FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For quarterly period ended 31 December 1993

Commission File Number 0-2382

MTS Systems Corporation
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)

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

14000 Technology Drive, Eden Prairie, Minnesota 55344
(Address of principal executive officer) (Zip code)

(612)937-4000
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, $.25 par value; 4,555,832 shares outstanding.

PART I. FINANCIAL INFORMATION

MTS SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1993 AND SEPTEMBER 30, 1993

ASSETS	DEC 31 1993 UNAUDITED	SEPT 30 1993 AUDITED
	(expressed in $ 000's)	
Cash and cash equivalents	$7,519	$7,597
Accounts receivable	38,911	41,841
Unbilled contracts and retainage receivable	50,491	47,066
Inventories-		
Customer jobs-in-process	6,849	7,394
Components, assemblies and parts	17,345	17,615
Prepaid expenses	3,257	1,932
Total current assets	124,372	123,445
Land	3,867	3,725
Buildings and improvements	36,620	27,532
Machinery and equipment	46,071	45,376
Accumulated depreciation	(39,671)	(39,379)
Total property and equipment	46,887	37,254
Other assets	4,935	5,017
	$176,194	$165,716

LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Notes payable to banks	40,886	28,602
Current maturities of long-term debt	1,375	2,194
Accounts payable	5,073	6,882
Accrued compensation and benefits	14,422	16,085
Accrued income taxes	1,933	726
Other accrued liabilities	6,760	5,148
Advance billings to customers	6,503	7,324
Total current liabilities	76,952	66,961
Deferred income taxes	2,619	3,241
Long-term debt, less current maturities	2,299	2,503
Common stock, $.25 par; 16,000,000 shares authorized: 4,555,832 and 4,543,603 shares issued and outstanding	1,139	1,136
Additional paid-in capital	2,849	2,677
Retained earnings	87,383	85,661
Cumulative translation adjustment	2,953	3,537
Total shareholders' investment	94,324	93,011
	176,194	165,716

MTS SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED DECEMBER 31, 1993 AND 1992
(UNAUDITED)

	FOR THE 3 MONTHS ENDED DECEMBER 31	
	1993	1992
	(expressed in 000's except for per share amounts)	
NET SALES	$47,241	$40,016
COST OF SALES	27,797	23,311
Gross profit	19,444	16,705
OPERATING EXPENSES:		
Selling	9,254	8,621
General and administrative	2,748	2,151
Research and development	2,672	2,624
Interest expense	398	336
Interest income	(52)	(86)
Other (income) and expense, net	898	597
Total operating expense	15,918	14,243
INCOME BEFORE INCOME TAXES	3,526	2,462
PROVISION FOR INCOME TAXES	1,166	788
NET INCOME	$2,360	$1,674
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	0.51	0.37
DIVIDENDS PER SHARE	0.14	0.12
BACKLOG	80,342	112,914
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	4,666	4,540

MTS SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE 3 MONTHS ENDED DECEMBER 31, 1993 AND 1992
(UNAUDITED)

	FOR THE 3 MONTHS ENDED DEC 31 1993	DEC 31 1992
	(expressed in $000's)	
OPERATING ACTIVITIES		
Net income	$2,360	$1,674
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,320	1,270
Deferred income taxes	(622)	(72)
Foreign currency translation adjustment	(584)	(1,212)
Changes in operating assets and liabilities:		
Receivables, including accounts, unbilled contracts and retainages	(495)	916
Inventories	815	(814)
Prepaid expenses	(1,325)	(793)
Accrued income taxes	1,207	(446)
Advance billings to customers	(821)	4,193
Other, net	(1,861)	(1,393)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(6)	3,323
INVESTING ACTIVITIES		
Property and equipment, net	(10,893)	(322)
Investment in Custom Servo Motors, Inc.	--	(471)
Other assets	22	138
NET CASH USED IN INVESTING ACTIVITIES	(10,871)	(655)
FINANCING ACTIVITIES		
Net borrowings (payments) on notes payable	12,284	4,948
Payments on long-term borrowings	(1,023)	(2,011)
Cash dividends	(637)	(536)
Proceeds from employee stock option and stock purchase plans	175	151
Payments to purchase and retire common stock	--	(712)
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,799	1,840
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(78)	4,508
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,597	9,277
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$7,519	$13,785

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 fo 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 (income) and expense, net" in the consolidated Statements of Income.

REVENUE RECOGNITION. Revenue is recognized upon shipment of equipment when the customer's order can be manufactured and delivered in less than nine months. Revenue on contracts requiring longer delivery periods (long-term contracts) and other customized orders which 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 revenues are recorded in the period in which the facts become known. When a loss is anticipated on a contract, the amount thereof 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 percent 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 December 31, 1993 are expected to be invoiced as follows: $42,059,000 in 1994 and $8,432,000 in 1995.

INCOME TAXES -- CHANGE IN ACCOUNTING METHOD. Effective October 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes (SFAS No. 109) under which deferred income tax assets and liabilities are recognized for the differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. Provision for Income Taxes is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The cumulative effect of adopting SFAS No. 109 was not significant. The impact of the Company's change in accounting for income taxes on the results of operations for the quarter ended December 31, 1993 was also not significant.

