UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended September 30, 1994

Commission File Number 0-2382

MTS SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	41-0908057
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Telephone number of registrant including area code (612) 937-4000

14000 Technology Drive, Eden Prairie, Minnesota	55344
(Address of principal executive offices)	(Zip Code)

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

COMMON STOCK (PAR VALUE OF 25 CENTS PER SHARE
National Association of Securities Dealers Automated
Quotation National Market System
(Exchange on which registered)

Indicate by check mark whether 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 _X_ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of December 3, 1994, 4,540,997 shares of the Registrant's Common Stock were outstanding and the aggregate market value of such Common Stock (based upon the average of the high and low prices) held by non-affliates was $87,984,162.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Shareholders for fiscal Year ended September 30, 1994 - Parts I, II and IV.

Proxy Statement for Annual Meeting of Shareholders, statement dated prior to January 31, 1995 - Part III.

MTS SYSTEMS CORPORATION
ANNUAL REPORT PURSUANT TO
SECTION 13 OR 15 (D) OF THE
SECURITIES EXCHANGE ACT OF 1934

PART I

ITEM 1. BUSINESS

MTS Systems Corporation (hereafter called "MTS" or "the Company" or "the Registrant") designs, manufactures, markets and services computer-based testing and simulation systems for determining the mechanical behavior of materials, products and structures; and measurement and control products for measuring process variables and automating manufacturing processes. These systems and products are used by MTS' customers to improve product quality, accelerate product development and increase machine and worker productivity.

The Company's markets are varied, however, its systems and products share common technologies: sensors for measuring machine and process parameters, control technologies for test and process automation, hydraulic and electric servodrives for precise actuation, and application software to tailor the test or automation system to the user's needs.

PRODUCTS AND ORGANIZATION BY MARKET
The Company's operations are organized into three business sectors: 1) Mechanical Testing and Simulation, 2) Measurement and Automation Instrumentation

and 3) Advanced Systems. The operational alignment of the sectors allows the Company to maintain a strategic focus on markets with different applications of the Company's technologies and with different competitors.

Mechanical Testing and Simulation: Customers in this sector use MTS systems for research and development and for quality control of materials, products and structures. MTS products and systems in this sector include:

* Material testing systems and software. These systems are used to determine the fundamental mechanical properties of materials and to analyze how a material will perform in a given application. For instance, the substitution of ceramic materials for traditional metals in certain applications requires understanding of how the ceramic material will behave under the mechanical, thermal, and corrosive stress it will endure over the product's service life.

  MTS material testing systems use either servohydraulic or electromechanical technology to apply loads to the specimen. Servohydraulic systems use hydraulic (fluid) power to obtain the forces required. Electromechanical systems use electric motors and mechanical transmissions. Generally, servohydraulic systems operate at faster speeds and can apply loads in multiple directions; electromechanical systems can be more precisely controlled at slow speeds and can operate accurately over longer displacements. In either type of system, sensors measure load, position, strain and acceleration for controlling test variables.

  In many cases, the control system includes a computer. Changes in specimen properties are measured electronically and data is processed and analyzed by the computer using proprietary MTS software.

  Testing hardware and analysis software are specific to the type of material being tested and its application. This has led the Company to develop a broad array of test accessories. These include special chambers for simulating high and low temperatures, pressures and corrosive environments; sensors for measuring changes in specimen parameters within these environments; and grips and fixtures for gripping or holding a variety of specimen shapes, sizes and textures. Materials commonly tested include elastomers, metals, ceramics, composites, plastics, fabrics, biomechanical materials, and geomechanical materials.

* Performance and durability simulation systems. These systems are used in research and development laboratories to determine the performance and durability of products and structures.

  Performance test systems permit customers to determine the dynamic performance characteristics of a product or structure. For example, in the auto-truck industry, customers use MTS performance systems to measure the characteristics of tires, shock absorbers and suspension bushings and to determine the handling response of a complete vehicle.

  Durability simulators allow customers to study how prototypes of new vehicles or structures will endure under actual service conditions. Again, in the auto-truck industry, MTS road simulators are used to subject a vehicle, or its component subassemblies, to the forces it is expected to encounter over its service life and to find failures before the vehicle goes into production. MTS believes customers can reduce the development time and cost for new cars, trucks or off-road vehicles by testing them on these simulation systems in the laboratory under controlled and repeatable conditions.

  Ground vehicle customers may also purchase MTS systems to detect squeaks and rattles in new vehicles as they come off the production line. The Company believes these systems are effective in reducing early warranty costs.

  MTS aerospace customers purchase component and full-scale simulators and analysis systems to determine the service life of aircraft and aerospace structures and components. Once in production, the most critical parts of an aircraft may be continuously tested to keep its simulated hours of flight well ahead of the actual flight hours of the earliest production aircraft in the fleet.

  MTS simulation systems and controls are also used to test civil engineering structures. Actual structures, or scale-models, are subjected by these systems to the static and dynamic loads they may incur in service. In addition, MTS supplies systems for determining the characteristics of rocks and soils--useful information for petroleum and mineral exploration.

  The Company also supplies a limited range of modeling and analysis software which permits customers to shorten the design process by simulating "damaging" events in an analytical computer model. This can eliminate several prototype fabrication and testing iterations, shortening the design cycle further. Although it may eliminate some prototype iterations, this does not usually eliminate the need to test a final prototype before releasing the design for manufacture.

Mechanical Testing and Simulation accounted for 73% of sales in 1994, and 79% of sales in 1993 and 1992. It represents the oldest and principal market for the Company's technology. This sector has been principally responsible for the Company's general corporate image: "a leading supplier of test equipment to laboratories."

Measurement and Automation Instrumentation: Measurement and automation instrumentation customers use MTS products in discrete part and fluid process manufacturing. Products and systems in this sector include:

* Position and liquid-level sensors. Two types of sensors are produced. The

Temposonics(tm) displacement sensor is made in lengths from 3 inches to 50 feet for use in many processes in discrete manufacturing. Major applications include injection molding and die casting machines, printing and packaging machines, presses of all types and lumber mills.

This same technology is incorporated into another sensor used for measurement of liquid levels and interfaces. These sensors are sold in three application markets: the underground storage tank market (UST), the process storage tank market (PST) and the large, above-ground storage tank market (AST).

The UST market consists primarily of retail gas stations. It is served by original equipment manufacturers (OEMs) who purchase MTS sensing probes and incorporate them with an electronic unit to monitor fuel inventory and detect leaks.

The PST and AST markets are served by an MTS sales force working through numerous sales representative firms. The PST market, which requires sensors generally less than 25 feet in length, uses the MTS Level Plus(R) product line in a wide variety of applications in the chemical, petroleum refining, pharmaceutical, and food industries. The AST market, which needs sensors up to 60 feet in length, is the newest application for these sensors. MTS also sells software packages to this market for monitoring multiple tank levels on large tank "farms."

* Servo motors and controllers. Custom Servo Motors, Inc., an MTS subsidiary, supplies MaxPlus(tm) high-performance, brushless servo motors to OEMs for use in automating discrete-part manufacturing, converting and packaging machines. The subsidiary also supplies Motion Plus(tm) control products that provide control of complex, multi-axis, rotary and linear machine motions. These motors and motion control products create systems that are applied to a wide variety of automation tasks by both end-users and OEM firms.

The MTS Measurement and Automation Instrumentation sector accounted for 18% of sales in 1994, and 15% of sales in 1993 and 1992.

Advanced Systems: The Company's Advanced Systems Division develops new products and capabilities in targeted technologies on cost-plus-fixed-fee and firm, fixed-price contracts. Some of these contracts are within the field of Mechanical Testing and Simulation and others are in Industrial Automation.

Examples in the field of Mechanical Testing and Simulation include simulation systems to test gun recoil systems and breech assemblies. Examples in the field of Industrial Automation include robotic systems for laser welding and laser-based dimensional measuring.

The Advanced Systems sector accounted for 9% of sales in 1994 and 6% of sales in 1993 and 1992.

COMMON TECHNOLOGIES AND BUSINESS APPROACHES

MTS' systems are constructed using employees' systems engineering know-how and with common system components generally composed of measuring and actuation devices, electronic controls and application software. Many of these components are proprietary and are developed and manufactured within the Company.

MTS employees engineer or configure the components into systems to match the application called for in the customer's order. Frequently, special-purpose software is developed to meet a customer's unique requirements. Such software often represents a significant part of the value added by the Company. Additional products such as personal and minicomputers, associated peripheral equipment and large, machined parts are purchased from outside suppliers, as required. Services offered to system customers include on-site installation, training of customer personnel, technical manuals and continuing maintenance. Such services are often included in the contract amount charged for completed systems, but these services may be purchased separately, during and after the system warranty period.

Certain proprietary products, such as sensors, process controls, motors, actuators, and process software and firmware are sold as products to end users and to other companies for incorporation into their systems, machines, or processes. All products and most systems are sold on fixed-price contracts. Complex systems and applied research are in some cases undertaken on "cost-plus-fixed-fee" contracts.

Inasmuch as the Company's offerings are constructed from a family of common products and technologies, and are integrated by a common knowledge base of engineering, the Company considers itself to be in a single business. The Company has reported the results of operations for its single business in the Financial Statements (see Item 8).

1994 PRODUCT DEVELOPMENT HIGHLIGHTS

The Company funds new application and product development within its market sectors. Highlights of product development undertaken or completed in 1994 are:

* The first Flat-Trac(tm) Roadway Simulator was completed by MTS during 1994. This system is a laboratory roadway simulator for the auto industry. It can simulate nearly all high speed test track conditions with the advantages of environmental control, safety, repeatability, and observability.

* The Company introduced a triaxial elastomer test system for studying the ability of elastomeric materials to dampen vibration.

* A new line of lower-priced axial/torsional test systems was added to the Mini-Bionix(R) product line for the biomechanics and materials industry.

* The Company expanded the line of MaxPlus(tm) motors and drives with the addition of an 8-inch servo motor. One version of the motor eliminates the need for a separate mechanical gear box, resulting in a more reliable and compact drive system with the ability to produce optimum torque and speed.

* The CVT 250 Coaxial Vision Torch system was introduced which uses a through-the-torch viewing system to monitor weld parameters.

CHARACTERISTICS OF SALES

The Company's systems are sold and delivered throughout the world and its customer orders cover a broad spectrum of industries, government agencies, institutions, applications, and geographic locations. As such, MTS is not heavily dependent upon any single customer for its business.

Mechanical Testing and Simulation systems range in price from less than $20,000 to as much as $10 million. Large, individual, fixed-price orders, although important to the Company's image and technical advancement, tend to produce volatility in both backlog and quarterly operating results. The majority of the orders received in any one year are based on fixed-price quotations and require significant technical communications with potential customers prior to receipt of an order. The current typical delivery time for a system ranges from one to twelve months, depending upon the complexity of the system and the availability of components in the Company's or suppliers' inventories. Larger system contracts can run as long as three years and cost-plus-fixed-fee contracts have run longer.

Measurement and Automation products are sold in quantity at smaller per unit prices in the $500 to $10,000 range. Delivery varies from several days to several months.

