such as "believes," "anticipates," "expects," "intends," "targeted," "should," "potential," "goals," "strategy" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, the currently-unknown impact of COVID-19 and related economic uncertainty, the risk that the proposed merger may not be completed in a timely manner or at all, the failure to satisfy the conditions to the consummation of the proposed merger, the impact of the proposed merger on our operations, and those risks described in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended October 3, 2020 and in Item 1A of Part II of this Quarterly Report on Form 10-Q. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these forward-looking statements with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made. You should carefully review the disclosures and the risk factors described in our Annual Report on Form 10-K for the fiscal year ended October 3, 2020 and in other documents we file from time to time with the SEC, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

### **Foreign Currency Exchange Risk**

Over the past 15 years, approximately 60 to 70% of our revenue has been derived from customers outside of the U.S. Our international subsidiaries have functional currencies other than our U.S. dollar reporting currency and, occasionally, transact business in currencies other than their functional currencies. These non-functional currency transactions expose us to market risk on assets, liabilities and cash flows recognized on these transactions.

The strengthening of the U.S. dollar relative to foreign currencies decreases the value of foreign currency-denominated revenue and earnings when translated into U.S. dollars resulting in an unfavorable currency translation impact on revenue and earnings. Conversely, a weakening of the U.S. dollar increases the value of foreign currency-denominated revenue and earnings resulting in a favorable currency translation impact on revenue and earnings.

A hypothetical 10% appreciation or depreciation in foreign currencies against the U.S. dollar, assuming all other variables are held constant, would result in an increase or decrease in revenue recognized of approximately \$8,227 for the three months ended January 2, 2021.

We have operational procedures to mitigate these non-functional currency exposures. We also utilize foreign currency exchange contracts to exchange currencies at set exchange rates on future dates to offset expected gains or losses on specifically identified exposures.

Mark-to-market gains and losses on derivatives designated as cash flow hedges in our currency hedging program are recorded within accumulated other comprehensive income (loss) (AOCI) in the Consolidated Balance Sheets. Mark-to-market gains and losses are reclassified from AOCI to earnings in the same line item in the Consolidated Statements of Income and in the same period as the recognition of the underlying hedged transaction. Net gains and losses on foreign currency transactions included in the accompanying Consolidated Statements of Income were net (gains)/losses of \$823 and \$929 during the three months ended January 2, 2021 and December 28, 2019, respectively. See Note 8 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information on our cash flow hedge currency exchange contracts.

#### **Interest Rates**

We are directly exposed to changes in market interest rates on cash, cash equivalents, short-term investments and long-term debt, and are indirectly exposed to the impact of market interest rates on overall business activity.

On floating-rate investments, increases and decreases in market interest rates will increase or decrease future interest income, respectively. On floating-rate debt, increases or decreases in market interest rates will increase or decrease future interest expense, respectively. On fixed-rate investments, increases or decreases in market interest rates do not impact future interest income but may decrease or increase the fair market value of the investments, respectively. On fixed-rate debt, increases or decreases in market interest rates do not impact future interest expense but may decrease or increase the fair market value of the debt, respectively.

As of January 2, 2021, we had cash and cash equivalents of \$112,584, some of which was invested in interest-bearing bank deposits or money market funds. The interest-bearing bank deposits and money market funds have interest rates that reset every 1 to 89 days and generate interest income that will vary based on changes in short-term interest rates. A hypothetical decrease of 100 basis points in market interest rates, assuming all other variables were held constant, would decrease interest income by approximately \$23 for the three months ended January 2, 2021.

As of January 2, 2021, we had floating interest rate debt of \$236,521. Secured floating rate credit facilities require interest payments to be calculated at a floating rate tied in part to LIBOR or, if LIBOR is no longer available, at a replacement rate to be determined by the administrative agent for the Credit Facility and consented to by us. As a result, changes in floating rate can affect our operating results and liquidity to the extent we do not have effective interest rate swap arrangements in place. A hypothetical increase of 100 basis points in floating interest rates, assuming all other variables were held constant, would result in an approximately \$2,288 increase in future annual interest expense.

#### **Item 4. Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of January 2, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of January 2, 2021, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the first quarter of fiscal year 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

We are subject to various claims, legal actions and complaints arising in the ordinary course of business. We are not presently a party to any litigation the outcome of which we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition.

### Item 1A. Risk Factors

A discussion of our risk factors can be found in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended October 3, 2020. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks not currently known to us, or that we currently deem to be immaterial, may also adversely affect our business, financial condition or results of operations in future periods.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents repurchases of our equity securities we made during the fiscal quarter ended January 2, 2021:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased As Part of Publicly Announced Plans or Programs
October 4, 2020 – November 7, 2020	—	\$ —	—	438
November 8, 2020 – December 5, 2020	—	\$ —	—	438
December 6, 2020 – January 2, 2021	—	\$ —	—	438

We purchase common stock from time to time to mitigate dilution related to new shares issued for employee compensation such as stock options, restricted stock units, performance restricted stock units and for employee stock purchase plan activity, as well as to return to shareholders capital not immediately required to fund ongoing operations. Due to the pending merger between Amphenol and MTS, no further phases under the employee stock purchase plan will occur beyond the phase ended December 31, 2020.

#### Share Purchase Plan

Our Board of Directors approved, and on February 11, 2011 announced, a purchase authorization of 2,000 shares. Authority over pricing and timing under the authorization has been delegated to management. The share purchase authorization has no expiration date. We made no share purchases during the first quarter of fiscal year 2021. As of January 2, 2021, there were 438 shares available for purchase under the existing authorization.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
2.1	<a href="#">Agreement and Plan of Merger, by and among the Company, Amphenol Corporation, and Moon Merger Sub Corporation, dated December 8, 2020 (omitting schedules and other similar attachments to such agreement pursuant to Item 601(b) of Regulation S-K, which omitted documents the Company will furnish to the SEC upon request), incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed December 9, 2020.</a>
10.1	<a href="#">Form of Retention Agreement, dated effective December 18, 2020, between the Company and Randy J. Martinez (filed herewith).</a>
10.2	<a href="#">Form of Retention Agreement, dated effective December 18, 2020, between the Company and Brian T. Ross (filed herewith).</a>
10.3	<a href="#">Form of Retention Agreement, dated effective December 18, 2020, between the Company and Steven B. Harrison (filed herewith).</a>
10.4	<a href="#">Form of Retention Agreement, dated effective December 18, 2020, between the Company and David T. Hore (filed herewith).</a>
10.5	<a href="#">Form of Retention Agreement, dated effective December 18, 2020, between the Company and Todd J. Klemmensen (filed herewith).</a>
10.6	<a href="#">Letter Agreement, dated effective December 17, 2020, by and between the Company and Randy J. Martinez (filed herewith).</a>
31.1	<a href="#">Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</a>
31.2	<a href="#">Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</a>
32.1	<a href="#">Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</a>
32.2	<a href="#">Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
104	Cover Page Interactive Data File (embedded within the Inline XBRL document) (filed herewith).

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MTS SYSTEMS CORPORATION

Date: February 9, 2021

/s/ RANDY J. MARTINEZ

Randy J. Martinez  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 9, 2021

/s/ BRIAN T. ROSS

Brian T. Ross  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)



## RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is entered into, and shall become effective, as of the 18 day of December, 2020 (the "Effective Date") by and between MTS Systems Corporation, a Minnesota corporation (the "Company"), and **Randy J. Martinez** ("Executive").

### W I T N E S S E T H

WHEREAS, Executive is currently employed by the Company and his or her services and knowledge are valuable to the Company in connection with the management of one or more of the Company's principal operating facilities, divisions, or departments;

WHEREAS, the Company, Amphenol Corporation, a Delaware corporation ("Parent") and Moon Merger Sub Corporation, a Minnesota corporation and wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 8, 2020, pursuant to which Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent (the "Merger" and the date on which the Merger is consummated, the "Closing Date");

WHEREAS, the Compensation and Leadership Development Committee (the "Committee") of the Board of Directors (the "Board") of the Company has determined that, it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued dedication.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Retention Bonus. Subject to the terms of this Agreement (including, without limitation, the terms of Section 3 of this Agreement regarding Executive's contingent obligation to repay to the Company certain amounts paid to Executive hereunder and the terms of Section 4 regarding Executive's obligation to cooperate with certain actions taken by the Company in connection with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")) the Company shall pay to Executive a retention bonus in an amount equal to \$1,440,000 (the "Retention Bonus"). Subject to the satisfaction of the terms contained in this Agreement, (a) fifty percent (50%) of the Retention Bonus shall be paid in cash in a lump sum as soon as practical following the Effective Date and no later than December 31, 2020 (the "First Retention Bonus" and the date on which such amount is paid, the "First Payment Date") and (b) the remaining fifty percent (50%) shall be paid in cash in a lump sum within thirty (30) days following the first (1st) anniversary of the Closing Date (the "Second Retention Bonus" and the date on which such amount is paid, the "Second Payment Date"); provided that, in each case, Executive remains continuously employed by the Company or any of its affiliates through the First Payment Date or the Second Payment Date, as applicable. Such payment will be subject to

usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to employee benefit programs in which Executive is enrolled to the extent so provided under such programs subject to the terms of such plans.

2. Termination of Employment. Notwithstanding any provision in this Agreement to the contrary, if (a) Executive's employment is terminated by the Company without "Cause" or if Executive resigns for "Good Reason" (each as defined below), in each case, prior to the Closing Date, the Company shall pay the Second Retention Bonus to Executive on the next administratively practical payroll date following the later of the Closing Date and the date the "Release" (as defined below) becomes effective or (b) Executive's employment is terminated by the Company without Cause or as a result of death or Disability or if Executive resigns for Good Reason, in each case, on or after the Closing Date but prior to the first (1st) anniversary of the Closing Date, the Company shall pay the Second Retention Bonus to Executive within sixty (60) days following such termination of employment, in each of (a) or (b), subject to Executive's execution and non-revocation of a release in the form attached hereto as Exhibit A (the "Release"). Executive shall not be entitled to receive all or any portion of the Second Retention Bonus if (x) Executive's employment is terminated by the Company for Cause at any time or (y) Executive resigns without Good Reason at any time.