Temporary differences which resulted in deferred income tax assets and liabilities as of December 31, 1993 and September 30, 1993 are as follows:

	Dec 31 1993	Sept 30 1993
Deferred Income Tax Assets		
Accounts receivable reserve	$282,000	$282,000
Inventory allowances	1,096,000	1,098,000
Accrued expenses	1,226,000	1,103,000
Other	31,000	32,000
Deferred tax asset valuation allowance	-	-
	2,635,000	2,515,000
Deferred Income Tax Liabilities		
Depreciation	2,841,000	2,821,000
Long-term contracts	627,000	627,000
Capitalized expenses	501,000	589,000
Other	1,285,000	1,719,00
	5,254,000	5,756,000
Net Deferred Income Tax Liability	$2,619,000	$3,241,000

OTHER FINANCIAL STATEMENT DISCLOSURE. The Notes to Consolidated Financial Statements appearing in the Company's September 30, 1993 Annual Report to Shareholders on pages 22 through 28 are incorporated herein by reference.

MANAGEMENT'S INTERIM FINANCIAL STATEMENT REPRESENTATION. The unaudited interim financial statements furnished herein reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of the interim periods presented.

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

New Orders and Backlog

New orders for the first quarter of fiscal 1994, ended December 31, 1993, were $38,852,000, a 28% decrease over the comparable quarter in fiscal 1993. Orders in the Mechanical Testing and Simulation sector were lower than expectations. Large dollar orders for the quarter fell short of targets while orders for the quarter ended in 1992 included two large orders, one each from Europe and Asia. The Company expects orders in this sector to rebound in the second quarter and for the year. Orders in the Measurement and Automation sector increased 15% over the same period a year ago. Increases came from sensor and servo motor product lines. The international content of new orders was 48% compared to 68% for the same period one year ago. Backlog of undelivered orders at December 31, 1993 was $80,342,000, a decrease of 9% from September 30, 1993.

Results of Operations

Revenues for the first quarter were $47,241,000 a 18% increase from the same quarter one year ago. In response to customer requests the Company accelerated shipments to meet delivery requirements. Revenues for 1994 were ahead of the first quarter plan. International content of shipments was 52% and 57% for the quarters ended December 31, 1993 and 1992, respectively.

Income before income taxes increased 43% to $3,526,000 compared to $2,462,000 for the quarter ended a year ago. The increase in pretax earnings resulted primarily from increased sales volume partially offset by increased operating expenses for selling, administrative, and the impact of translating the financial statements and the settlement of specific transactions denominated in foreign currencies. Increases in operating expenses reflect investments in the Far-east and European markets and the domestic servo motor business. The gross margin percents were 41.1% and 41.7% for the periods ended December 31, 1993 and 1992.

Net income for the quarter was $2,360,000 a 41% increase compared to the comparable quarter one year ago. The effective tax rate for the quarter ended December 31, 1993 was 33% compared to 32% for the quarter ended in December, 1992 and 30% for the year ended September 30, 1993.

The cumulative effect of the Company's change in accounting to adopt SFAS No. 109 was not significant. The impact of the change on the results of operations for the quarter ended December 31, 1993 also was not significant.

Financial Condition and Liquidity

The ratio of current assets to current liabilities at December 31 was 1.6 compared to 1.8 at September 30, 1993. Cash and cash equivalents were $7,519,000 at December 31 compared to $7,597,000 at September 30, 1993. The Company's borrowing under its $70 million lines of credit was $40,886,000 at December 31 compared to $28,602,000 at September 30, 1993. The increase in borrowing results from the purchase of a new plant facility in Berlin and acceleration of payments on long-term debt (to arbitrage interest rates).

Capital expenditures, net of retirements for the first quarter totalled $10,893,000. The purchase of a new Berlin plant facility accounts for most of the expenditure. The Company's total debt to equity ratio increased to 47% at December 31 from 36% at September 30,1993 reflecting the use of short-term notes to finance that purchase. The Company intends to reduce short-term borrowings with proceeds from the sale of its existing Berlin facility. The closing for this transaction is scheduled during the second quarter and is expected to result in a non-recurring gain of approximately $.30 per share. A mortgage will finance the remaining indebtedness on the new facility when the current property is sold.

The Company's past financial performance, the availability of credit under its borrowing facilities, available cash and cash equivalents provide sufficient resources for growth, expansion and diversification.

PART II-------OTHER INFORMATION

Item 5. Other Information

Purchase and sale of new plant facility:

During the quarter ended December 31, 1993 the Company completed the purchase of a new plant facility in Berlin. Discussion of the purchase, sale of the existing Berlin facility and the resultant gain on the transactions is contained in Part I, Management's Discussion and Analysis of Financial Position and Results of Operations (Financial Condition). The material discussed therein is incorporated by reference to item 5.

SIGNATURES

Pursuant to the requirements of the Securities and 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

/s/ D.M. Sullivan
D.M. Sullivan
President
Chief Executive Officer

/s/ M.L. Carpenter
M.L. Carpenter
Vice President
Chief Financial Officer
Dated: February 14, 1994