Approximately 51% of sales in fiscal 1994, 49% in 1993, and 43% in 1992 were made to domestic customers. The balance of sales, some of which are sold in currencies other than the U.S. dollar, were to customers located outside the United States--mainly in Europe, Asia Pacific, Latin America, and Canada. The Company's foreign operations and foreign sales may be affected by local political conditions, export licensing problems, and/or currency restrictions.

Sales Channels: MTS approaches its market sectors through a number of sales channels. The Company's Mechanical Testing and Simulation equipment is sold through an employee sales network, independent sales representatives, and a direct mail (catalog) operation. Sales personnel are generally graduate engineers or highly skilled technicians and are specially trained to sell MTS products and services. Employee salespersons are compensated with salary and sales incentives, and independent representatives are paid commissions only.

A list of domestic and international offices for the Company's Mechanical Testing and Simulation business follows:

Domestic offices:

Akron	Dayton	Philadelphia
Austin	Denver	Raleigh
Baltimore	Detroit	Pittsburgh
Boston	Huntsville	San Diego
Chicago	Los Angeles	San Jose
Dallas	Minneapolis	Seattle
		Washington, D.C.

International Offices:

Beijing and other cities, Peoples Republic of China	Paris, France
	Sao Paulo, Brazil
Berlin and other cities, Germany	Seoul, Korea
	Singapore
Gothenburg, Sweden	Stroud, United Kingdom
Hong Kong	Tokyo, Japan
Nagoya, Japan	Torino, Italy

In addition, MTS works with sales and service representative organizations in all industrialized countries of the world and in the developing countries of Latin America and Asia.

The Company offers a comprehensive mail-order catalog of MTS components, accessories, and products. The catalog includes products of complementary vendors and aims to reach a broad range of customers involved in Mechanical Testing and Simulation.

The Measurement and Automation sector sells its products through a separate sales organization. A network of employee, direct sales, and external domestic distributors, representatives, and system houses market the products of these divisions. International sales currently account for 28% of this sector's volume. Efforts to expand sales channels in international markets continue.

The Advanced Systems sector sells its systems through the sales organizations of the other sectors, through other agents or directly.

International Operations and Export Sales: The sections entitled Geographic Analysis of New Orders and Geographic Segment Information on pages 12 and 22 of the Company's 1994 Annual Report to Shareholders, which sections are incorporated by reference herein, contain information regarding the Company's operations by geographic area.

Export Licensing: The Company's foreign shipments in fiscal 1994, 1993 and 1992 included sales to Asia Pacific, European, and other regions that require the Company to obtain export licenses from the U.S. Department of Commerce, the granting of which are subject to governmental approval. The Company does not undertake manufacturing on custom systems or projects until it is assured that a license will be granted, however, due to the extended time to process and receive a license, design work is performed on some systems during the licensing period. Changes in political relations between the U.S. and countries requiring import licenses, as well as other factors, can adversely affect the Company's ability to complete a sale should a previously issued license be withdrawn. While political reform occurring internationally may relax export controls, U.S. government initiatives on weapons proliferation and foreign policy in other parts of the world may cause delays for certain shipments, or the rejection of orders by the Company.

BACKLOG
The Company's backlog, which it defines as firm orders remaining unfilled, totaled $84,591,000 at September 30, 1994; $88,731,000 at September 30, 1993; and $99,221,000 at September 30, 1992. Approximately 5% of the backlog at September 30, 1994 will be delivered after September 30, 1995. Delivery delays may also occur due to technical difficulties and/or delayed export licensing approval.

COMPETITION
In the Mechanical Testing and Simulation sector, customers may choose to buy equipment from the Company or from several major competitors: Instron (U.S. Based), Carl Schenck (Germany), Zwick (Germany) and Shimadzu (Japan). There are also smaller competitors in most countries and applications.

In lieu of buying equipment from the Company or its competitors, customers may contract with testing laboratories such as EG&G, Peabody, Wyle, or with universities. Government laboratories also market testing services to the public.

Finally, customers may choose to construct their own testing equipment from commercially available components. Customers in the aerospace and automotive industries and universities sometimes choose this approach, purchasing equipment from companies such as Parker Hannifin, Moog, and Mannesman (Germany).

In the Measurement and Automation sector, the Company competes directly with small to medium-sized specialty suppliers and also with divisions of the large control system companies such as Rockwell, Emerson Electric, Siemens (Germany) and Fanuc (Japan).

MANUFACTURING AND ENGINEERING
The Company conducted a significant portion of its fiscal 1994 Mechanical Testing and Simulation and Advanced Systems manufacturing and engineering activities in Minneapolis. Certain product assembly, final system assembly, and application software development may be done in Berlin, Germany. The Tokyo, Japan, facility procures some materials, assembles, and installs systems for customers in that market. Electromechanical systems are assembled in Raleigh, NC, facility and in the Paris, France (Adamel Lhomargy) facility. Manufacturing and engineering activities for the Automation and Measurement Instrumentation sector occur in Raleigh, NC, in Ludenscheid, Germany, and in New Ulm, MN.

Worldwide expenditures for manufacturing equipment were approximately $5,427,000 in 1994, $2,723,000 in 1993, and $5,920,000 in 1992.

PATENTS AND TRADEMARKS
The Company holds a number of patents, patent applications, licenses, trademarks, and copyrights which it considers, in the aggregate, to constitute a valuable asset. The Company's system business is not dependent upon any single patent, license, trademark, or copyright. Furthermore, with only a few exceptions, there is no overall patent protection available to the Company.

RESEARCH AND DEVELOPMENT
The Company does not do basic research, but does fund significant product, system and application developments. Costs of these development programs are expensed as incurred, and amounted to $12,645,000, $13,697,000, and $9,999,000 for fiscal years 1994, 1993, and 1992, respectively. Additionally, the Company also undertakes "first of their kind" high-technology, customer-funded contracts which contain considerable technical pioneering. Innovation on customer jobs was continued in fiscal 1994 at levels consistent with prior years. The combination of internally sponsored product development and system or application innovation on customer contracts approximates 10% of annual sales volume.

EXECUTIVE OFFICERS OF THE COMPANY
The Corporate Executive Officers of the Registrant on September 30, 1994 were:

Name and Age	Position	Officer Since
D. M. Sullivan (59)	Chairman, President and Chief Executive Officer	1976
W. G. Beduhn (53)	Vice President	1983
M. L. Carpenter (57)	Vice President and Chief Financial Officer	1973
R. W. Clarke (64)	Vice President	1973
K. E. Floren (58)	Vice President	1990
W. Ongyert (56)	Vice President	1985
J. H. Owens (54)	Vice President	1984
M. G. Togneri (57)	Vice President	1991
K. D. Zell (52)	Executive Vice President	1979

Officers serve at the discretion of the board, are elected annually by the directors, and serve until their successors are elected.

EMPLOYEES
MTS employed 1,557 persons as of September 30, 1994, including 290 employees located in Western Europe, 45 in Japan, 14 in China, 2 in Canada, 2 in

Singapore, 10 in Korea, 4 in Hong Kong, and 1 in South America. Approximately 30 of the 1,557 were scheduled for termination within the succeeding 90 days as part of the Company's work-force reduction plan.

None of the Company's U.S. employees are covered by a collective bargaining agreement, and MTS has experienced no work stoppages at any location.

SOURCES AND AVAILABILITY OF RAW MATERIALS AND COMPONENTS

A major portion of products and systems delivered to a customer may consist of equipment purchased from vendors. The relationship which the Company promotes with its vendors is one of close cooperation. The Company is dependent upon certain computing hardware and software devices and certain raw materials which have limited sources. However, the Company has not experienced significant problems in procurement or delivery of any essential materials, parts, or components in the last several years.

Due to the manner in which the Company sells the majority of its products, on a fixed-price contract agreed upon at the time the order is obtained, wide fluctuations up or down in cost of materials and components from order date to delivery date, if not accurately forecast by the Company at the earlier date, can change the profitability of any sale. The Company believes that such fluctuations have not had a material effect on reported earnings, except as affected by changes in foreign currency rates, which have been reported.

ENVIRONMENTAL MATTERS

Management believes the Company's operations are in compliance with Federal, state, and local provisions relating to the protection of the environment.

ITEM 2. PROPERTIES

Domestic Facilities--

The Company's main plant and corporate headquarters, occupying 380,000 square feet, is located in Eden Prairie, Minnesota, a suburb of Minneapolis. The original plant was completed in 1967 with additions in 1970, 1975, 1978, 1981, and 1990. Approximately 45% of the Minneapolis facility is used for manufacturing while the balance of the facility is used for office space. The plant site is situated on 54 acres of land on Minnesota State Highway 5, approximately one mile west of Interstate Highway 494.

Some of the Minneapolis additions were financed with debt obligations and others were financed from operations. As of September 30, 1994 all debt relating to this facility had been paid.

Custom Servo Motors, Inc. occupies a 14,000 square foot plant in New Ulm, Minnesota (65 miles southwest of Minneapolis). The plant provides light assembly operations and office space. The facility was constructed in 1993 by the New Ulm Economic Development Corporation. MTS has a five year operating lease for the facility with provisions to extend the lease, purchase the property, or terminate the lease. The terms of the lease agreement do not require capitalization of the asset and the related obligation.

Sensors Division is located near the Research Triangle Park in Cary, North Carolina, a suburb of Raleigh. A 40,000 square foot plant, constructed in 1988, provides manufacturing and office space. In 1992, 25,000 square feet was added to the plant. Land acquisition and construction costs for both projects totaled $4,300,000 and were financed from current operations.

SINTECH Division is located adjacent to the Sensors Division site in Cary, North Carolina. A 25,000 square foot plant, constructed in 1991, provides manufacturing and office space. Land acquisition and construction costs approximated $2,700,000 and were financed from current operations.

International Facilities--

In fiscal 1994 MTS Systems GmbH (Berlin) sold the land and its former facility (24,000 square feet) and purchased a larger building (80,000 square feet). MTS occupies approximately two thirds of this space. Currently half of the occupied space is utilized for manufacturing and the remainder for offices. The remaining third of the facility is planned to be leased to outside parties. As of September 30, 1994, 3,000 square feet has been leased. The building is situated on land leased by MTS from the city government. (The lease expires in 2069). The acquisition cost of the existing facility was $12,000,000 and was financed partially by proceeds of the former facility's sale, assumption of the existing secured mortgage loans of $2,056,000 and current operations.

Adamel Lhomargy S.A., operates a leased facility in Paris, France, of approximately 38,000 square feet in size. Approximately 40% of this space is used for manufacturing with the remainder used as offices. The current lease expires at the end of the 1998 fiscal year.

MTS Sensors Technologie operates a leased facility in Ludenscheid, Germany on approximately six acres of land. The manufacturing and office facilities occupy 10,000 square feet at this location.

The Company also leases office and general purpose space for its sales and service subsidiaries in Stroud, United Kingdom; Paris, France; Torino, Italy; Seoul, South Korea; Tokyo and Nagoya, Japan; Toronto, Canada; Sao Paulo, Brazil; Gothenburg, Sweden; Beijing and Shanghai, Peoples Republic of China; Singapore; and Hong Kong. No manufacturing is done at these locations.