3. Repayment.

(a) Repayment Obligation. If, before the Closing Date, (i) Executive's employment with the Company is terminated by the Company for Cause or Executive resigns for any reason other than Good Reason, or (ii) Executive breaches the terms of any restrictive covenant included in an agreement between the Company or any of its affiliates and Executive (but only if the Board determines prior to the Closing Date that such a breach occurred), then Executive shall repay to the Company an amount equal to the First Retention Bonus. Executive shall repay such amount to the Company no later than the fifteenth (15th) day following his or her termination of employment (such date, the "Repayment Date").

(b) Interest for Late Payment; Fees Associated with Collection. If Executive fails to fully repay the First Retention Bonus to the Company on or prior to the Repayment Date, then any amount owed by Executive to the Company shall accrue interest at the prime rate as published in the Wall Street Journal on such Repayment Date (or, if the Wall Street Journal is not published on such date, on the next date on which it is published). If Executive fails to fully repay the First Retention Bonus as set forth in this Agreement and the Company refers the matter to an attorney or collection agency for collection, Executive agrees to pay all costs and reasonable attorney's fees incurred by the Company in connection with such collection efforts.

(c) Authorization to Withhold from Payments. If Executive receives a demand to repay the First Retention Bonus, Executive agrees to promptly execute any additional documents or take any other action (including at the time his or her employment terminates) necessary or advisable to authorize the Company to withhold all amounts owed to Company for repayment obligations, interest and costs of collection from any final pay, final expense reimbursement or accrued but unused vacation from the amounts owed by the Company to Executive. The Company and Executive agree that nothing in this paragraph shall limit the Company's rights to seek repayment from Executive by any other means.



(d) Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

(i) “Cause” means any of the following: (A) the willful and continued failure by Executive (other than any such failure resulting from (I) Executive’s Disability, (II) any such actual or anticipated failure after the delivery of a notice of termination by Executive for Good Reason (which complies with the requirements set forth in the definition of Good Reason below), or (III) the Company’s active or passive obstruction of the performance of Executive’s duties and responsibilities) to perform substantially the duties and responsibilities of Executive’s position with the Company after a written demand for substantial performance is delivered to Executive by the Chair of the Committee of the Company, which demand specifically identifies the manner in which the Company believes that Executive has not substantially performed his/her duties or responsibilities; (B) the conviction of Executive by a court of competent jurisdiction for felony criminal conduct which, in the good faith opinion of the Company, would impair Executive’s ability to perform his or her duties or impair the business reputation of the Company; (C) the willful engaging by Executive in fraud or dishonesty that is demonstrably and materially injurious to the Company, monetarily or otherwise; or (D) a material violation by Executive of the Company’s policies or codes of conduct.

(ii) “Disability” means Executive has incurred or is afflicted with any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, and as a result, has become eligible for and begun receiving income replacement benefits under the terms of the Company’s long-term disability plan or policy as may be in effect from time to time.

(iii) “Good Reason” means, without Executive’s express written consent, any of the following: (A) the assignment to Executive of duties materially inconsistent with Executive’s authority, duties or responsibilities with respect to Executive’s position or any action by the Company that results in a diminution in such authority, duties or responsibilities (whether or not occurring solely as a result of the Company’s ceasing to be a publicly traded entity); (B) a material reduction in Executive’s base salary; (C) a material reduction in the budget over which Executive retains authority; (D) a change in the geographic location at which Executive must perform services for the Company greater than 25 miles from the prior location; and (E) any material violation of this Agreement by the Company. Executive shall be entitled to terminate employment for Good Reason only if: (x) Executive provides written notice to the Chair of the Committee of the existence of a condition specified in paragraphs (A) through (E) above within 90 days of the initial existence of the condition; (y) the Company does not remedy such condition within 30 days of the date of such notice; and (z) Executive terminates employment within 90 days following the last day of the remedial period described above.

4. Section 280G.

(a) Cut-Back. If the Retention Bonus, alone or in combination with any other payment or benefit payable or previously paid to Executive (collectively, "Payments") would (i) constitute an "excess parachute payment" within the meaning of Section 280G of the Code (after a reduction for reasonable compensation for personal services rendered by Executive (or

Executive refraining from the performance of services in compliance with a non-competition covenant)), and (ii) as such, be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest and penalties incurred in connection with such excise tax, collectively referred to herein as the "Excise Tax"), then Payments shall be either (a) reduced (but not below zero) so that the present value of the Payments will be one dollar (\$1.00) less than three times Executive's "base amount" (as defined in Section 280G(b)(3) of the Code) and so that no portion of the Payments received by Executive shall be subject to the Excise Tax or (b) paid in full, whichever produces the better net after-tax position to Executive. In such event, the reduction will occur in the following order: (x) reduction of cash payments; (y) cancellation of accelerated vesting of equity awards; and (z) reduction of other employee benefits. If acceleration of vesting of compensation from equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant unless Executive elects in writing a different order for cancellation.

(b) Determinations. All determinations required to be made under this Section 4 shall be made by a nationally recognized accounting firm other than the Company's outside auditor immediately prior to the event triggering the payments that are subject to the Excise Tax (the "Accounting Firm"). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Notice must be given to the Accounting Firm no later than 15 business days following the Closing Date, including at any time prior to and in anticipation of the Closing (as defined in the Merger Agreement). All fees and expenses of the Accounting Firm shall be borne solely by the Company. The Accounting Firm's determinations must be made with substantial authority (within the meaning of Section 6662 of the Code). For the purposes of all calculations under Section 280G of the Code and the application of this Section 4, all determinations as to present value shall use 120 percent of the applicable federal rate (determined under Section 1274(d) of the Code) compounded based on the nature of the payment, as in effect on the Closing Date, but if not otherwise specified, compounded on a semiannual basis. The determination by the Accounting Firm shall be final and binding on the Company and the Executive.

(c) Cooperation. In exchange for receiving any of the First Retention Bonus or the Second Retention Bonus, without limiting or otherwise affecting Executive's obligations and entitlements under this Agreement, Executive agrees to cooperate with the Company to implement any measures intended to mitigate the amount or payment of any Excise Tax which are determined by the by the Committee as constituted as of immediately prior to the Closing Date, in its sole discretion, and with the Accounting Firm in making determinations as described in Section 4(b). Executive's obligation to cooperate will include, without limitation, executing agreements with the Company that provide for clawback of payments previously made, modify the terms of (or implement) non-competition and other restrictive covenants, or modify the time any Payment is made. Except in connection with a reduction made pursuant to Section 4(a)

above, no mitigation measures may cause any Payments that Executive earned to be materially reduced without Executive's written consent. For the avoidance of doubt, mitigation efforts shall not include entering into gross-up arrangements or issuing additional shares (except to the extent otherwise permitted under the Merger Agreement).

5. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle Executive to continued employment with the Company or its affiliates for any period of time, and Executive or the Company or any of its affiliates may terminate Executive's employment at any time, and for any or no reason, subject only to the notice requirements set forth in Section 7 hereof.

6. Successors; Binding Agreement. This Agreement is enforceable by the Company and its affiliates and may, upon written notice to Executive, be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, subsidiary or other affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or otherwise subject to hypothecation by Executive. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

7. Notices. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed:

(i) if to Executive, to the home address of Executive maintained in the Company's business records, and if to the Company, to MTS Systems Corporation, 14000 Technology Drive, Attention: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, or

(ii) to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Governing Law; Forum Selection; Severability; Survival. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Minnesota without regard to the principle of conflicts of laws. The parties hereby irrevocably consent to, and agree not to object or assert any defense or challenge to, the jurisdiction and venue of the state and federal courts sitting in Minneapolis, Minnesota, and agree that any claim under this Agreement shall be brought in any such court. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. This Agreement shall terminate immediately following the Second Payment Date; provided, however, that if Executive has any outstanding obligation to repay the Company under Section 3 of this

Agreement, then Section 3 shall remain in full force and effect until the date on which Executive has fully satisfied his or her obligations under such Section; and, provided further, that Sections 5 through 10 (inclusive) shall remain in full force and effect following the termination of this Agreement to the extent necessary to carry out the full intent and purposes of each such Section.

9. Section 409A Compliance. The payments under this Agreement are intended to comply with or be exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") to the maximum extent possible, under either the separation pay exemption pursuant to Treasury regulation §1.409A-1(b)(9)(iii) or as "short-term deferrals" pursuant to Treasury regulation §1.409A-1(b)(4) and this Agreement shall be interpreted and construed in a manner that avoids the imposition of excise taxes and other penalties under Section 409A ("409A Penalties"). All references in this Agreement to Executive's termination of employment shall mean a separation from service within the meaning of Section 409A of the Code. Each payment under this Agreement shall be designated as a separate payment within the meaning of Section 409A. Any payment under this Agreement which is conditioned upon Executive's execution of a Release which is to be paid during a designated period that begins in one taxable year and ends in a second taxable year shall be paid in the second taxable year. Notwithstanding any other provision in this Agreement, if on the date of Executive's separation from service (as defined in Section 409A) (a) the Company is a publicly traded corporation and (b) Executive is a "specified employee," as defined in Section 409A, then to the extent any amount payable under this Agreement upon Executive's separation from service constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A, that under the terms of this Agreement would be payable prior to the six (6) month anniversary of Executive's separation from service, such payment shall be delayed until the earlier to occur of (i) the first day of the seventh month following Executive's separation from service or (ii) the date of Executive's death. In the event that the terms of this Agreement provide deferred compensation within the meaning of Section 409A and do not comply with such section and regulations promulgated thereunder, the parties will cooperate diligently to amend the terms of this Agreement to avoid 409A Penalties, to the extent possible. Notwithstanding the foregoing, under no circumstances will the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by Executive due to any failure to comply with Section 409A.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

11. Miscellaneous.

(a) This Agreement constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between Executive and the Company related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between Executive and the Company, written or oral. The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

(b) No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company, except as otherwise set forth in Section 8 hereof (*Governing Law; Forum Selection; Severability; Survival*). No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of this 18 day of Dec, 2020.

