FORM 10−K405

NATIONAL TECHNICAL SYSTEMS INC /CA/ − NTSC

Filed: April 30, 2001 (period: January 31, 2001)

Annual report. The Regulation S−K Item 405 box on the cover page is checked

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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED JANUARY 31, 2001

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-16438

NATIONAL TECHNICAL SYSTEMS, INC.
(Exact name of company as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	95-4134955 (I.R.S. Employer Identification No.)
24007 VENTURA BOULEVARD, SUITE 200 CALABASAS, CA (Address of principal executive offices)	91302 (Zip Code)

(818) 591-0776
(Company's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE SECURITIES EXCHANGE ACT OF 1934:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock--No Par Value	Nasdaq-NMS

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/

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 / /

The aggregate market value of the voting stock held by non-affiliates of the Registrant at April 8, 2001 was approximately $12,280,000

The number of shares of Registrant's Common Stock outstanding on April 18, 2001 was 8,511,625.

Portions of the Proxy Statement of the Company for the Annual Meeting of Shareholders to be held on June 27, 2001, are incorporated by reference into

Part III of this report.

NATIONAL TECHNICAL SYSTEMS, INC.

ANNUAL REPORT (FORM 10-K)

FOR YEAR ENDED JANUARY 31, 2001

PART I

Except for the historical information contained herein, certain statements in this Form 10-K contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking words such as "may", "will", "expect", "anticipate", "intend", "estimate", "continue", "behave" and similar words. Financial information contained herein, to the extent it is predictive of financial condition and results of operations that would have occurred on the basis of certain stated assumptions, may also be characterized as forward-looking statements. Although forward-looking statements are based on assumptions made, and information believed by management to be reasonable, no assurance can be given that such statements will prove to be correct. Such statements are subject to certain risks, uncertainties and assumptions. Actual outcomes are dependent upon National Technical Systems, Inc's ("NTS" or "the Company") successful performance of internal plans, ability to effectively integrate acquired companies, customer changes in short range and long range plans, competition in the Company's services areas and pricing, continued acceptance of new services, performance issues with key customers, and general economic risks and uncertainties.

1. BUSINESS

A. GENERAL

NTS is a diversified services company that supplies technical services and solutions to a variety of industries including aerospace, defense, automotive, electronics, nuclear, computers and telecommunications. Through its wide range of testing facilities, staffing solutions and certification services, NTS helps its customers reduce their time to market and enhance their overall competitiveness.

NTS operates in two segments: "Engineering and Evaluation" and "Technical Staffing". The business of the Company is conducted by a number of operating units, each with its own organization. The management of each operating unit has responsibility for its operations and for achieving sales and profit goals. The executive staff from the Company's corporate headquarters maintains overall supervision, coordination and financial control.

The Company's principal executive offices are located at 24007 Ventura Boulevard, Suite 200, Calabasas, CA 91302 (telephone:818-591-0776).

B. HISTORY

The Company was founded in 1961, incorporated in 1968 in California and subsequently was reincorporated in Delaware in 1987 to serve as a holding company for its subsidiaries. On January 31, 1997, the Company was merged into a newly formed California corporation named National Technical Systems, Inc. On October 30, 1998, the company completed its merger with XXCAL, Inc. and acquisition of XXCAL Limited (together, "XXCAL"). The merger was treated as a pooling of interests.

Unless indicated otherwise, the term "Company" or "NTS" includes NTS, Inc.--CA and its wholly owned subsidiaries, NTS California, Acton Environmental Testing Corporation, a Massachusetts corporation, Approved Engineering Test Laboratories, Inc., a California corporation, ETCR Inc., a California corporation, XXCAL, Inc., a California corporation, XXCAL Limited, a United Kingdom corporation, National Quality Assurance--USA, Inc. (NQA), a 50% owned Massachusetts corporation and NTS--CS, a Delaware corporation, which was sold to NQA, Inc. on October 31, 2000 (See Note 2 to Consolidated Financial Statements attached hereto as Exhibits A (i) and A (ii)). On December 31, 2000, the Company merged National Technical Services Inc. (formerly S&W Technical Services) a Florida corporation into

Wise and Associates, Inc. a Texas corporation, which was merged into XXCAL, Inc. a California corporation.

The Company's primary businesses comprise of conformity assessment activities. These services are provided domestically to a wide range of industries (telecommunications, medical, computer, automotive, aerospace, defense and nuclear, among others).

The Company, also performs information technology ("IT") managed services which includes technical staffing on a temporary or permanent basis, project management and consulting. In addition, the Company provides management registration services to national and internationally accepted standards.

During fiscal 1998, in response to the intention of the U.S. Air Force to privatize McClellan Air Force base located in Sacramento, California, the Company took over the operations and employees of the Science and Engineering Test Laboratories at McClellan. During fiscal 2000, the Company experienced a significant loss of business at its McClellan Air Force base facility due to the government decision to transfer work, planned for that operation, to another Air Force base. The Company, facing losses in attempting to maintain the operation, decided to close its operations in Sacramento. (See Note 2 to the Consolidated Financial Statements attached hereto as Exhibits A (i) and A (ii)). All information presented herein has been restated to exclude the effects of the Sacramento operation.

In fiscal 2000, the Company acquired Reintexas Laboratories, a Plano, Texas facility owned by Reintech Laboratories. The operation performs NEBS 1089 compliance testing for the telecommunications industry. Also in fiscal 2000, through its NTS-CS subsidiary, the Company acquired the quality management registration business of Davy Registrar Services and Scott Quality Systems Registrars, a Pittsburgh, Pennsylvania based registration business. In fiscal 2001, the Company sold its NTS-CS subsidiary to NQA, Inc (See Note 2 to Consolidated Financial Statements attached hereto as Exhibits A (i) and A (ii)). NTS also shut down the Rye Canyon operation in fiscal 2001 as a result of a change in direction by the owner of the use of the property.

C. FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

See Note 11 to Consolidated Financial Statements attached hereto as Exhibits A (i) and A (ii).

D. DESCRIPTION OF BUSINESS

(i) ENGINEERING & EVALUATION ("E&E GROUP")

The E&E Group of NTS is one of the largest independent conformity assessment and management system registration organizations in the U. S., with facilities throughout the country, as well as England and Japan, and provides highly trained technical personnel for product certification, product safety testing, product evaluation to allow clients to sell their products in world markets. In addition, the E&E Group performs management registration and certification services to ISO related standards. NTS is accredited by numerous national and international technical organizations which allows the Company to have its test data accepted in the European Union, Taiwan, Japan, Singapore, Australia, United States and Canada.

The E&E Group serves a large variety of high technology industries, including aerospace, defense, automotive, nuclear, electronics, computers and telecommunications. In these industries, the ability to provide the certification activities and provide test data that is accepted in world markets, is critical. The physical test activity related to the certification process entails specialized abilities and equipment including a full spectrum of EMI chambers and acquisition systems, a full spectrum of environmental simulation equipment, seismic simulators, environmental chambers, fire chambers and mixed gas flow chambers.

The E&E Group services also include the development of effective product screening procedures, design and fabrication of test fixtures plus failure analysis and design modification support. The E&E

Group is also one of the leading independent providers of fluid component and systems testing. The E&E Group designs and builds custom facilities and advanced instrumentation and data acquisition systems to support all types of flow testing for gases, liquids and cryogenics. The E&E Group is capable of performing structural testing and analysis, and, in particular, structural loading of large articles such as complete airframes. The E&E Group also performs fatigue testing of critical hardware items such as engine blades and high-pressure fluid components. The E&E Group offers clients a way to minimize their personnel, testing time and costs by utilizing The E&E Group's on-site climatic, dynamic, safety and electromagnetic compatibility test capabilities. The E&E Group provides a "one stop" resource and single source responsibility for all conformity assessment requirements in the several markets it serves.

The E&E Group is engaged in supplying services to U.S. government defense programs. These contracts are subject to special risk, including dependence on government appropriations, contract termination without cause, contract renegotiations, and intense competition for the available defense business.

The rapid expansion of the telecommunications industry's need for product assessment and certification has led the E&E Group to become actively involved in the certification and evaluation of a broad array of telecommunications equipment and systems for major manufacturers of such equipment. The E&E Group's services are performed in accordance with the Network Equipment Building Systems specifications (NEBS), as required by the telecommunications industry. This past year, the E&E Group invested in developing complete one stop physical test capability in Massachusetts, California and Texas. In fiscal year 2002, to augment the physical testing capability, the Company will be investing in the development and enhancement of its functional test capability in California.

The E&E Group also provides international registration of companies requiring quality and environmental management system registration. With the ever increasing globalization of industry and trade, the international community has developed, and continually updates, management system standards to insure that products manufactured conform to acceptable standards when sold anywhere in the world. These standards, developed by the International Standards Organization (ISO), and applicable to different industries, such as aerospace, automotive and environmental, are used to provide compliance by manufacturers certified by third party registrants. Third party registrants are accredited by industry regulated accreditation bodies. The E&E Group is certified to provide third party registrations to a variety of industries. To accomplish certification, The E&E Group audits a company's quality policy, quality system documentation and quality records through on-site assessment. Such assessment determines whether the quality system is defined, documented, deployed and consistently implemented, and that the required documentation and records are current and available. If the client's quality system is verified to conform to the requirements of the applicable ISO standard, NQA, USA issues a certificate describing the scope of the client's quality system which has been certified. The client is then entitled to display the Registrar's mark on advertising and stationery as evidence that it has achieved ISO registration. Thereafter, the E&E Group performs periodic follow-up surveillance assessments to assure that the client remains in compliance.

The E&E Group provides such services to its customers on fixed price, time and material and cost-reimbursement bases. The group markets these services through a sales force located throughout the United States, England and Japan and performs these services at its facilities or at the client's facility.

The E&E Group provides its Engineering and Evaluation services through 15 independent testing facilities in North America, England and Japan, NTS laboratories in Acton and Boxborough, MA, Los Angeles, Fullerton, Culver City and Saugus, CA, Camden, AR, Detroit, MI, Fredericksburg, VA, Largo, FL, Tinton Falls, NJ, Plano, TX, Tempe, AZ, Letchworth, United Kingdom and Yokohama, Japan.

INDUSTRY OVERVIEW

Manufacturers are increasingly fulfilling more of their evaluation testing on an outsourcing basis in order to reduce costs, avoid large capital expenditures, save time and remain competitive. Due to regulations requiring third party certification, manufacturers are using third party certifiers to position their products to sell in world markets. NTS is currently geographically located to serve clients at locations close to their plants and NTS facilities are capable of providing the complete conformity assessment activity necessary to reduce product handling costs.

BUSINESS STRATEGY

To meet its clients' needs, the E&E Group is committed to maintaining its position at the cutting-edge of technology by continuously upgrading its facilities, equipment and personnel in line with market requirements. In addition, the E&E Group's continuous movement into new technological areas will require it to invest in equipment needed to adequately service clients' needs. Through close consultation with NTS's existing and prospective clients to ascertain their needs for the future, the E&E Group is able to better determine its needs. At the same time, the E&E Group continues to maintain its excellent relations with its staff of experienced engineers and technicians by offering attractive benefit programs and opportunities for advancement and professional learning. NTS is also using technology as a platform for its clients to access the Company in a timely and effective manner. The NTS website now allows clients to request pricing electronically as well as providing continuous feedback on their experience with NTS.

GROWTH STRATEGY

NTS has developed a new growth strategy. It is called "Navigate a Short Course to Global Markets". NTS's present clientele sell their products worldwide. Each of their customers, based upon their worldwide markets, have different requirements for product safety and product performance. NTS's customers need to know the appropriate certification procedures they must apply to their products to make them acceptable. NTS, as a test, certification, auditing company, is in excellent position to help technology companies perform their functions. NTS's personnel work with customers in evaluating their products, thereby developing strong relationships with their customers.

The E&E Group's growth strategy is to expand internally this year. This strategy is mainly geared toward the computer, telecommunication and electronic markets. NTS has also expanded its registration strategic business unit into the area of management system training and development, and laboratory accreditation to ISO/IEC Guide 25 and 17025. The training services are offered as public or private courses, depending on the customers' needs. The suite of customized training courses is designed to service the aerospace, environmental, laboratory accreditation, occupational health and safety sectors and can be expanded relative to market conditions and the customers' present and future management system needs.

Laboratory accreditation services are a natural extension of the registration activities, as they include an assessment of the customers' management system, documentation, procedures and records to the requirements of ISO Guide 25 and 17025. The assessments also include an evaluation of the laboratory's technical competency related to personnel, testing or inspection practices.

(ii) TECHNICAL STAFFING

The Technical Staffing segment provides a variety of staffing and workforce management services and solutions, including contract, contract-to- hire and full time placements to meet its clients' information technology ("IT"), information systems ("IS") and software engineering needs. The Group's objective is to build long-term relationships with companies and employees and to maximize talent processes and technology for client organizations.

During the second half of fiscal 2001, the Company consolidated its staffing business by moving to a "virtual office" model in anticipation of movement in technology towards the new Internet era of "E-Cruiting" with regional "Hubs"providing the necessary administrative support. The Company is starting to benefit from this new business model by reducing the costs of doing business and at the same time increasing productivity of the staff.

INDUSTRY OVERVIEW

Over the years, businesses have become increasingly dependent on the use of Technical Staffing to manage operations more efficiently in order to remain competitive. Important internal functions, ranging from financial reporting to production and inventory management, have become automated through the use of applications software. In addition, as information systems have become less expensive, more powerful and easier to use, the number and level of employees who use and depend upon these systems have significantly increased.

Due to the rapid development of technology and the shift from closed, proprietary systems to open systems, many companies' computer systems incorporate a variety of hardware and software components, which may span a number of technology generations. For example, a company may operate concurrently on mainframe, midrange and client/server hardware platforms running a variety of operating systems and relational databases. Systems applications development has become much more important in this environment as IT departments strive to integrate a company's information processing capabilities into a single system while providing for ever-changing functionality.

The increase in the use of sophisticated information technologies has occurred at the same time that economic factors have led to reductions in corporate workforces and a return by businesses to a focus on their core competencies. Faced with the challenge of implementing and operating more complex information systems without enlarging their corporate staffs, businesses are increasingly using technical staffing companies to supplement their technical staffing operations. Utilizing outside technical staffing consultants allows a company's management to focus on core business operations, affords greater staffing flexibility in IT departments and increases a company's ability to adapt to and keep pace with rapidly changing and increasingly complex technologies. It also provides access to specialized technical skills on a project-by-project basis which better matches staffing levels to current needs, converts fixed labor costs into variable costs, and reduces the cost of recruiting, training and terminating employees as evolving technologies require new programming skill sets.

During the past several years, the United States has enjoyed an unusually low unemployment level and the demand for skilled technical employees has been at an all-time high. This demand is expected to drop in 2001, however the talent gap in the IT industry remains large, with hiring managers anticipating thousands of IT positions remaining unfilled. According to the Staffing Industry' Fourth Quarter 2000 Report, annualized revenues of all major public staffing companies is approximately $100 billion.

BUSINESS STRATEGY

To meet its clients' comprehensive IT needs, the Technical Staffing Group is dedicated to providing solutions to meet its clients' systems, applications, development, and other specialized technical needs.

NTS's business strategy encompasses the following elements, which management believes are necessary to ensure high-quality standards and to achieve consistently strong financial performance:

1) Recruit, develop and retain qualified technical consultants. A key element to the Company's success is its ability to recruit, develop and retain qualified technical consultants. Management believes that it has been successful in doing so by offering to its technical consultants competitive wages and an opportunity to purchase a comprehensive employee benefits package. However, qualified technical consultants are in great demand worldwide and, accordingly, competition for

individuals with proven technical skills is intense. NTS attracts new consultants in its established markets primarily through referrals from other technical consultants and the Internet via its website and direct and indirect recruiting capabilities outside the United States. Through these sources, NTS has compiled a very strong database which includes thousands of qualified technical consultants who become potential resources to place on assignment.