Expansion Plans--

The Company owns approximately 100 acres of land adjacent to its Minneapolis facility. This site could house expanded manufacturing operations. Also, the site in Raleigh allows for expansion. The Company will be expanding the capacity of the New Ulm and Ludenscheid facilities in 1995 with the addition of 15,000 and 8,000 square feet, respectively.

The Company considers its current facilities and planned expansion adequate to support anticipated sales in 1995.

ITEM 3. LEGAL PROCEEDINGS

No material legal proceedings were pending or threatened against the Company or its subsidiaries as of September 30, 1994.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the year ended September 30, 1994, for a vote by the shareholders.

PART II

ITEM 5. MARKET FOR THE REGISTRANT's COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's stock is traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System under the symbol MTSC. The following schedule shows the Company's low and high closing sale transactions as reported by NASDAQ.

Quarter Ended	Low *	High*
December 31, 1992	$ 20.38	$ 26.00
March 31, 1993	$ 21.50	$ 27.00
June 30, 1993	$ 24.75	$ 29.00
September 30, 1993	$ 27.75	$ 32.50
December 31, 1993	$ 27.75	$ 32.00
March 31, 1994	$ 28.50	$ 32.50
June 30, 1994	$ 25.00	$ 29.50
September 30, 1994	$ 22.00	$ 28.50

*Source: NASDAQ/NMS Monthly Statistical Report

As of December 3, 1994 there were 1,394 holders of record of the Company's $.25 par value common stock. The Company estimates another 1,300 shareholders, whose stock is held by nominees or broker dealers, are included in the holders of record.

The Company has a history of paying quarterly dividends and expects to continue such payments in the future. During 1994, 1993, and 1992, the Company paid dividends totaling $.56, $.48, and $.48 per share, per year, respectively, to holders of its common stock.

Under the terms of the Company's note and credit agreements, certain covenants may restrict the payment of cash dividends. As of September 30, 1994, retained earnings available for distribution under such agreements were $20,600,000.

ITEM 6. SELECTED FINANCIAL DATA

A comprehensive summary of selected financial information is presented in the "Six Year Financial Summary." This data is on page 1 of the Company's 1994 Annual Report to Shareholders. Data included in the summary is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 12 through 16 of the Company's 1994 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements, Report of Independent Public Accountants, Quarterly Financial Information (unaudited), and Six Year Financial Summary (unaudited) included in the Company's 1994 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

(a) Information concerning the Company's directors may be found in the Company's Proxy Statement, a definitive copy of which will be filed with the Securities and Exchange Commission prior to January 31, 1995, and is incorporated herein by reference.

(b) See Item 1. Business, on page 9 for information on the Company's Executive Officers.

(c) The Company has no other significant employees requiring disclosure in this Form 10-K.

(d) There are no family relationships between and among directors or officers.

(e) Business experience of Directors may be found in the Company's Proxy Statement, a definitive copy of which will be filed with the Securities and Exchange Commission prior to January 31, 1995, and is incorporated herein by reference. Business experience of the Executive Officers for at least the last 5 years (consisting of positions with the Company unless otherwise indicated) is as follows:

Officer	Business Experience
D.M.Sullivan	Chairman in 1994. Chief Executive Officer since 1987. President and Chief Operating Officer since 1982. Vice President from 1976 to 1982. Has extensive prior experience in the management of technology intensive businesses.
W.G.Beduhn	Vice President of Advanced Systems Division since 1991. Vice President of Technology Development from 1983 to 1991. Division manager of various marketing and operating divisions from 1977 to 1983.
M.L.Carpenter	Vice President and Chief Financial Officer since 1991. Vice President and Treasurer since 1973.
R.W.Clarke	Vice President of Simulation Group since 1984. Previous responsibilities include Vice President of Sales and Service and various market divisions from 1973 to 1984.
K.E.Floren	Vice President of Aerospance and Engineering Mechanics Division, North American Sales and Service since 1993. Vice President of Vehicle Dynamics Division from 1990 to 1993. Manager of various marketing and sales units from 1975 to 1990.
W.Ongyert	Vice President of European Sales and Service since 1985. General manager of European operations from 1977 to 1985.
J.H.Owens	Vice President, Minneapolis Operations since 1988. Vice President, Product Group from 1986 to 1988. Vice President of Manufacturing Operations Division from 1984 to 1986. Division manager of various product manufacturing units from 1976 to 1984.
M.G.Togneri	Vice President of Measurement and Automation Group since April 1991. Prior to his employment at MTS was V.P. at Square D Corporation and General Manager of Crisp Automation. Has extensive experience in the industrial instrumentation and control business in the U.S. and internationally.
K.D.Zell	Executive Vice President of Mechanical Testing and Simulation in 1993. Vice President of Materials Testing Division from 1988 to 1993. Vice President, Sales and Service from 1984 to 1988. Vice President, Product Group from 1979 to 1984. Division manager, Hydro-mechanical Products from 1978 to 1979.

(f) Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference from the Company's Proxy Statement, a definitive copy of which will be filed with the Securities and Exchange Commission prior to January 31, 1995, pursuant to Regulation 14A under the Securities Exchange Act of 1934.

ITEM 11. EXECUTIVE COMPENSATION

See Item 12.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Items 11 and 12 is incorporated herein by reference from the Company's Proxy Statement, a definitive copy of which will be filed with the Securities and Exchange Commission prior to January 31, 1995, pursuant to Regulation 14A under the Securities Exchange Act of 1934.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

(a) Financial Statements:

See accompanying Index to Financial Statements on Page F-1.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the fourth quarter of fiscal 1994.

(c) Exhibits:

3.a Restated Articles of Incorporation, adopted January 31, 1994, incorporated by reference from exhibit 3.a to Form 10-Q for the quarter ended March 31, 1994.

3.b By-Laws, incorporated by reference to exhibit 3.b to the Form 10-K for the fiscal year ended September 30, 1986.

10.a Management Variable Compensation Plan-Fiscal 1994, dated November 18, 1993.

10.b 1985 Employee Stock Option Incentive Plan, incorporated by reference to exhibit 4(a) from Form S-8, File No. 2-99389.

10.c 1987 Stock Option Plan incorporated by reference to exhibit A from Form S-8, File No. 33-21699.

10.d 1990 Stock Option Plan, incorporated by reference to exhibit A from Form S-8, File No. 33-35288.

10.e 1994 Stock Plan incorporated by reference to exhibit 4(a) from Form S-8, File No. 33-73880.

10.f Severance Agreement, dated May 1, 1990 between the registrant and William G. Beduhn, incorporated by reference to exhibit 10.g of Form 10-K for the fiscal year ended September 30, 1990.

10.g Severance Agreement, dated May 1, 1990 between the registrant and Marshall L. Carpenter, incorporated by reference to exhibit 10.i of Form 10-K for the fiscal year ended September 30, 1990.

10.h Severance Agreement, dated May 1, 1990 between the registrant and Richard W. Clarke, incorporated by reference to exhibit 10.j of Form 10-K for the fiscal year ended September 30, 1990.

10.i Severance Agreement, dated December 3, 1990 between the registrant and Kenneth E. Floren, incorporated by reference to exhibit 10.k of Form 10-K for the fiscal year ended September 30, 1990.

10.j Severance Agreement, dated May 1, 1990 between the registrant and Werner Ongyert, incorporated by reference to exhibit 10.m of Form 10-K for the fiscal year ended September 30, 1990.

10.k Severance Agreement, dated May 1, 1990 between the registrant and J. Howell Owens, incorporated by reference to exhibit 10.n of Form 10-K for the fiscal year ended September 30, 1990.

10.l Severance Agreement, dated May 1, 1990 between the registrant and Donald M. Sullivan, incorporated by reference to exhibit 10.p of Form 10-K for the fiscal year ended September 30, 1990.

10.m Severance Agreement, dated May 1, 1990 between the registrant and Richard S. White, incorporated by reference to exhibit 10.q of Form 10-K for the fiscal year ended September 30, 1990.

10.n Severance Agreement, dated May 1, 1990 between the registrant and Keith D. Zell, incorporated by reference to exhibit 10.r of Form 10-K for the fiscal year ended

September 30, 1990.

10.o Severance Agreement, dated April 1, 1991 between the registrant and Mauro G. Togneri, incorporated by reference to exhibit 10.s of Form 10-K for the fiscal year ended September 30, 1991.

10.p 1992 Employee Stock Purchase Plan, incorporated by reference to exhibit 4(a) from Form S-8, File No. 33-45386.

13. Annual Report to Shareholders for the fiscal year ended September 30, 1994.

21. Subsidiaries of the Company.

23. Consent of Independent Public Accountants.

27. Financial Data Schedule.

(d) Financial Statement Schedules:

See accompanying Index to Financial Statements on page F-1.

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) 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

By: /s/ Donald M. Sullivan
Donald M. Sullivan
Chairman, Chief Executive Officer, President and Director

By: /s/ Marshall L. Carpenter
Marshall L. Carpenter
Vice President and Chief Financial Officer

By: /s/ John A. Lessner
John A. Lessner
Corporate Controller

Date: December 22, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

By: /s/ E. T. Binger

E. T. Binger, December 22, 1994
Director

By: /s/ Charles A. Brickman

Charles A. Brickman, December 22, 1994
Director

By: /s/ Thomas E. Holloran
Thomas E. Holloran, December 22, 1994
Director

By: /s/ Bobby I. Griffin

Bobby I. Griffin, December 22, 1994
Director

By: /s/ Thomas E. Stelson

Thomas E. Stelson, December 22, 1994
Director

MTS SYSTEMS CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

A. STATEMENTS OF REGISTRANT

No separate financial statements of the Registrant are included herein as the Registrant is primarily an operating company. All subsidiary companies are totally-held, and their indebtedness to any person other than the Registrant or its consolidated subsidiaries is, in the aggregate, less than 5% of consolidated assets at September 30, 1994. The financial statements of the Registrant and all subsidiaries are included in the consolidated financial statements.

B. CONSOLIDATED FINANCIAL STATEMENTS

Reference is made to the consolidated financial statements in the Company's 1994 Annual Report to Shareholders which are incorporated by reference in accordance with Rule 12b-23 under the Securities Exchange Act of 1934 and attached hereto.