MTS SYSTEMS CORPORATION

By: /s/ ROBERT J. RIES

Name: Robert J. Ries

Title: VP, Human Resource Operations

EXECUTIVE

/s/ RANDY J. MARTINEZ

Name: Randy J. Martinez

Exhibit A  
Waiver and Release  
(*see attached*)



**MTS SYSTEMS CORPORATION  
RETENTION AGREEMENT  
WAIVER AND RELEASE  
ON TERMINATION OF EMPLOYMENT**

I, Randy J. Martinez, President and CEO, acknowledge that I will receive or be eligible to receive benefits pursuant to the Retention Agreement (the "Retention Agreement"), effective as of December 18, 2020, by and between MTS Systems Corporation, a Minnesota corporation ("MTS"), and myself, in exchange for my waiver and release of any and all claims as set forth in this waiver and release (the "Release"), provided that I do not exercise my rights to rescind this Release. I have been advised by MTS to consult with an attorney before signing this Release.

Waiver and Release of Claims

In consideration of MTS' payment of the Second Retention Bonus as provided in the Retention Agreement, I agree as follows:

- (1) I, for myself, my heirs, successors, assigns, and anyone who has or obtains any legal rights or claims through me, hereby fully waive, release, agree not to sue, and forever discharge MTS, its past and present subsidiaries, affiliates, directors, officers, shareholders, agents, employees, successors, attorneys, insurers, indemnitors, and assigns (the "Releasees") from any and all legal and equitable claims, actions, demands, causes of action, administrative claims, damages, claims for attorneys' fees, costs, and disbursements, individual or class action claims, or liabilities of any nature whatsoever, whether known or unknown, in law or in equity, contract or tort, arising out of or in connection with my employment, or otherwise, and however originating or existing, from the beginning of time through the date of my signing of this Release.

This Release includes, without limiting the generality of the foregoing, any claims for wages, bonuses, deferred compensation, commissions, penalties, vacation pay, breach of contract, promissory estoppel, misrepresentation, wrongful or retaliatory discharge, defamation, obstruction of benefits, any alleged violation of the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act of 1974, the Americans With Disabilities Act, the Minnesota Human Rights Act, and any claim for discrimination or retaliation based on a protected class under local, state or federal law. I understand that I am not waiving any claims or rights which I may have which arise after I sign this Release, including any claim related to the enforcement of this Release.

I release and agree not to sue and forever discharge and give up all of my claims against the Releasees to the full extent allowed by law. I understand that nothing contained in this Release shall be construed to prohibit me from seeking recourse through a government agency exercising any rights that are not allowed to be released by law. However, this Release includes a release of my right to file a court action or to seek individual remedies or damages in any court action filed by any such government agency and my release of these rights shall apply with full force and effect to any proceedings arising from or relating to such recourse including, but not limited to, the right to monetary damages or other individual legal or equitable relief awarded by any governmental agency. To the full extent permitted by law, I agree to withdraw any lawsuits, charges, complaints, claims, charges of discrimination and any other allegation or demand that I currently have pending against the Releasees.

I explicitly understand and agree that this Release is not intended to, and does not, (a) constitute an unlawful release or waiver of any of my rights under any laws, or (b) prevent or interfere with my ability/right to (i) provide truthful testimony if under subpoena to do so, (ii) file any charge with or participate in any investigation or proceeding conducted by the Equal Employment Opportunity Commission, any state or municipal agency enforcing equal employment opportunity laws, or any other governmental entity (although I understand that I am waiving the right to any monetary recovery in connection with such a charge), and/or (iii) respond as otherwise provided by law.

- (2) I agree not to at any time following my termination divulge, disclose, communicate or use for my benefit or the benefit of any person outside MTS any of MTS's confidential information. Confidential information includes but is not limited to MTS's trade secrets, records, data, specifications, developments, secret inventions, research activity, processes, designs, sketches, drawings, bills of material, supplier lists, manufacturing processes, methods and equipment;



customer, prospective customer and vendor lists, identities, contacts or information; short term and long range plans, all financial information, including sales, specific customer account sales, gross margin information, operating expense and information, competitive strategies and pricing information, procurement resources, information concerning MTS's business or its manner of operation, personnel information, sales and marketing strategies and information, and any other confidential or technical information which I have obtained during my employment with MTS and which has not been made public or otherwise disclosed in a non-confidential manner.

I acknowledge that MTS denies it is responsible or legally obligated to me for any claims I may have, other than claims to enforce my rights under this Release. This Release and the receipt of benefits under the Retention Agreement fully resolve any and all differences MTS and I may have regarding my employment and separation from employment with MTS. This Release supersedes all prior written and oral agreements, policies and understandings between MTS and me, except for, if applicable, any obligations under the MTS EMPLOYEE AGREEMENT that survive termination of employment (the "Post-Termination obligations"). Any Post-Termination Obligations remaining under the MTS EMPLOYEE AGREEMENT shall continue to be fully effective and enforceable according to their terms and I hereby affirm any remaining Post-Termination Obligations under said AGREEMENT.

#### Opportunity for Review

My signature below acknowledges that I have read this Release carefully and understand all its terms; that I have had a full opportunity to consult with an attorney before signing it; and that I am signing it knowingly and voluntarily. In signing this Release, I have not relied upon any representation by any MTS employee, agent or attorney. If I am at least age 40 when I receive this Release, I understand that I have 21 days to review this Release before I sign it. If I am at least age 40 when I receive this Release and my termination of employment is part of a reduction in force involving more than one employee the following shall occur: (1) "45" shall be substituted for "21" in the previous sentence of this section; and (2) I will receive and acknowledge receipt of Attachment 1 to this Release, which describes the ages of MTS employees eligible and ineligible to receive these benefits and the positions and departments of these employees in accordance with the requirements of the Age Discrimination in Employment Act.

#### Right to Rescind

I understand that this Release is governed by Minnesota law. I further understand that I have the right to rescind this Release within 7 calendar days of signing this Release to reinstate federal claims under the Age Discrimination in Employment Act (if I am age 40 or over when I receive this Release) and that I have the right to rescind this Release within 15 calendar days of my signing this Release to reinstate claims arising under the Minnesota Human Rights Act. In order to be effective, the rescission must be in writing, and delivered to MTS Systems Corporation, Attn: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, 14000 Technology Drive, Eden Prairie, MN, 55344, by hand or mail within the 7-day or 15-day period. If I deliver the rescission by mail, it must be postmarked within 7 or 15 calendar days of the date on which I sign this Release and sent by certified mail, return receipt requested. I also understand that this Release will become effective and enforceable only after the rescission periods have expired. If I rescind this Release, MTS will not owe me the Second Retention Bonus under the Retention Agreement.

I understand that this Release must be signed and dated by me and returned to MTS Systems Corporation, Attn: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, 14000 Technology Drive, MN 55344, as of [Insert applicable date 21 days or 45 days from receipt of Release per the "Opportunity for Review" paragraph].

\_\_\_\_\_  
Employee Signature

\_\_\_\_\_  
Date

**[CANNOT BE SIGNED PRIOR TO DATE OF TERMINATION]**

Accepted and approved by:

By: \_\_\_\_\_

\_\_\_\_\_  
Date

ATTACHMENT 1

Age Discrimination in Employment Act Disclosure



## RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is entered into, and shall become effective, as of the 18 day of December, 2020 (the "Effective Date") by and between MTS Systems Corporation, a Minnesota corporation (the "Company"), and **Brian Ross** ("Executive").

### W I T N E S S E T H

WHEREAS, Executive is currently employed by the Company and his or her services and knowledge are valuable to the Company in connection with the management of one or more of the Company's principal operating facilities, divisions, or departments;

WHEREAS, the Company, Amphenol Corporation, a Delaware corporation ("Parent") and Moon Merger Sub Corporation, a Minnesota corporation and wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 8, 2020, pursuant to which Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent (the "Merger" and the date on which the Merger is consummated, the "Closing Date");

WHEREAS, the Compensation and Leadership Development Committee (the "Committee") of the Board of Directors (the "Board") of the Company has determined that, it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued dedication.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Retention Bonus. Subject to the terms of this Agreement (including, without limitation, the terms of Section 3 of this Agreement regarding Executive's contingent obligation to repay to the Company certain amounts paid to Executive hereunder and the terms of Section 4 regarding Executive's obligation to cooperate with certain actions taken by the Company in connection with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")) the Company shall pay to Executive a retention bonus in an amount equal to \$500,000 (the "Retention Bonus"). Subject to the satisfaction of the terms contained in this Agreement, (a) fifty percent (50%) of the Retention Bonus shall be paid in cash in a lump sum as soon as practical following the Effective Date and no later than December 31, 2020 (the "First Retention Bonus" and the date on which such amount is paid, the "First Payment Date") and (b) the remaining fifty percent (50%) shall be paid in cash in a lump sum within thirty (30) days following the first (1st) anniversary of the Closing Date (the "Second Retention Bonus" and the date on which such amount is paid, the "Second Payment Date"); provided that, in each case, Executive remains continuously employed by the Company or any of its affiliates through the First Payment Date or the Second Payment Date, as applicable. Such payment will be subject to

usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to employee benefit programs in which Executive is enrolled to the extent so provided under such programs subject to the terms of such plans.

2. Termination of Employment. Executive shall not be entitled to receive all or any portion of the Second Retention Bonus if Executive's employment is terminated for any reason prior to the first (1st) anniversary of the Closing Date.