2) Focus on improving margins. NTS continuously seeks opportunities to enhance its margins by offering services for which higher margins can be obtained. In addition, NTS has identified, targeted and expanded into geographic markets which provide relatively greater profitability. NTS also actively seeks acquisition candidates with margins that are, at a minimum, comparable to those of NTS. Finally, NTS focuses on enhancing operating efficiencies and has made and continues to make a substantial investment in upgrading its support systems in order to improve the efficiency of its accounting, sales, recruiting and marketing operations.

GROWTH STRATEGY

NTS's growth strategy is to continuously improve profit margins and returns by rigorously focusing on industries, geographies and customers that have the strongest long-term growth opportunities, increasing productivity by improving its internal processes, diversifying the range of services it provides to its existing clients, attracting and retaining qualified technical consultants from a variety of sources, both national and international, and pursuing strategic relationships with non-competing organizations.

Part of NTS's growth strategy is to create a company wide sales force that will promote cross-selling and lead generation between existing clients of one business unit and another. In addition, NTS intends to open technical staffing offices by co-locating with the current NTS facilities.

NTS's growth strategy is also dependent upon NTS's ability to attract and retain qualified technical consultants in those markets in which the Company has an established presence. NTS's resource managers are responsible for recruiting and establishing long-term relationships with NTS's technical consultants. NTS has implemented a state-of-the-art integrated information management system which will provide most of its offices with on-line access to information on existing and prospective technical consultants and clients.

(iii) COMPETITION.

The Company exists in a marketplace servicing several industries. Within each of these industries NTS competes with a small number of large conformity assessment organizations. NTS also competes with a large number of small niche oriented test laboratories. NTS's competitive advantages are as follows. (1) Ability to service the clients at locations that are close the Company's clients. We currently have 15 locations as described earlier in this report. (2) Ability to provide complete conformity assessment activities at a single location. This reduces product handling cost for our clients and enhances timeliness of service. (3) Diverse and technically competent employees. NTS can solve clients conformity problems from the design stage through the shipment of products to world markets. NTS can also provide them on a temporary or permanent basis staff to augment their employment needs. (4) Accreditations that allow NTS test data to be accepted worldwide. Clients can use are complete services including quality registration to position their products for the world markets.

Potential customers for services offered by the Technical Staffing Group are from a broad base of high technology and manufacturing companies. Competition in this segment comes from a large number of public and privately held companies. The Company competes in this segment primarily on the basis of its niche position and price and high quality service. In addition, the Company has established strategic alliances with other technical staffing companies in order to more effectively compete in the marketplace.

Many large companies are increasingly using one employment service provider (or primary supplier) to fulfill all their staffing needs. NTS competes and, in certain relationships, teams up with other major staffing companies in actively pursuing primary supplier relationships with large customers in its existing markets. These relationships can have a significant impact on the Company's revenues and operating profits.

In the Quality Audit field, the Company's NQA USA division is the ninth largest ISO assessment Company in North America. The Company believes that NQA USA has less than 10% of the total registration market.

(iv) BACKLOG.

The Company's backlog at January 31, 2001 and 2000 is as follows

	2001	2000
Engineering &Evaluation	$23,947,000	$28,718,000
Technical Staffing	6,126,000	6,527,000
Total Backlog	$30,073,000	$35,245,000

The Company estimates that approximately 85% of the backlog at January 31, 2001 will be completed by January 31, 2002.

(V) GENERAL.

(a) SERVICE MARK. The Company has registered its service marks "NTS" and "XXCAL" with the U.S. Patent and Trademark Office.

(b) ENVIRONMENTAL EFFECT. Compliance with applicable federal, state and local provisions regulating the discharge of materials into the environment has not had and is not expected to have any material effect upon the capital expenditures, earnings or competitive position of the Company.

(c) SEASONAL EFFECT. With Technical Staffing now accounting for approximately half of the Company's revenues, NTS generally experiences lower revenues in the fourth quarter of the fiscal year due to the high number of holidays during that period which includes Thanksgiving, Christmas and New Years.

(d) EMPLOYEES. The Company employed 751 individuals at January 31, 2001 and 812 at January 31, 2000, as follows:

	2001	2000
Engineering &Evaluation	427	418
Technical Staffing	309	377
Corporate Administration	15	17
Total	751	812

Approximately 130 of the Company's Engineering and Evaluation employees occupy management professional positions. The Technical Staffing total for 2001 includes 228 contract employees and 38 subcontractors, as compared to 276 contract employees and 18 subcontractors for 2000. None of the employees of the Company is represented by a union. The Company considers its relationship with its employees to be good.

ITEM 2. PROPERTIES.

A. OPERATIONS. The Company owns/leases and operates the following properties:

STATE	OWNED PROPERTIES CITY	BUILDINGS (SQ.FT.)	LAND (ACRES)
California	Fullerton	36,000	3
	Saugus	60,000	160
Massachusetts	Acton	30,000	5
	Boxborough	25,000	4
Texas	Plano	1,000	1
Virginia	Hartwood	66,000	87
TOTAL OWNED PROPERTIES		218,000	260

STATE	LEASED PROPERTIES CITY	BUILDINGS (SQ.FT.)	LAND (ACRES)
Arizona	Tempe	17,100	n/a
Arkansas	Camden	22,400	216
California	Calabasas	6,600	n/a
	Culver City	24,100	n/a
	Fullerton	20,200	n/a
	Los Angeles (LAX)	16,000	2
Florida	Largo	16,000	n/a
Louisiana	Baton Rouge	1,500	n/a
Michigan	Detroit	64,900	n/a
New Jersey	Tinton Falls	7,600	n/a
Texas	Austin	3,000	n/a
	Plano	24,000	n/a
	San Antonio	3,100	n/a
United Kingdom	Letchworth	2,600	n/a
TOTAL LEASED PROPERTIES		229,100	218

B. The Company believes that the space occupied by all of its operations is adequate for its current and near-term requirements. Should additional space be required, the Company does not anticipate problems in securing such additional space.

C. INVESTMENT PROPERTIES.

The Company owns four acres of unimproved real property in Escondido, California which is currently for sale. In addition, the Company owns, for investment purposes, a condominium located in Palm Desert, California. The facility is rented to the public and, on occasion, used by employees of the Company.

ITEM 3. LEGAL PROCEEDINGS.

The Company is, from time to time, the subject of claims and suits arising out of matters occurring during the operation of the Company's business. In the opinion of management, no pending claims or suits would materially affect the financial position or the results of the operations of the Company. (See Note 9 to the Consolidated Financial Statements attached hereto as Exhibits A (i) and A (ii)).

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

Not applicable.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

A. PRINCIPAL MARKET

The Company's common stock is traded in the over-the-counter market and quoted on the Nasdaq National Market under the symbol "NTSC". The range of high and low quotations as reported by the Nasdaq Intra Dealer Quotation System for each of the quarters of the fiscal years ended January 31, 2001 and 2000 is presented below:

	2001		2000	
	HIGH	LOW	HIGH	LOW
First Quarter	4.73	2.71	6.25	4.31
Second Quarter	4.11	3.05	5.50	3.44
Third Quarter	3.50	2.75	4.25	2.78
Fourth Quarter	3.69	2.25	7.00	2.75

B. HOLDERS OF COMMON STOCK.

As of the close of business on April 23, 2001, there were 935 holders of record of the Company's common stock. The number of holders of record is based on the actual number of holders registered on the books of the Company's transfer agent and does not reflect holders of shares in "street name" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

C. DIVIDENDS.

On February 4, 2000, pursuant to the Company's current dividend policy, the Company's Board of Directors authorized the regular semiannual cash dividend of $0.02 per share, that was paid on March 15, 2000 to shareholders of record at the close of business on February 28, 2000. The second semi-annual dividend of $0.02 per share was paid on August 2, 2000 to shareholders of record at the close of business on July 14, 2000. This brought the total cash dividends for fiscal 2001, to $0.04 per share. On February 6, 2001, the Company's Board of Directors announced the discontinuance of the Company's policy of paying ordinary and special dividends.

On January 26, 1999, the Company's Board of Directors adopted a regular annual dividend policy and declared an initial annual dividend of $0.04 per share, payable semi-annually. The initial semi-annual dividend of $0.02 per share was paid on March 2, 1999 to shareholders of record at the close of business on February 15, 1999. The second semi-annual dividend of $0.02 per share was paid on August 4, 1999 to shareholders of record at the close of business on July 15, 1999. In addition, On June 14, 1999, the Company's Board of Directors declared a special cash dividend of $0.03 per share which was paid on August 4, 1999 to shareholders of record at the close of business on July 15, 1999. This brought the total cash dividends for fiscal 2000 to $0.07 per share.

In fiscal 2000, a distribution of $120,000 was made to the former subchapter S shareholders of XXCAL, Inc. This distribution was the last distribution made to these shareholders. In fiscal 1999, $442,000 in distributions were made to subchapter S shareholders of XXCAL, Inc..

For the Year ended January 31, 2000, a dividend in the amount of $25,000 was paid to NQA UK, the 50% shareholder of NQA-USA. In fiscal 1999, the dividend paid to NQA-UK was $17,000.

ITEM 6. SELECTED FINANCIAL DATA.

	YEAR ENDED JANUARY 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)				
INCOME STATEMENT DATA:					
Net revenues	$84,804	$84,124	$86,813	$80,921	$74,413
Gross profit	27,784	23,995	25,983	23,660	20,894
Operating income	3,199	5,090	5,493	6,572	5,496
Interest expense	2,050	1,544	1,253	1,245	1,161
Income from continuing operations before income taxes and minority interest	823	1,817	4,331	5,445	4,291
Income taxes	353	722	1,544	1,996	1,588
Income from continuing operations before minority interest	470	1,095	2,787	3,449	2,703
Minority interest	(39)	(16)	(24)	(26)	10
Income (loss) from discontinued operations, net of income taxes	--	(274)	358	32	(684)
Cumulative effect of change in accounting for start-up expense, net of income taxes	--	--	(482)	--	--
Net income	$ 431	$ 805	$ 2,639	$ 3,455	$ 2,029
Basic earnings (loss) per common share:					
Continuing operations	$ 0.05	$ 0.13	$ 0.34	$ 0.43	$ 0.34
Discontinued operations	--	(0.03)	0.04	--	(0.09)
Cumulative effect of change in accounting	--	--	(0.06)	--	--
Net income*	$ 0.05	$ 0.10	$ 0.32	$ 0.43	$ 0.26
Diluted earnings (loss) per common share:					
Continuing operations	$ 0.05	$ 0.13	$ 0.32	$ 0.41	$ 0.33
Discontinued operations	--	(0.03)	0.04	--	(0.08)
Cumulative effect of change in accounting	--	--	(0.06)	--	--
Net income*	$ 0.05	$ 0.09	$ 0.31	$ 0.41	$ 0.25
Weighted average common shares outstanding	8,497	8,345	8,236	8,061	7,902
Dilutive effect of stock options	135	194	374	389	264
Weighted average common shares outstanding, assuming dilution	8,632	8,539	8,610	8,450	8,166
Cash dividends paid per common share	$ 0.04	$ 0.07	$ 0.07	$ 0.06	$ 0.05

BALANCE SHEET DATA:					
Working capital	$15,751	$16,232	$16,951	$15,912	$11,265
Total assets	61,321	58,631	49,831	46,112	40,377
Long-term debt, excluding current installments	19,782	18,639	13,076	12,859	9,324
Shareholders' equity	25,127	24,463	24,102	22,042	18,791

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* Per share data may not always add up to total for the year because each figure is independently calculated.

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

GENERAL

NTS is a diversified services company that supplies conformity assessment and personnel to a variety of industries including aerospace, defense, automotive, electronics, computers and telecommunications. Through its wide range of testing facilities, staffing solutions and certification services, NTS helps its customers reduce their time to market and enhance their overall competitiveness.

NTS operates in two segments: "Engineering & Evaluation" and "Technical Staffing". The business of the Company is conducted by a number of operating units, each with its own organization. Each segment is under the direction of its own executive and operational management team.

The Engineering & Evaluation segment is one of the largest U. S. based independent product and systems assessment organizations, with facilities throughout the country as well as England and Japan, and provides a complete spectrum of conformity assessment and registration services. These services include physical testing which requires simulation of harsh environments such as high/low temperature, shock, vibration, seismic and electromagnetic interference. Functional testing which requires equipment such as an Agilent 1371A Docsis test set, switches, routers, servers and high bandwidth access to the Internet to subject telecommunication equipment to a full spectrum of performance type testing. Registration services which performs quality management audits to ISO 9000, quality training and laboratory accreditation.

The Technical Staffing segment provides a variety of staffing and workforce management services and solutions, including contract services, temporary and full time placements to meet its clients' information technology ("IT"), information systems ("IS") and software engineering needs. The Company supplies professionals in support of customers who need help-desk analysts and managers, relational database administrators and developers, application and systems programmers, configuration and project managers, and multiple levels of system operations personnel.

In fiscal 2000, the Company acquired Reintexas Laboratories, a Plano, Texas facility owned by Reintech Laboratories. The operation performs electromagnetic compatibility testing for the telecommunications industry. Also in fiscal 2000, through its NTS-CS subsidiary, the Company acquired the quality management registration business of Davy Registrar Services and Scott Quality Systems Registrars, a Pittsburgh, Pennsylvania based registration business.

During fiscal 2000, the Company experienced a significant loss of business at its McClellan Air Force base division located in Sacramento, California, due to the government decision to transfer work, planned for that operation, to another Air Force base. The Company, facing losses in attempting to maintain the operation decided to discontinue this line of business and close its operations at Sacramento. All information presented herein has been restated to exclude the effects of the Sacramento discontinued operation. NTS also shut down the Rye Canyon operation as a result of a change in direction by the owner of the use of the property.

On October 30, 1998, NTS completed its merger with XXCAL, Inc. and acquisition of XXCAL Limited (together, "XXCAL"). The statements are presented based on the "pooling of interests" method of accounting pursuant to Opinion No. 16 of the Accounting Principles Board (APB 16). All prior year financial statements include the combined financial statements of NTS and XXCAL.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

RESULTS OF OPERATIONS

REVENUES

	2001	% CHG	2000	% CHG	1999
			(DOLLARS IN THOUSANDS)		
Engineering &Evaluation........	$58,277	17.4 %	$49,637	− %	$49,652
Technical Staffing.............	26,527	(23.1)%	34,487	(7.2)%	37,161
TOTAL..........................	$84,804	0.8 %	$84,124	(3.1)%	$86,813

For the year ended January 31, 2001, total revenues increased $680,000 or 0.8% when compared with fiscal 2000.

For the year ended January 31, 2000, total revenues decreased $2,689,000 or 3.1% when compared with fiscal 1999.

ENGINEERING & EVALUATION:

Revenues in the Engineering & Evaluation segment increased $8,640,000 or 17.4% in fiscal 2001 when compared with fiscal 2000 primarily due to increased business generated from the telecommunications, automotive, aerospace and defense markets as well as an increase in business in registration and certification services. This increase was also due to the addition of a new testing facility in Texas in the fourth quarter of fiscal 2000 and the benefits the Company is receiving from its increased investment in equipment at some of its facilities during the past two years.

For the year ended January 31, 2000, revenues in the Engineering & Evaluation segment remained unchanged when compared with fiscal 1999. Revenues in the aerospace and defense industries declined as some of the Company's aerospace customers are retaining programs in−house and government laboratories are becoming more aggressive in competing with private industry for programs. The decline in aerospace and defense revenues was offset by an increase in registration services revenues and an increase from telecommunications and computer hardware testing as a direct result of the strategic focus by the Company on that fast growing market.

TECHNICAL STAFFING:

Revenues in the Technical Staffing segment decreased by $7,960,000 or 23.1% in fiscal 2001 compared to fiscal 2000 primarily due to the closure of several non−performing staffing offices, the cessation of Year 2000 related projects and competitive pricing pressures in the staffing industry which forced the Company to lower its prices to maintain existing relationships with several valued clients.During the last quarter of fiscal 2001, the Company consolidated its staffing business by moving to a "virtual office" model in anticipation of movement in technology towards the new Internet era of "E−Cruiting" with regional "Hubs"providing the necessary administrative support. The Company believes it is starting to benefit from this new business model by reducing the costs of doing business and at the same time increasing productivity of the staff.

For the year ended January 31, 2000, revenues in the Technical Staffing segment decreased by $2,674,000 or 7.2% when compared with fiscal 1999 due to the industry−wide Year 2000 projects slowdown coupled with the low availability of employees resulting from the reduced level of unemployment. In addition, fiscal 2000 revenues were affected by a significant reduction in fees at two of the Company's largest customers and the loss of a major contract, which the company had for a number of years, due to increased competition. In an effort to reposition itself in this industry and become more competitive, the Company made structural changes which resulted in the closing of four offices.

GROSS PROFIT

	2001	% CHG	2000	% CHG	1999
			(DOLLARS IN THOUSANDS)		
Engineering &Evaluation....	$15,660	6.7 %	$14,672	(2.9)%	$15,110
% to segment revenues.......	26.9%		29.6%		30.4%
Technical Staffing..........	6,124	(34.3)%	9,323	(14.3)%	10,873
% to segment revenues.......	23.1%		27.0%		29.3%
TOTAL.......................	$21,784	(9.2)%	$23,995	(7.7)%	$25,983
% to net revenues...........	25.7%		28.5%		29.9%

For the year ended January 31, 2001, total gross profit decreased 2,211,000 or 9.2% when compared with fiscal 2000.

For the year ended January 31, 2000, total gross profit decreased $1,988,000 or 7.7% when compared with fiscal 1999.

ENGINEERING & EVALUATION:

Gross profit for the Engineering & Evaluation segment increased by $988,000 or 6.7% in fiscal 2001 when compared with fiscal 2000 as a result of the increased revenues and the strong performances in the telecommunications operations. This increase was partially offset by decreases in gross profit, particularly in the fourth quarter, due to unfavorable events that affected the results of two of the testing facilities. These events primarily consisted of the California based Saugus test facility which experienced 20 separate shutdowns during the year, 11 in the fourth quarter due to the current California energy crisis, the inability to perform on two contracts that resulted in cost overruns, the permanent shutdown of the Rye Canyon facility and the ice storm and ensuing flood in Arkansas, which closed our facility in Camden, Arkansas for approximately three weeks.

For the year ended January 31, 2000, gross profits for the Engineering & Evaluation segment slightly decreased by $438,000 or 2.9% when compared with fiscal 1999 as a result of the competitive pressures from other companies and government laboratories, combined with the revenue slowdown in the aerospace and defense industries discussed above. This decrease was partially offset by increases in gross profit generated from registration services and telecommunications testing.

TECHNICAL STAFFING

Gross profit for the Technical Staffing segment decreased by $3,199,000 or 34.3% in fiscal 2001 when compared to the same period in 2000 due to the decrease in revenues and increased competitive pricing pressures. Gross profit was also affected by costs incurred in servicing one customer which were deemed to be un-reimbursable as a result of fraud perpetrated against the Company (see operating income below).

For the year ended January 31, 2000, gross profit for the Technical Staffing segment decreased by $1,550,000 or 14.3% when compared to the same period in 1999 due primarily to the decrease in revenues and competitive pricing pressures due to the tight recruiting market.

SELLING, GENERAL AND ADMINISTRATIVE

	2001	% CHG	2000	% CHG	1999
			(DOLLARS IN THOUSANDS)		
Engineering &Evaluation.....	$11,278	22.9%	$ 9,180	(2.4)%	$ 9,405
% to segment revenues........	19.4%		18.5%		18.9%
Technical Staffing...........	7,307	(24.9)%	9,725	(4.5)%	10,178
% to segment revenues........	27.5%		28.2%		27.4%
TOTAL........................	$18,585	(1.7)%	$18,905	(3.5)%	$19,583
% to net revenues............	21.9%		22.5%		22.6%

For the year ended January 31, 2001, total selling, general and administrative expenses decreased $320,000 or 1.7% when compared with fiscal 2000.

For the year ended January 31, 2000, total selling, general and administrative expenses decreased $678,000 or 3.5% when compared with fiscal 1999.

ENGINEERING & EVALUATION:

Selling, general and administrative expenses increased by $2,098,000 or 22.9% in fiscal 2001 when compared with fiscal 2000 primarily due to the programs established by the Company to hire specialists to expand the base of business into new technology areas and increases in bad debt expense. The Company has now accomplished its goal in expanding into new technology areas and becoming a more diversified organization with added testing capabilities particularly in the telecommunications and computer testing fields and becoming one of the largest certification and evaluation companies in the United States. Thus, while it continues to look for talented specialists, the Company has ended the previously established expansion programs to hire additional specialists until such time the economic climate shows significant improvement.

For the year ended January 31, 2000, selling, general and administrative expenses for the Engineering and Evaluation segment slightly decreased by $225,000 or 2.4% in fiscal 2000 when compared with fiscal 1999. This decrease was primarily due to the Company's cost containment efforts offset by increases in costs to expand the base of business into new technology areas.

TECHNICAL STAFFING:

Selling, general and administrative expenses decreased by $2,418,000 or 24.9% in fiscal 2001 when compared with fiscal 2000 as a result of the closure of several non-performing staffing offices and the consolidation of its operations in an effort to streamline this business. This decrease was offset by an increase in bad debt expense as a result of fraud perpetrated against the Company (see Operating Income (Loss)--Technical Staffing).

For the year ended January 31, 2000, selling, general and administrative expenses for the Technical Staffing segment decreased by $453,000 or 4.5% when compared with fiscal 1999 primarily due to the cost reduction efforts made to partially offset the reduction in revenues.

OPERATING INCOME (LOSS)

	2001	% CHG	2000	% CHG	1999
			(DOLLARS IN THOUSANDS)		
Engineering &Evaluation.....	$4,382	(20.2)%	$5,492	9.4%	$5,019
% to segment revenues........	7.5%		11.1%		10.1%
Technical Staffing...........	(1,183)	(194.3)%	(402)	(184.8)%	474
% to segment revenues........	(4.5)%		(1.2)%		1.3%
TOTAL........................	$3,199	(37.2)%	$5,090	(7.3)%	$5,493
% to net revenues............	3.8%		6.1%		6.3%

For the year ended January 31, 2001, operating income decreased $1,891,000 or 37.2% when compared with fiscal 2000.

For the year ended January 31, 2000, operating income decreased $403,000 or 7.3% when compared with fiscal 1999.

ENGINEERING & EVALUATION:

Operating income decreased by $1,110,000 or 20.2% in fiscal 2001 when compared with fiscal 2000 primarily due to the increase in selling, general and administrative expenses discussed above.

For the year ended January 31, 2000, operating income increased by $473,000 or 9.4% when compared with fiscal 1999 primarily due to the lack of merger costs in fiscal 2000 compared to $686,000 in merger costs in fiscal 1999. This increase was offset by a slight decrease in gross profit in fiscal 2000 when compared to fiscal 1999.

TECHNICAL STAFFING:

Operating income decreased by $781,000 in fiscal 2001 or 194.3%when compared with fiscal 2000 primarily as a result of the decrease in gross profit partially offset by a decrease in selling and general and administrative expenses discussed above. Operating income (loss) was also affected by costs incurred in servicing one customer which were deemed to be un-reimbursable as a result of fraud perpetrated against the Company. The Company has concluded its investigation into this matter and has submitted a claim to its insurance carrier under its employee dishonesty policy. The effect on operating loss was approximately $880,000. The Company has provided for the balance of this customer's accounts receivable in the second quarter and does not anticipate any additional bad debt expense related to this customer.

For the year ended January 31, 2000,operating income decreased by $876,000 when compared to fiscal 1999 primarily due to the lower revenues and gross profit in fiscal 2000 offset by a reduction in selling, general and administrative expenses in fiscal 2000 as well as the lack of merger costs in fiscal 2000.

MERGER COSTS

During fiscal year 1999, the Company incurred $907,000 in one-time costs related to the merger of NTS and XXCAL. These costs are related to outside consulting, accounting, legal and other fees and expenses specifically associated with the merger (accounted for as a pooling). In accordance with APB 16, these costs were expensed as incurred.

INTEREST EXPENSE

Interest expense increased $506,000 in fiscal 2001 when compared to fiscal 2000. This increase was principally due to higher average debt balances in fiscal 2001 along with slightly higher interest rates. Interest expense increased $291,000 in fiscal 2000 when compared to fiscal 1999. This increase was principally due to higher average debt balances in fiscal 2000 along with slightly higher interest rates.

SETTLEMENT AND RELATED LEGAL EXPENSES

During the fourth quarter of fiscal 2000, the Company recorded an unusual charge of $1,598,000 which included a one time cash payment of $1,020,000 to Tecstar and $578,000 for the Company's legal and defense costs. The Company has retained legal counsel on a contingent-fee basis to pursue a possible recovery from its insurance companies. Action has been brought against the Company's insurance carrier.

INCOME TAXES

The income tax rate for fiscal years 2001, 2000 and 1999 reflects a rate in excess of the federal statutory rate primarily due to the inclusion of state income taxes and certain non-deductible expenses. The Company's fiscal 2001 income tax provision was $369,000 less than fiscal 2000 because of a decrease in income.

The fiscal 2000 income tax provision was $822,000 less than fiscal 1999 due to the decrease in income. See Note 4 to the consolidated financial statements for a reconciliation of the provision for income taxes from continuing operations at the statutory rate to the provision for income taxes from continuing operations.

Management has determined that it is more likely than not that the Company's deferred tax asset will be realized on the basis of offsetting it against deferred tax liabilities and future income. It is the Company's intention to evaluate the realizability of the deferred tax asset quarterly by assessing the need for a valuation allowance based upon anticipated future taxable income of the Company.

START-UP EXPENSES

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting the Costs of Start-Up Activities" (SOP 98-5), which requires that costs related to start-up activities be expensed as incurred. The Company adopted the provisions of SOP 98-5 in its financial statements during the year ended January 31, 1999, which resulted in a one-time charge of $482,000 (net of taxes) in start-up related expenses.

DISCONTINUED OPERATIONS

The discontinued operations represents the results of operations of the Company's McClellan Air Force base facility in Sacramento, California. During fiscal 1998, the Company took over the operations and employees of the Science and Engineering Test Laboratories at McClellan. This facility allowed the Company to enter a new segment of business which provided chemical, materials and electronic analysis for the government, including failure analysis of fuels and lubricants, electronic components, materials and processes, metal fatigue simulation and corrosion analysis. This was the only facility in the Company that had the necessary equipment and knowledge to perform these types of testing services.

During the fourth quarter of fiscal 2000 the Company decided to discontinue this line of business and close its operations in Sacramento as it experienced a significant loss of business due to the government decision to transfer work, planned for that operation, to another Air Force base. (See Note 2 to the Consolidated Financial Statements attached hereto as Exhibits A (i) and A (ii)). NTS also shut down the Rye Canyon operation in fiscal 2001 as a result of a change in direction by the owner of the use of the property.

All information presented herein has been restated to exclude the effects of the Sacramento discontinued operation.

NET INCOME

The decrease in net income for fiscal 2001 compared to fiscal 2000 was due primarily to the decrease in gross profits and the increase in interest expense.

The decrease in net income for fiscal 2000 compared to fiscal 1999 was due primarily to the legal and settlement expense discussed above, the decrease in revenues and the losses from McClellan Air Force base, offset by the absence of merger costs and start-up expenses in fiscal 2000.

BUSINESS ENVIRONMENT

ENGINEERING & EVALUATION:

The Company's basic service is to provide conformity assessment services. The Company is well positioned to service the needs of each of these markets with its current locations and certification, registration and test capability. Market needs do change, and NTS is well positioned to reallocate resources which include test equipment and personnel to meet the market demands.

The Company anticipates that its growth in fiscal year 2002 will be derived primarily from the functional certification and test activity, provided to its customers in the telecommunication market.

TECHNICAL STAFFING:

The Company provides a variety of staffing and workforce management services and solutions, including contract, contract-to- hire and full time placements to meet its clients' needs. The Company has moved from the traditional "bricks and mortar" model of a business to a "virtual office" model with regional "Hubs"providing the necessary administrative support to the virtual offices. The Company believes that this new business model will reduce the costs of doing business and at the same time increase productivity of the staff. However, the shortage of qualified temporary and permanent candidates is still an obstacle to a healthy growth in this highly competitive business. The opportunity for growth is a strategy to leverage off our Engineering & Evaluation clients and provide technical and engineering personnel as a complete package to the certification, registration and test services we currently provide. The goal is to align NTS as a complete solution to the clients' product development needs which will include consultants and technical experts provided by our staffing division.

Notwithstanding the foregoing, and because of factors affecting the Company's operating results, past financial performance should not be considered to be a reliable indicator of future performance.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2001, cash provided by operations increased by $924,000 when compared to fiscal 2000. Primary factors contributing to this were an increase in depreciation, provision for losses on receivables as well as increases in the change in income taxes, inventories, accrued expenses and deferred compensation. These changes were partially offset by a decrease in net income and decreases in the change in accounts receivable, prepaid expenses and accounts payable. In fiscal 2000, cash provided by operations increased by $66,000 when compared to fiscal 1999. Primary factors contributing to this were an increase in depreciation, as well as increases in the change in accounts receivable, accounts payable and accrued expenses offset by a decrease in net income and decreases in the change in inventories, prepaid expenses and income taxes.

Net cash used in investing activities in fiscal 2001 decreased by $3,211,000 as compared to fiscal 2000, primarily due to decreases in purchases of property, plant and equipment. Net cash used in investing activities in fiscal 2000 increased by $5,670,000 as compared to fiscal 1999, primarily due to increases in purchases of property, plant and equipment, the acquisition of the assets of Reintexas Laboratories in Plano, Texas and the acquisitions of Davy Registrar Services and Scott Quality Systems Registrars.

Net cash provided by financing activities in fiscal 2001 consisted principally of proceeds from bank loans, the equity infusion from NQA-UK and issuance of stock upon the exercise of stock options and related tax benefit, offset by repayments of debt and cash dividends to shareholders. Net cash provided by financing activities decreased by $4,420,000 in fiscal 2001 as compared to fiscal 2000 primarily due to the decrease in borrowings in current and long term debt in fiscal 2001 as compared to fiscal 2000 and the increase in repayments in current and long term debt in fiscal 2001 as compared to fiscal 2000.

In September 1997, the Company negotiated with Sanwa Bank California, as agent, and Mellon Bank, for a credit agreement which included a $6,000,000 revolving line of credit at an interest rate equal to the bank's reference rate plus 0.25%. On October 30, 1998, the credit agreement was amended to extend the term of the revolving line to September 8, 2000 and to increase the revolving line amount from $6,000,000 to $8,000,000 at an interest rate equal to the bank's reference rate. A flat fee of $18,750 was charged to set up the new revolving line and a facility fee of 0.5% of the total line is charged on a quarterly basis. On October 29, 1999, the credit agreement was amended again to extend the term of the revolving line to September 8, 2001 and to increase the revolving line amount from $8,000,000 to $10,000,000 at an interest rate equal to the bank's reference rate. Effective October 31, 2000, the credit agreement was amended again to extend the term of the revolving line to November 1, 2002 and to increase the line amount to $11,000,000 which was amended back to $10,000,000 on April 24, 2001. The outstanding balance at January 31, 2001 was $9,157,000 compared with an outstanding balance of $7,507,000 at January 31, 2000. This balance is reflected in the accompanying consolidated balance sheets as long-term.

In November 1997, the Company entered into an equipment line of credit agreement with Mellon US Leasing (interest rates of 7.60% to 10.21%) to finance various test equipment with terms of 60 months for each equipment schedule. In April 1999, Mellon US Leasing extended an additional $2,000,000 of credit under the same terms as the original agreement. The outstanding balance at January 31, 2001 is $2,400,000. The note payable to Mellon Bank is collateralized by equipment with a net book value of $2,300,000 at January 31, 2001. During fiscal 2001, the Company entered into new equipment line of credit agreements with Bank of America and the Fifth Third Leasing Company. The outstanding balances at January 31, 2001on these notes were $827,000 and $791,000, respectively. Other secured notes payable at January 31, 2001 amounted to $708,000.

Maturities of long-term debt consist of regularly scheduled payments on the Company's term loans to its banks and notes payable. Of the $13,991,000 shown in the maturities of long term debt (see note 3 to the consolidated financial statements) due in fiscal 2003, $9,157,000 is the outstanding balance of the Company's revolving line of credit. All other maturities of long-term debt will be paid with cash generated from operations.

Historically, the Company has relied on debt financing to meet its capital requirements. As of January 31, 2001, the Company was out of compliance with two of its covenants. The Company requested and received a waiver from its Bank and negotiated a new set of covenants to its credit agreement. Management is not aware of any significant demands for capital funds that may adversely affect its covenants or long-term liquidity in the form of large fixed asset acquisitions, unusual working capital commitments or contingent liabilities. In addition, the Company has made no material commitments for capital expenditures. The Company has substantially reduced its capital expenditures commitments for fiscal year 2002, which will improve working capital requirements. The Company's future working capital will be provided from operations and the current bank revolving line of credit, which had $1,843,000 available at January 31, 2001.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in interest rates primarily from its long-term debt arrangements. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would adversely affect the net fair value of all interest sensitive financial instruments by $92,000 at January 31, 2001.

ENVIRONMENTAL MATTERS

An internal environmental compliance group formed in 1991 continues to review environmental matters for the Company. It is the opinion of Management that compliance with applicable environmental regulations will not have a material effect upon capital expenditures or future earnings of the Company.

IMPACT OF INFLATION

The Company has not been adversely affected by inflation during the past three fiscal years. The Company continues to incur increased costs in the areas of wages, operating supplies and utilities. To date, these increases have been substantially offset by reductions in other operating areas, and reductions in interest expense. The Company can give no assurances, however, that in the future it can offset such increased costs.

ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA.

The Company's consolidated financial statements together with the reports thereon by independent auditors, are attached hereto as Exhibits A (i) and A (ii).

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY.

The sections entitled "Nomination and Election of Directors" and "Remuneration of Directors and Officers" in the Company's definitive Proxy Statement to be furnished to shareholders in connection with the Annual Meeting of Shareholders to be held on June 27, 2001 are incorporated herein by reference.

EXECUTIVE OFFICERS OF THE COMPANY

NAME	AGE	POSITION
Lloyd Blonder............	61	Senior Vice President and Chief Financial Officer, Treasurer. Has been associated with the Company since 1983.
Doug Briskie.............	37	Vice President, Western Operations. Has been associated with the Company since 1987.
Aaron Cohen..............	64	Senior Vice President, Corporate Development. Has been associated with the Company since 1961.
Martin Dresser...........	54	Vice President, President Software Hardware Division. Has been associated with the Company since 1999.
Richard Dunne............	36	Vice President, Sales. Has been associated with the Company since 1991.
Arthur Edelstein.........	63	Senior Vice President, Chief Technical Officer. Has been associated with the Company since 1962.
Marvin Hoffman...........	67	Vice President, Chief Information Officer. Has been associated with the Company since 1998.
Andrea Korfin............	54	Corporate Secretary, President Staffing division. Has been associated with the Company since 1982.
Jack Lin.................	68	Chief Executive Officer of the Company. Has been associated with the Company continuously since 1961.
Raffy Lorentzian.........	45	Vice President, Chief Accounting Officer. Has been associated with the Company since 1997.
William McGinnis.........	42	President and Chief Operating Officer of the Company. Has been associated with the Company since 1980.
Dwight Moore.............	38	Vice President, Eastern Operations. Has been associated with the Company since 1997.
Richard Short............	58	Senior Vice President. Has been associated with the Company since 1961.
William Traw.............	63	Senior Vice President. Has been associated with the Company since 1963.

ITEM 11. EXECUTIVE COMPENSATION.

The section entitled "Remuneration of Directors and Officers" in the Company's definitive Proxy Statement to be furnished to shareholders in connection with the Annual Meeting of Shareholders to be held on June 27, 2001 is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The sections entitled "Voting Securities and Principal Holders Thereof" and "Nomination and Election of Directors" in the Company's definitive Proxy Statement to be furnished to shareholders in connection with the Annual Meeting of Shareholders to be held on June 27, 2001 are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The section entitled "Transactions with Management and Other" in the Company's definitive Proxy Statement to be furnished to shareholders in connection with the Annual Meeting of Shareholders to be held on June 27, 2001 is incorporated herein by reference.

PART IV

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

A. CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES.

(i) Consolidated Financial Statements and notes thereto as of January 31, 2001 and 2000 and for each of the years in the three-year period ended January 31, 2001.

(ii) Consolidated Financial Statement Schedule.

II Valuation and Qualifying Accounts and Reserves

B. REPORTS ON FORM 8-K.

There were no reports on Form 8-K filed during the fourth quarter ended January 31, 2001.

C. EXHIBITS.

2	Agreement and Plan of Merger of National Technical Systems, Inc., a Delaware corporation into National Technical Systems, Inc., a California corporation (formerly NTS Merger corporation), (filed as Exhibit 2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997, and is incorporated herein by reference thereto).
2.1	Agreement and Plan of Merger dated as of August 21, 1998, by and between National Technical Systems, Inc. and XXCAL, Inc., a California Corporation filed as Exhibit 2.1 to the Company's Form 8-K, (filed November 3, 1998 and is incorporated herein by reference thereto).
2.2	Amendment No. 1 to Agreement and Plan of Merger dated as of October 19, 1998, by and between National Technical Systems, Inc. and XXCAL, Inc., a California Corporation filed as Exhibit 2.2 to the Company's Form 8-K, (filed November 3, 1998 and is incorporated herein by reference thereto).
2.3	Share Purchase Agreement, dated as of August 21, 1998, by and between National Technical Systems, Inc. and the holders of all of the outstanding Ordinary Shares of XXCAL Limited, a United Kingdom corporation, to acquire all of the outstanding Ordinary Shares, filed as Exhibit 2.3 to the Company's Form 8-K, (filed November 3, 1998 and is incorporated herein by reference thereto).
2.4	Amendment No. 1 to Share Purchase Agreement dated as of October 19, 1998 by and between National Technical Systems, Inc. and the holders of all of the outstanding Ordinary Shares of XXCAL Limited, a United Kingdom corporation, to acquire all of the outstanding Ordinary Shares, filed as Exhibit 2.4 to the Company's Form 8-K, (filed November 3,1998 and is incorporated herein by reference thereto).
3.1	Articles of Incorporation of National Technical Systems, Inc., a California corporation (formerly NTS Merger corporation), (filed as Exhibit 3(i) to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997, and is incorporated herein by reference thereto).
3.2	Amendment No. 1 to Articles of Incorporation of National Technical Systems, Inc., a California corporation (formerly NTS Merger corporation), (filed as Appendix A to the Company's Proxy Statement for Annual Meeting of June 26, 1998, and is incorporated herein by reference thereto).

3.3	Bylaws of National Technical Systems, Inc., a California corporation (formerly NTS Merger corporation), (filed as Exhibit 3(ii) to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997, and is incorporated herein by reference thereto).
3.4	Amendment No. 1 to Bylaws of National Technical Systems, Inc., a California corporation (formerly NTS Merger corporation), (filed as Appendix B to the Company's Proxy Statement for Annual Meeting of June 25, 1999, and is incorporated herein by reference thereto).
10.1	Form of the Company's 1994 Stock Option Plan (filed as Appendix B to the Company's Proxy Statement for Annual Meeting of June 30, 1994, and is incorporated herein by reference thereto).
10.2	Amendment to the Company's 1994 Stock Option Plan (filed as Proposal No. 3 to the Company's Proxy Statement for Annual Meeting of June 26, 1998, and is incorporated herein by reference thereto).
10.3	National Technical Systems Credit Agreement between Sanwa Bank California and Mellon Bank dated September 8, 1997 (filed as exhibit 10.7 to the Company's form 10-Q for the fiscal quarter ended October 31, 1997, and is incorporated herein by reference thereto).
10.4	Second Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS dated October 30, 1998 Exhibit 10.(c)(2) to the Company's Form 8-K, (filed November 3, 1998 and is incorporated herein by reference thereto).
10.5	Third Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS dated October 29, 1999 Exhibit 10.6 to the Company's Form 10-Q, (filed December 13, 1999 and is incorporated herein by reference thereto).
10.6	Fourth Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS dated April 27, 2000, (filed on April 28, 2000 and is incorporated herein by reference thereto).
10.7	Fifth Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS effective August 3, 2000, (filed on December 13, 2000 and is incorporated herein by reference thereto).
10.8	Sixth Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS effective September 19, 2000, (filed on December 13, 2000 and is incorporated herein by reference thereto).
10.9	Seventh Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS effective October 31, 2000, (filed on December 13, 2000 and is incorporated herein by reference thereto).
10.10	Eighth Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS dated February 2000.
10.11	Ninth Amendment to Credit Agreement between Sanwa Bank California, Mellon Bank and NTS effective April 24, 2001.
21	Subsidiaries of the Company.
23.1	Consent of Ernst &Young LLP, Independent Auditors.
99.1	Undertakings incorporated by reference into Form S-8 Registration Statement No. 33-48211.
99.2	Undertakings incorporated by reference into Form S-8 Registration Statement No. 2-83778.
99.3	Undertakings incorporated by reference into Form S-8 Registration Statement No. 333-04905.
99.4	Undertakings incorporated by reference into Form S-8 Registration Statement No. 333-67743.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 27, 2001	NATIONAL TECHNICAL SYSTEMS, INC.
	By /s/ JACK LIN
	Jack Lin, PRINCIPAL EXECUTIVE OFFICER CHAIRMAN OF THE BOARD

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on April 27, 2001.

/s/ JACK LIN	/s/ AARON COHEN
Jack Lin, (PRINCIPAL EXECUTIVE OFFICER & CHAIRMAN OF THE BOARD)	Aaron Cohen, VICE CHAIRMAN OF THE BOARD AND SENIOR VICE PRESIDENT
/s/ WILLIAM MCGINNIS	/s/ MARVIN HOFFMAN
William McGinnis, PRESIDENT, CHIEF OPERATING OFFICER AND DIRECTOR	Marvin Hoffman, CHIEF INFORMATION OFFICER AND DIRECTOR
/s/ LLOYD BLONDER	
Lloyd Blonder, SENIOR VICE PRESIDENT AND TREASURER (PRINCIPAL FINANCIAL OFFICER)	Arthur Edelstein, EXECUTIVE VICE PRESIDENT AND DIRECTOR
/s/ RICHARD D SHORT	/s/ ROBERT I. LIN
Richard D. Short, SENIOR VICE PRESIDENT AND DIRECTOR	Robert I. Lin, DIRECTOR
/s/ WILLIAM L TRAW	/s/ RALPH F CLEMENTS
William L. Traw, SENIOR VICE PRESIDENT AND DIRECTOR	Ralph F. Clements, DIRECTOR
/s/ SHELDON M. FECHTOR	/s/ DONALD J. TRINGALI
Sheldon M. Fechtor, DIRECTOR	Donald J. Tringali, DIRECTOR
/s/ RAFFY LORENTZIAN	
Raffy Lorentzian, VICE PRESIDENT, CHIEF ACCOUNTING OFFICER	

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

All other schedules are omitted as inapplicable or because the required information is contained in the financial statements or the notes thereto.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders

National Technical Systems, Inc.

We have audited the accompanying consolidated balance sheets of National Technical Systems, Inc. and Subsidiaries as of January 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 31, 2001. Our audits also included the financial statement schedule listed in the Index at

Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Technical Systems, Inc. and Subsidiaries at January 31, 2001 and 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Woodland Hills, California
April 13, 2001, except for item (b) of Note 3,
as to which the date is April 24, 2001

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JANUARY 31, 2001 AND 2000

	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,344,000	$ 3,133,000
Accounts receivable, less allowance for doubtful accounts of $1,230,000 in 2001 and $803,000 in 2000	19,856,000	20,114,000
Income taxes receivable	676,000	1,387,000
Inventories	1,714,000	1,804,000
Deferred tax assets	1,387,000	847,000
Prepaid expenses	740,000	719,000
Total current assets	27,717,000	28,004,000
Property, plant and equipment		
Land	1,460,000	1,460,000
Buildings	8,639,000	8,484,000
Machinery and equipment	53,540,000	48,803,000
Leasehold improvements	6,358,000	4,600,000
Total property, plant and equipment	69,997,000	63,347,000
Less: accumulated depreciation	40,313,000	36,310,000
Net property, plant and equipment	29,684,000	27,037,000
Property held for sale	544,000	544,000
Intangible assets, net	997,000	1,077,000
Other assets	2,379,000	1,969,000
TOTAL ASSETS	$61,321,000	$58,631,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,900,000	$ 5,249,000
Accrued expenses	3,494,000	3,222,000
Income taxes payable	--	106,000
Current installments of long-term debt	3,572,000	3,195,000
Total current liabilities	11,966,000	11,772,000
Long-term debt, excluding current installments	19,782,000	18,639,000
Deferred income taxes, net	3,534,000	3,075,000
Deferred compensation	806,000	615,000
Minority interest	106,000	67,000
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common stock, no par value. Authorized, 20,000,000 shares; issued and outstanding 8,512,000 in 2001 and 8,404,000 in 2000	12,381,000	11,764,000
Retained earnings	12,798,000	12,706,000
Accumulated other comprehensive income (loss)	(52,000)	(7,000)
Total shareholders' equity	25,127,000	24,463,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$61,321,000	$58,631,000

See accompanying notes.

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED JANUARY 31, 2001, 2000 AND 1999

	2001	2000	1999
Net revenues	$84,804,000	$84,124,000	$86,813,000
Cost of sales	63,020,000	60,129,000	60,830,000
Gross profit	21,784,000	23,995,000	25,983,000
Selling, general and administrative expense	18,585,000	18,905,000	19,583,000
Merger costs	--	--	907,000
Operating income	3,199,000	5,090,000	5,493,000
Other income (expense):			
Interest expense	(2,050,000)	(1,544,000)	(1,253,000)
Settlement and related legal expenses	--	(1,598,000)	--
Other	(326,000)	(131,000)	91,000
	(2,376,000)	(3,273,000)	(1,162,000)
Income from continuing operations before income taxes and minority interest	823,000	1,817,000	4,331,000
Income taxes	353,000	722,000	1,544,000
Income from continuing operations before minority interest	470,000	1,095,000	2,787,000
Minority interest	(39,000)	(16,000)	(24,000)
Income from continuing operations	431,000	1,079,000	2,763,000
Income (loss) from discontinued operations, net of income taxes (benefit) of ($226,000) and $198,000 in 2000 and 1999, respectively	--	(274,000)	358,000
Cumulative effect of change in accounting for start-up costs, net of income taxes (benefit) of ($483,000)	--	--	(482,000)
Net income	$ 431,000	$ 805,000	$ 2,639,000
Basic earnings (loss) per common share:			
Continuing operations	$ 0.05	$ 0.13	$ 0.34
Discontinued operations	--	(0.03)	0.04
Cumulative effect of change in accounting	--	--	(0.06)
Net income *	$ 0.05	$ 0.10	$ 0.32
Diluted earnings (loss) per common share:			
Continuing operations	$ 0.05	$ 0.13	$ 0.32
Discontinued operations	--	(0.03)	0.04
Cumulative effect of change in accounting	--	--	(0.06)
Net income *	$ 0.05	$ 0.09	$ 0.31
Weighted average common shares outstanding	8,497,000	8,345,000	8,236,000
Dilutive effect of stock options	135,000	194,000	374,000
Weighted average common shares outstanding, assuming dilution	8,632,000	8,539,000	8,610,000

* Per share data may not always add up to total for the year because each figure is independently calculated

See accompanying notes.

NATIONAL TECHNICAL SYSTEMS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED JANUARY 31, 2001, 2000 AND 1999

	COMMON STOCK					
	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
Balance at January 31, 1998	8,169,000	$11,119,000	$ 165,000	$10,758,000	$ --	$22,042,000
Net income	--	--	--	2,639,000	--	2,639,000
Earnings from merged entity not include in net income	--	--	--	181,000	--	181,000
Stock options exercised	150,000	188,000	--	--	--	188,000
XXCAL Common stock change to no par	--	165,000	(165,000)	--	--	--
Distributions to subchapter S shareholders	--	--	--	(442,000)	--	(442,000)
Cash dividends NQA-UK	--	--	--	(17,000)	--	(17,000)
Cash dividends	--	--	--	(489,000)	--	(489,000)
Balance at January 31, 1999	8,319,000	11,472,000	--	12,630,000	--	24,102,000
Net income	--	--	--	805,000	--	805,000
Foreign currency translation	--	--	--	--	(7,000)	(7,000)
Comprehensive income						798,000
Stock options exercised	95,000	171,000	--	--	--	171,000
Stock retired for option exercise	(10,000)	(56,000)	--	--	--	(56,000)
Tax benefit from stock options exercise	--	177,000	--	--	--	177,000
Distributions to subchapter S shareholders	--	--	--	(120,000)	--	(120,000)
Cash dividends NQA-UK	--	--	--	(25,000)	--	(25,000)
Cash dividends	--	--	--	(584,000)	--	(584,000)
Balance at January 31, 2000	8,404,000	11,764,000	--	12,706,000	(7,000)	24,463,000
Net income	--	--	--	431,000	--	431,000
Foreign currency translation	--	--	--	--	(45,000)	(45,000)
Comprehensive income						386,000
Stock options exercised	108,000	152,000	--	--	--	152,000
Tax benefit from stock options exercise	--	165,000	--	--	--	165,000
NQA equity infusion	--	300,000	--	--	--	300,000
Cash dividends	--	--	--	(339,000)	--	(339,000)
Balance at January 31, 2001	8,512,000	$12,381,000	$ --	$12,798,000	$(52,000)	$25,127,000

See accompanying notes.

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JANUARY 31, 2001, 2000 AND 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations	$ 431,000	$ 1,079,000	$ 2,763,000
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	4,197,000	3,477,000	2,934,000
Provisions for losses (recoveries) on receivables	427,000	(101,000)	163,000
Loss on retirement of assets	37,000	9,000	100,000
Earnings from merged entity not included in net income	--	--	181,000
Undistributed earnings of affiliate	39,000	16,000	24,000
Deferred income taxes	(81,000)	582,000	(134,000)
Tax benefit from stock options exercised	165,000	177,000	--
Changes in assets and liabilities:			
Accounts receivable	(169,000)	330,000	(1,901,000)
Inventories	90,000	(164,000)	220,000
Prepaid expenses	(21,000)	380,000	(180,000)
Other assets	(224,000)	(306,000)	(90,000)
Accounts payable	(349,000)	1,712,000	117,000
Income taxes	605,000	(1,338,000)	92,000
Deferred compensation	191,000	60,000	60,000
Accrued expenses	272,000	(953,000)	395,000
Cash provided by continuing operations	5,610,000	4,960,000	4,744,000
Gain (loss) from discontinued operations	--	(274,000)	358,000
Loss from cumulative effect of start-up costs	--	--	(482,000)
Cash provided by operating activities	5,610,000	4,686,000	4,620,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(6,720,000)	(8,242,000)	(4,397,000)
Investment in life insurance	(186,000)	(174,000)	(155,000)
Acquisition of business, net of cash	(81,000)	(1,782,000)	--
Proceeds from sale of assets	--	--	24,000
Cash used for investing activities	(6,987,000)	(10,198,000)	(4,528,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and long-term debt	7,277,000	10,471,000	7,283,000
Proceeds from stock options exercised	152,000	115,000	188,000
Cash dividends paid to NQA-UK	--	(25,000)	(17,000)
Cash dividends paid	(339,000)	(584,000)	(489,000)
Equity infusion from NQA-UK	300,000	--	--
Distributions to subchapter S shareholders	--	(120,000)	(442,000)
Repayments of current and long-term debt	(5,757,000)	(3,804,000)	(6,526,000)
Cash provided by (used for) financing activities	1,633,000	6,053,000	(3,000)
Effect of exchange rate changes on cash and cash equivalents	(45,000)	(7,000)	--
Net increase in cash	211,000	534,000	89,000
BEGINNING CASH BALANCE	3,133,000	2,599,000	2,510,000
ENDING CASH BALANCE	$ 3,344,000	$ 3,133,000	$ 2,599,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash payments during the year for:			
Interest	2,068,000	1,575,000	1,271,000
Income taxes	618,000	1,076,000	1,301,000
Cash received during the year for:			
Income taxes	963,000	3,000	2,000

See accompanying notes.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of National Technical Systems, Inc. (NTS or the "Company") and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain 1999 amounts have been reclassified to conform with the 2001 and 2000 presentation.

The Company has consolidated NQA-USA, a 50% owned subsidiary for which the distribution of profits and losses is 61% to the Company, and 39% to the other shareholder. NTS controls the management decisions and elects the president of NQA who has complete operating control of the subsidiary. XXCAL Japan is a 52% owned subsidiary which started in fiscal 1999 and is accounted for under the equity method since NTS does not have management or board control. The equity investment is $132,000. On October 30, 1998, NTS completed its merger with XXCAL, Inc. and acquisition of XXCAL Limited (together, "XXCAL"). The statements for fiscal 1999 are presented based on the "pooling of interests" method of accounting pursuant to Opinion No. 16 of the Accounting Principles Board (APB 16). They include the combined financial statements of NTS and XXCAL from the beginning of the fiscal year.

RISKS AND UNCERTAINTIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates made by the Company relate primarily to the recognition of revenue under long-term contracts, valuation of contract claims, the valuation of certain real estate held for sale and estimates for future expenses related to discontinued operations. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenues are derived from development, qualification and production testing and engineering services for commercial products, space systems and military equipment of all types. The Company also provides technical staffing, qualification of safety related systems and components, and ISO 9000 certification services.

Revenue from testing contracts is recorded upon completion of the contracts, which are generally short-term, or identifiable contractual tasks. Revenue from contracts which are cost-based are recorded as effort is expended. The Company measures progress on long-term contracts on the basis of efforts-expended (hours charged). Billings in excess of amounts earned are deferred. The Company has entered into fixed-price contracts. Accounting for these contracts involves considerable cost and revenue estimation. Such estimates are reviewed periodically over the life of the contracts and any changes in projected cost and revenue are appropriately reflected in income. Any anticipated losses on contracts are charged to income when identified. All selling, general and administrative costs are treated as period costs and expensed as incurred.

INVENTORIES

Inventories consist of accumulated costs including direct labor, material and overhead applicable to uncompleted contracts and are stated at actual cost which is not in excess of estimated net realizable value.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY HELD FOR SALE

The Company owns a parcel of land in San Diego County, California, which was offered for sale in the fourth quarter of fiscal 1988. The property was acquired for approximately $544,000. The Company anticipates that sales proceeds will exceed the net book value of the property.

PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment is stated at actual cost and is depreciated and amortized using the straight-line method over the following estimated useful lives:

Buildings	30 to 35 years
Machinery and equipment	3 to 20 years
Leasehold improvements	Terms of lease, or estimated useful life (whichever is less)

The Company capitalizes certain machinery and equipment repair costs which are irregular in occurrence. These costs are charged to expense over a one-year period.

INTANGIBLE ASSETS

Intangible assets consist primarily of the excess of cost over net assets acquired and are amortized over 5 to 20 years using the straight-line method. Accumulated amortization was $602,000 as of January 31, 2001 and $465,000 as of January 31, 2000.

The carrying value of goodwill and intangible assets is reviewed on a regular basis for the existence of facts and circumstances, both internally and externally, that may suggest impairment. To date, no such impairment has been indicated. Should there be an impairment in the future, the Company will measure the amount of the impairment based on undiscounted expected future cash flows from the impaired asset. The cash flow estimates that will be used will contain management's best estimate, using appropriate and customary assumptions and projections at the time.

LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 121 "Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of" ("SFAS No. 121"), long-lived and certain identifiable intangible assets held and used by the Company will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test will be performed on undiscounted net cash flows of the entities acquired over the remaining amortization period. Based on the Company's analysis under SFAS No. 121, the Company believes that no impairment of the carrying value of its long-lived assets inclusive of goodwill existed at January 31, 2001.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME

As of February 1, 1998, the Company adopted Statement No.130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS No.130 establishes new rules for the reporting and display of comprehensive income and its components. It requires display of unrealized gains or losses on available-for-sale securities and foreign currency translation adjustments. Accumulated other comprehensive loss was $52,000 as of January 31, 2001 due to foreign currency translation adjustments and $7,000 as of January 31, 2000 due to foreign currency translation adjustments.

SEGMENT INFORMATION

In fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No.131). SFAS No.131 supersedes Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise" replacing the industry segment approach with the management approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No.131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No.131 did not affect results of operations or the financial position of the Company.

EARNINGS PER SHARE

Basic and diluted net income per common share is presented in conformity with Statement of Financial Accounting Standards No. 128, "Earnings Per Share"(FAS 128) for all periods presented. In accordance with FAS 128, basic earnings per share has been computed using the weighted average number of shares of common stock outstanding during the year. Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities.

FOREIGN CURRENCY TRANSLATION

The accounts of the foreign divisions are translated into United States dollars in accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation" (FAS 52). All balance sheet accounts have been translated using the current rate of exchange at the balance sheet date. Results of operations have been translated using the average rates prevailing throughout the year. Translation gains or losses resulting from the changes in the exchange rates from year-to-year are accumulated in a separate component of shareholders' equity. Translation losses were $45,000 in fiscal year 2001and $7,000 in fiscal year 2000.

MERGER COSTS

In fiscal 1999, the Company incurred $907,000 in one-time merger costs related to outside consulting, accounting and, legal fees and other costs and expenses specifically associated with the merger between NTS and XXCAL and in accordance with APB 16 these costs were expensed as incurred. The majority of these merger costs are non-deductible for tax purposes.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

START-UP EXPENSES

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting the Costs of Start-Up Activities" (SOP 98-5), which requires that costs related to start-up activities be expensed as incurred. The Company adopted the provisions of the SOP in its financial statements during the third quarter of fiscal year ending January 31, 1999. The effect of adoption of SOP 98-5 was to record as one-time charge the cumulative effect of changes in accounting of $482,000 ($0.06 per basic share and diluted share) net of taxes of $483,000 to expense all start-up costs.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and hedging activities. The Statement requires the recognition of all derivatives on the Company's balance sheet at fair value. The Company adopted the new Statement effective February 1, 2001. There was no impact on the Company's financial statements.

In July 2000, the Emerging Issues Task Force ("EITF") issued EITF 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Realized by a Company upon Employee Exercise of Nonqualified Stock Options", which requires companies to classify the income tax benefits related to employee exercises of nonqualified stock options as an operating activity in the statement of cash flows for both current and prior periods. Prior to the adoption of EITF 00-15, the Company had classified these amounts in financing activities in the statement of cash flows. In addition, the Company has included the income tax benefits related to disqualifying dispositions of incentive stock options within this reclassification. The adoption of EITF 00-15 had no effect on the Company's results of operations or financial position.

(2) BUSINESS DISPOSITION AND ACQUISITION

QUALITY REGISTRATION AND CERTIFICATION COMPANIES

In March 1999, NTS-CS a subsidiary of the Company acquired the Assets of Davy Registrar Services and Scott Quality Systems Registrars, a Pittsburgh, Pennsylvania based quality registration business, for $482,000 cash. The companies acquired provide quality registration and certification services for various industries including electronics, telecommunications, and medical products. The transaction was accounted for as a purchase of assets and resulted in goodwill of $483,000. Additional consideration of $26,000 was paid in fiscal 2001 as additional purchase price.

On October 31, 2000, NTS, Inc. sold its wholly owned subsidiary NTS-CS to NQA, Inc. which is 50% owned by NTS, Inc. and 50% owned by NQA Limited, a British Company. NTS-CS provides ISO 9000 certification audits and on-going surveillance site visits. NTS-CS's name was changed to NQA Training and Development (NQA T&D). The accounting transaction consisted of transferring the net book value of NTS-CS at October 31, 2000 of $77,000 to NQA T&D. In connection with this transaction, NQA Limited contributed $300,000 to NQA, Inc. as an equity infusion.

(2) BUSINESS DISPOSITION AND ACQUISITION (CONTINUED)
MCCLELLAN AIR FORCE BASE, SACRAMENTO, CALIFORNIA

During fiscal 1998, the Company took over the operations and employees of the Science and Engineering Test Laboratories at McClellan Air Force base located in Sacramento, California. This facility allowed the Company to enter a new segment of business which provided chemical, materials and electronic analysis for the government, including failure analysis of fuels and lubricants, electronic components, materials and processes, metal fatigue simulation and corrosion analysis. This was the only facility in the Company that had the necessary equipment and knowledge to perform these types of testing services.

During the fourth quarter of fiscal 2000 the Company decided to discontinue this line of business and close its operations in Sacramento as it experienced a significant loss of business due to the government decision to transfer work, planned for that operation, to another Air Force base.

Results of operations related to the discontinued operations are as follows:

	2000	1999
Revenues	$ 947,000	$ 2,724,000
Gain (loss) from discontinued operations:		
Science and Engineering Laboratories	$(436,000)	$ 556,000
Estimated future shutdown expenses	(64,000)	--
Income taxes (benefit) from discontinued operations	(226,000)	198,000
	$(274,000)	$ 358,000

TELECOMMUNICATIONS TESTING LABORATORY

In November 1999, the Company acquired the assets and assumed certain liabilities of Reintexas Laboratories, a Plano, Texas facility owned by Reintech Laboratories for $1,300,000 cash and an additional consideration not to exceed $300,000 if the revenues exceed certain targeted levels. Such additional consideration amounted to $55,000 and was paid and recorded in fiscal 2001 as additional purchase price. The operation performs electromagnetic compatibility testing for the telecommunications industry. The fixed assets consisted primarily of electromagnetic compatibility testing equipment which complement one of the Company's primary business segments. The transaction was accounted for as a purchase of assets and resulted in goodwill of $368,000.

INFORMATION TECHNOLOGY MANAGED SERVICES COMPANY

On October 30, 1998, NTS completed its merger with XXCAL. The merger was treated as a pooling of interests whereby NTS issued to the shareholders of XXCAL 1,297,878 shares of NTS common stock constituting 15.6% of the outstanding common stock of NTS after giving effect to the merger. NTS has also reserved an additional 214,622 shares of its common stock for issuance upon exercise of outstanding XXCAL stock options that were assumed by the Company.

The financial statements are presented based on the "pooling of interests" method of accounting pursuant to Opinion No. 16 of the Accounting Principles Board (APB 16). They include the combined

(2) BUSINESS DISPOSITION AND ACQUISITION (CONTINUED)
financial statements of NTS and XXCAL from the beginning of the fiscal year. All prior year financial statements have also been restated to reflect the pooling of interests method of accounting. There have been no intercompany transactions. In management's opinion, all adjustments have been made to present fairly the results of the combined financial statements, none of which impacted the financial results or position of the Company. The one month results for XXCAL in January 1998 are excluded from the results of operations in order to reflect the same twelve month period in fiscal 1999. The resulting net income of $181,000 on net revenues of $2,297,000 for the one month is included in equity.

The separate unaudited results for XXCAL and NTS for the period from February 1, 1998 through October 30, 1998 prior to the business combination were as follows:

	NTS	XXCAL
Revenue	$45,639,000	$22,413,000
Net Income	$ 695,000	$ 780,000

(3) DEBT

Long-term debt consists of the following:

	2001	2000
Revolving lines of credit(a)	$ 9,157,000	$ 7,507,000
Term loans payable to banks(b)	6,033,000	8,333,000
Notes payable (interest rates of 8.50% to 10.95%), collateralized by land and buildings, with a net book value of $2,891,000	3,075,000	1,772,000
Secured notes payable(c)	4,726,000	3,834,000
Loans from employee and officers(d)	363,000	388,000
Subtotal	23,354,000	21,834,000
Less current installments	3,572,000	3,195,000
Total	$19,782,000	$18,639,000

(a) The Credit Agreement includes a $6,000,000 revolving line of credit at an interest rate equal to the bank's reference rate plus 0.25%. On October 30, 1998, the Credit Agreement was amended to extend the term of the revolving line to September 8, 2000 and to increase the revolving line amount from $6,000,000 to $8,000,000 at an interest rate equal to the bank's reference rate. A flat fee of $18,750 was charged to set up the new revolving line and a facility fee of 0.5% of the total line is charged on a quarterly basis. On October 29, 1999, the Credit Agreement was amended again to extend the term of the revolving line to September 8, 2001 and to increase the revolving line amount from $8,000,000 to $10,000,000 at an interest rate equal to the bank's reference rate. Effective October 31, 2000, the credit agreement was amended again to extend the term of the revolving line to November 1, 2002 and to increase the line amount to $11,000,000. The outstanding balance at January 31, 2001 is $9,157,000 compared with an outstanding balance of $7,507,000 at January 31, 2000. This balance is reflected in the accompanying consolidated balance sheets as long-term.

(3) DEBT (CONTINUED)

(b) The Credit Agreement also includes a $6,500,000 term loan at an interest rate of 8.31% which expires in January 2003. On October 30, 1998, the Company added a new term loan for $2,000,000 at an interest rate equal to the bank's reference rate plus 0.25% and a maturity date of November 1, 2003. On October 29, 1999, the Company added another new term loan for $3,000,000 at an interest rate equal to the bank's reference rate plus 0.50% and a maturity date of October 31, 2004. On November 5, 1999, the interest rate for the new term loan was converted from the reference rate base to a fixed rate base at an annual rate of 8.88%.

The term loan and line of credit noted above are subject to certain covenants and require the maintenance of certain working capital, debt-to-equity, earnings-to-expense and cash flow ratios. Under these agreements, the Company may declare and pay cash dividends up to 40% of net income. The Company may not make any distribution other than dividends to its shareholders or repurchase any of the Company's stock without the banks' prior approval. As of January 31, 2001, the Company was in violation of certain of these covenants for which the Company has received a waiver and amended the covenants on April 24, 2001 in order for the Company to be in compliance through January 31, 2002, based on the Company's projections for the year ended January 31, 2002. Sanwa Bank California and Mellon Bank share 60% and 40% respectively in these loan agreements. These loan agreements are collateralized by substantially all of the Company's accounts receivable and machinery and equipment other than those which serve as collateral for the notes in (c) below. In accordance with the amendment, the line of credit was reduced from $11,000,000 to $10,000,000.

(c) In November 1997, the Company entered into an equipment line of credit agreement with Mellon US Leasing (interest rates of 7.60 % to 10.25%) to finance various test equipment with terms of 60 months for each equipment schedule. In April of 1999, Mellon US Leasing extended an additional $2,000,000 of credit under the same terms of the original agreement. The outstanding balance at January 31, 2001 is $2,400,000. The note payable to Mellon Bank is collateralized by equipment with a net book value of $2,300,000 at January 31, 2001.

During fiscal 2001 the Company entered into new equipment line of credit agreements with Bank of America and the Fifth Third Leasing Company (interest rates of 7.47% to 9.81%) in order to finance various equipment with terms of 60 months for each equipment schedule. The outstanding balances at January 31, 2001 on these notes were $827,000 and $791,000, respectively.

Other secured notes payable at January 31, 2001 amounted to $708,000.

(d) The Company has unsecured demand notes payable to two officers of the Company and one employee in the aggregate amount of $363,000 as of January 31, 2001. The interest on the officer note is payable monthly and is based on the bank's reference rate less three basis points and the interest on the other two notes is payable monthly and ranges from 8% to 9% per annum.

The weighted average interest rate on the Company's short-term debt in 2001 and 2000 is approximately 8.83% and 8.82%, respectively.

(3) DEBT (CONTINUED)

Maturities of long-term debt for five years subsequent to January 31, 2001 are as follows:

2002	$ 3,572,000
2003	13,991,000
2004	2,089,000
2005	1,438,000
2006	320,000
Thereafter	1,944,000
	$23,354,000

In accordance with the requirements of Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments", a reasonable estimate of fair value for the Company's fixed rate debt was based on a discounted cash flow analysis. The carrying amount of other debt, including borrowings under the Company's revolving lines of credit, approximate its fair value.

The carrying amounts and estimated fair values of the Company's financial instruments are:

	2001 CARRYING AMOUNT	2001 ESTIMATED FAIR VALUE	2000 CARRYING AMOUNT	2000 ESTIMATED FAIR VALUE
Term loans payable to banks	$6,033,000	$6,448,000	$8,333,000	$8,684,000
Notes payable	3,075,000	3,091,000	1,772,000	1,904,000
Secured notes payable	4,726,000	4,864,000	3,834,000	3,999,000
Revolving lines of credit	9,157,000	9,157,000	7,507,000	7,507,000
Loans from employee and officer	363,000	363,000	388,000	388,000

(4) INCOME TAXES

Until the merger with NTS, XXCAL had elected to be taxed as a subchapter S Corporation, whereby the entire federal and California taxable income or loss of XXCAL was reportable by the shareholders. XXCAL incurred a corporate franchise tax to the state of Texas and a 1.5% California surtax.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Pre-tax income generated from foreign operations was ($51,000), $354,000 and $252,000 in fiscal 2001, 2000 and 1999, respectively. Accumulated foreign earnings were $683,000 as of January 31, 2001. The earnings associated with the Company's foreign subsidiary are considered to be permanently invested and no provision for U.S. federal or state income taxes is provided. As of January 31, 2001, the company has net operating loss carryforward of approximately $1,611,037 for Federal purpose, which begin to expire in 2020.

(4) INCOME TAXES (CONTINUED)

The provision (benefit) for income tax expense from continuing operations consists of:

	2001	2000	1999
Current:			
Federal	$264,000	$ (1,000)	$1,333,000
State	38,000	35,000	294,000
Foreign	(26,000)	106,000	51,000
	276,000	140,000	1,678,000
Deferred:			
Federal	53,000	462,000	(102,000)
State	24,000	120,000	(32,000)
	77,000	582,000	(134,000)
Income tax expense	$353,000	$ 722,000	$1,544,000

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the federal statutory tax rate on income from continuing operations before income taxes:

	2001	2000	1999
Income from continuing operations before income taxes	$ 823,000	$1,817,000	$4,331,000
Federal income tax computed at statutory rate	$ 280,000	$ 618,000	$1,473,000
Amortization of goodwill	11,000	3,000	31,000
State income taxes, net of federal benefits	46,000	31,000	184,000
XXCAL, Inc. Subchapter S non-taxable income	--	--	(196,000)
Other, principally non-deductible expenses	16,000	70,000	52,000
Income tax expense	$ 353,000	$ 722,000	$1,544,000

Deferred income taxes on the consolidated balance sheets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the

(4) INCOME TAXES (CONTINUED)
amounts used for income tax purposes. The primary components of the Company's deferred tax assets and liabilities at January 31 were as follows:

	2001		2000	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
DEFERRED TAX ASSET:				
Bad debt reserve..............	$ 441,000	$ --	$262,000	$ --
Vacation accrual..............	194,000	--	226,000	--
State taxes...................	35,000	71,000	13,000	68,000
Deferred compensation.........	373,000	--	346,000	--
Net operating loss............	344,000	327,000	--	--
Total deferred tax asset......	1,387,000	398,000	847,000	68,000
Valuation allowance...........	--	--	--	--
DEFERRED TAX LIABILITY:				
Tax over book depreciation....	--	(3,932,000)	--	(3,143,000)
NET DEFERRED TAX ASSET (LIABILITY).................	$1,387,000	($3,534,000)	$847,000	($3,075,000)

(5) STOCK OPTIONS AND PENSION PLANS

The Company has one employee incentive stock option plan: the 1994 stock option plan. The XXCAL, Inc. stock options were exchanged for options of National Technical Systems, Inc.

Under the 1994 stock option plan, officers, key employees, non-employee directors and consultants may be granted options to purchase shares of the Company's authorized but unissued common stock. At the annual meeting held on June, 23, 2000, the number of shares reserved for issuance under the 1994 plan was increased by 500,000 shares.

Outstanding options under all plans are exercisable at 100% or more of fair market (as determined by the stock option committee of the Board of Directors) at the date of grant. The options are contingent upon continued employment and are exercisable, unless otherwise specified, on a cumulative basis of one- fourth of the total shares each year, commencing one year from the date of grant. Options currently expire

(5) STOCK OPTIONS AND PENSION PLANS (CONTINUED)
five to ten years from the date of grant. Proceeds received by the Company from the exercises are credited to common stock. Additional information with respect to the option plans as of January 31, is as follows:

	2001		2000	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Beginning Balance	1,370,940	$4.18	1,287,925	$4.16
Grants	489,592	2.96	279,581	3.72
Exercises	(108,038)	1.44	(94,966)	1.80
Canceled or expired(*)	(156,810)	4.80	(101,600)	4.86
Ending balance	1,595,684	$3.93	1,370,940	$4.18
Reserve for future grants at year end	269,995		103,869	
Exercisable	669,840	$4.01	532,127	$3.42

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* Includes 1,092 cancelled options from the stock option plan from the XXCAL merger in 1998.

The range of exercise prices for options outstanding at January 31, 2001 was $1.20 to $7.00. The range of exercise prices for options is wide due primarily to the fluctuating price of the Company's stock over the period of the grants.

The following tables summarize information about options outstanding at January 31, 2001:

RANGE OF EXERCISE PRICES	OUTSTANDING AT JANUARY 31, 2001	WEIGHTED AVG. REMAINING CONTRACT LIFE IN YRS.	WEIGHTED AVG. EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVG. EXERCISE PRICE
$1.00 to $2.00	55,399	2.7	$1.72	55,399	$1.72
$2.01 to $3.00	668,919	8.2	$2.81	251,327	$2.72
$3.01 to $4.00	243,658	8.6	$3.30	58,472	$3.28
$4.01 to $5.00	80,000	8.5	$4.77	16,250	$4.94
$5.01 to $6.00	382,475	7.2	$5.46	204,775	$5.44
$6.01 to $7.00	165,233	7.5	$6.23	83,617	$6.24

These options will expire if not exercised at specific dates ranging from September 2001 to December 2010. Prices for options exercised during the two-year period ended January 31, 2001 ranged from $0.70 to $2.88. The Company has elected to continue to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No.25), in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided under SFAS No. 123, "Accounting for Stock Based Compensation" (SFAS No.123), requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, no compensation expense is recognized in the Company's financial statements, since the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options granted subsequent to January 31, 1995 under the fair value method of that statement. The fair value of

(5) STOCK OPTIONS AND PENSION PLANS (CONTINUED)
options granted reported below has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2001	2000	1999
Expected life (in years)..............................	5	5	5
Risk-free interest rate...............................	4.80%	6.19%	4.99%
Expected volatility...................................	58%	57%	61%
Expected dividend yield...............................	.82%	1.39%	0.82%

The Black-Scholes option valuation model was developed for use in estimating the fair value of the traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of employee stock options granted during 2001 was $2.96 per share. Had compensation cost for the Company's stock option plan been determined consistent with the fair value method outlined in SFAS No. 123, the Company's net income and earnings per share would have been as indicated below:

	JANUARY 31, 2001	JANUARY 31, 2000	JANUARY 31, 1999
Net Income			
As reported....................	$431,000	$805,000	$2,639,000
Pro forma......................	$212,000	$471,000	$2,461,000
Basic earnings per common share			
As reported....................	$ 0.05	$ 0.10	$ 0.32
Pro forma......................	$ 0.02	$ 0.06	$ 0.30
Diluted earnings per common share			
As reported....................	$ 0.05	$ 0.09$	0.31
Pro forma......................	$ 0.02	$ 0.06	$ 0.29

The Company had an employee stock ownership plan covering all employees. Contributions by the Company were at the discretion of the Board of Directors. The Company did not make contributions in 2001, 2000 or 1999 and the Board of Directors voted to terminate the Plan as of December 31, 1999 and distribute the shares in the Plan to the participants.

The Company offers three 401(k) profit sharing plans: National Technical Systems 401(k) Profit Sharing Plan, XXCAL 401(k) Profit Sharing Plan and NQA 401(k) Pension Plan. The purpose of these plans is to provide retirement benefits to all employees of the Company. The Company's employees can contribute up to 15% of their salary into the 401(k) plan and the Company's Board of Directors, at its discretion, will determine each year the amount of matching contribution the Company will make. Employer contributions are allocated based on participants own contribution percentage amount to the total amount contributed by all employees in each plan. In fiscal 2001, the Board of Directors and

(5) STOCK OPTIONS AND PENSION PLANS (CONTINUED)
management of the Company approved a contribution to the 401(k) profit sharing plan of $151,600 as compared to $152,100 in 2000 and $253,600 in 1999.

The Company provides nonqualified discretionary deferred compensation benefits to certain employees of XXCAL. Except for the president of XXCAL, the benefits are payable over a period of 10 years in the event of death, disability, or retirement at ages between 62 and 65 and range between $7,800 and $60,000 annually. The benefits are funded by life insurance contracts purchased by the Company.

The former president of XXCAL has elected to receive the cash surrender value of life insurance owned by the Company on his life, in lieu of lifetime periodic deferred compensation payments. The cash surrender value is included in other assets and the deferred compensation liability is included in deferred compensation.

The deferred compensation benefits are accrued and recognized over each employee's expected term of employment. The Company's total deferred compensation expenses were $65,000, $94,000 and $67,000 for the years ended January 31, 2001, 2000 and 1999, respectively. Included in other assets is $1,510,000 and $1,324,000 for the cash surrender value as of January 31, 2001 and 2000, respectively.

(6) CAPITAL STOCK

As of January 31, 2001 and 2000, the Company had 20,000,000 authorized common shares with no par value. At January 31, 2001 and January 31, 2000, 8,512,000 shares and 8,404,000 shares were issued and outstanding, respectively.

Holders of common stock vote together on matters submitted to shareholders, including the election of directors. Except as required by law, the powers, preferences and rights of all common stock and the qualifications, limitations or restrictions thereof, shall in all respects be identical. The common stock shareholders will be entitled to receive, to the extent permitted by law, and to share equally and ratably, share for share, any such dividends as may be declared from time to time by the board of directors.

(7) COMMITMENTS

The Company leases certain of its operating facilities and equipment under operating leases which principally expire at various dates to fiscal year 2011. The leases are generally on a net-rent basis, whereby the Company pays taxes, maintenance, insurance and other operating expenses. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases. Gross rental expense was $2,676,000 in 2001, $2,228,000 in 2000 and $1,843,000 in 1999.

(7) COMMITMENTS (CONTINUED)

At January 31, 2001, minimum rental payment obligations under operating leases were as follows:

2002	$1,363,000
2003	1,195,000
2004	896,000
2005	721,000
2006	428,000
Thereafter	875,000
	$5,478,000

(8) ACCRUED EXPENSES

A summary of accrued expenses at January 31 is as follows:

	2001	2000
Compensation and employee benefits	$2,220,000	$2,308,000
Other	1,274,000	914,000
	$3,494,000	$3,222,000

(9) CONTINGENCIES

The Company is, from time to time, the subject of claims and suits arising out of matters occurring during the operation of the Company's business. In the opinion of management, no claims or suits would materially affect the financial position or the results of the operations or cash flows of the Company.

(10) SEGMENT OF BUSINESS INFORMATION

The Company maintains two core operating segments: Engineering & Evaluation and Technical Staffing.

The Engineering & Evaluation segment operates test laboratories in various states in the U.S., the United Kingdom and Japan and provides technical support and technical support personnel to assist clients in a broad range of industries (aerospace, defense, telecommunications, nuclear, automotive and computer, among others) in the solving of technical problems via analysis and testing of materials, components, subsystems and systems, electro-magnetic interference testing and product safety testing under its newly granted NRTL status by the United States' Department of Labor, Occupational Safety and Health Administration. This segment also provides registration, certification and conformance evaluation services to its clients, particularly with regard to EU standards. In addition, it performs compatibility testing of hardware and software components. This segment also performs quality registration services by evaluating a supplier's systems for conformity to ISO 9000, the international quality standard. The evaluations include an examination of the companies' quality policy, quality system documentation and quality records.

(10) SEGMENT OF BUSINESS INFORMATION (CONTINUED)

The Technical Staffing segment locates, recruits, and hires a wide variety of technical personnel, engineers, drafters, designers, computer programmer technicians and others and assigns them to clients either on a temporary or permanent basis.

The Company's reportable segments each represent strategic business units that offer different, yet related services. They are managed differently because each requires differing technical skills and sales strategies. Each segment is led by a chief operating decision maker, who, in coordination with the Company's Chief Executive Officer utilizes the information reported below in evaluating results and allocating resources pertaining to segment operations.

Direct and indirect revenues of the Engineering & Evaluation Group from federal agencies of approximately $26,019,000 in 2001, $25,933,000 in 2000 and $25,945,000 in 1999, consist principally of sales under subcontracts to customers with government contracts. One major customer represented $3,336,000 of the 2001 Technical staffing net revenues. Total revenues from customers in foreign (UK) operations were $394,000, $867,000 and $548,000 in 2001, 2000, and 1999, respectively. Assets utilized in the foreign (UK) subsidiaries were $528,000, $807,000 and $485,000 as of January 31, 2001, 2000 and 1999, respectively.

The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

The following table illustrates each segment's operating income for 2001, 2000 and 1999. Assets by segment are those assets that are used in the Company's operations in each segment. Corporate assets consist of cash, accounts receivable, income taxes receivable, investments in securities, real estate, fixed assets not allocated to segments. Corporate general and administrative expenses were allocated on the basis of revenues, gross profit, net property, plant and equipment and payroll expenses of the respective segments. Interest expense is allocated to the segments based on average borrowing rates and segment advances.

	JANUARY 31, 2001			
	ENGINEERING & EVALUATION	TECHNICAL STAFFING	CORPORATE	TOTAL
Net revenues	$58,277,000	$26,527,000	$ --	$84,804,000
Gross profit	15,660,000	6,124,000	--	21,784,000
Selling, general and administrative expense	11,278,000	7,307,000	--	18,585,000
Operating income (loss)	4,382,000	(1,183,000)	--	3,199,000
Other income (expense):				
Interest expense, net	(1,828,000)	(222,000)	--	(2,050,000)
Other	(255,000)	(71,000)	--	(326,000)
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of change in accounting for start-up expenses	$ 2,299,000	$(1,476,000)	$ --	$ 823,000
Assets	$45,052,000	$ 9,225,000	$7,044,000	$61,321,000
Equity Investments	$ 132,000	$ --	$ --	$ 132,000
Expenditures for long-lived assets	$ 6,282,000	$ 311,000	$ 127,000	$ 6,720,000
Depreciation and amortization	$ 3,540,000	$ 418,000	$ 239,000	$ 4,197,000

	JANUARY 31, 2000			
	ENGINEERING &EVALUATION	TECHNICAL STAFFING	CORPORATE	TOTAL
Net revenues	$49,637,000	$34,487,000	$ --	$84,124,000
Gross profit	14,672,000	9,323,000	--	23,995,000
Selling, general and administrative expense	9,180,000	9,725,000	--	18,905,000
Operating income (loss)	5,492,000	(402,000)	--	5,090,000
Other income (expense):				
Interest expense, net	(1,251,000)	(293,000)	--	(1,544,000)
Settlement and related legal expenses	(1,598,000)	--	--	(1,598,000)
Other	(367,000)	236,000	--	(131,000)
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of change in accounting for start-up expenses	$ 2,276,000	$ (459,000)	$ --	$ 1,817,000
Assets	$40,192,000	$11,475,000	$6,964,000	$58,631,000
Equity Investments	$ 120,000	$ --	$ --	$ 120,000
Expenditures for long-lived assets	$ 7,705,000	$ 1,673,000	$ 61,000	$ 9,439,000
Depreciation and amortization	$ 3,077,000	$ 191,000	$ 209,000	$ 3,477,000

	JANUARY 31, 1999			
	ENGINEERING & EVALUATION	TECHNICAL STAFFING	CORPORATE	TOTAL
Net revenues	$49,652,000	$37,161,000	$ --	$86,813,000
Gross profit	15,110,000	10,873,000	--	25,983,000
Selling, general and administrative expense	9,405,000	10,178,000	--	19,583,000
Merger costs	686,000	221,000	--	907,000
Operating income	5,019,000	474,000	--	5,493,000
Other Income (expense):				
Interest expense, net	(1,191,000)	(62,000)	--	(1,253,000)
Other	356,000	(265,000)	--	91,000
Income before income taxes, minority interest, discontinued operations and cumulative effect of change in accounting for start-up expenses	$ 4,184,000	$ 147,000	$ --	$ 4,331,000
Assets	$33,003,000	$10,920,000	$5,908,000	$49,831,000
Equity Investments	$ 75,000	$ --	$ --	$ 75,000
Expenditures for long-lived assets	$ 3,816,000	$ 313,000	$ 268,000	$ 4,397,000
Depreciation and amortization	$ 2,402,000	$ 354,000	$ 178,000	$ 2,934,000

(11) QUARTERLY FINANCIAL DATA (UNAUDITED)

	THREE MONTHS ENDED			
2001	APRIL 30	JULY 31	OCTOBER 31	JANUARY 31
Net revenues	$21,190,000	$20,606,000	$22,103,000	$20,905,000
Gross profit	6,000,000	5,637,000	5,740,000	4,407,000
Income (loss) from continuing operations	762,000	150,000	424,000	(905,000)
Net income (loss)	762,000	150,000	424,000	(905,000)
Basic earnings (loss) per common share				
Continuing operations	0.09	0.02	0.05	(0.11)
Net Income (loss)*	0.09	0.02	0.05	(0.11)
Diluted earnings (loss) per common share				
Continuing operations	0.09	0.02	0.05	(0.11)
Net Income (loss)*	0.09	0.02	0.05	(0.11)
Weighted average common shares outstanding	8,460,000	8,509,000	8,509,000	8,510,000
Dilutive effect of stock options	84,000	69,000	22,000	--
Weighted average common shares outstanding, assuming dilution	8,544,000	8,578,000	8,531,000	8,510,000

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* Per share data may not always add to the total for the year because each figure is independently calculated.

(11) QUARTERLY FINANCIAL DATA (UNAUDITED) (CONTINUED)

	THREE MONTHS ENDED			
2000	APRIL 30	JULY 31	OCTOBER 31	JANUARY 31
Net revenues	$21,565,000	$21,794,000	$20,831,000	$19,934,000
Gross profit	6,660,000	6,441,000	5,708,000	5,186,000
Income (loss) from continuing operations	809,000	707,000	438,000	(875,000)
Loss from discontinued operations	(61,000)	(22,000)	(15,000)	(176,000)
Net income (loss)	748,000	685,000	423,000	(1,051,000)
Basic earnings (loss) per common share				
Continuing operations	0.10	0.08	0.05	(0.10)
Discontinued operations	(0.01)	--	--	(0.02)
Net Income (loss)*	0.09	0.08	0.05	(0.13)
Diluted earnings (loss) per common share				
Continuing operations	0.09	0.08	0.05	(0.10)
Discontinued operations	(0.01)	--	--	(0.02)
Net Income (loss)*	0.09	0.08	0.05	(0.13)
Weighted average common shares outstanding	8,321,000	8,337,000	8,352,000	8,372,000
Dilutive effect of stock options	261,000	261,000	191,000	--
Weighted average common shares outstanding, assuming dilution	8,582,000	8,598,000	8,543,000	8,372,000

---

* Per share data may not always add to the total for the year because each figure is independently calculated.

SCHEDULE II

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

YEARS ENDED JANUARY 31, 2001, 2000 AND 1999

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS-- CHARGED TO COSTS AND EXPENSES	DEDUCTIONS-- DESCRIBE(A)	BALANCE AT END OF PERIOD
Allowance for doubtful accounts receivable:				
2001	$803,000	$1,540,000	$(1,113,000)	$1,230,000
2000	$904,000	$ 454,000	$ (555,000)	$ 803,000
1999	$741,000	$ 289,000	$ (126,000)	$ 904,000

(a) Write-off of uncollectible accounts receivable, net of recoveries.

EXHIBIT 10.10

EIGHTH AMENDMENT TO CREDIT AGREEMENT

THIS EIGHTH AMENDMENT TO CREDIT AGREEMENT (the "EIGHTH AMENDMENT") is made and dated as of February __, 2001, by and among SANWA BANK CALIFORNIA ("SANWA"), those other banks (each, including Sanwa, a "LENDER" and, collectively, the "LENDERS"), party with Sanwa to the Agreement defined in Recital A below, SANWA, as agent for the Lenders (in such capacity, the "AGENT") and as the L/C Bank (as defined in the Agreement), and NTS TECHNICAL SYSTEMS, a California corporation (the "BORROWER").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of September 8, 1997 among the Agent, the Lenders and the Borrower (as amended, modified, or waived, the "AGREEMENT"), the Lenders agreed to extend credit to the Borrower on the terms and subject to the conditions set forth therein. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

B. The Borrower has asked the Agent, the L/C Bank and the Lenders to modify certain provisions of the Agreement relating to permitted distributions, dividends and stock repurchases.

C. The Agent, the L/C Bank and the Lenders have agreed to such requests of the Borrower on the terms and conditions contained in this Eighth Amendment.

NOW, THEREFORE, in consideration of the foregoing Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. PERMITTED STOCK REPURCHASE. To reflect the agreement of the parties hereto to permit certain stock repurchases by the Parent, Section 7(e) and Section 7(f) of the Agreement are amended to read as follows:

"7(e) PURCHASE OR RETIREMENT OF STOCK; PAYMENT OF DIVIDENDS. Acquire, purchase, redeem or retire any shares of its capital stock now or hereafter outstanding or, except to the Borrower, declare or pay any dividends upon its shares of stock now or hereafter outstanding or make any distribution of assets to its stockholders as such, whether in cash, property or securities, except (i) dividends by the Borrower to the Parent, (ii) dividends by the Parent to its shareholders and/or repurchases of stock by the Parent in an aggregate amount in any fiscal year not to exceed 40% of the consolidated net income of the Parent in the immediately preceding fiscal year, (iii) dividends payable in shares of capital stock, and (iv) cash in lieu of fractional shares or in options, warrants or other rights to purchase shares of capital stock.

"7(f) INTENTIONALLY DELETED."

2. DEBT COVERAGE RATIO. To modify the calculation of the Debt Coverage Ratio in connection with the repurchase of stock permitted pursuant to Section 1 of this Eighth Amendment, the definition of "Debt Service Coverage Ratio" in PARAGRAPH 1 of the Agreement is amended to read as follows:

> "'DEBT COVERAGE RATIO' shall mean the ratio of (i) for any period, (a) net profit after taxes realized during such period plus (b) depreciation and amortization expense and interest expense deducted in determining such net income to (ii) the sum of the current portion of long-term debt as at the end of such period plus interest expense and cash dividends paid and/or stock repurchases made (pursuant to the terms of Paragraph 7(e) below) during the period just ended. In calculating the Debt Coverage Ratio, the $1,237,000.00 after-tax impact of the non-recurring expenses defined in the Fourth Amendment to this Agreement as the Techstar Lawsuit and the Discontinued Operations shall be disregarded."

3. REAFFIRMATION OF SECURITY AGREEMENTS. The Borrower hereby affirms and agrees that, except as otherwise provided herein, (a) the execution and delivery by the Borrower of and the performance of its obligations under this Eighth Amendment shall not in any way amend, impair, invalidate or otherwise affect any of the Obligations of the Borrower or the rights of the Lenders under the Security Documents or any other document or instrument made or given by the Borrower in connection therewith, (b) the term "OBLIGATIONS" as used in the Security Agreement includes, without limitation, the Obligations of the Borrower under the Agreement as amended hereby, and (c) the Security Documents remain in full force and effect and constitute a continuing first priority security interest in and lien upon the Collateral described therein.

7. EFFECTIVE DATE. This Eighth Amendment shall be effective on the date (the "EFFECTIVE DATE") when all of the following conditions precedent have been satisfied:

(a) The Borrower shall have delivered or shall have had delivered to the Agent each of the following (with sufficient copies for each of the Lenders):

(i) A duly executed copy of this Eighth Amendment; and

(ii) Such credit applications, financial statements, authorizations and such information concerning the Borrower and its Guarantors and their business, operations and condition (financial and otherwise) as any Lender may reasonably request.

(b) Any and all fees and other amounts payable hereunder on or prior to such date shall have been paid, and all acts and conditions (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened precedent to the execution, delivery and performance of this Eighth Amendment and to constitute the same legal, valid and binding obligations, enforceable in accordance with their respective terms, shall have been done and performed and shall have happened in due and strict compliance with all applicable laws.

(c) The representations and warranties made by or on behalf of the Borrower and each Guarantor in or pursuant to the Loan Documents (and by executing and delivering this Eighth Amendment, the Borrower represents that all such representations and warranties) shall be accurate and complete in all material respects as if made on and as of such date (or as of December 31, 2000 if such representations and warranties relate to the financial results or condition of the Borrower).

(d) There shall not have occurred an Event of Default or Potential Default not otherwise cured or waived.

8. REPRESENTATIONS AND WARRANTIES. As an inducement to the Agent, the L/C Bank and each Lender to enter into this Eighth Amendment, the Borrower represents and warrants to the Agent, the L/C Bank and each Lender that:

(a) CORPORATE EXISTENCE; COMPLIANCE WITH LAW. The Borrower and each Guarantor (1) is duly organized, validly existing and in good standing as a corporation under the laws of the state of its incorporation and is qualified to do business in each jurisdiction where its ownership of property or conduct of business requires such qualification and where failure to qualify would have a material adverse effect on it or its property and/or business or on its ability to pay or perform the Obligations, (2) has the corporate power and authority and the legal right to own and operate its property and to conduct business in the manner in which it does and proposes so to do, and (3) is in compliance with all Requirements of Law and Contractual Obligations.

(b) CORPORATE POWER; AUTHORIZATION; ENFORCEABLE OBLIGATIONS. The Borrower and each Guarantor has the corporate power and authority and the legal right to execute, deliver and perform this Eighth Amendment and the Agreement as amended hereby to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of this Eighth Amendment and the Agreement as amended hereby. This Eighth Amendment and the Agreement as amended hereby have been duly executed and delivered on behalf of the Borrower and each Guarantor party thereto and constitute such Person's legal, valid and binding obligations enforceable against it in accordance with their respective terms, subject to the effect of applicable bankruptcy and other similar laws affecting the rights of creditors generally and the effect of equitable principles whether applied in an action at law or a suit in equity.

(c) NO LEGAL BAR. The execution, delivery and performance of this Eighth Amendment and the Agreement as amended hereby, the borrowings hereunder and the use of the proceeds thereof, will not violate any Requirement of Law or any Contractual Obligations of the Borrower or any Guarantor or create or result in the creation of any Lien on any assets of the Borrower or any Guarantor except as contemplated thereby.

(d) NO MATERIAL LITIGATION. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower or any Guarantor, threatened by or against the Borrower or any Guarantor or against any of the Borrower's or any Guarantor's properties or revenues which is likely to be adversely determined and which, if adversely determined, is likely to have a material adverse effect on the business, operations, property or financial or other condition of the Parent and its Subsidiaries, taken as a whole.

(e) CONSENTS, ETC. No consent, approval, authorization of, or registration, declaration or filing with any Governmental Authority is required on the part of the Borrower or any Guarantor in connection with the execution and delivery of this Eighth Amendment and the Agreement as amended hereby or the performance of or compliance with the terms, provisions and conditions hereof or thereof.

(f) NO DEFAULT. No Potential Default or Event of Default has occurred under the Agreement which has not otherwise been cured or waived.

(g) FULL DISCLOSURE. None of the representations or warranties made by the Borrower or any Guarantor in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Borrower or any Guarantor in connection with the Loan Documents contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

9. MISCELLANEOUS PROVISIONS.

(a) EXPENSES. In accordance with PARAGRAPH 6(G) of the Agreement, the Borrower agrees to pay all reasonable out-of-pocket expenses of the Agent incident to the preparation and negotiation of this Eighth Amendment.

(b) ENTIRE AGREEMENT. This Eighth Amendment embodies the entire agreement and understanding between the parties hereto and supersedes all prior agreements and understandings relating to the subject matter hereof and thereof.

(c) GOVERNING LAW. This Eighth Amendment shall be governed by and construed in accordance with the laws of the State of California, without giving effect to choice of law rules.

(d) COUNTERPARTS. This Eighth Amendment may be executed in any number of counterparts, all of which together shall constitute one agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Eighth Amendment to be executed as of the day and year first above written.

NTS TECHNICAL SYSTEMS, a California corporation

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Chief Financial Officer

SANWA BANK CALIFORNIA, as Agent and the L/C Bank

By: /s/ ROBERT LIGON

Name: Robert Ligon
Title: Vice President

SANWA BANK CALIFORNIA, as a Lender

By: /s/ ROBERT LIGON

Name: Robert Ligon
Title: Vice President

MELLON BANK, N.A., as a Lender

By: /s/ GARRY HANDELMAN

Name: Garry Handelman
Title: Vice President

REAFFIRMATION OF GUARANTIES

Each of the undersigned Guarantors agrees to the terms of this Eighth Amendment and hereby ratifies and reaffirms its Guaranty of the Obligations of the Borrower and its grant of a security interest in certain property to secure such Guaranty in favor of the Agent, on behalf of itself, the Lender, and the L/C Bank and agrees that, notwithstanding this Eighth Amendment and any other amendment or supplement to the Agreement entered into prior to this Eighth Amendment, its Guaranty shall remain in full force and effect with respect to the Agreement as amended hereby.

NATIONAL TECHNICAL SYSTEMS, INC.

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Chief Financial Officer

ETCR, INC.

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Vice President

APPROVED ENGINEERING TEST LABORATORIES, INC.

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Vice President

ACTON ENVIRONMENTAL TESTING CORPORATION

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Vice President

XX CAL, INC.

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Vice President

EXHIBIT 10.11

NINTH AMENDMENT TO CREDIT AGREEMENT

THIS NINTH AMENDMENT TO CREDIT AGREEMENT (the "NINTH AMENDMENT") is made and dated as of April 24, 2001, by and among SANWA BANK CALIFORNIA ("SANWA"), those other banks (each, including Sanwa, a "LENDER" and, collectively, the "LENDERS"), party with Sanwa to the Agreement defined in Recital A below, SANWA, as agent for the Lenders (in such capacity, the "AGENT") and as the L/C Bank (as defined in the Agreement), and NTS TECHNICAL SYSTEMS, a California corporation (the "BORROWER").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of September 8, 1997 among the Agent, the Lenders and the Borrower (as amended, modified, or waived, the "AGREEMENT"), the Lenders agreed to extend credit to the Borrower on the terms and subject to the conditions set forth therein. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

B. The Borrower has asked the Agent, the L/C Bank and the Lenders to waive certain terms of the Agreement and to modify certain other terms of the Agreement.

C. The Agent, the L/C Bank and the Lenders have agreed to such requests of the Borrower on the terms and conditions contained in this Ninth Amendment.

NOW, THEREFORE, in consideration of the foregoing Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. WAIVER. In reliance on the representations and warranties contained in this Ninth Amendment and subject to the other terms and conditions of this Ninth Amendment, as of the Effective Date, the Agent, the L/C Bank and the Lenders waive the following Events of Default and Potential Defaults under the Agreement, each such waiver being specific in time and intent and not constituting a waiver of any other right or provision in the Agreement or any other Loan Document:

(a) In breach of the covenant in PARAGRAPH 7(J)(5), the Borrower permitted, as of fiscal year end January 31, 2001, the Debt Coverage Ratio for the preceding four fiscal quarters to be less than 1.30 to 1.00;

(b) In breach of the covenant in PARAGRAPH 7(J)(3), the Borrower permitted capital expenditures (calculated on a consolidated basis for the Parent and its Consolidated Subsidiaries) in the fiscal year ending January 31, 2001 to be in excess of $6,500,000;

(c) In breach of the covenant in PARAGRAPH 7(E), the Borrower permitted during the fiscal year ending January 31, 2001 the Parent to pay dividends or repurchase stock of the Parent in an aggregate amount in excess of 40% of the consolidated net income of the Parent in the immediately preceding fiscal year.

2. AMENDMENTS. The Agreement is amended as follows:

2(a) REVOLVING CREDIT LIMIT. The definition of "Revolving Credit Limit" in PARAGRAPH 1 is amended to read as follows:

> "'REVOLVING CREDIT LIMIT' shall mean $10,000,000, as such amount may be increased or decreased by written agreement of the Agent, the Borrower and on hundred percent (100%) of the Lenders."

2(b) MANDATORY PREPAYMENT. PARAGRAPH 2(E)(1) is amended to add at the end thereof a new clause (v) to read as follows:

> "(v) Within two (2) Business Days after the date that the Parent or Borrower receives a Federal income tax refund for fiscal year ended January 31, 2001, the Revolving Loans shall be prepaid in an amount equal to $544,000."

2(c) FINANCIAL STATEMENTS. PARAGRAPH 6(A) is amended to add at the end thereof a new subparagraph (4) to read as follows:

> "(4) Within thirty (30) days after the last day of each month (beginning March 31, 2001), for reporting purposes only and not for purposes of determining compliance with PARAGRAPH 7(J) of this Agreement or preparation of a Compliance Certificate, the balance sheet of the Parent as of the end of, and the related statement of income for, the month and for the period from the first day of the then current fiscal year through such month, prepared on a consolidated basis and in accordance with GAAP applied on a basis consistent with the audited financial statements of the Parent, subject to changes resulting from audit and normal year-end adjustments."

2(d) ACCOUNT RECEIVABLES AGINGS. PARAGRAPH 6(B)(3) is amended to read as follows:

> "(3) Within 30 days after the last day of each month, beginning with the month ended March 31, 2001, a summary accounts receivable aging for the Parent and its Subsidiaries;"

2(e) ACQUISITIONS. PARAGRAPH 7(D)(5) of the Agreement is amended to read:

> "(5) Intentionally omitted;"

2(f) CAPITAL EXPENDITURES. PARAGRAPH 7(J)(3) is amended to read as follows:

> "(3) make capital expenditures in an aggregate amount in excess of $3,000,000 in any fiscal year, beginning with the fiscal year ending January 31, 2002."

2(g) QUICK RATIO. PARAGRAPH 7(J)(4) is amended to read as follows:

> "(4) beginning April 30, 2001, permit at any time the Quick Ratio to be less than 1.00 to 1.00; or"

2(h) DEBT COVERAGE RATIO. PARAGRAPH 7(J)(5) is amended to read as follows:

> "(5) permit the Debt Coverage Ratio for the four fiscal quarters ending (i) April 30, 2001, July 31, 2001, or October 31, 2001, to be less than 1.10 to 1.00 or (ii) January 31, 2002 or the end of any fiscal quarter thereafter, 1.25 to 1.00."

2(i) MINIMUM PROFIT. PARAGRAPH 7(J) is amended to delete the "or" at the end of subparagraph (4), to replace the period (.) at the end of subparagraph (5) with ";or" and to insert thereafter a new subparagraph (6) to read as follows:

> "(6) as at the end of any fiscal quarter, beginning with fiscal quarter ending April 30, 2001, permit net profit after taxes realized in the quarter just ended to be less than $1.00."

3. REAFFIRMATION OF SECURITY AGREEMENTS. The Borrower hereby affirms and agrees that, except as otherwise provided herein, (a) the execution and delivery by the Borrower of and the performance of its obligations under this Ninth Amendment shall not in any way amend, impair, invalidate or otherwise affect any of the Obligations of the Borrower or the rights of the Lenders under the Security Documents or any other document or instrument made or given by the Borrower in connection therewith, (b) the term "OBLIGATIONS" as used in the Security Agreement includes, without limitation, the Obligations of the Borrower under the Agreement as amended hereby, and (c) the Security Documents remain in full force and effect and constitute a continuing first priority security interest in and lien upon the Collateral described therein.

4. EFFECTIVE DATE. Subject to the terms contained in the last paragraph of this PARAGRAPH 4, this Ninth Amendment shall be effective on the date (the "EFFECTIVE DATE") when all of the following conditions precedent have been satisfied:

(a) The Borrower shall have delivered or shall have had delivered to the Agent each of the following (with sufficient copies for each of the Lenders):

(i) A duly executed copy of this Ninth Amendment;

(ii) Such credit applications, financial statements, authorizations and such information concerning the Borrower and its Guarantors and their business, operations and condition (financial and otherwise) as any Lender may reasonably request.

(b) Any and all fees and other amounts payable hereunder on or prior to such date shall have been paid, and all acts and conditions (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened precedent to the execution, delivery and performance of this Ninth Amendment and to constitute the same legal, valid and binding obligations, enforceable in accordance with their respective terms, shall have been done and performed and shall have happened in due and strict compliance with all applicable laws.

(c) The representations and warranties made by or on behalf of the Borrower and each Guarantor in or pursuant to the Loan Documents (and by executing and delivering this Ninth Amendment, the Borrower represents that all such representations and warranties) shall be accurate and complete in all material respects as if made on and as of such date (or as of December 31, 2000 if such representations and warranties relate to the financial results or condition of the Borrower).

(d) There shall not have occurred an Event of Default or Potential Default not otherwise cured or waived. This Amendment shall cease to be effective as of close of business of the Lenders on May 4, 2001 unless, prior to that time, Mellon Bank, N.A., as a Lender under the Agreement, shall have received from the Borrower an amendment fee of $17,500 and Sanwa Bank California, as a Lender under the Agreement, shall have received from the Borrower an amendment fee of $17,500.

8. REPRESENTATIONS AND WARRANTIES. As an inducement to the Agent, the L/C Bank and each Lender to enter into this Ninth Amendment, the Borrower represents and warrants to the Agent, the L/C Bank and each Lender that:

(a) CORPORATE EXISTENCE; COMPLIANCE WITH LAW. The Borrower and each Guarantor (1) is duly organized, validly existing and in good standing as a corporation under the laws of the state of its incorporation and is qualified to do business in each jurisdiction where its ownership of property or conduct of business requires such qualification and where failure to qualify would have a material adverse effect on it or its property and/or business or on its ability to pay or perform the Obligations, (2) has the corporate power and authority and the legal right to own and operate its property and to conduct business in the manner in which it does and proposes so to do, and (3) is in compliance with all Requirements of Law and Contractual Obligations.

(b) CORPORATE POWER; AUTHORIZATION; ENFORCEABLE OBLIGATIONS. The Borrower and each Guarantor has the corporate power and authority and the legal right to execute, deliver and perform this Ninth Amendment and the

Agreement as amended hereby to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of this Ninth Amendment and the Agreement as amended hereby. This Ninth Amendment and the Agreement as amended hereby have been duly executed and delivered on behalf of the Borrower and each Guarantor party thereto and constitute such Person's legal, valid and binding obligations enforceable against it in accordance with their respective terms, subject to the effect of applicable bankruptcy and other similar laws affecting the rights of creditors generally and the effect of equitable principles whether applied in an action at law or a suit in equity.

(c) NO LEGAL BAR. The execution, delivery and performance of this Ninth Amendment and the Agreement as amended hereby, the borrowings hereunder and the use of the proceeds thereof, will not violate any Requirement of Law or any Contractual Obligations of the Borrower or any Guarantor or create or result in the creation of any Lien on any assets of the Borrower or any Guarantor except as contemplated thereby.

(d) NO MATERIAL LITIGATION. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower or any Guarantor, threatened by or against the Borrower or any Guarantor or against any of the Borrower's or any Guarantor's properties or revenues which is likely to be adversely determined and which, if adversely determined, is likely to have a material adverse effect on the business, operations, property or financial or other condition of the Parent and its Subsidiaries, taken as a whole.

(e) CONSENTS, ETC. No consent, approval, authorization of, or registration, declaration or filing with any Governmental Authority is required on the part of the Borrower or any Guarantor in connection with the execution and delivery of this Ninth Amendment and the Agreement as amended hereby or the performance of or compliance with the terms, provisions and conditions hereof or thereof.

(f) NO DEFAULT. No Potential Default or Event of Default has occurred under the Agreement which has not otherwise been cured or waived.

(g) FULL DISCLOSURE. None of the representations or warranties made by the Borrower or any Guarantor in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Borrower or any Guarantor in connection with the Loan Documents contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

9. MISCELLANEOUS PROVISIONS.

(a) EXPENSES. In accordance with PARAGRAPH 6(G) of the Agreement, the Borrower agrees to pay all reasonable out-of-pocket expenses of the Agent incident to the preparation and negotiation of this Ninth Amendment.

(b) ENTIRE AGREEMENT. This Ninth Amendment embodies the entire agreement and understanding between the parties hereto and supersedes all prior agreements and understandings relating to the subject matter hereof and thereof.

(c) GOVERNING LAW. This Ninth Amendment shall be governed by and construed in accordance with the laws of the State of California, without giving effect to choice of law rules.

(d) COUNTERPARTS. This Ninth Amendment may be executed in any number of counterparts, all of which together shall constitute one agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Ninth Amendment to be executed as of the day and year first above written.

NTS TECHNICAL SYSTEMS, a California corporation

By: /s/ LLOYD BLONDER

Name: Lloyd Blonder
Title: Chief Financial Officer

SANWA BANK CALIFORNIA, as Agent and the L/C Bank

By: /s/ ROBERT LIGON

Name: Robert Ligon
Title: Vice President

SANWA BANK CALIFORNIA, as a Lender

By: /s/ ROBERT LIGON

Name: Robert Ligon
Title: Vice President

MELLON BANK, N.A., as a Lender

By: /s/ GARRY HANDELMAN

Name: Garry Handelman
Title: Vice President

REAFFIRMATION OF GUARANTIES

Each of the undersigned Guarantors agrees to the terms of this Ninth Amendment and hereby ratifies and reaffirms its Guaranty of the Obligations of the Borrower and its grant of a security interest in certain property to secure such Guaranty in favor of the Agent, on behalf of itself, the Lender, and the L/C Bank and agrees that, notwithstanding this Ninth Amendment and any other amendment or supplement to the Agreement entered into prior to this Ninth Amendment, its Guaranty shall remain in full force and effect with respect to the Agreement as amended hereby.

NATIONAL TECHNICAL SYSTEMS, INC.

By: /s/ LLOYD BLONDER
Name: Lloyd Blonder
Title: Chief Financial Officer

ETCR, INC.

By: /s/ LLOYD BLONDER
Name: Lloyd Blonder
Title: Vice President

APPROVED ENGINEERING TEST LABORATORIES, INC.

By: /s/ LLOYD BLONDER
Name: Lloyd Blonder
Title: Vice President

ACTON ENVIRONMENTAL TESTING CORPORATION

By: /s/ LLOYD BLONDER
Name: Lloyd Blonder
Title: Vice President

XXCAL, INC.

By: /s/ LLOYD BLONDER
Name: Lloyd Blonder
Title: Vice President

EXHIBIT 21
NATIONAL TECHNICAL SYSTEMS, INC.
LIST OF SUBSIDIARIES

NTS, TECHNICAL SYSTEMS, A CALIFORNIA CORP.

(FORMERLY NATIONAL TECHNICAL SYSTEMS, A CALIFORNIA CORP.)

ACTON ENVIRONMENTAL TESTING CORPORATION, A MASSACHUSETTS CORP.

APPROVED ENGINEERING TEST LABORATORIES, INC., A CALIFORNIA CORP.

ETCR INC., A CALIFORNIA CORP.

XXCAL, INC., A CALIFORNIA CORP.

XXCAL LIMITED, A UK CORP.

NATIONAL QUALITY ASSURANCE - USA, INC., A MASSACHUSETTS CORP.

(50% OWNED)

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 2-83778, Form S-8 No. 33-48211, Form S-8 No. 333-04905 and Form S-8 No. 333-67743) pertaining to the National Technical Systems, Inc. Employee Stock Ownership Plan, the National Technical Systems, Inc. 1988 Stock Option Plan, the National Technical Systems, Inc. 1994 Stock Option Plan and the XXCAL, Inc. Stock Option Plan and in the related Prospectuses of our report dated April 13, 2001, except for item (b) of Note 3, as to which the date is April 24, 2001, with respect to the consolidated financial statements and schedule of National Technical Systems, Inc. included in the Annual Report (Form 10-K) for the year ended January 31, 2001.

/s/ Ernst & Young LLP

Woodland Hills, California
April 27, 2001