All schedules except those listed above have been omitted as not required, not applicable, or the information required therein is contained in the financial statements or the footnotes thereto.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

To MTS Systems Corporation:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in MTS Systems Corporation's annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated November 29, 1994. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed as a part of Item 14 (pages F-4 through F-7) in this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,

November 29, 1994

MTS SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE V - SUMMARY OF CONSOLIDATED PROPERTY

FOR THE YEARS ENDED SEPTEMBER 30, 1994, 1993 AND 1992

	Land	Construction in Process	Buildings and Improvements	Machinery and Equipment	Total
			(expressed in thousands)		
Balance, September 30, 1991	$ 3,534	$ --	$ 26,606	$ 36,733	$ 66,873
Additions	51	2,963	707	3,257	6,978
Retirements or sales	--	--	(112)	(741)	(853)
Transfers	--	(2,963)	198	2,765	--
Foreign currency translation adjustment	31	--	288	639	958
Balance, September 30, 1992	3,616	--	27,687	42,653	73,956
Additions	228	(42)	181	4,912	5,279
Retirement or sales	(92)	--	(6)	(1,578)	(1,676)
Transfers	--	42	(72)	30	--
Foreign currency translation adjustment	(27)	--	(258)	(641)	(926)
Balance, September 30, 1993	3,725	--	27,532	45,376	76,633
Additions	152	312	10,837	6,559	17,860
Retirements or sales	(182)	--	(1,956)	(1,777)	(3,915)
Transfers	--	(312)	(43)	355	--
Foreign currency translation adjustment	8	--	82	290	380
Balance, September 30, 1994	$ 3,703	$ --	$ 36,452	$ 50,803	$ 90,958

MTS SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE VI - SUMMARY OF CONSOLIDATED ACCUMULATED DEPRECIATION

FOR THE YEARS ENDED SEPTEMBER 30, 1994, 1993 AND 1992

	Buildings and Improvements	Machinery and Equipment	Total
		(expressed in thousands)	
Balance, September 30, 1991	$ 7,758	$ 23,120	$ 30,878
Provision for depreciation	881	4,355	5,236
Retirements or sales	(56)	(692)	(748)
Foreign currency translation adjustment	(104)	407	511
Balance, September 30, 1992	8,687	27,190	35,877
Provision for depreciation	917	4,484	5,401
Retirements or sales	(6)	(1,387)	(1,393)
Foreign currency translation adjustment	(96)	(410)	(506)
Balance, September 30, 1993	9,502	29,877	39,379
Provision for depreciation	918	4,945	5,863
Retirement or sales	(875)	(1,487)	(2,362)
Foreign currency translation adjustment	192	518	710
Balance, September 30, 1994	$ 9,737	$ 33,853	$ 43,590

MTS SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE VIII - SUMMARY OF CONSOLIDATED ALLOWANCES

FOR DOUBTFUL ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 1994, 1993, AND 1992

Balance Beginning of Year	Provision Charged to Operations	Amounts Written Off	Balance End of Year
	(expressed in thousands)		

1994	$ 1,461	$ 110	$ (132)	$ 1,439
1993	608	981	(128)	1,461
1992	511	262	(165)	608

MTS SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE X - SUMMARY OF CONSOLIDATED SUPPLEMENTARY

INCOME STATEMENT INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 1994, 1993, AND 1992

	1994	1993	1992
	(expressed in thousands)		
Advertising and promotion	$2,848	$2,903	$2,754

Expenses incurred for taxes other than income and payroll, maintenance, repairs, amortization of other assets, and royalties have been omitted as each was less than 1% of net sales. Research and development costs are shown in the accompanying Consolidated Statements of Income.

EXHIBIT INDEX

Exhibit No.	Description
10.a	Management Variable Compensation Plan-Fiscal 1994
13.	Annual Report to Shareholders for the fiscal year ended September 30, 1994
21.	Subsidiaries of the Company
23.	Consent of Independent Public Accountants
27.	Financial Data Schedule

EXHIBIT 10.A

REV H, 18 November 1993
(Approved by Board 30 November 1993)

MANAGEMENT VARIABLE COMPENSATION PLAN
FISCAL '94

(Underline indicates significant changes from '93 Plan)

1. PURPOSE OF PLAN

To focus efforts on achievement of objectives which are critical to the success of the Company; to reward the accomplishment at a level above competition when performance is above that of comparable companies; to more closely couple total compensation costs (salary plus variable) to the financial results of the enterprise.

2. RELATIONSHIP TO OTHER COMPENSATION PLANS

2.A SALARY PLAN

The Management Variable Compensation Plan covers objectives related to the financial and TQM operating objectives of the Company. The midpoint of a given Salary range will be suppressed by 1/5th of the average competitive payout potential of participants in that range to conform to the Company's fixed vs. variable compensation strategy (i.e., if the participants in a range have an average competitive payout potential of 20%, the midpoint of the range will be suppressed 4%).

2.B RELATION TO U.S. EMPLOYEE PROFIT SHARING AND UNIT GAINSHARING PLAN

The calculations for the Variable Compensation Plan are made after deductions for Profit Sharing and Gainsharing.

Effective with fiscal 1989, payout to a participant in the Management Variable Compensation Plan is included in the calculation of the Company's contribution to that employee's profit sharing.

3. ELIGIBILITY AND PARTICIPATION [entire section rephrased]

* Corporate officers
* Unit vice presidents
* Market and functional unit managers
* Managers, technical supervisors and key marketing or technical employees who meet certain minimum responsibilities for profitability, financial/human resource acquisition and allocation, balance sheet control, and/or market/technical direction - defined as beginning at SAM 15 and TE 5 or equivalent.

An employee must be in such a position by the November/December Board of Directors meeting in order to be eligible for the fiscal year plan beginning the preceding 1 October, unless otherwise authorized by the president.

Certain subsidiaries may have their own management plans approved by the cognizant corporate vice president and president.

An officer may recommend that an employee, who is otherwise eligible, not participate but such a recommendation must be agreed to by the president.

Participants are eligible for payout in proportion to the % of the fiscal year the participant is responsible for the qualifying position, unless otherwise authorized by the president.

Employees who work less than full time during a year (e.g., due to a personal leave, but not due to illness) would earn a proportionately reduced payout.

In no case will payout be made to employees who work less than 1,000 hours in the year.

The participant must be on MTS' payroll at the end of the fiscal year for which the objective applies to qualify for a payout. Employees resigning or terminated before the end, regardless of cause, are not eligible unless otherwise authorized by the president. (An example of an exception would be early retirement or voluntary separation under a workforce reduction plan.)

No employment contract is implied by participation in this Plan.

4. ESTABLISHMENT OF OBJECTIVES

a. The Board of Directors [deleted: Human Resource Committee] sets the Corporate EPS and/or Return on Average Net Asset (ROANA) objectives and the corporate market share/order bookings objective at their November/December meeting.

b. All other financial objectives are stated in measurable terms and must be finalized by the November/December meeting unless otherwise authorized by the president. They are not renegotiable. All other objectives must be finalized by 30 December.

The cognizant officers and president approve the other objectives for all participants. The purpose of this approval is to:

* Integrate objectives into Company TQM operating plan

* Guard against conflicting objectives

* Help to assure consistency in degree of difficulty

Revenue is not an allowable goal since it is (already) a principal factor in EPS, ROANA, pretax, contribution, and gross margin goals.

c. Each participant will have a mix of objectives per the attached Schedule.

5. COMPETITIVE PAYOUT POTENTIAL

The competitive payout potential, expressed as a % of the midpoint of the salary structure, or actual salary in the case of subsidiary management, is shown below:

POSITION		COMPETITIVE PAYOUT POTENTIAL %
Chairman	E5	60
President	E5	60
Executive Vice President, MT&S	E-4	50
Vice President	E-3/3.5	25-45, depending on revenue level (profit potential)
Vice President	E-2	25-45, depending on revenue level (profit potential)
Vice President (Unit)	E-1	15-45, depending on revenue level (profit potential)
Market Division Management	SAM17-21	15-35, depending on revenue level (profit potential)
All Other Management/ Leadership	SAM18-21	10-35, depending on profit impact
	SAM15-17	6-25, depending on profit impact
	TE5/5S-9/9S	6-25, depending on profit impact

6. CRITERIA FOR OBJECTIVES

A given objective is set at a number (e.g., $, %) which equals, or represents acceptable progress toward, the 2-3 year financial goals of the unit. The lower limit, where initial payout begins, is set at a number which represents good accomplishment under the conditions foreseen for the period covered by the objective. EPS, ROANA, and other unit financial limits are normally set 1/3rd below the objective; [deleted: the ROANA limit is normally 1/4 below the objective;] the order booking/market share lower limit span is normally set at the 2-3 year annual growth goal rate.

Linear interpolation is used between the lower limit and the objective.

7. EXTRA PAYOUTS

The objectives are set at challenging but realistic levels which are used in the overall process of planning and resource allocation. This is not meant to be a limit to our aspirations, and performance in excess of those objectives should be rewarded as it is to the benefit of all stakeholders in the enterprise.

Over-ranging of an objective can earn an additional equal payout if that objective is exceeded by an amount up to the lower limit span. Over-ranging is limited to objectives equaling 70% of the competitive full payout per the attached Schedule.

Linear interpolation is used between the over-ranging amount and the objectives.

8. PAYOUT

Within 90 days of the end of the fiscal year.

9. APPROVAL OF PLAN

The Plan, and participation therein, are subject to annual review and approval by the Board of Directors.

Attachments: FY '94 MVC Plan Participation and Schedule of Objectives

Exhibit 13

SIX YEAR FINANCIAL SUMMARY
(September 30)

	1994	1993	1992	1991	1990	1989
	(dollars expressed in thousands, except share data and pretax income per employee)					
OPERATIONS						
Net sales	$ 200,550	$ 189,499	$161,013	$ 157,865	$ 160,159	$ 152,630
United States sales	101,747	92,153	68,931	72,538	75,901	75,806
International sales	98,803	97,346	92,082	85,327	84,258	76,824
Income before income taxes	12,629	14,937	6,452	14,350	11,328	15,578
Net income	8,659	10,382	4,915	10,080	8,408	11,064
Net income per share, fully diluted basis	1.85	2.27	1.07	2.25	1.82	2.41
Research and development costs	12,645	13,697	9,999	9,271	11,225	8,986
Net interest expense	1,860	1,207	704	1,061	824	1,294
Depreciation and amortization	6,214	5,648	5,789	5,755	5,617	4,392
Total payroll	61,619	57,784	55,961	49,596	51,777	48,012
FINANCIAL POSITION						
Current assets	$ 123,206	$ 123,445	$100,929	$ 91,240	$ 85,043	$ 92,239
Current liabilities	66,361	66,961	50,717	44,183	35,565	43,779
Current ratio	1.9:1	1.8:1	2.0:1	2.1:1	2.4:1	2.1:1
Net working capital	56,845	56,484	50,212	47,057	49,478	48,460
Inventories	35,152	25,009	23,591	22,819	24,656	26,867
Property and equipment, net	47,368	37,254	38,079	35,995	35,204	30,161
Total assets	175,708	165,716	144,650	135,627	126,631	125,822
Interest bearing debt	23,851	33,299	19,335	20,565	18,806	17,902
Shareholders' investment	100,046	93,011	84,992	80,739	74,358	69,265
Shareholders' investment per share	21.90	20.47	19.04	18.17	16.48	15.08
Free cash flow(1)	5,414	8,809	2,653	10,786	7,590	9,843
Free cash flow per share	1.16	1.93	.58	2.41	1.64	2.14
OTHER STATISTICS AND RATIOS						
Fully diluted shares outstanding(2)	4,668	4,572	4,595	4,477	4,629	4,591
Number of shareholders(3)	1,394	1,400	1,413	1,838	1,850	1,879
Number of employees	1,557	1,447	1,404	1,372	1,410	1,384
Pretax income per employee	$ 8,111	$ 10,323	$ 4,595	$ 10,459	$ 8,034	$ 11,256
Backlog of orders	84,591	88,731	99,221	82,404	71,032	72,977
New orders	195,260	178,786	178,178	169,237	157,212	146,620
Net income as a percent of net sales	4.3%	5.5%	3.1%	6.4%	5.2%	7.2%
Research and development costs as a percent of net sales	6.3%	7.2%	6.2%	5.9%	7.0%	5.9%
Effective tax rate	31%	30%	24%	30%	26%	29%
Interest bearing debt to equity ratio	24%	36%	23%	25%	25%	26%
Return on average net assets(4)	10.2%	16.3%	7.6%	17.4%	14.6%	22.9%
Return on beginning shareholders' investment per share	9.0%	11.9%	5.9%	13.7%	12.1%	18.1%
Cash dividends paid per share	.56	.48	.48	.40	.40	.28

(1) Net income plus depreciation and amortization minus property and equipment expenditures (exclusive of land acquisition and plant construction) minus cash dividends.

(2) Presented on a weighted average basis of common shares assuming conversion of common stock equivalents during each year after retroactive adjustments for issued shares, for stock splits and reduction of shares from treasury stock purchases (in thousands of shares).

(3) On December 3, 1994, there were 1,394 common shareholders of record, with another estimated 1,300 shareholders whose stock is held by nominees or broker dealers.

(4) (Income before taxes plus interest expense) divided by (average quarterly assets minus non-interest bearing liabilities).

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BACKLOG/NEW ORDERS

	1994	1993	1992
	(expressed in thousands)		
New Orders:			
North American*	$ 101,498	$ 98,019	$ 87,923
International	93,762	80,767	90,255
Total	$ 195,260	$ 178,786	$ 178,178
Backlog	$ 84,591	$ 88,731	$ 99,221

*Includes U.S. and Canada

New orders in 1994 included 30 orders with unit values exceeding $500,000 compared to 38 orders in this category in 1993 and 38 orders in 1992. These orders represented 26%, 32%, and 34% of the new order total for these three years.

North American new orders increased 4% in 1994 and 11% in 1993 with our Measurement and Automation Instrument sector particularly strong in both years.

International orders increased 16% in 1994, reversing the 11% decrease experienced in 1993. Most of the 1994 increase occurred in the Far East and as a result of the acquisition of Adamel Lhomargy (France). A majority of the 1993 decline occurred in our automotive durability simulation systems niche in Europe which has not yet returned to order levels experienced in 1992. Conversely, in 1993, orders in this niche increased in North America as our customers benefited from increasing car and truck sales. International orders were basically flat in 1992 compared to 1991. See Geographic Analysis of new orders for the percentage breakdown by geographic area.

The backlog of undelivered orders at September 30, 1994, decreased 5% from 1993, the result of a low first-quarter order rate. New orders in subsequent quarters exceeded $50 million per quarter, reversing the decline in order backlog experienced during most of 1993 and the first quarter of 1994. Quarterly order rates in 1993 were weak in the second and third quarters but improved in the fourth quarter. The strong fourth quarter order rate in 1992 of $63,185,000 was the principal cause for the 20% increase in the 1992 order backlog.

REVENUES

	1994	1993	1992
		(expressed in thousands)	
United States	$ 101,747	$ 92,153	$ 68,931
International	98,803	97,346	92,082
Total	$ 200,550	$189,499	$ 161,013

Consolidated revenues increased 6% in 1994 and 18% in 1993, reflecting the improved U.S. market (see New Order table). For geographic revenues and income information, see Note 2 of "Notes to Consolidated Financial Statements."

U.S. revenues increased 10% in 1994 and 34% in 1993, reflecting improved markets for most of our business segments during this two-year period and, in particular, for our Measurement and Automation Instrument sector. U.S. revenues had declined 5% in 1992 as a result of a generally weak domestic market and, specifically, a declining demand from our automotive customers.

International revenues represented 49%, 51%, and 57% of consolidated revenues for 1994, 1993, and 1992 respectively. A significant portion of the Company's international revenues are contracted for in foreign currencies. In 1994 the value of the dollar weakened, increasing dollar values on foreign currency revenue by $3,684,000. The value of the dollar strengthened in 1993, particularly against European currencies, reducing dollar values on translated foreign currency revenues by $2,372,000. The declining value of the dollar in 1992 increased international revenues by $6,755,000 which represented 94% of the increase in international revenues that year.

Selective price increases and decreases were implemented in all three years. However, the overall impact of pricing changes did not have a material effect on reported sales volume.

GEOGRAPHIC ANALYSIS OF NEW ORDERS

	1994	1993	1992	1991	1990	1989
UNITED STATES/CANADA	52%	55%	49%	46%	48%	54%
EUROPE/AFRICA/MIDDLE EAST	21	20	25	35	31	22
ASIA PACIFIC	26	23	25	18	18	22
SOUTH AMERICA/REST OF THE WORLD	1	2	1	1	3	2

GROSS PROFIT

	1994	1993	1992
		(expressed in thousands)	
Gross Profit	$ 79,840	$ 78,882	$ 61,919
% of Revenues	39.8%	41.6%	38.5%

The 1994 gross profit percentage declined 1.8 percentage points from 1993, primarily due to a higher-than-normal content of development costs in some large customer projects. These contracts are nearing completion and should not materially impact 1995. In 1993, the gross profit percentage increased 3.1 percentage points from 1992, reflecting increased revenues and a better economic climate domestically for our higher-margin, short-delivery standard products.

Gross profit percentage for 1992 declined 5.8 percentage points from the 1991 ratio as a result of a combination of factors: lower-than-planned revenues, an unfavorable revenue mix, large contracts with significant development content similar to 1994, and higher-than-planned unabsorbed manufacturing overhead expenses resulting from lower plant capacity utilization.

RESEARCH AND DEVELOPMENT

	1994	1993	1992
		(expressed in thousands)	
R & D Expense	$ 12,645	$13,697	$ 9,999
% of Revenues	6.3%	7.2%	6.2%

Product development spending (R&D) in 1994 decreased $1,052,000 or 8% compared to 1993. However, 1993 product development spending, which had increased 37% from 1992, included $1.8 million related to a large complex automotive contract with significant software and controls development content.

The majority of the development expenditures in all three years was for software and controls that will become the basis for our next generation of workstations. Other development programs were directed at new measurement products, servo motors and amplifiers, electromechanical load frames and accessories.

SELLING, GENERAL, AND
ADMINISTRATIVE EXPENSES

	1994	1993	1992
	(expressed in thousands)		
Selling/Marketing	$ 40,351	$ 37,103	$ 34,660
General & Administrative	12,682	10,697	9,170
Total	$ 53,033	$ 47,800	$ 43,830
% of Revenues	26.4%	25.2%	27.2%

Selling/Marketing expenses in 1994 increased $3,248,000 or 9% over 1993, of which $1,348,000 (41%) was directly attributable to the Adamel Lhomargy acquisition and $1,130,000 (35%) to the Measurement and Automation Instrument sector to support its strong growth rate.

All three years were similar in that tight overall cost control was maintained with resources being re-allocated from soft markets to markets with greater potential. Investments in Korea (sales office), Europe (new resources for our electromechanical products), and the acquisition of Custom Servo Motors represented the majority of the increased selling expenses in 1993.

[graphic]
[caption:
TQM OBJECTIVE PROFILE
PRODUCT QUALITY

Most locations across the MTS organization are working toward ISO 9000 certification. The first to achieve it was our MTS Systems Limited, U.K. sales and service subsidiary, pictured above receiving their ISO 9002 certification plaque in mid-year.

Late in calendar year 1994, after the close of the fiscal year, our Sensors Division in Cary, North Carolina, and our MTS Sensors Technologie subsidiary in Ludenscheid, Germany received certification to ISO 9001. Our Mechanical Testing & Simulation operations in the U.S. passed the audit and were recommended for certification (expected in early 1995). Other divisions are working toward passing their final audits in FY95.

By international consensus, the ISO 9000 standards are a distillation of the best quality practices available. Typically, companies make use of a third-party registrar to audit their quality system and verify that it meets ISO 9000 requirements. Successfully passing such an audit entitles the company to publicize this achievement to its customers. The main benefit to our customers is even higher product quality. To MTS it is lower costs through improved business processes.]

The selling expense ratio expressed as a percent of new orders, was 21% in 1994, 21% in 1993, and 19% in 1992.

General and Administrative (G&A) expenses increased $1,985,000 or 19% in 1994 compared to 1993 due to the Adamel Lhomargy acquisition and adding resources in internal systems/processes elsewhere in the company.

The 17% increase in G&A in 1993 over 1992 was due to restructuring costs of the Machine Controls Division, the new Korean sales office, Custom Servo Motors acquisition, expanded training initiatives, increased variable compensation costs associated with higher earnings and, similar to 1994, investments in personnel and internal systems. In 1992 G&A expenses had increased 9% over 1991.

INCOME

	1994	1993	1992
	(expressed in thousands)		
Income Before Income Taxes	$ 12,629	$ 14,937	$ 6,452
% of Revenues	6.3%	7.9%	4.0%
Net Income	$ 8,659	$ 10,382	$ 4,915
% of Revenues	4.3%	5.5%	3.1%
Effective Tax Rate	31.4%	30.5%	23.8%
Return On Beginning Equity Per Share	9.0%	11.9%	5.9%
Net Income Per Share	$ 1.85	$ 2.27	$ 1.07

Income before income taxes (pretax income) decreased $2,308,000 or 16% from 1993 as a result of the significant development costs incurred on specific leading-edge technology projects, which affected gross margin, and the $2,065,000 charge to operations for a work-force reduction offset by a non-operating gain of $3,930,000 realized from the sale of our old Berlin, Germany facility. Pretax income in 1993 increased 132% from a pretax income in 1992 that was well below company expectations. Several factors affected 1992: lower-than-planned revenues, a revenue mix with more than normal leading-edge technology projects containing significant development content, under-utilization of plant capacity, planned accelerated internally funded R&D projects, and charges associated with employee terminations and early retirements.

Net income in all three years benefited from an effective tax rate that was lower than the federal statutory tax rate, primarily from Research and Development tax credits and tax benefit of the Company's Foreign Sales Corporation. See Note 4 of "Notes to Consolidated Financial Statements" for the reconciliation between the federal statutory and effective income tax rates and other related tax information.

IMPACT OF FOREIGN CURRENCIES

Throughout 1994, the dollar weakened against all major foreign currencies, which increased foreign currency denominated revenue by $3,684,000.

In 1993, European currency exchange rates weakened against the dollar while the Japanese yen continued to strengthen. As a result, translated foreign currency revenues were reduced by $2,372,000.

Foreign currency exchange rates were unstable during 1992 but, generally, the direction was a weakening of the dollar. This increased foreign-denominated sales, costs, and expenses by approximately 15%. This had the effect of increasing reported revenues by $6,400,000.

The Company recorded foreign currency transaction gains of $1,058,000, $564,000, and $221,000 for the years 1994, 1993, and 1992, respectively.

The Company's foreign currency risk-management program principally involves entering into forward foreign currency hedge contracts, options, and foreign currency denominated loans. On September 30, 1994, there were open currency hedge contracts with various settlement dates, totaling $3,058,000. These are targeted to limit transaction exposures where equipment and services costs are incurred in U.S. dollars and the customer contracts in a foreign currency.

[graphic]
[caption:
TQM OBJECTIVE PROFILE
PRODUCTIVITY

Employees in our Mechanical Testing & Simulation sector have achieved continuous improvements in inventory utilization for several years. We first installed our current generation of MRP II systems in 1985. Since that time, the material assets required for supporting the business have shown a compounded improvement in usage of 4.90% per year, or a total of 54%. This has resulted in a savings of over $10 million in required inventory. Additionally, the supporting teams in our stores and warehousing functions have achieved superior quality results, as demonstrated by the 100% accuracy of our continuous cycle count test audits. This high quality of information is vital to supporting our manufacturing, planning and control processes.]

LIQUIDITY AND CAPITAL RESOURCES

	1994	1993	1992
	(expressed in thousands)		
Working Capital	$ 56,845	$ 56,484	$ 50,212
Current Ratio	1.9	1.8	2.0
Total Interest Bearing Debt	$ 23,851	$ 33,299	$ 19,335
% of Shareholders' Investment	23.8%	35.8%	22.7
%Shareholders' Investment	$ 100,046	$ 93,011	$ 84,992
Per Share	$ 21.90	$ 20.47	$ 19.04

Cash and cash-equivalent balances in 1994 decreased to $4,919,000 from the $7,597,000 reported at September 30, 1993. The $2,678,000 difference was essentially used to reduce indebtedness. The 1994 direct measurements of liquidity were comparable to 1993, as the relationship of current assets to current liabilities (current ratio) increased slightly from 1.8 to 1.9. Cash, cash equivalents, and accounts receivable in relation to current liabilities (liquidity ratio) decreased slightly to 1.3 from 1.4.

Expenditures for property, plant, and equipment were $17,401,000 in 1994, $5,073,000 in 1993, and $7,321,000 in 1992. Plant expenditures of $12,039,000 in 1994 were for a new facility to support our Berlin, Germany, operations. Sale of our existing facility, in Berlin, partially offset this investment and resulted in a non-operating gain of $3,930,000. 1992 expenditures for plant construction costs were primarily for the expansion of the Sensors Division plant located in Raleigh, North Carolina. The majority of the plant and equipment expenditures in all years, other than for plant construction and facility purchase, was for required operating equipment and the upgrading of existing facilities. The fiscal 1995 capital expenditure plan includes continued upgrading of the newly acquired Berlin, Germany facility. Other planned expenditures for plant and equipment are not expected to exceed depreciation for the year.

Total interest-bearing debt as a percent of shareholders' investment decreased to 24% by September 30, 1994, reflecting cash flow from earnings and reduction of unbilled contract and retainage receivables. See Consolidated Statement of Cash Flows for specific sources and use of cash.

At the end of fiscal 1994 the Company was in compliance with or had obtained the required waivers to maintain compliance with the terms of its various debt covenants. See Note 3 of "Notes to Consolidated Financial Statements" for additional information on financing.

Shareholders' investment exceeded $100 million as of September 30, 1994, and equalled $21.90 per share. This compared to $20.47 in 1993 and $19.04 in 1992. In addition to increases from undistributed net earnings, shareholders' investment was increased over the three-year period from proceeds totaling $4,822,000 from the exercise of employee stock options and participation in the employee stock purchase plan (275,204 common shares). It was reduced by expenditures for common stock repurchases (162,833 common shares) totaling $3,844,000.

In 1992, the Board of Directors authorized the repurchase of 200,000 common shares in the open market within the guidelines as established by the Securities and Exchange Commission (SEC). By September 30, 1994, 16,155 common shares had been acquired under this authorization. The remaining 183,845 shares may be acquired during 1995. The Board may then authorize additional repurchases.

The Company believes that its 1995 anticipated cash flows from operations, a forecast decrease in unbilled contract and retainage receivables, and its short-term lines of credit will adequately finance ongoing operations, allow for the possible completion of the common-stock repurchase program and other strategic acquisitions.

1994 QUARTERLY STOCK ACTIVITY

	Dollar Range (1)	Shares Traded (2)
First Quarter	27-3/4 - 31	569,200
Second Quarter	29-5/8 - 31-3/4	704,000
Third Quarter	25-3/4 - 29	332,300
Fourth Quarter	22-3/4 - 28-1/4	433,800

(1) Source: Wall Street Journal
(2) Source: Barron's

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarter-to-quarter revenues and earnings comparisons will not necessarily accurately reflect changes in operating efficiency or market demand. Additionally, if a scheduled delivery date is delayed or accelerated on one or more high-value systems, which are not accounted for under the percentage-of-completion accounting method, revenues and earnings can be significantly affected. This situation is a common challenge that confronts MTS and similar companies that produce high-value custom equipment. The use of the percentage-of-completion method to recognize revenue on large, long-term projects helps to alleviate this situation. (See Note 1 of "Notes to Consolidated Financial Statements"). Even though MTS has introduced several standard and semi-custom systems, the leading-edge applications of the Company's technology will continue to be in the fairly high-value systems which are the primary source of "system level" product development. Undertaking state-of-the-art customer projects is equally essential to long-term growth and market share as is company-funded new product development. While accepting such orders does make MTS prone to quarter-to-quarter swings in revenue volume and earnings, management believes these programs have significant long-term benefits for the Company.

Quarterly earnings will also vary based on the use of estimated, effective income tax rates for providing federal, state, and foreign income taxes. See Note 4 of "Notes to Consolidated Financial Statements" for the reconciliation between the statutory and effective income tax rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
CONSOLIDATED BALANCE SHEETS
(September 30)

Selected quarterly financial information, for the three fiscal years ended September 30, 1994, is presented below.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(expressed in thousands except per share data)				
1994					
Revenues	$47,241	$46,357	$48,468	$58,484	$200,550
Gross margin	19,443	17,380	18,902	24,115	79,840
Pretax income	3,526	5,015	1,442	2,646	12,629
Net income	$ 2,361	$ 3,181	$ 1,002	$ 2,115	$ 8,659
Income per share	$ .51	$ .68	$ .21	$ .45	$ 1.85
1993					
Revenues	$40,016	$43,168	$48,824	$57,491	$189,499
Gross margin	16,705	17,871	20,127	24,179	78,882
Pretax income	2,462	3,373	4,361	4,741	14,937
Net income	$ 1,674	$ 2,187	$ 2,864	$ 3,657	$ 10,382
Income per share	$ .37	$ .48	$ .63	$ .79	$ 2.27
1992					
Revenues	$32,418	$39,876	$38,850	$49,869	$161,013
Gross margin	13,488	15,753	14,352	18,326	61,919
Pretax income	1,122	2,121	1,066	2,143	6,452
Net income	$ 796	$ 1,431	$ 742	$ 1,946	$ 4,915
Income per share	$ .17	$ .31	$ .16	$ .43	$ 1.07

[graphic]
[caption:
TQM OBJECTIVE PROFILE
CUSTOMER SATISFACTION

MTS field service capabilities are a source of significant competitive advantage for our Mechanical Testing and Simulation sector. In our latest 1993 worldwide customer satisfaction survey, 91% of those surveyed indicated that they were either satisfied or very satisfied with MTS field service--up from 81% in 1989. In addition, of those surveyed, 88% indicated that they were more satisfied with MTS service than with our competitors'--up from 76% in 1989.

In North America, service support is provided through our HELPLine toll-free service communications system. Call takers connect customers to the help they need--whether it's to schedule a visit by the local service engineer; seek answers to technical questions via the MTS Technical Support Group; order parts or repairs from the MTS Order Services staff; or schedule training in an MTS training or consulting course.

Internationally, MTS provides field service support locally through our worldwide sales and service offices or through our service representatives. The MTS Technical Support Group and Order Services staff in Minneapolis are available to provide support to our worldwide field staff and customers.]

CONSOLIDATED BALANCE SHEETS
(September 30)

ASSETS	1994	1993
	(expressed in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,919	$ 7,597
Accounts receivable, net of allowance for doubtful accounts of $1,439 and $1,461	44,534	41,841
Unbilled contracts and retainage receivable	35,584	47,066
Inventories	35,152	25,009
Prepaid expenses	3,017	1,932
Total current assets	123,206	123,445
PROPERTY AND EQUIPMENT:		
Land	3,703	3,725
Buildings and improvements	36,452	27,532
Machinery and equipment	50,803	45,376
Accumulated depreciation	(43,590)	(39,379)
Total property and equipment, net	47,368	37,254
OTHER ASSETS	5,134	5,017
	$ 175,708	$ 165,716

LIABILITIES AND SHAREHOLDERS' INVESTMENT	1994	1993
CURRENT LIABILITIES:		
Notes payable to banks	$ 17,007	$ 28,602
Current maturities of long-term debt	1,516	2,194
Accounts payable	10,969	6,882
Accrued compensation and benefits	18,058	16,085
Advance billings to customers	9,660	7,324
Other accrued liabilities	8,170	5,148
Accrued income taxes	981	726
Total current liabilities	66,361	66,961
DEFERRED INCOME TAXES	3,973	3,241
LONG-TERM DEBT	5,328	2,503
SHAREHOLDERS' INVESTMENT:		
Common stock, 25(cent) par; 16,000,000 shares authorized: 4,568,374 and 4,543,603 shares issued and outstanding	1,142	1,136
Additional paid-in capital	2,928	2,677
Retained earnings	91,762	85,661
Cumulative translation adjustment	4,214	3,537
Total shareholders' investment	100,046	93,011
	$ 175,708	$ 165,716

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF INCOME AND SHAREHOLDERS' INVESTMENT
(For the years
Ended September 30)

INCOME	1994	1993	1992
	(expressed in thousands except for share data)		
NET SALES	$ 200,550	$ 189,499	$ 161,013
COST OF SALES	120,710	110,617	99,094
GROSS PROFIT	79,840	78,882	61,919
OPERATING EXPENSES:			
Selling	40,351	37,103	34,660
General and administrative	12,682	10,697	9,170
Research and development	12,645	13,697	9,999
Interest expense	2,150	1,722	1,197
Interest income	(290)	(515)	(493)
Other expense, net	(327)	1,241	934
TOTAL OPERATING EXPENSES	67,211	63,945	55,467
INCOME BEFORE INCOME TAXES	12,629	14,937	6,452
PROVISION FOR INCOME TAXES	3,970	4,555	1,537

NET INCOME	$ 8,659	$ 10,382	$ 4,915
NET INCOME PER SHARE	$ 1.85	$ 2.27	$ 1.07
AVERAGE COMMON SHARES OUTSTANDING	4,668	4,572	4,595