3. Repayment.

(a) Repayment Obligation. If, before the Closing Date, (i) Executive's employment with the Company is terminated by the Company for Cause or Executive resigns for any reason other than Good Reason, or (ii) Executive breaches the terms of any restrictive covenant included in an agreement between the Company or any of its affiliates and Executive (but only if the Board determines prior to the Closing Date that such a breach occurred), then Executive shall repay to the Company an amount equal to the First Retention Bonus. Executive shall repay such amount to the Company no later than the fifteenth (15th) day following his or her termination of employment (such date, the "Repayment Date").

(b) Interest for Late Payment; Fees Associated with Collection. If Executive fails to fully repay the First Retention Bonus to the Company on or prior to the Repayment Date, then any amount owed by Executive to the Company shall accrue interest at the prime rate as published in the Wall Street Journal on such Repayment Date (or, if the Wall Street Journal is not published on such date, on the next date on which it is published). If Executive fails to fully repay the First Retention Bonus as set forth in this Agreement and the Company refers the matter to an attorney or collection agency for collection, Executive agrees to pay all costs and reasonable attorney's fees incurred by the Company in connection with such collection efforts.

(c) Authorization to Withhold from Payments. If Executive receives a demand to repay the First Retention Bonus, Executive agrees to promptly execute any additional documents or take any other action (including at the time his or her employment terminates) necessary or advisable to authorize the Company to withhold all amounts owed to Company for repayment obligations, interest and costs of collection from any final pay, final expense reimbursement or accrued but unused vacation from the amounts owed by the Company to Executive. The Company and Executive agree that nothing in this paragraph shall limit the Company's rights to seek repayment from Executive by any other means.

(d) Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

(i) "Cause" means any of the following: (A) the willful and continued failure by Executive (other than any such failure resulting from (I) Executive's Disability, (II) any such actual or anticipated failure after the delivery of a notice of termination by Executive for Good Reason (which complies with the requirements set forth in the definition of Good Reason below), or (III) the Company's active or passive obstruction of the performance of Executive's duties and responsibilities) to perform substantially the duties and responsibilities of Executive's position with the Company after a written

demand for substantial performance is delivered to Executive by the Chief Executive Officer of the Company (the “CEO”) of the Company, which demand specifically identifies the manner in which the Company believes that Executive has not substantially performed his/her duties or responsibilities; (B) the conviction of Executive by a court of competent jurisdiction for felony criminal conduct which, in the good faith opinion of the Company, would impair Executive’s ability to perform his or her duties or impair the business reputation of the Company; (C) the willful engaging by Executive in fraud or dishonesty that is demonstrably and materially injurious to the Company, monetarily or otherwise; or (D) a material violation by Executive of the Company’s policies or codes of conduct.

(ii) “Disability” means Executive has incurred or is afflicted with any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, and as a result, has become eligible for and begun receiving income replacement benefits under the terms of the Company’s long-term disability plan or policy as may be in effect from time to time.

(iii) “Good Reason” means, without Executive’s express written consent, any of the following: (A) the assignment to Executive of duties materially inconsistent with Executive’s authority, duties or responsibilities with respect to Executive’s position or any action by the Company that results in a diminution in such authority, duties or responsibilities (whether or not occurring solely as a result of the Company’s ceasing to be a publicly traded entity); (B) a material reduction in Executive’s base salary; (C) a material reduction in the budget over which Executive retains authority; (D) a change in the geographic location at which Executive must perform services for the Company greater than 25 miles from the prior location; and (E) any material violation of this Agreement by the Company. Executive shall be entitled to terminate employment for Good Reason only if: (x) Executive provides written notice to the CEO of the existence of a condition specified in paragraphs (A) through (E) above within 90 days of the initial existence of the condition; (y) the Company does not remedy such condition within 30 days of the date of such notice; and (z) Executive terminates employment within 90 days following the last day of the remedial period described above.

#### 4. Section 280G.

(a) Cut-Back. If the Retention Bonus, alone or in combination with any other payment or benefit payable or previously paid to Executive (collectively, “Payments”) would (i) constitute an “excess parachute payment” within the meaning of Section 280G of the Code (after a reduction for reasonable compensation for personal services rendered by Executive (or

Executive refraining from the performance of services in compliance with a non-competition covenant)), and (ii) as such, be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest and penalties incurred in connection with such excise tax, collectively referred to herein as the “Excise Tax”), then Payments shall be either (a) reduced (but not below zero) so that the present value of the Payments will be one dollar (\$1.00) less than three times Executive’s “base amount” (as defined in Section 280G(b)(3) of the Code)

and so that no portion of the Payments received by Executive shall be subject to the Excise Tax or (b) paid in full, whichever produces the better net after-tax position to Executive. In such event, except as otherwise provided in Section 5.1 of the MTS Systems Corporation Executive Change in Control Severance Plan, as amended and restated (the “Executive CIC Severance Plan”), the reduction will occur in the following order: (x) reduction of cash payments; (y) cancellation of accelerated vesting of equity awards; and (z) reduction of other employee benefits. If acceleration of vesting of compensation from equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant unless Executive elects in writing a different order for cancellation.

(b) Determinations. All determinations required to be made under this Section 4 shall be made by a nationally recognized accounting firm other than the Company’s outside auditor immediately prior to the event triggering the payments that are subject to the Excise Tax (the “Accounting Firm”). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Notice must be given to the Accounting Firm no later than 15 business days following the Closing Date, including at any time prior to and in anticipation of the “Closing” (as defined in the Merger Agreement). All fees and expenses of the Accounting Firm shall be borne solely by the Company. The Accounting Firm’s determinations must be made with substantial authority (within the meaning of Section 6662 of the Code). For the purposes of all calculations under Section 280G of the Code and the application of this Section 4, all determinations as to present value shall use 120 percent of the applicable federal rate (determined under Section 1274(d) of the Code) compounded based on the nature of the payment, as in effect on the Closing Date, but if not otherwise specified, compounded on a semiannual basis. The determination by the Accounting Firm shall be final and binding on the Company and the Executive.

(c) Cooperation. In exchange for receiving any of the First Retention Bonus or the Second Retention Bonus, without limiting or otherwise affecting Executive’s obligations and entitlements under this Agreement, Executive agrees to cooperate with the Company to implement any measures intended to mitigate the amount or payment of any Excise Tax which are determined by the by the Committee as constituted as of immediately prior to the Closing Date, in its sole discretion, and with the Accounting Firm in making determinations as described in Section 4(b). Executive’s obligation to cooperate will include, without limitation, executing agreements with the Company that provide for clawback of payments previously made, modify the terms of (or implement) non-competition and other restrictive covenants, or modify the time any Payment is made. Except in connection with a reduction made pursuant to Section 4(a) above, no mitigation measures may cause any Payments that Executive earned to be materially reduced without Executive’s written consent. For the avoidance of doubt, mitigation efforts shall not include entering into gross-up arrangements or issuing additional shares (except to the extent otherwise permitted under the Merger Agreement).

5. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle Executive to continued employment with the Company or its affiliates for any period of time, and Executive or the Company or any of its affiliates may terminate Executive’s employment at any time, and for any or no reason, subject only to the notice requirements set forth in Section 7 hereof.

6. Successors; Binding Agreement. This Agreement is enforceable by the Company and its affiliates and may, upon written notice to Executive, be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, subsidiary or other affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or otherwise subject to hypothecation by Executive. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

7. Notices. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed:

(i) if to Executive, to the home address of Executive maintained in the Company's business records, and if to the Company, to MTS Systems Corporation, 14000 Technology Drive, Attention: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, or

(ii) to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Governing Law; Forum Selection; Severability; Survival. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Minnesota without regard to the principle of conflicts of laws. The parties hereby irrevocably consent to, and agree not to object or assert any defense or challenge to, the jurisdiction and venue of the state and federal courts sitting in Minneapolis, Minnesota, and agree that any claim under this Agreement shall be brought in any such court. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. This Agreement shall terminate immediately following the Second Payment Date; provided, however, that if Executive has any outstanding obligation to repay the Company under Section 3 of this Agreement, then Section 3 shall remain in full force and effect until the date on which Executive has fully satisfied his or her obligations under such Section; and, provided further, that Sections 5 through 10 (inclusive) shall remain in full force and effect following the termination of this Agreement to the extent necessary to carry out the full intent and purposes of each such Section.

9. Section 409A Compliance. The payments under this Agreement are intended to comply with or be exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") to the maximum extent possible, as "short-term deferrals" pursuant to Treasury regulation §1.409A-1(b)(4) and this Agreement shall be interpreted and



construed in a manner that avoids the imposition of excise taxes and other penalties under Section 409A (“409A Penalties”). Each payment under this Agreement shall be designated as a separate payment within the meaning of Section 409A. In the event that the terms of this Agreement provide deferred compensation within the meaning of Section 409A and do not comply with such section and regulations promulgated thereunder, the parties will cooperate diligently to amend the terms of this Agreement to avoid 409A Penalties, to the extent possible. Notwithstanding the foregoing, under no circumstances will the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by Executive due to any failure to comply with Section 409A.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

11. Miscellaneous.

(a) This Agreement constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between Executive and the Company related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between Executive and the Company, written or oral. The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

(b) No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company, except as otherwise set forth in Section 8 hereof (*Governing Law; Forum Selection; Severability; Survival*). No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of this 18 day of Dec, 2020.

MTS SYSTEMS CORPORATION

By: /s/ ROBERT J. RIES

Name: Robert J. Ries

Title: VP, Human Resource Operations

EXECUTIVE

/s/ BRIAN ROSS

Name: Brian Ross



## RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is entered into, and shall become effective, as of the 18 day of December, 2020 (the "Effective Date") by and between MTS Systems Corporation, a Minnesota corporation (the "Company"), and **Steve Harrison** ("Executive").

### W I T N E S S E T H

WHEREAS, Executive is currently employed by the Company and his or her services and knowledge are valuable to the Company in connection with the management of one or more of the Company's principal operating facilities, divisions, or departments;

WHEREAS, the Company, Amphenol Corporation, a Delaware corporation ("Parent") and Moon Merger Sub Corporation, a Minnesota corporation and wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 8, 2020, pursuant to which Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent (the "Merger" and the date on which the Merger is consummated, the "Closing Date");

WHEREAS, the Compensation and Leadership Development Committee (the "Committee") of the Board of Directors (the "Board") of the Company has determined that, it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued dedication.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Retention Bonus. Subject to the terms of this Agreement (including, without limitation, the terms of Section 3 of this Agreement regarding Executive's contingent obligation to repay to the Company certain amounts paid to Executive hereunder and the terms of Section 4 regarding Executive's obligation to cooperate with certain actions taken by the Company in connection with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")) the Company shall pay to Executive a retention bonus in an amount equal to \$500,000 (the "Retention Bonus"). Subject to the satisfaction of the terms contained in this Agreement, (a) fifty percent (50%) of the Retention Bonus shall be paid in cash in a lump sum as soon as practical following the Effective Date and no later than December 31, 2020 (the "First Retention Bonus" and the date on which such amount is paid, the "First Payment Date") and (b) the remaining fifty percent (50%) shall be paid in cash in a lump sum within thirty (30) days following the first (1st) anniversary of the Closing Date (the "Second Retention Bonus" and the date on which such amount is paid, the "Second Payment Date"); provided that, in each case, Executive remains continuously employed by the Company or any of its affiliates through the First Payment Date or the Second Payment Date, as applicable. Such payment will be subject to

usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to employee benefit programs in which Executive is enrolled to the extent so provided under such programs subject to the terms of such plans.

2. Termination of Employment. Executive shall not be entitled to receive all or any portion of the Second Retention Bonus if Executive's employment is terminated for any reason prior to the first (1st) anniversary of the Closing Date.

3. Repayment.

(a) Repayment Obligation. If, before the Closing Date, (i) Executive's employment with the Company is terminated by the Company for Cause or Executive resigns for any reason other than Good Reason, or (ii) Executive breaches the terms of any restrictive covenant included in an agreement between the Company or any of its affiliates and Executive (but only if the Board determines prior to the Closing Date that such a breach occurred), then Executive shall repay to the Company an amount equal to the First Retention Bonus. Executive shall repay such amount to the Company no later than the fifteenth (15th) day following his or her termination of employment (such date, the "Repayment Date").

(b) Interest for Late Payment; Fees Associated with Collection. If Executive fails to fully repay the First Retention Bonus to the Company on or prior to the Repayment Date, then any amount owed by Executive to the Company shall accrue interest at the prime rate as published in the Wall Street Journal on such Repayment Date (or, if the Wall Street Journal is not published on such date, on the next date on which it is published). If Executive fails to fully repay the First Retention Bonus as set forth in this Agreement and the Company refers the matter to an attorney or collection agency for collection, Executive agrees to pay all costs and reasonable attorney's fees incurred by the Company in connection with such collection efforts.

(c) Authorization to Withhold from Payments. If Executive receives a demand to repay the First Retention Bonus, Executive agrees to promptly execute any additional documents or take any other action (including at the time his or her employment terminates) necessary or advisable to authorize the Company to withhold all amounts owed to Company for repayment obligations, interest and costs of collection from any final pay, final expense reimbursement or accrued but unused vacation from the amounts owed by the Company to Executive. The Company and Executive agree that nothing in this paragraph shall limit the Company's rights to seek repayment from Executive by any other means.

(d) Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

(i) "Cause" means any of the following: (A) the willful and continued failure by Executive (other than any such failure resulting from (I) Executive's Disability, (II) any such actual or anticipated failure after the delivery of a notice of termination by Executive for Good Reason (which complies with the requirements set forth in the definition of Good Reason below), or (III) the Company's active or passive obstruction of the performance of Executive's duties and responsibilities) to perform substantially the duties and responsibilities of Executive's position with the Company after a written

demand for substantial performance is delivered to Executive by the Chief Executive Officer of the Company (the “CEO”) of the Company, which demand specifically identifies the manner in which the Company believes that Executive has not substantially performed his/her duties or responsibilities; (B) the conviction of Executive by a court of competent jurisdiction for felony criminal conduct which, in the good faith opinion of the Company, would impair Executive’s ability to perform his or her duties or impair the business reputation of the Company; (C) the willful engaging by Executive in fraud or dishonesty that is demonstrably and materially injurious to the Company, monetarily or otherwise; or (D) a material violation by Executive of the Company’s policies or codes of conduct.

(ii) “Disability” means Executive has incurred or is afflicted with any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, and as a result, has become eligible for and begun receiving income replacement benefits under the terms of the Company’s long-term disability plan or policy as may be in effect from time to time.

(iii) “Good Reason” means, without Executive’s express written consent, any of the following: (A) the assignment to Executive of duties materially inconsistent with Executive’s authority, duties or responsibilities with respect to Executive’s position or any action by the Company that results in a diminution in such authority, duties or responsibilities (whether or not occurring solely as a result of the Company’s ceasing to be a publicly traded entity); (B) a material reduction in Executive’s base salary; (C) a material reduction in the budget over which Executive retains authority; (D) a change in the geographic location at which Executive must perform services for the Company greater than 25 miles from the prior location; and (E) any material violation of this Agreement by the Company. Executive shall be entitled to terminate employment for Good Reason only if: (x) Executive provides written notice to the CEO of the existence of a condition specified in paragraphs (A) through (E) above within 90 days of the initial existence of the condition; (y) the Company does not remedy such condition within 30 days of the date of such notice; and (z) Executive terminates employment within 90 days following the last day of the remedial period described above.

#### 4. Section 280G.

(a) Cut-Back. If the Retention Bonus, alone or in combination with any other payment or benefit payable or previously paid to Executive (collectively, “Payments”) would (i) constitute an “excess parachute payment” within the meaning of Section 280G of the Code (after a reduction for reasonable compensation for personal services rendered by Executive (or

Executive refraining from the performance of services in compliance with a non-competition covenant)), and (ii) as such, be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest and penalties incurred in connection with such excise tax, collectively referred to herein as the “Excise Tax”), then Payments shall be either (a) reduced (but not below zero) so that the present value of the Payments will be one dollar (\$1.00) less than three times Executive’s “base amount” (as defined in Section 280G(b)(3) of the Code)

and so that no portion of the Payments received by Executive shall be subject to the Excise Tax or (b) paid in full, whichever produces the better net after-tax position to Executive. In such event, except as otherwise provided in Section 5.1 of the MTS Systems Corporation Executive Change in Control Severance Plan, as amended and restated (the “Executive CIC Severance Plan”), the reduction will occur in the following order: (x) reduction of cash payments; (y) cancellation of accelerated vesting of equity awards; and (z) reduction of other employee benefits. If acceleration of vesting of compensation from equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant unless Executive elects in writing a different order for cancellation.

(b) Determinations. All determinations required to be made under this Section 4 shall be made by a nationally recognized accounting firm other than the Company’s outside auditor immediately prior to the event triggering the payments that are subject to the Excise Tax (the “Accounting Firm”). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Notice must be given to the Accounting Firm no later than 15 business days following the Closing Date, including at any time prior to and in anticipation of the “Closing” (as defined in the Merger Agreement). All fees and expenses of the Accounting Firm shall be borne solely by the Company. The Accounting Firm’s determinations must be made with substantial authority (within the meaning of Section 6662 of the Code). For the purposes of all calculations under Section 280G of the Code and the application of this Section 4, all determinations as to present value shall use 120 percent of the applicable federal rate (determined under Section 1274(d) of the Code) compounded based on the nature of the payment, as in effect on the Closing Date, but if not otherwise specified, compounded on a semiannual basis. The determination by the Accounting Firm shall be final and binding on the Company and the Executive.

(c) Cooperation. In exchange for receiving any of the First Retention Bonus or the Second Retention Bonus, without limiting or otherwise affecting Executive’s obligations and entitlements under this Agreement, Executive agrees to cooperate with the Company to implement any measures intended to mitigate the amount or payment of any Excise Tax which are determined by the by the Committee as constituted as of immediately prior to the Closing Date, in its sole discretion, and with the Accounting Firm in making determinations as described in Section 4(b). Executive’s obligation to cooperate will include, without limitation, executing agreements with the Company that provide for clawback of payments previously made, modify the terms of (or implement) non-competition and other restrictive covenants, or modify the time any Payment is made. Except in connection with a reduction made pursuant to Section 4(a) above, no mitigation measures may cause any Payments that Executive earned to be materially reduced without Executive’s written consent. For the avoidance of doubt, mitigation efforts shall not include entering into gross-up arrangements or issuing additional shares (except to the extent otherwise permitted under the Merger Agreement).

5. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle Executive to continued employment with the Company or its affiliates for any period of time, and Executive or the Company or any of its affiliates may terminate Executive’s employment at any time, and for any or no reason, subject only to the notice requirements set forth in Section 7 hereof.

6. Successors; Binding Agreement. This Agreement is enforceable by the Company and its affiliates and may, upon written notice to Executive, be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, subsidiary or other affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or otherwise subject to hypothecation by Executive. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

7. Notices. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed:

(i) if to Executive, to the home address of Executive maintained in the Company's business records, and if to the Company, to MTS Systems Corporation, 14000 Technology Drive, Attention: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, or

(ii) to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Governing Law; Forum Selection; Severability; Survival. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Minnesota without regard to the principle of conflicts of laws. The parties hereby irrevocably consent to, and agree not to object or assert any defense or challenge to, the jurisdiction and venue of the state and federal courts sitting in Minneapolis, Minnesota, and agree that any claim under this Agreement shall be brought in any such court. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. This Agreement shall terminate immediately following the Second Payment Date; provided, however, that if Executive has any outstanding obligation to repay the Company under Section 3 of this Agreement, then Section 3 shall remain in full force and effect until the date on which Executive has fully satisfied his or her obligations under such Section; and, provided further, that Sections 5 through 10 (inclusive) shall remain in full force and effect following the termination of this Agreement to the extent necessary to carry out the full intent and purposes of each such Section.