SHAREHOLDERS' INVESTMENT

	Common Stock Shares Issued	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Cumulative Translation Adjustment
	(dollars expressed in thousands)				
BALANCE, SEPTEMBER 30, 1991	4,444,019	$ 1,111	$ 1,921	$ 75,194	$ 2,513
Exercise of stock options	90,645	22	1,455	--	--
Translation adjustment	--	--	--	--	1,733
Common stock purchased and retired	(71,361)	(18)	(1,703)	--	--
Net income	--	--	--	4,915	--
Cash dividends, 48(cent)per share	--	--	--	(2,151)	--
BALANCE, SEPTEMBER 30, 1992	4,463,303	1,115	1,673	77,958	4,246
Exercise of stock options	119,749	30	2,112	--	--
Translation adjustment	--	--	--	--	(709)
Common stock purchased and retired	(51,433)	(12)	(1,165)	--	--
Acquisition through pooling of interests	11,984	3	57	(531)	--
Net income	--	--	--	10,382	--
Cash dividends, 48(cent)per share	--	--	--	(2,148)	--
BALANCE, SEPTEMBER 30, 1993	4,543,603	1,136	2,677	85,661	3,537
Exercise of stock options	64,810	16	1,187	--	--
Translation adjustment	--	--	--	--	677
Common stock purchased and retired	(40,039)	(10)	(936)	--	--
Net income	--	--	--	8,659	--
Cash dividends, 56(cent)per share	--	--	--	(2,558)	--
BALANCE, SEPTEMBER 30, 1994	4,568,374	$ 1,142	$ 2,928	$ 91,762	$ 4,214

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(For The Years Ended September 30)

	1994	1993	1992
	(expressed in thousands)		
OPERATING ACTIVITIES			
Net income	$ 8,659	$ 10,382	$ 4,915
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	6,214	5,648	5,789
Deferred income taxes	731	96	(449)
Gain from sale of land and building	(3,930)	(658)	--
Translation adjustment	677	(709)	1,733
Changes in operating assets and liabilities:			
Accounts receivable, unbilled contracts, and retainages	8,789	(22,591)	(5,647)
Inventories	(10,143)	(1,418)	(772)
Prepaid expenses	(1,085)	(187)	467
Accrued income taxes	255	(3,045)	(1,094)
Advance billings to customers	2,336	(556)	4,507
Other assets and liabilities, net	9,084	2,588	3,036
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	21,587	(10,450)	12,485
INVESTING ACTIVITIES			
Property and equipment additions, net	(6,901)	(4,576)	(5,900)
Plant purchases and new construction, net	(11,277)	(92)	(1,421)
Proceeds from sale of land and building	6,131	750	--
Other assets	(469)	(93)	2,198
NET CASH USED IN INVESTING ACTIVITIES	(12,516)	(4,011)	(5,123)
FINANCING ACTIVITIES			
Net borrowings under notes payable to banks	(11,595)	16,295	3,495
Proceeds from issuance of long-term debt	4,341	--	2,721
Repayments of long-term debt	(2,194)	(2,331)	(7,446)
Cash dividends	(2,558)	(2,148)	(2,151)
Proceeds from employee stock option and stock purchase plans	1,203	2,142	1,477
Payments to purchase and retire common stock	(946)	(1,177)	(1,721)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(11,749)	12,781	(3,625)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,678)	(1,680)	3,737
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,597	9,277	5,540
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,919	$ 7,597	$ 9,277
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:			
Cash paid during the year for:			
Interest	$ 2,069	$ 1,743	$ 1,275
Income taxes	3,715	7,600	2,631

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CONSOLIDATION AND TRANSLATION
The consolidated financial statements include the accounts of MTS SYSTEMS CORPORATION (the Company) and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

All balance sheet accounts of foreign subsidiaries are translated at the current exchange rate as of the end of the accounting period. Income statement items are translated at average currency exchange rates. The resulting translation adjustment is recorded as a separate component of shareholders' investment. Gains and losses resulting from foreign currency transactions are included in "Other expense, net" in the Consolidated Statements of Income. These transactions resulted in a net exchange gain of $1,058,000 in 1994, $564,000 in 1993, and $221,000 in 1992.

The Company has a foreign currency risk management program which principally involves entering into forward foreign currency hedge contracts, options, and foreign currency denominated loans to address specific exposures related to future foreign currency transactions. On September 30, 1994, there were open hedge and options contracts, with October 31, 1994 settlement dates, totaling $3,058,000.

[graphic]
[caption:
TQM OBJECTIVE PROFILE
PRODUCT QUALITY
Our Sensors Division has made great strides in meeting our TQM Product Quality goal of reducing at a rate of 10% per year the cost of non-conformance to specifications. While significant progress has been made in all areas, one of the most successful endeavors involved reducing material scrap in the production of our displacement transducers.

Through investments made in this core product to better understand our processes and the characteristics of the raw materials, we were able to not only reduce scrap, but produce higher-performing sensors. For the division, this and other improvements allowed us to reduce by 1/3 our cost of nonconformance as a percentage of revenue, and to gain market share.]

REVENUE RECOGNITION
Revenue is recognized upon shipment of equipment when the customer's order can be manufactured, delivered and installed in less than twelve months. Revenue on contracts requiring longer delivery periods (long-term contracts) and other customized orders that permit progress billings is recognized using the percentage-of-completion method based on the cost incurred to date relative to estimated total cost of the contract (cost-to-cost method). The cumulative effects of revisions of estimated total contract costs and impact on revenues are recorded in the period in which the facts become known. When a loss is anticipated on a contract, the amount is provided currently.

LONG-TERM CONTRACTS
The Company enters into long-term contracts for customized equipment sold to its customers. Under terms of certain contracts, revenue recognized using the percentage of completion method may not be invoiced until completion of contractual milestones, upon shipment of the equipment, or upon installation and acceptance by the customer. Unbilled amounts for such contracts appear in the Consolidated Balance Sheets as unbilled contracts and retainage receivable. Amounts unbilled or retained at September 30, 1994 are expected to be invoiced as follows: $31,383,000 in 1995 and $4,201,000 in 1996.

Long-term contracts consider the duration of the manufacturing and collection cycles at the time the contract is bid. Accordingly, Accounts Receivable in the accompanying Consolidated Balance Sheets approximate fair value.

WARRANTY OBLIGATIONS
The Company warrants its products against defects in materials and workmanship under normal use and service, generally for one year. The Company maintains reserves for warranty costs based upon its past experience with warranty claims.

CASH EQUIVALENTS
Cash equivalents represent short-term investments which have an original maturity of 90 days or less. Accordingly, the amounts shown on the accompanying Consolidated Balance Sheets approximate fair value.

ACCOUNTS RECEIVABLE
The Company grants credit to customers, but generally does not require collateral or other security from domestic customers. International receivables, where deemed necessary, are supported by letters of credit from reputable banking institutions.

INVENTORIES
Inventories consist of material, labor and overhead and are stated at the lower of first-in, first-out cost or market. Inventory components as of September 30, were as follows:

	1994	1993
	(expressed in thousands)	
Customer projects in various stages of completion	$ 14,336	$ 7,394
Components, assemblies and parts	20,816	17,615
Total	$ 35,152	$ 25,009

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Additions, replacements and improvements are capitalized at cost, while maintenance and repairs are charged to operations as incurred. Depreciation is provided over the following estimated useful lives of the property:

Building and building improvements: 10 to 40 years.
Machinery and equipment: principally 5 to 10 years.

Most major building and equipment purchases are depreciated on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes.

OTHER ASSETS
Other assets consist principally of patents and excess cost over net assets acquired, net of accumulated amortization, ($3,304,000 and $3,567,000 in 1994 and 1993, respectively). These assets are being amortized over various periods from 8 to 40 years.

RESEARCH AND DEVELOPMENT
Research and product development costs associated with new products are charged to operations as incurred.

NET INCOME PER SHARE
Net income per share is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding in each period. Fully diluted and primary net income-per-share amounts are approximately equivalent for the years presented.

ACQUISITION
In October 1992 the Company exchanged 11,984 shares of its common stock for all of the outstanding shares of Custom Servo Motors, Inc. The transaction was accounted for as a pooling of interests.

In April 1994 the Company completed the purchase of 100% of the stock of Adamel Lhomargy, a French manufacturer of material testing systems, for cash and assumption of debt. The transaction was accounted for by the purchase method of accounting.

Financial data for prior periods have not been restated for these acquisitions as both assets and operations were not material to the Company's Consolidated Financial Statements.

[graphic]
[caption:
TQM OBJECTIVE PROFILE
PRODUCTIVITY
Several improvements in the Cell 3 production line at our Sensors Division have resulted in significant reductions in the time it takes to assemble and ship liquid level sensors. These include the implementation of a demand-based stocking system and subassembly production line, consolidated purchasing of shipping materials and automation of several production stations. In addition, MTS now shares forecast and stock level information with key material suppliers and has developed purchasing contracts for turnkey subassemblies.

Results include an increase in on-time shipments of 25% and a reduction in order fulfillment lead times from 3.4 weeks in 1993 to 1.4 weeks in 1994.]

2. GEOGRAPHIC SEGMENT INFORMATION:

The Company designs, manufactures, and markets hardware and software products and services which customers use to improve product quality, reduce the duration of product development and increase machine and worker productivity. The Company's markets are varied, but its offerings share common components--measuring and actuation devices and electronic controls with application software.

The Company markets such components as its only offering and, accordingly, has reported the results of operations as a single industry in the Consolidated Statements of Income. A geographic summary of the Company's operations and related year-end asset information for each of the three years in the period ended September 30, 1994 follows:

	United States	International Far East	Europe	Other	Eliminations	Consolidated
			(expressed in thousands)			
OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 1994						
Net sales	$101,747	$ 45,541	$45,099	$ 8,163	$ --	$ 200,550
Transfers between geographic areas	--	19,343	15,439	871	(35,653)	--
Total	$101,747	$ 64,884	$60,538	$ 9,034	$ (35,653)	$ 200,550
Income (loss) before income taxes	$ 7,736	$ 4,010	$ 1,242	$ (359)	$ --	$ 12,629
OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 1993						
Net sales	$ 92,153	$ 46,490	$43,633	$ 7,223	$ --	$ 189,499
Transfers between geographic areas	366	16,914	10,815	1,321	(29,416)	--
Total	$ 92,519	$ 63,404	$54,448	$ 8,544	$ (29,416)	$ 189,499
Income (loss) before income taxes	$ 9,340	$ 5,031	$ 956	$ (390)	--	$ 14,937
OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 1992						
Net sales	$ 68,931	$ 35,687	$48,864	$ 7,531	$ --	$ 161,013
Transfers between geographic areas	20	8,694	13,767	1,598	(24,079)	--
Total	$ 68,951	$ 44,381	$62,631	$ 9,129	$ (24,079)	$ 161,013
Income (loss) before income taxes	$ 4,280	$ 2,282	$ (362)	$ 252	--	$ 6,452
IDENTIFIABLE ASSETS AT SEPTEMBER 30:						
1994	$154,954	$ 19,454	$40,825	$ 791	$ (40,316)	$ 175,708
1993	162,090	24,135	24,661	527	(45,697)	165,716
1992	134,132	15,854	31,749	880	(37,965)	144,650

Transfers between geographic areas are made at prices which allow appropriate markup to the manufacturing or selling unit. Income before income taxes includes allocation of research and development, selling, general and administrative, and interest expenses.

3. FINANCING:

Long-term debt as of September 30 follows:

	1994	1993
	(expressed in thousands)	
9.5% Notes, due in annual installments of $494,000 in 1995 and $1,481,000 in 1996, unsecured	$ 1,975	$ 2,353
8.3% Note, due in installments of $288,000 in 1995 and 1996, unsecured	576	1,304
7.55% Note, due in 1996, unsecured	2,234	--
4.75% Note, due in installments of $185,000 in 1995 and 1996, unsecured	370	--
3.5% Note, due in installments of $546,000 in 1995, $424,000 in 1996, $484,000 in 1997, and $230,000 in 1998, unsecured	1,685	--
10.375% Senior Notes, retired in 1994, unsecured	--	750
8.5% Industrial Development Revenue Bonds of the City of Eden Prairie, Minnesota retired in 1994	--	270
Other	4	20
TOTAL	$ 6,844	$ 4,697
LESS--CURRENT MATURITIES	(1,516)	(2,194)
TOTAL LONG-TERM DEBT	$ 5,328	$ 2,503

Aggregate annual maturities of long-term debt for the next five fiscal years are as follows: 1995--$1,516,000; 1996--$4,614,000; 1997--$483,000; 1998--$231,000; and none thereafter. The carrying value of the Company's long-term debt at September 30, 1994, approximates the fair value at current interest rates offered to the Company for debt of the same remaining maturities.

The Company has credit agreements with two domestic banks totaling $30,000,000. One credit agreement, for $5,000,000, permits the Company to issue domestic and Euro-currency notes. The other credit agreement, for $25,000,000, permits the Company to issue domestic notes, Euro-currency notes, and banker's acceptances. As part of the same credit agreement, and within the $25,000,000 limit, the bank has agreed to issue term loans up to a maximum of $10,000,000 until January 31, 1995. This agreement provides for repayment of these term loans through March 1997. The Company compensates both banks with loan commitment fees on the unused portion of the credit lines. The Company also has four uncommitted lines of credit with banks that total $40,000,000. In addition, the Company has standby letter-of-credit lines totaling $15,000,000. At September 30, 1994, standby letters of credit outstanding totaled $5,487,000.

Under terms of its notes and credit agreements, The Company has agreed, among other matters, that it will (a) maintain defined minimum cash flow or fixed charge coverage; (b) limit additional long-term borrowings; and (c) limit common stock repurchases. As of September 30, 1994, $20,600,000 of retained earnings is available for distribution and $7,345,000 is available for repurchase of common shares under the provisions of the agreements. The Company was in compliance with or had obtained the required waivers to maintain compliance with the terms of its note and credit agreements and its lines of credit at September 30, 1994.

Information on short-term borrowings for the years ended September 30 follows.

	1994	1993	1992
		(expressed in thousands)	
Average balance outstanding	$ 23,702	$ 21,409	$ 5,384
Maximum balance outstanding	30,202	29,446	14,600
Year-end interest rate	5.8%	3.9%	4.2%
Weighted-average interest rate	4.4%	3.9%	4.5%

4. INCOME TAXES:

The provision for income taxes for the years ended September 30 consisted of:

	1994	1993	1992
		(expressed in thousands)	
Currently payable (receivable):			
Federal	$2,249	$2,378	$ 1,419
State	411	411	304
Foreign	1,203	1,604	(290)
Deferred:			
Federal	95	142	92
State	12	20	12
Total provision	$3,970	$4,555	$ 1,537

A reconciliation from the Federal statutory income tax rate to the Company's effective rate for the years ended September 30 follows:

	1994	1993	1992
Statutory rate	35%	35%	34%
Tax benefit of FSC	(4)	(4)	(8)
Foreign provision in excess of U.S. tax rate	5	3	--
State income taxes, net of Federal benefit	2	2	3
Research and development tax credits	(4)	(4)	(6)
Other, net	(3)	(2)	1
Effective rate	31%	30%	24%

Deferred tax assets and liabilities are recorded for the differences between the amounts reported for financial reporting and income tax purposes. Components of the net deferred tax liabilities as of September 30 were as follows:

DEFERRED TAX ASSETS:

	1994	1993
	(expressed in thousands)	
Accrued payroll/benefits	$1,547	$1,027
Inventory reserves	1,162	693
Accounts receivable	113	282
Other assets	187	216
TOTAL DEFERRED TAX ASSET	$3,009	$2,218

DEFERRED TAX LIABILITIES:

	1994	1993
Property, plant, equipment	$4,050	$2,963
Real estate tax accrual	266	430
Other liabilities	23	178
TOTAL DEFERRED TAX LIABILITY	$4,339	$3,571
NET DEFERRED TAX LIABILITY	$1,333	$1,353

The Company's Foreign Sales Corporation (FSC) has no cumulative earnings. Tax benefits on foreign sales and tax credits arising from foreign taxes paid and expenditures for qualifying research and development are recorded as a reduction of the provision for income taxes in the year the related item occurs.

The Financial Accounting Standards Board has released a statement on Accounting for Income Taxes. The Company has adopted this statement effective October 1, 1993; the effect of such adoption did not have a significant impact on the Company's financial position or results of operations.

5. STOCK OPTIONS:

The Company has made certain stock-based awards to its officers, non-employee directors, and key employees under various stock plans. Awards under these plans can include incentive stock options (qualified), non-qualified options, stock appreciation rights, restricted stock, deferred stock, and other stock-based and non stock-based awards. At September 30, 1994, the Company has awarded, primarily incentive stock options and non-qualified stock options. These were granted at exercise prices that are 100% of the fair-market value at the date of grant. Beginning one year after grant, the options generally can be exercised proportionately each year for periods of three, four, and six years, as defined in the respective plans.

Option holders may exercise options by delivering Company stock already owned, cash, or a combination of stock and cash. The shares tendered in the exchange are cancelled and, therefore, reduce shares issued. During 1994 and 1993, option holders exchanged 20,655 and 31,558 shares, respectively, of the Company's stock in payment of options exercised.

Under the Plans, options for 487,534 shares are outstanding at $13.00 to $31.75 per share, of which options for 285,614 shares were exercisable at September 30, 1994. Another 432,984 options remain available for granting beyond September 30, 1994. During 1994 and 1993, options for 65,927 and 109,564 shares were exercised at prices of $13.00 to $25.38 and $13.00 to $23.50 per share, respectively.

In January, 1992, the Company's shareholders authorized an Employee Stock Purchase Plan (the Purchase Plan), whereby 250,000 shares of the Company's common stock were reserved for sale to employees until April 2002. Participants in the Purchase Plan are granted options to purchase shares at 95% of the market price of the Company's common stock at dates specified in the Purchase Plan. Participants were issued 19,538 shares in 1994. During fiscal 1994, participants subscribed to purchase 17,600 shares for issuance in fiscal 1995.

6. EMPLOYEE BENEFIT PLANS:

The Company's profit sharing plan functions as a retirement program for most U.S. and certain international employees. Employees who have completed 1,000 hours of service during the plan year are eligible to participate. The formula for calculating the Company's contribution is approved annually by the Board of Directors and is based primarily on operating results for the year, before management variable compensation. The plan provides for a minimum contribution of 4% of participant compensation, as defined, up to the social security taxable wage base, and 8% of participant compensation in excess of the taxable wage base, so long as this calculation does not exceed pretax income. The contributions for 1994, 1993, and 1992 were 4.3%, 4.2%, and 4.2% of participant compensation, respectively. The provisions for profit sharing were $2,281,000 in 1994, $2,118,000 in 1993, and $1,945,000 in 1992 and are distributed among the various operating expenses shown in the accompanying Consolidated Statements of Income.

The Company's subsidiary located in Berlin has a noncontributory, unfunded retirement plan for eligible employees. Total pension expense relating to this plan was $455,000 in 1994, $300,000 in 1993, and $270,000 in 1992. As of September 30, 1994, the most recent actuarial valuation date, the accrued liabilities associated with this plan are included in the Consolidated Balance Sheets and are approximately equal to the actuarial present value of accumulated plan benefits. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.0%.

7. SUBSEQUENT EVENT

In November, 1994 The Company acquired the stock of Power-Tek, Inc. of Farmington Hills, Michigan (in a transaction that will be treated as an asset purchase) for an initial payment of cash and a future payment based upon performance. Power-Tek manufactures dynamometers and clean-air testing systems for the auto, truck and construction equipment industries. The company will operate as a wholly owned subsidiary and will be known as MTS-PowerTek, Inc.

REPORTS ON CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
TO MTS SYSTEMS CORPORATION:

We have audited the accompanying consolidated balance sheets of MTS SYSTEMS CORPORATION (a Minnesota corporation) AND SUBSIDIARIES as of September 30, 1994 and 1993, and the related consolidated statements of income, shareholders' investment, and cash flows for each of the three years in the period ended September 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MTS Systems Corporation and Subsidiaries as of September 30, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1994 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
November 29, 1994

REPORT OF MANAGEMENT

The management of MTS Systems Corporation is responsible for the integrity and objectivity of the financial information presented in this Report. The financial statements have been prepared in accordance with generally accepted accounting principles and include certain amounts based on management's best estimates and judgment.

Management is also responsible for establishing and maintaining the Company's accounting systems and related internal controls, which are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded, and the policies and procedures are implemented by qualified personnel.

The Audit Committee of the Board of Directors, which is comprised solely of outside directors, meets regularly with management and its independent auditors to review audit activities, internal controls, and other accounting, reporting, and financial matters. This Committee also recommends independent auditors for appointment by the full Board, subject to shareholder ratification.

The financial statements included in this annual report have been audited by Arthur Andersen LLP, independent public accountants. We have been advised that their audits were conducted in accordance with generally accepted auditing standards and included such reviews of internal controls and tests of transactions as they considered necessary in setting the scope of their audits.

Donald M. Sullivan
Chairman and
Chief Executive Officer
/s/ Donald M. Sullivan

Marshall L. Carpenter
Vice President and
Chief Financial Officer
/s/ Marshall L. Carpenter

EXHIBIT 21

MTS SYSTEMS CORPORATION AND SUBSIDIARIES
OF THE COMPANY

Name	Incorporation Jurisdiction
MTS Systems (Hong Kong) Inc.	Minnesota, U.S.A.
MTS Testing Systems (Canada) Ltd.	Canada
MTS Systems GmbH	Germany
MTS Sensors Technologie GmbH and Co. KG	Germany
MTS Systems France	France
MTS (Japan) Ltd.	Japan
MTS Systems Limited (London)	United Kingdom
MTS Systems SRL (Italy)	Italy
MTS International, Ltd.	West Indies
MTS Systems Norden AB	Sweden
MTS Sistemas do Brasil, Ltda.	Brazil
MTS Systems (China) Inc.	Peoples Republic of China
Custom Servo Motors, Inc.	Minnesota, U.S.A.
MTS Korea, Inc.	Republic of Korea
Adamel Lhomargy S.A.	France
MTS Holdings France, SARL	France

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included or incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (Registration Nos. 2-99389, 33-21699, 33-35288, 33-45386 and 33-45386.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
December 22, 1994

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YEAR
SEP-30-1994
OCT-1-1993
SEP-30-1994
4,919
0
81,557
1,439
35,152
123,206
90,958
(43,590)
175,708
66,361
5,328
1,142
0
0
94,690
175,708
200,550
200,550
120,710
67,211
0
110
2,150
12,629
3,670
12,629
0
0
0
8,659
1.85
1.85