9. Section 409A Compliance. The payments under this Agreement are intended to comply with or be exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") to the maximum extent possible, as "short-term deferrals" pursuant to Treasury regulation §1.409A-1(b)(4) and this Agreement shall be interpreted and

construed in a manner that avoids the imposition of excise taxes and other penalties under Section 409A (“409A Penalties”). Each payment under this Agreement shall be designated as a separate payment within the meaning of Section 409A. In the event that the terms of this Agreement provide deferred compensation within the meaning of Section 409A and do not comply with such section and regulations promulgated thereunder, the parties will cooperate diligently to amend the terms of this Agreement to avoid 409A Penalties, to the extent possible. Notwithstanding the foregoing, under no circumstances will the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by Executive due to any failure to comply with Section 409A.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

11. Miscellaneous.

(a) This Agreement constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between Executive and the Company related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between Executive and the Company, written or oral. The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

(b) No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company, except as otherwise set forth in Section 8 hereof (*Governing Law; Forum Selection; Severability; Survival*). No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.



IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of this 18 day of Dec, 2020.

MTS SYSTEMS CORPORATION

By: /s/ ROBERT J. RIES

Name: Robert J. Ries

Title: VP, Human Resource Operations

EXECUTIVE

/s/ STEVE HARRISON

Name: Steve Harrison



## RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is entered into, and shall become effective, as of the 18 day of December, 2020 (the "Effective Date") by and between MTS Systems Corporation, a Minnesota corporation (the "Company"), and **Dave Hore** ("Executive").

### W I T N E S S E T H

WHEREAS, Executive is currently employed by a wholly owned subsidiary of the Company and his or her services and knowledge are valuable to the Company in connection with the management of one or more of the Company's principal operating facilities, divisions, or departments;

WHEREAS, the Company, Amphenol Corporation, a Delaware corporation ("Parent") and Moon Merger Sub Corporation, a Minnesota corporation and wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 8, 2020, pursuant to which Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent (the "Merger" and the date on which the Merger is consummated, the "Closing Date");

WHEREAS, the Compensation and Leadership Development Committee (the "Committee") of the Board of Directors (the "Board") of the Company has determined that, it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued dedication.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Retention Bonus. Subject to the terms of this Agreement (including, without limitation, the terms of Section 3 of this Agreement regarding Executive's contingent obligation to repay to the Company certain amounts paid to Executive hereunder and the terms of Section 4 regarding Executive's obligation to cooperate with certain actions taken by the Company in connection with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")) the Company shall pay to Executive a retention bonus in an amount equal to \$500,000 (the "Retention Bonus"). Subject to the satisfaction of the terms contained in this Agreement, (a) fifty percent (50%) of the Retention Bonus shall be paid in cash in a lump sum as soon as practical following the Effective Date and no later than December 31, 2020 (the "First Retention Bonus" and the date on which such amount is paid, the "First Payment Date") and (b) the remaining fifty percent (50%) shall be paid in cash in a lump sum within thirty (30) days following the first (1st) anniversary of the Closing Date (the "Second Retention Bonus" and the date on which such amount is paid, the "Second Payment Date"); provided that, in each case, Executive remains continuously employed by the Company or any of its affiliates through the

First Payment Date or the Second Payment Date, as applicable. Such payment will be subject to usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to employee benefit programs in which Executive is enrolled to the extent so provided under such programs subject to the terms of such plans.

2. Termination of Employment. Executive shall not be entitled to receive all or any portion of the Second Retention Bonus if Executive's employment is terminated for any reason prior to the first (1st) anniversary of the Closing Date.

3. Repayment.

(a) Repayment Obligation. If, before the Closing Date, (i) Executive's employment with the Company is terminated by the Company for Cause or Executive resigns for any reason other than Good Reason, or (ii) Executive breaches the terms of any restrictive covenant included in an agreement between the Company or any of its affiliates and Executive (but only if the Board determines prior to the Closing Date that such a breach occurred), then Executive shall repay to the Company an amount equal to the First Retention Bonus. Executive shall repay such amount to the Company no later than the fifteenth (15th) day following his or her termination of employment (such date, the "Repayment Date").

(b) Interest for Late Payment; Fees Associated with Collection. If Executive fails to fully repay the First Retention Bonus to the Company on or prior to the Repayment Date, then any amount owed by Executive to the Company shall accrue interest at the prime rate as published in the Wall Street Journal on such Repayment Date (or, if the Wall Street Journal is not published on such date, on the next date on which it is published). If Executive fails to fully repay the First Retention Bonus as set forth in this Agreement and the Company refers the matter to an attorney or collection agency for collection, Executive agrees to pay all costs and reasonable attorney's fees incurred by the Company in connection with such collection efforts.

(c) Authorization to Withhold from Payments. If Executive receives a demand to repay the First Retention Bonus, Executive agrees to promptly execute any additional documents or take any other action (including at the time his or her employment terminates) necessary or advisable to authorize the Company to withhold all amounts owed to Company for repayment obligations, interest and costs of collection from any final pay, final expense reimbursement or accrued but unused vacation from the amounts owed by the Company to Executive. The Company and Executive agree that nothing in this paragraph shall limit the Company's rights to seek repayment from Executive by any other means.

(d) Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

(i) "Cause" means any of the following: (A) the willful and continued failure by Executive (other than any such failure resulting from (I) Executive's Disability, (II) any such actual or anticipated failure after the delivery of a notice of termination by Executive for Good Reason (which complies with the requirements set forth in the definition of Good Reason below), or (III) the Company's active or passive obstruction of the performance of Executive's duties and responsibilities) to perform substantially

the duties and responsibilities of Executive's position with the Company after a written demand for substantial performance is delivered to Executive by the Chief Executive Officer of the Company (the "CEO") of the Company, which demand specifically identifies the manner in which the Company believes that Executive has not substantially performed his/her duties or responsibilities; (B) the conviction of Executive by a court of competent jurisdiction for felony criminal conduct which, in the good faith opinion of the Company, would impair Executive's ability to perform his or her duties or impair the business reputation of the Company; (C) the willful engaging by Executive in fraud or dishonesty that is demonstrably and materially injurious to the Company, monetarily or otherwise; or (D) a material violation by Executive of the Company's policies or codes of conduct.

(ii) "Disability" means Executive has incurred or is afflicted with any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, and as a result, has become eligible for and begun receiving income replacement benefits under the terms of the Company's long-term disability plan or policy as may be in effect from time to time.

(iii) "Good Reason" means, without Executive's express written consent, any of the following: (A) the assignment to Executive of duties materially inconsistent with Executive's authority, duties or responsibilities with respect to Executive's position or any action by the Company that results in a diminution in such authority, duties or responsibilities (whether or not occurring solely as a result of the Company's ceasing to be a publicly traded entity); (B) a material reduction in Executive's base salary; (C) a material reduction in the budget over which Executive retains authority; (D) a change in the geographic location at which Executive must perform services for the Company greater than 25 miles from the prior location; and (E) any material violation of this Agreement by the Company. Executive shall be entitled to terminate employment for Good Reason only if: (x) Executive provides written notice to the CEO of the existence of a condition specified in paragraphs (A) through (E) above within 90 days of the initial existence of the condition; (y) the Company does not remedy such condition within 30 days of the date of such notice; and (z) Executive terminates employment within 90 days following the last day of the remedial period described above.

#### 4. Section 280G.

(a) Cut-Back. If the Retention Bonus, alone or in combination with any other payment or benefit payable or previously paid to Executive (collectively, "Payments") would (i) constitute an "excess parachute payment" within the meaning of Section 280G of the Code (after a reduction for reasonable compensation for personal services rendered by Executive (or

Executive refraining from the performance of services in compliance with a non-competition covenant)), and (ii) as such, be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest and penalties incurred in connection with such excise tax, collectively referred to herein as the "Excise Tax"), then Payments shall be either (a) reduced (but not below zero) so that the present value of the Payments will be one dollar (\$1.00)

less than three times Executive's "base amount" (as defined in Section 280G(b)(3) of the Code) and so that no portion of the Payments received by Executive shall be subject to the Excise Tax or (b) paid in full, whichever produces the better net after-tax position to Executive. In such event, except as otherwise provided in Section 5.1 of the MTS Systems Corporation Executive Change in Control Severance Plan, as amended and restated (the "Executive CIC Severance Plan"), the reduction will occur in the following order: (x) reduction of cash payments; (y) cancellation of accelerated vesting of equity awards; and (z) reduction of other employee benefits. If acceleration of vesting of compensation from equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant unless Executive elects in writing a different order for cancellation.

(b) Determinations. All determinations required to be made under this Section 4 shall be made by a nationally recognized accounting firm other than the Company's outside auditor immediately prior to the event triggering the payments that are subject to the Excise Tax (the "Accounting Firm"). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Notice must be given to the Accounting Firm no later than 15 business days following the Closing Date, including at any time prior to and in anticipation of the "Closing" (as defined in the Merger Agreement). All fees and expenses of the Accounting Firm shall be borne solely by the Company. The Accounting Firm's determinations must be made with substantial authority (within the meaning of Section 6662 of the Code). For the purposes of all calculations under Section 280G of the Code and the application of this Section 4, all determinations as to present value shall use 120 percent of the applicable federal rate (determined under Section 1274(d) of the Code) compounded based on the nature of the payment, as in effect on the Closing Date, but if not otherwise specified, compounded on a semiannual basis. The determination by the Accounting Firm shall be final and binding on the Company and the Executive.

(c) Cooperation. In exchange for receiving any of the First Retention Bonus or the Second Retention Bonus, without limiting or otherwise affecting Executive's obligations and entitlements under this Agreement, Executive agrees to cooperate with the Company to implement any measures intended to mitigate the amount or payment of any Excise Tax which are determined by the by the Committee as constituted as of immediately prior to the Closing Date, in its sole discretion, and with the Accounting Firm in making determinations as described in Section 4(b). Executive's obligation to cooperate will include, without limitation, executing agreements with the Company that provide for clawback of payments previously made, modify the terms of (or implement) non-competition and other restrictive covenants, or modify the time any Payment is made. Except in connection with a reduction made pursuant to Section 4(a) above, no mitigation measures may cause any Payments that Executive earned to be materially reduced without Executive's written consent. For the avoidance of doubt, mitigation efforts shall not include entering into gross-up arrangements or issuing additional shares (except to the extent otherwise permitted under the Merger Agreement).

5. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle Executive to continued employment with the Company or its affiliates for any period of time, and Executive or the Company or any of its affiliates may terminate Executive's employment at any time, and for any or no reason, subject only to the notice requirements set forth in Section 7 hereof.

6. Successors; Binding Agreement. This Agreement is enforceable by the Company and its affiliates and may, upon written notice to Executive, be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, subsidiary or other affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or otherwise subject to hypothecation by Executive. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

7. Notices. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed:

(i) if to Executive, to the home address of Executive maintained in the Company's business records, and if to the Company, to MTS Systems Corporation, 14000 Technology Drive, Attention: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, or

(ii) to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Governing Law; Forum Selection; Severability; Survival. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Minnesota without regard to the principle of conflicts of laws. The parties hereby irrevocably consent to, and agree not to object or assert any defense or challenge to, the jurisdiction and venue of the state and federal courts sitting in Minneapolis, Minnesota, and agree that any claim under this Agreement shall be brought in any such court. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. This Agreement shall terminate immediately following the Second Payment Date; provided, however, that if Executive has any outstanding obligation to repay the Company under Section 3 of this Agreement, then Section 3 shall remain in full force and effect until the date on which Executive has fully satisfied his or her obligations under such Section; and, provided further, that Sections 5 through 10 (inclusive) shall remain in full force and effect following the termination of this Agreement to the extent necessary to carry out the full intent and purposes of each such Section.

9. Section 409A Compliance. The payments under this Agreement are intended to comply with or be exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") to the maximum extent possible, as "short-term deferrals" pursuant to Treasury regulation §1.409A-1(b)(4) and this Agreement shall be interpreted and

construed in a manner that avoids the imposition of excise taxes and other penalties under Section 409A (“409A Penalties”). Each payment under this Agreement shall be designated as a separate payment within the meaning of Section 409A. In the event that the terms of this Agreement provide deferred compensation within the meaning of Section 409A and do not comply with such section and regulations promulgated thereunder, the parties will cooperate diligently to amend the terms of this Agreement to avoid 409A Penalties, to the extent possible. Notwithstanding the foregoing, under no circumstances will the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by Executive due to any failure to comply with Section 409A.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

11. Miscellaneous.

(a) This Agreement constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between Executive and the Company related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between Executive and the Company, written or oral. The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

(b) No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company, except as otherwise set forth in Section 8 hereof (*Governing Law; Forum Selection; Severability; Survival*). No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of this 18 day of Dec, 2020.

MTS SYSTEMS CORPORATION

By: /s/ ROBERT J. RIES

Name: Robert J. Ries

Title: VP, Human Resource Operations

EXECUTIVE

/s/ DAVE HORE

Name: Dave Hore





## RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is entered into, and shall become effective, as of the 18 day of December, 2020 (the "Effective Date") by and between MTS Systems Corporation, a Minnesota corporation (the "Company"), and **Todd Klemmensen** ("Executive").

### W I T N E S S E T H

WHEREAS, Executive is currently employed by the Company and his or her services and knowledge are valuable to the Company in connection with the management of one or more of the Company's principal operating facilities, divisions, or departments;

WHEREAS, the Company, Amphenol Corporation, a Delaware corporation ("Parent") and Moon Merger Sub Corporation, a Minnesota corporation and wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 8, 2020, pursuant to which Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent (the "Merger" and the date on which the Merger is consummated, the "Closing Date");

WHEREAS, the Compensation and Leadership Development Committee (the "Committee") of the Board of Directors (the "Board") of the Company has determined that, it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued dedication.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Retention Bonus. Subject to the terms of this Agreement (including, without limitation, the terms of Section 3 of this Agreement regarding Executive's contingent obligation to repay to the Company certain amounts paid to Executive hereunder and the terms of Section 4 regarding Executive's obligation to cooperate with certain actions taken by the Company in connection with Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")) the Company shall pay to Executive a retention bonus in an amount equal to \$375,000 (the "Retention Bonus"). Subject to the satisfaction of the terms contained in this Agreement, (a) fifty percent (50%) of the Retention Bonus shall be paid in cash in a lump sum as soon as practical following the Effective Date and no later than December 31, 2020 (the "First Retention Bonus" and the date on which such amount is paid, the "First Payment Date") and (b) the remaining fifty percent (50%) shall be paid in cash in a lump sum within thirty (30) days following the first (1st) anniversary of the Closing Date (the "Second Retention Bonus" and the date on which such amount is paid, the "Second Payment Date"); provided that, in each case, Executive remains continuously employed by the Company or any of its affiliates through the First Payment Date or the Second Payment Date, as applicable. Such payment will be subject to

usual and customary deductions for withholding taxes and similar charges, and customary employee contributions to employee benefit programs in which Executive is enrolled to the extent so provided under such programs subject to the terms of such plans.

2. Termination of Employment. Executive shall not be entitled to receive all or any portion of the Second Retention Bonus if Executive's employment is terminated for any reason prior to the first (1st) anniversary of the Closing Date.

3. Repayment.

(a) Repayment Obligation. If, before the Closing Date, (i) Executive's employment with the Company is terminated by the Company for Cause or Executive resigns for any reason other than Good Reason, or (ii) Executive breaches the terms of any restrictive covenant included in an agreement between the Company or any of its affiliates and Executive (but only if the Board determines prior to the Closing Date that such a breach occurred), then Executive shall repay to the Company an amount equal to the First Retention Bonus. Executive shall repay such amount to the Company no later than the fifteenth (15th) day following his or her termination of employment (such date, the "Repayment Date").

(b) Interest for Late Payment; Fees Associated with Collection. If Executive fails to fully repay the First Retention Bonus to the Company on or prior to the Repayment Date, then any amount owed by Executive to the Company shall accrue interest at the prime rate as published in the Wall Street Journal on such Repayment Date (or, if the Wall Street Journal is not published on such date, on the next date on which it is published). If Executive fails to fully repay the First Retention Bonus as set forth in this Agreement and the Company refers the matter to an attorney or collection agency for collection, Executive agrees to pay all costs and reasonable attorney's fees incurred by the Company in connection with such collection efforts.

(c) Authorization to Withhold from Payments. If Executive receives a demand to repay the First Retention Bonus, Executive agrees to promptly execute any additional documents or take any other action (including at the time his or her employment terminates) necessary or advisable to authorize the Company to withhold all amounts owed to Company for repayment obligations, interest and costs of collection from any final pay, final expense reimbursement or accrued but unused vacation from the amounts owed by the Company to Executive. The Company and Executive agree that nothing in this paragraph shall limit the Company's rights to seek repayment from Executive by any other means.

(d) Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

(i) "Cause" means any of the following: (A) the willful and continued failure by Executive (other than any such failure resulting from (I) Executive's Disability, (II) any such actual or anticipated failure after the delivery of a notice of termination by Executive for Good Reason (which complies with the requirements set forth in the definition of Good Reason below), or (III) the Company's active or passive obstruction of the performance of Executive's duties and responsibilities) to perform substantially the duties and responsibilities of Executive's position with the Company after a written

demand for substantial performance is delivered to Executive by the Chief Executive Officer of the Company (the “CEO”) of the Company, which demand specifically identifies the manner in which the Company believes that Executive has not substantially performed his/her duties or responsibilities; (B) the conviction of Executive by a court of competent jurisdiction for felony criminal conduct which, in the good faith opinion of the Company, would impair Executive’s ability to perform his or her duties or impair the business reputation of the Company; (C) the willful engaging by Executive in fraud or dishonesty that is demonstrably and materially injurious to the Company, monetarily or otherwise; or (D) a material violation by Executive of the Company’s policies or codes of conduct.

(ii) “Disability” means Executive has incurred or is afflicted with any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, and as a result, has become eligible for and begun receiving income replacement benefits under the terms of the Company’s long-term disability plan or policy as may be in effect from time to time.

(iii) “Good Reason” means, without Executive’s express written consent, any of the following: (A) the assignment to Executive of duties materially inconsistent with Executive’s authority, duties or responsibilities with respect to Executive’s position or any action by the Company that results in a diminution in such authority, duties or responsibilities (whether or not occurring solely as a result of the Company’s ceasing to be a publicly traded entity); (B) a material reduction in Executive’s base salary; (C) a material reduction in the budget over which Executive retains authority; (D) a change in the geographic location at which Executive must perform services for the Company greater than 25 miles from the prior location; and (E) any material violation of this Agreement by the Company. Executive shall be entitled to terminate employment for Good Reason only if: (x) Executive provides written notice to the CEO of the existence of a condition specified in paragraphs (A) through (E) above within 90 days of the initial existence of the condition; (y) the Company does not remedy such condition within 30 days of the date of such notice; and (z) Executive terminates employment within 90 days following the last day of the remedial period described above.

#### 4. Section 280G.

(a) Cut-Back. If the Retention Bonus, alone or in combination with any other payment or benefit payable or previously paid to Executive (collectively, “Payments”) would (i) constitute an “excess parachute payment” within the meaning of Section 280G of the Code (after a reduction for reasonable compensation for personal services rendered by Executive (or

Executive refraining from the performance of services in compliance with a non-competition covenant)), and (ii) as such, be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest and penalties incurred in connection with such excise tax, collectively referred to herein as the “Excise Tax”), then Payments shall be either (a) reduced (but not below zero) so that the present value of the Payments will be one dollar (\$1.00) less than three times Executive’s “base amount” (as defined in Section 280G(b)(3) of the Code)

and so that no portion of the Payments received by Executive shall be subject to the Excise Tax or (b) paid in full, whichever produces the better net after-tax position to Executive. In such event, except as otherwise provided in Section 5.1 of the MTS Systems Corporation Executive Change in Control Severance Plan, as amended and restated (the “Executive CIC Severance Plan”), the reduction will occur in the following order: (x) reduction of cash payments; (y) cancellation of accelerated vesting of equity awards; and (z) reduction of other employee benefits. If acceleration of vesting of compensation from equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant unless Executive elects in writing a different order for cancellation.

(b) Determinations. All determinations required to be made under this Section 4 shall be made by a nationally recognized accounting firm other than the Company’s outside auditor immediately prior to the event triggering the payments that are subject to the Excise Tax (the “Accounting Firm”). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and Executive. Notice must be given to the Accounting Firm no later than 15 business days following the Closing Date, including at any time prior to and in anticipation of the “Closing” (as defined in the Merger Agreement). All fees and expenses of the Accounting Firm shall be borne solely by the Company. The Accounting Firm’s determinations must be made with substantial authority (within the meaning of Section 6662 of the Code). For the purposes of all calculations under Section 280G of the Code and the application of this Section 4, all determinations as to present value shall use 120 percent of the applicable federal rate (determined under Section 1274(d) of the Code) compounded based on the nature of the payment, as in effect on the Closing Date, but if not otherwise specified, compounded on a semiannual basis. The determination by the Accounting Firm shall be final and binding on the Company and the Executive.

(c) Cooperation. In exchange for receiving any of the First Retention Bonus or the Second Retention Bonus, without limiting or otherwise affecting Executive’s obligations and entitlements under this Agreement, Executive agrees to cooperate with the Company to implement any measures intended to mitigate the amount or payment of any Excise Tax which are determined by the by the Committee as constituted as of immediately prior to the Closing Date, in its sole discretion, and with the Accounting Firm in making determinations as described in Section 4(b). Executive’s obligation to cooperate will include, without limitation, executing agreements with the Company that provide for clawback of payments previously made, modify the terms of (or implement) non-competition and other restrictive covenants, or modify the time any Payment is made. Except in connection with a reduction made pursuant to Section 4(a) above, no mitigation measures may cause any Payments that Executive earned to be materially reduced without Executive’s written consent. For the avoidance of doubt, mitigation efforts shall not include entering into gross-up arrangements or issuing additional shares (except to the extent otherwise permitted under the Merger Agreement).

5. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle Executive to continued employment with the Company or its affiliates for any period of time, and Executive or the Company or any of its affiliates may terminate Executive’s employment at any time, and for any or no reason, subject only to the notice requirements set forth in Section 7 hereof.

6. Successors; Binding Agreement. This Agreement is enforceable by the Company and its affiliates and may, upon written notice to Executive, be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, subsidiary or other affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. Neither this Agreement, nor any of the Company's rights or obligations hereunder, may be assigned or otherwise subject to hypothecation by Executive. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

7. Notices. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed:

(i) if to Executive, to the home address of Executive maintained in the Company's business records, and if to the Company, to MTS Systems Corporation, 14000 Technology Drive, Attention: Senior Vice President, General Counsel, with copies to Vice President, HR Operations, or

(ii) to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Governing Law; Forum Selection; Severability; Survival. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Minnesota without regard to the principle of conflicts of laws. The parties hereby irrevocably consent to, and agree not to object or assert any defense or challenge to, the jurisdiction and venue of the state and federal courts sitting in Minneapolis, Minnesota, and agree that any claim under this Agreement shall be brought in any such court. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. This Agreement shall terminate immediately following the Second Payment Date; provided, however, that if Executive has any outstanding obligation to repay the Company under Section 3 of this Agreement, then Section 3 shall remain in full force and effect until the date on which Executive has fully satisfied his or her obligations under such Section; and, provided further, that Sections 5 through 10 (inclusive) shall remain in full force and effect following the termination of this Agreement to the extent necessary to carry out the full intent and purposes of each such Section.

9. Section 409A Compliance. The payments under this Agreement are intended to comply with or be exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") to the maximum extent possible, as "short-term deferrals" pursuant to Treasury regulation §1.409A-1(b)(4) and this Agreement shall be interpreted and

construed in a manner that avoids the imposition of excise taxes and other penalties under Section 409A (“409A Penalties”). Each payment under this Agreement shall be designated as a separate payment within the meaning of Section 409A. In the event that the terms of this Agreement provide deferred compensation within the meaning of Section 409A and do not comply with such section and regulations promulgated thereunder, the parties will cooperate diligently to amend the terms of this Agreement to avoid 409A Penalties, to the extent possible. Notwithstanding the foregoing, under no circumstances will the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by Executive due to any failure to comply with Section 409A.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

11. Miscellaneous.

(a) This Agreement constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between Executive and the Company related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between Executive and the Company, written or oral. The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

(b) No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company, except as otherwise set forth in Section 8 hereof (*Governing Law; Forum Selection; Severability; Survival*). No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of this 18 day of Dec, 2020.

MTS SYSTEMS CORPORATION

By: /s/ ROBERT J. RIES

Name: Robert J. Ries

Title: VP, Human Resource Operations

EXECUTIVE

/s/ TODD KLEMMENSEN

Name: Todd Klemmensen

MTS Systems Corporation  
14000 Technology Drive  
Eden Prairie, MN 55344  
952-937-4000

December 17, 2020

Mr. Randy J. Martinez  
[Address Omitted]

Dear Randy,

Congratulations! On behalf of MTS Systems Corporation ("MTS"), I am pleased to confirm our verbal offer to you for the regular, full-time exempt position of President and CEO. This position will report to the MTS Board of Directors with primary work direction from David Anderson and will be based in Eden Prairie, MN. As you know, MTS has agreed to be acquired by Amphenol Corporation ("Amphenol") and, following closing of the acquisition, Amphenol will make all decisions with respect to the officers and employees of MTS, including the President and CEO position.

Promotion Date: December 17, 2020

Compensation: Your salary will continue to be \$720,000 annually, less applicable withholding, and paid bi-weekly in accordance with MTS' payroll procedures.

Equity Compensation: You will receive a one-time equity grant equal in value of \$2,000,000.00. The date of grant will be on or around December 22, 2020. It will be provided in the form of 50% Restricted Stock Units and 50% Performance Restricted Stock Units.

Health, Welfare Benefits & other Benefits: You will continue to be eligible for participation in the insurance programs you enrolled in following your hiring in May of 2020, but you will not become eligible for any additional benefit or compensation arrangements (including other health and welfare benefits, severance arrangements, retirement benefits and other ancillary benefits and compensation arrangements)\_

Employee Notice:

- Employment Status: Exempt
  - Executive  Professional  Administrative  Other: \_\_\_\_\_
- Paid by: Salary
- Number of days in the pay period: 14
- Regular Scheduled Pay Day: Every Other Friday



- Allowances for Meals, Transportation and Lodging: As agreed by Board of Directors
- Paid Time Off: None

Deductions that may be made from employee's pay: employment taxes and withholdings; insurance premiums; uniform costs; garnishments/attachments; and any other amount the company is permitted by law to withhold from your wages (including Minn. Stat. § 181.79).

Executive Plan: You expressly agree that notwithstanding anything to the contrary in the MTS Executive Change in Control Severance Plan, as amended and restated, the MTS Executive Severance Plan, as amended and restated, or the MTS Executive Variable Compensation (EVC) Plan you will not be considered to be eligible as a participant under such plans and you expressly waive your right to any payments or benefits you may otherwise be eligible to receive under any such plan. Moreover, you expressly acknowledge that you will not be eligible to participate in any compensation or benefits arrangements in which you were not participating prior to the date hereof and agree to waive any rights to payments or benefits under any such arrangements.

While I have every expectation that you will continue to have a successful career with us, I must remind you that your employment with MTS is on an "at will" basis, which means that either of us may choose to terminate your employment at any time, with or without notice and without compensation except for time worked. Accordingly, nothing in this offer letter should be construed as creating a contract of employment, or employment for a specified term. Also, of course, all compensation, benefits and other terms of employment are subject to change from time to time, as MTS determines.

If you find this offer to be acceptable, then please sign this letter below to the undersigned.

Sincerely,

/s/ AMANDA DANIEL  
Amanda Daniel  
SVP and Chief Human Resources Officer  
[Phone Number Omitted]

The undersigned accepts the above employment offer and agrees that it contains the terms of employment with MTS, that the employment offered is "at will" as described above, that this offer supersedes any and all prior understandings, offers or agreements, whether oral or written, including the Interim President and CEO Offer Letter Agreement, dated May 20, 2020, by and between you and MTS, and that there are no other terms expressed, or implied. The undersigned also understands that no representation, whether oral or written, by any manager, supervisor, or representative of MTS, at any time, can constitute a contract of employment or employment for any specific duration, other than a document signed by an authorized company representative.

Accepted:

/s/ RANDY J. MARTINEZ

Randy J. Martinez

Date:

December 17, 2020

## SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Randy J. Martinez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MTS Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2021

/s/ RANDY J. MARTINEZ

Randy J. Martinez  
President and Chief Executive Officer

## SARBANES-OXLEY SECTION 302 CERTIFICATION

I, Brian T. Ross, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MTS Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2021

/s/ BRIAN T. ROSS

Brian T. Ross

Executive Vice President and Chief Financial Officer

**MTS SYSTEMS CORPORATION  
CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

The undersigned, Randy J. Martinez, the Chief Executive Officer of MTS Systems Corporation (the "Company"), has executed this Certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended January 2, 2021 (the "Report").

The undersigned hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2021

/s/ RANDY J. MARTINEZ

Randy J. Martinez  
President and Chief Executive Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended.

**MTS SYSTEMS CORPORATION  
CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

The undersigned, Brian T. Ross, the Chief Financial Officer of MTS Systems Corporation (the "Company"), has executed this Certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended January 2, 2021 (the "Report").

The undersigned hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2021

/s/ BRIAN T. ROSS

Brian T. Ross

Executive Vice President and Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended.