

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange  
- --- Act of 1934. For the fiscal year ended December 31, 1996.

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 0-24020

GROUP TECHNOLOGIES CORPORATION  
(Exact name of registrant as specified in its charter)

Florida	59-2948116
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)

10901 Malcolm McKinley Drive  
Tampa, Florida 33612  
(Address of principal executive offices, including zip code)

(813) 972-6000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$.01 par value  
(Title of Class)

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

Indicate 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/.

The aggregate market value of the Registrant's Common Stock held by non-  
affiliates on March 19, 1997 (based upon the average of the high and low prices  
of the registrant's Common Stock reported for such date on The Nasdaq Stock  
Market, was \$4,116,855. Shares of Common Stock held by each executive officer  
and director and by each person who owns 10% or more of the outstanding Common  
Stock have been excluded in that such persons may be deemed to be affiliates.  
The determination of affiliate status is not necessarily a conclusive  
determination for other purposes. As of March 19, 1997, the registrant had  
outstanding 16,220,629 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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### PART I

#### Item 1. Business

Group Technologies Corporation ("GTC" or the "Company") provides advanced manufacturing, engineering and testing services to original equipment manufacturers ("OEMs") of electronic products. GTC's principal operating facility is located in Tampa, Florida. GTC's operating subsidiaries include Group Technologies S.A. de C.V. ("GTC Mexico"), a majority-owned subsidiary located in Mexico City, Mexico where it operates one manufacturing facility and Group Technologies Suprimentos de Informatica Industria e Comercio Ltda. ("GTC Brazil"), a majority-owned subsidiary located in the state of Sao Paulo, Brazil where it operates two separate manufacturing facilities, one in Hortolandia and one in Campinas. GTC is a majority owned subsidiary of Group Financial Partners, Inc. ("GFP").

GTC custom manufactures complex circuit card assemblies, subsystems and end-user products for use in a wide variety of markets, including automotive, commercial avionics, computer, government systems, industrial electronics, networking, space, and telecommunications. GTC offers its customers traditional turnkey manufacturing solutions, including basic design services (such as board layout, production and testing), materials management (including selection, sourcing and procurement), automated assembly and quality assurance. GTC also provides high-level engineering services, such as design services, software development and product redesign. GTC believes that its ability to offer its customers a broad range of sophisticated engineering services, which complement its basic manufacturing services, gives it a competitive advantage.

Substantially all of the assets of Metrum, Inc. ("Metrum"), a wholly owned subsidiary of GTC, were divested during the first quarter of 1996, and GTC immediately ceased all operations at its Littleton, Colorado facility. Also during the first quarter of 1996, GTC sold substantially all of the assets related to its Badger line of name brand products. The effect of these dispositions is more fully discussed herein under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations". In order to meet the needs of its expanding customer base in Brazil, GTC opened a manufacturing facility located in Campinas, Brazil, during

the third quarter of 1996.

#### Forward Looking Statements

Certain statements set forth in Item 1 and Item 7 in this Annual Report on Form 10-K may constitute forward-looking statements that involve numerous risks and uncertainties. Among the factors that can cause the Company's actual performance to differ materially are the following: business conditions and growth in the advanced manufacturing, engineering and testing services industry and the general economy; competitive factors and price pressures; availability of third party component parts at reasonable prices; inventory risks due to shifts in market demand and/or price erosion of purchased components; changes in product mix; cost and yield issues associated with the Company's manufacturing facilities; the Company's ability to comply with the terms of its credit facilities; dependence upon and ability to retain key personnel; ability to comply with the rules for inclusion in the Nasdaq Stock Market, including minimum stock bid price and market value requirements as discussed in Item 5 in this Annual Report on Form 10-K; stock price fluctuations; the effect of environmental laws; and the risk factors listed from time to time in the Company's Securities and Exchange Commission (the "Commission") filings. The impact of certain of these factors experienced during 1996 is more fully discussed herein under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

#### Manufacturing Services

GTC provides its customers with a broad variety of solutions, from low-volume prototype assembly to high-volume turnkey systems manufacturing. GTC employs a multi-disciplined engineering team which provides comprehensive manufacturing and design support to customers. The turnkey systems solutions offered by GTC include design conversion and enhancement, materials procurement, system assembly, testing and final system configuration.

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GTC's manufacturing capabilities are enhanced by up-to-date manufacturing techniques. Among these techniques are just-in-time procurement and continuous flow manufacturing (where practical), statistical process control, total quality management, stringent and real-time engineering change control routines, and total cycle time reduction techniques. GTC has also invested in integrated manufacturing support systems to maximize performance. These systems provide a continuous flow of information from the initial estimating phase of a project through final shipment.

GTC provides varied levels of testing services, ranging from in-circuit test, burn-in test and environmental stress screening to functional test. Increasingly, GTC is asked to provide final systems assembly ("box build") services. As a result, testing procedures and equipment are required to ensure that finished products are tested to standards that reflect their required use.

#### Engineering Services

GTC utilizes its advanced engineering services capabilities to provide its customers with complete system solutions that exceed the scope of traditional turnkey services provided by most contract manufacturers. GTC believes that the ability to provide its customers with these services, including software development, design services, prototype development, product re-engineering, feature enhancement, product ruggedization, cost reduction, product miniaturization, and EMI interference and shielding is instrumental in moving new products to market quickly and regularly. GTC's engineers perform design work on a contract basis for a number of customers, including those requiring high levels of security clearance.

#### Customers and Marketing

GTC has pursued the diversification of its market segments and customer base and has sought relationships with leading OEMs in the markets it serves.

GTC's principal sources of new business originate from the expansion of existing relationships, referrals and direct sales through senior management, direct sales personnel, and market specialists. Supported by the executive staff, market specialists identify and attempt to develop relationships with potential OEM customers who meet a certain profile, which includes financial stability, industry leadership, need for technology driven turnkey manufacturing, anticipated unit volume growth and long-term relationship potential.

GTC's sales efforts are further supported by advertising in numerous trade media and sales literature and by promotions. GTC promotes the concept of manufacturing relationships with each of its customers. The focus of this relationship is centered on the belief that GTC and its employees must become an essential part of every customer's operations. To facilitate this relationship, GTC employs program managers who are dedicated to one or more customers to ensure that customer contract requirements are met and that information critical to the success of each program is communicated and acted upon in an expedient fashion. This requires that program managers maintain close contact with GTC employees and with the customers that they support, communicating project status in addition to resolving specific issues which arise. GTC believes that this dedicated relationship is critical to meeting the dynamic needs of its customers.

During the last three years, GTC's largest individual commercial customer was IBM, which accounted for approximately 14%, 16%, and 16%, of GTC's revenue in 1994, 1995 and 1996, respectively. Sales to International Game Technology represented approximately 10% of GTC's revenue in 1996. GTC's sales of products and services to United States government agencies represented approximately 19%, 20% and 17% of GTC's revenue in 1994, 1995 and 1996, respectively. GTC's sales of products and services to a variety of prime contractors under contract with the federal government, in the aggregate, represented approximately 11%, 9% and 12% of GTC's revenue in 1994, 1995 and 1996, respectively.

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#### Competition

GTC operates in a highly competitive environment and competes against numerous domestic and foreign manufacturers. GTC's competitors include AVEX Electronics, Benchmark Electronics, DII Group, IEC Electronics, Jabil Circuit, Plexus, SCI Systems, Sanmina, and Solectron. In addition, GTC may encounter competition in the future from other large electronic manufacturers which are selling, or may begin to sell, contract manufacturing services. GTC may also face competition from the manufacturing operations of its current and potential OEM customers, which GTC believes continue to evaluate the merits of manufacturing products internally versus the value of contract manufacturing.

GTC believes that the primary basis of competition in its targeted markets are time to market, capability, price, manufacturing quality, advanced manufacturing technology and reliable delivery. GTC believes that it generally competes favorably with respect to each of these factors. To remain competitive, GTC must continue to provide technologically advanced manufacturing services, maintain world-class quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

#### Backlog

GTC's order backlog at December 31, 1996 was approximately \$65 million as compared to order backlog at December 31, 1995 of approximately \$124 million. Backlog consists of firm purchase orders and commitments, substantially all of which is expected to be filled within twelve months. However, since orders and commitments may be rescheduled or canceled, backlog is not a definitive indicator of future financial performance.

#### Suppliers

GTC procures components from a broad group of suppliers, determined on an

assembly-by-assembly basis. Some of the products and assemblies manufactured by GTC require one or more components that may be available from only a single source. Also, certain components are allocated in response to supply shortages. GTC attempts to ensure the continuity of supply of these components. In cases where unanticipated customer demand or supply shortages occur, GTC attempts to arrange for alternative sources of supply, where available, or defers planned production to meet the anticipated availability of the critical component. In some cases, supply shortages will substantially curtail production of all assemblies using a particular component. In addition, at various times there have been industry-wide shortages of electronic components, especially memory and logic devices. While GTC has not experienced significant material shortages in the recent past, such shortages could produce significant short-term interruptions of GTC's future operations.

GTC believes it fosters fair and strong relationships with its suppliers. These relationships are built upon a history of GTC providing suppliers with accurate and timely information when ordering materials and responding to the suppliers' requirements. In return, suppliers are expected to provide competitive material prices with flexible delivery schedules, to honor their commitments for delivery of materials on time, and to meet or exceed all quality requirements.

#### Research and Development

GTC invested \$5.2 million, \$3.0 million and \$0.3 million, in research and development in 1994, 1995 and 1996, respectively. This investment was made primarily in support of GTC's name brand products line of business, substantially all of which was divested by GTC by the end of the first quarter of 1996. GTC also utilizes its research and development capability to develop processes and technologies for the benefit of its customers. GTC plans to perform a limited amount of research and development in the future. The Company cannot forecast the impact of such expenditures upon the overall success of its sales.

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#### Proprietary Rights, Patents and Trademarks

GTC regards its manufacturing processes and circuit designs as proprietary trade secrets and confidential information. GTC relies largely upon a combination of trade secret laws, agreements with its OEM customers, internal security systems, confidentiality procedures and employee agreements to maintain the trade secrecy of its circuit designs and manufacturing processes. Although GTC takes steps to protect its trade secrets, there can be no assurance that misappropriation will not occur.

GTC licenses some technology from third parties which it uses in providing manufacturing services to its OEM customers. GTC believes that such licenses are generally available on commercial terms from a number of licensors. Generally, the agreements governing such technology grant GTC nonexclusive, worldwide licenses with respect to the subject technology and terminate upon a material breach by GTC.

Although GTC does not believe that its circuit designs or manufacturing processes infringe on the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against GTC in the future with respect to current or future designs or processes. Any such assertion may require GTC to enter into a royalty arrangement or result in costly litigation.

#### Certifications

GTC's Tampa facility is certified to ISO 9001, the international standard for quality assurance in design, development, production, installation and service. GTC also meets the National Aeronautics and Space Administration's NHB5300.4 specification for space programs and numerous military specifications including MIL-Q-9858A (quality program), MIL-STD-2000A (high-reliability

soldering), MIL-STD 45662 (calibration and metrology) and MIL-STD-801D (environmental testing). GTC also meets certain manufacturing and quality practices required by the Federal Aviation Administration. GTC will continue to utilize these certifications to provide service to these and other niche markets.

GTC's facilities in Mexico City, Mexico and Hortolandia, Brazil are certified to ISO 9002. ISO 9002 is the international standard for quality assurance in product installation and service, but does not cover product design or development.

#### Government Regulation

GTC's operations are subject to certain federal, state and local regulatory requirements relating to environmental, waste management, health and safety matters. Management believes that GTC's business is operated in material compliance with applicable regulations promulgated by the Occupational Safety and Health Administration and the Environmental Protection Agency and corresponding state agencies which, respectively, pertain to health and safety in the workplace and the use, discharge and storage of chemicals employed in the manufacturing process. Current costs of compliance are not material to GTC. However, new or modified requirements, not presently anticipated, could be adopted creating additional expense for GTC.

GTC's former leased facility located on Waters Avenue in Tampa, Florida is currently subject to remediation activities related to ground water contamination by methylene chloride and other volatile organic compounds which occurred prior to GTC's lease of the facility. Through a series of evaluations, it was determined that ground water contamination is also present off site. In December 1986, Honeywell, Inc. ("Honeywell"), a prior operator of the facility, entered into a consent order (the "Consent Order") with the State of Florida Department of Environmental Regulation under which Honeywell agreed to take certain corrective action to remediate the contamination. These remediation activities include the installation of recovery wells and the treatment of the contaminated ground water. Under the Consent Order, Honeywell assumed the responsibility for initiating and conducting these remediation activities, including the annual cost associated with these remediation activities, currently estimated to be up to \$500,000 per year. At the time GTC purchased the assets of the business located on this leased site, it obtained an agreement from the seller, Philips Electronics North America Corporation, to

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indemnify and hold GTC harmless with respect to such matters. GTC vacated the property in December 1994, at which time its lease obligation expired.

In the course of Metrum's acquisition of certain assets of a business from Alliant Techsystems, Inc. ("Alliant"), Metrum and GTC became aware of ground water contamination that will require remedial action at the facility where the business was located in Littleton, Colorado. Evaluations indicate that certain chlorinated solvents were disposed of on the site by a previous owner of the business and these solvents have contaminated the ground water. There has been no final determination on the total scope of actions which will be required to remediate the ground water contamination, although it is estimated that the clean-up cost could reach as high as \$20 million in the aggregate. As part of the agreement for the purchase and sale of the assets of the business, Alliant agreed to indemnify and hold Metrum harmless with respect to such matters. Metrum leased the facility from Alliant and continued operations on the site until substantially all of the assets of the business were sold on February 9, 1996. Metrum and GTC agreed to indemnify and hold the buyer harmless with respect to such matters.

#### Employees

As of December 31, 1996, GTC employed approximately 1,500 employees, of which approximately 800 are employed in the United States, 400 are employed in Mexico and 300 are employed in Brazil. GTC employs approximately 110 people in

finance, sales or administration, 1,290 people in manufacturing operations and 100 people in various engineering functions. Approximately 350 of GTC's domestic employees are represented by the International Brotherhood of Teamsters collective bargaining unit. In 1993, GTC and the International Brotherhood of Teamsters signed a five-year contract. GTC believes its relationships with its employees are good.

Geographic Segments

All of GTC's operations for 1994, 1995 and 1996 were located in the United States, Mexico and Brazil. See Note 18 to Notes to Consolidated Financial Statements for financial information about GTC's geographic segments.

Item 2. Properties

GTC's headquarters are in a 308,000 square foot office and manufacturing facility on Malcolm McKinley Drive in Tampa, Florida which GTC occupies under a ten-year lease expiring in April 2002 (with two additional five-year options). Adjacent to its Tampa headquarters, GTC leases a 60,000 square foot warehouse. GTC also leases a 118,000 square foot office and manufacturing facility located on Poniente 152 No. 659 in Mexico City, Mexico under a lease that expires in July 1997 (with two additional three-year options). GTC occupies approximately 20,000 square feet of a manufacturing facility in Hortolandia, Brazil in connection with its manufacturing services agreement with its customer. GTC also leases approximately 30,000 square feet of space at a facility in Campinas, Brazil, pursuant to a lease that expires in July 1999 (with an option to renew for an unspecified period).

Item 3. Legal Proceedings

GTC is, from time to time, a party to litigation which arises in the normal course of its business. Management does not believe that these proceedings, individually or in the aggregate, are material or that any adverse outcomes of these matters would have a material adverse effect upon the business or financial condition of GTC.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders of GTC during the fourth quarter of fiscal year 1996.

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PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The shares of GTC's voting Common Stock are quoted on the Nasdaq Stock Market under the symbol GRTK. The following table sets forth, for the periods indicated, the high and low sales prices per share for GTC's Common Stock as reported by the Nasdaq Stock Market:

[CAPTION]

	High	Low
Year Ended December 31, 1995		
First Quarter	\$7.000	\$4.500
Second Quarter	\$6.000	\$4.500
Third Quarter	\$8.000	\$4.500
Fourth Quarter	\$6.250	\$1.875
Year ended December 31, 1996		
First Quarter	\$3.750	\$2.125

Second Quarter	\$4.250	\$2.125
Third Quarter	\$3.000	\$1.750
Fourth Quarter	\$2.625	\$0.750

As of March 19, 1997, there were approximately 636 holders of record of the Company's Common Stock.

The National Association of Securities Dealers ("NASD") is presently considering rules which, if adopted, would result in new minimum criteria which a company must meet for inclusion in either the Nasdaq Stock Market or the Small Cap Market. Under the recently proposed rules, companies will be required to meet higher financial standards and maintain a stock market price of at least \$1.00 per share, or else face automatic termination of their designation for inclusion in either the Nasdaq Stock Market or Small Cap Market. Additionally, current rules of the Nasdaq Stock Market state that in order to remain eligible for Nasdaq Stock Market listing, a security must have a bid price of at least \$1.00 per share or in the alternative, the market value of publicly held shares (those held by persons other than officers, directors and 10% shareholders) must be at least \$3,000,000 and the company's net tangible assets must be at least \$4,000,000. While the Common Stock is currently quoted on the Nasdaq Stock Market, there can be no assurance that its designation for inclusion thereon will not be terminated if the NASD adopts the proposed regulations and GTC is not able to meet the higher financial standards, or its stock market price drops below \$1.00 per share. If the designation for Common Stock is terminated, trading in the Common Stock would thereafter be conducted in the over-the-counter market in the so-called "pink sheets" or, if then available, the "OTC Bulletin Board Service". As a result, a stockholder would likely find it to be more difficult to dispose of, or to obtain accurate quotations as to the value of, the Common Stock.

The Company has historically not declared or paid any cash dividend on the Common Stock. The Company presently intends to retain all of its earnings for the future operation and growth of its business and does not intend to pay cash dividends in the foreseeable future. The payment of cash dividends in the future will be dependent upon the Company's results of operations, earnings, capital requirements, contractual restrictions and other factors considered relevant by the Board of Directors. The Company's existing credit facilities prohibit the Company from declaring or making any dividend or other distributions on the Common Stock.

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Item 6. Selected Financial Data

The following selected historical consolidated financial data should be read in conjunction with the consolidated financial statements and the related notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7. The Company has historically not declared or paid any cash dividend on the Common Stock.

[CAPTION]

	Years Ended December 31,				
	1992	1993(1)	1994	1995(2)	1996(3)
	-----	-----	-----	-----	-----
	(in thousands, except for per share data)				

Statement of Operations Data:

Revenue	\$116,572	\$243,856	\$274,147	\$273,647	\$224,661
Cost of operations	103,471	200,408	237,867	269,150	217,890
	-----	-----	-----	-----	-----
Gross profit	13,101	43,448	36,280	4,497	6,771
Selling, general and					



administrative expense	5,947	21,808	20,561	19,683	11,453
Research and development	1,190	4,138	5,170	3,041	299
Operating income (loss)	5,964	17,502	10,549	(18,227)	(4,981)
Interest expense	1,169	1,647	2,048	2,907	2,858
Other expense (income)	0	0	504	521	(59)
Income (loss) before income taxes	4,795	15,855	7,997	(21,655)	(7,780)
Income taxes	1,588	5,882	3,297	(3,982)	799
Net income (loss)	\$3,207	\$9,973	\$4,700	\$(17,673)	\$(8,579)
Net income (loss) per share:					
Primary	\$0.24	\$0.71	\$0.30	\$(1.13)	\$(0.53)
Fully diluted	\$0.24	\$0.69	\$0.30	\$(1.13)	\$(0.53)
Shares used in computing per share amounts:					
Primary	13,551	14,066	15,644	15,695	16,157
Fully diluted	13,551	14,554	15,789	15,695	16,157

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[CAPTION]

	December 31,				
	1992(4)	1993(5)	1994	1995(6)	1996(7)
	-----	-----	-----	-----	-----
	(in thousands)				

Balance Sheet Data:

Working capital	\$24,066	\$37,305	\$56,622	\$23,922	\$7,839
Total assets	67,030	111,925	122,566	113,106	67,465
Current portion of long-term debt	3,000	4,271	2,080	8,171	3,513
Long-term debt, less current portion	21,469	30,362	30,392	23,050	10,119
Redeemable Common Stock and related additional paid-in capital	1,971	2,508	0	0	0
Total shareholders' equity	6,926	17,340	42,799	25,840	19,403

- (1) Reflects the results of operations from the date of acquisition of Metrum, Inc. ("Metrum") and Philips Circuit Assemblies ("PCA") on December 31, 1992 and July 30, 1993, respectively.
- (2) Reflects the results of operations through the date of disposition of the peripheral products and imaging products business units of Metrum on May 31, 1995 and June 6, 1995, respectively.
- (3) Reflects the results of operations through the date of disposition of the instrumentation products business unit of Metrum on February 9, 1996.
- (4) Reflects the acquisition of Metrum on December 31, 1992.
- (5) Reflects the acquisition of PCA on July 30, 1993.
- (6) Reflects the disposition of the peripheral products and imaging products business units of Metrum on May 31, 1995 and June 6, 1995, respectively.
- (7) Reflects the disposition of the instrumentation products business unit of Metrum on February 9, 1996.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

GTC provides advanced manufacturing, engineering and testing services to OEMs of electronic products and also to certain end users such as United States government agencies. These services include the manufacture of circuit card assemblies, subsystems and end-user products for use in a wide variety of markets. In providing these services, GTC is affected by a number of internal and external factors including, but not limited to, materials management and availability, working capital needs, variability of customer requirements, production start-up costs, industry trends and competition.

GTC's operating results are also dependent upon the efforts and abilities of key managerial and technical employees and upon its ability to attract and retain qualified employees. During 1996 and during the first quarter of 1997, GTC experienced turnover of certain key employees, including its President and Chief Executive Officer and other executive officers of the Company. See Item 10 and Item 11 in this Annual Report on Form 10-K for additional information regarding the executive officers of the Company.

#### Results of Operations

The following table sets forth certain data from GTC's Consolidated Statements of Operations for the years ended December 31, 1994, 1995 and 1996 expressed as a percentage of revenue:

[CAPTION]

	Years ended December 31,		
	1994	1995	1996
	-----	-----	-----
Revenue	100.0%	100.0%	100.0%
Cost of operations	86.8	98.4	97.0
	-----	-----	-----
Gross profit	13.2	1.6	3.0
Selling, general and administrative expense	7.5	7.2	5.1
Research and development	1.9	1.1	0.1
	-----	-----	-----
Operating income (loss)	3.8	(6.7)	(2.2)
Interest expense	0.7	1.1	1.3
Other expense	0.2	0.2	0.0
	-----	-----	-----
Income (loss) before income taxes	2.9	(8.0)	(3.5)
Income taxes (benefit)	1.2	(1.5)	0.3
	-----	-----	-----
Net income (loss)	1.7%	(6.5)%	(3.8)%
	=====	=====	=====

#### Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

##### Revenue

Revenue decreased by 17.9% to \$224.7 million for 1996, as compared to \$273.6 million for 1995. The net decrease in revenue of \$48.9 million is related to the decrease in GTC's name brand product line revenue of \$31.2 million (net of contract claim revenue recognized in 1996 of \$4.1 million) and a decrease in the Tampa-based manufacturing and engineering services operations of \$36.1 million, partially offset by an increase in sales by GTC's international EMS operations of \$18.4 million.

The decrease in name brand product line revenue results from the disposition of substantially all of the assets of Metrum and GTC's Badger business. These dispositions, which occurred during 1995 and 1996, are more fully discussed under the caption "Disposition of Assets" included herein below. The decrease in the name

brand products revenues was partially offset by the successful settlement of a \$4.1 million name brand product contract claim during the second quarter of 1996.

The Tampa manufacturing services business continues to suffer from underutilized capacity. A large government contract was completed late in 1994 and orders on two commercial contracts were reduced during 1995 due to the customers' need to reduce their inventory levels. GTC also lost opportunities with two commercial customers due to a change in outsourcing strategies which resulted in the loss of a significant level of planned business. During 1996, GTC's domestic operations also experienced the impact of reduced demand from certain semiconductor industry customers and also suffered from increased facility underutilization related to certain contract terminations. The Company also expects certain contract requirements to decline during 1997, which could further reduce the utilization of the domestic operations. In an effort to mitigate the impact of these reduced contract requirements, management is implementing cost reduction strategies and is increasing its Tampa marketing efforts on high product mix and advanced packaging services.

GTC's Latin American manufacturing services business grew significantly during 1995 and 1996. GTC entered into a manufacturing services agreement in July 1995 to provide contract manufacturing services in Brazil to GTC's largest commercial customer, IBM. The Brazilian operation began contributing to revenue and operating profit during the third quarter of 1995. During 1996, GTC's presence in Brazil expanded as a result of the start-up of a second Brazilian facility. While the Company also fostered growth at its Mexican facility during 1995, certain Mexican-based contracts were terminated during 1996, creating underutilized capacity at that facility. In response to this underutilized capacity, the Company has retained new marketing management and has increased its high volume manufacturing marketing efforts.

To enhance GTC's prospects for achieving an adequate revenue load in future periods, management has structured the marketing and sales function to optimize the Company's capabilities at each of its manufacturing facilities. The marketing efforts for GTC's domestic, Mexican and Brazilian manufacturing services operations are focused on high product mix and advanced packaging, high volume manufacturing, and box build services, respectively.

#### Gross Profit

Gross profit increased to \$6.8 million for 1996, compared to \$4.5 million for 1995. The gross margin increased to 3.0% in 1996 as compared to 1.6% in 1995. The net increase of \$2.3 million represents an increase in gross profit in the Tampa-based manufacturing and engineering services operations of \$9.0 million and an increase from increased sales by GTC's Latin American operations of \$1.4 million, partially offset by a decrease associated with GTC's divestiture of name brand product lines of \$8.1 million. The name brand product line claim referred to above contributed \$4.1 million to 1996 gross profit. Therefore, adjusting for the effect of this claim, the gross margin percentage in 1996 remained relatively consistent with the 1995 percentage. Included in the costs of operations in 1996 are costs amounting to \$7.4 million which are more fully discussed below.

GTC's ability to generate the expected level of profitability on contracts is highly dependent on its ability to effectively manage materials. The Company recognized inventory adjustments of \$3.6 million, including \$1.7 million related to two contract terminations during the year and \$1.9 million related to excessive domestic and foreign scrap and related physical inventory adjustments. GTC performed its physical inventory counts on a semi-annual basis during 1996 and will continue to evaluate its inventory control and physical inventory count procedures to minimize the risk of material adjustments in the future. Management also evaluated the profitability on certain long-term contracts and recorded costs associated with changes in contract estimates of loss contracts of \$1.0 million during the second quarter of 1996 and \$0.8 million in the fourth quarter. Other estimate changes on long-term contracts were also recognized during 1996. These estimate changes principally resulted from the Company's

inability to achieve expected labor costs or material costs during the year. Costs associated with asset disposals and deferred rent payments for capital equipment amounted to \$1.6 million. Severance costs also negatively impacted gross margin by \$0.4 million in 1996.

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During 1995, the Company also recognized significant charges to its operations, which are more fully discussed under the caption "Year ended December 31, 1995 compared to year ended December 31, 1994" included herein below.

#### Selling, General and Administrative Expense

Selling, general and administrative expense was \$11.5 million or 5.1% of revenue in 1996, as compared to \$19.7 million or 7.2% of revenue for 1995. This decrease principally represents a \$6.2 million reduction of costs associated with the sale of substantially all of the assets of Metrum. Decreased administrative expenses also resulted from continued cost reduction initiatives including work force reductions during 1996. Cost reduction activities implemented at various times during 1995 contributed to the significant cost reductions realized in 1996 as compared to the full year ended December 31, 1995. These reductions offset the impact of \$1.4 million of costs in 1996, including severance costs of \$0.5 million and costs incurred for the expected closure of a Tampa warehouse of \$0.9 million.

With regard to warehouse costs, in the second quarter of 1996 GTC implemented a cost saving strategy to integrate the materials warehousing function into its main Tampa facility. The total cost of the move was originally estimated to be \$0.4 million, but an increased cost of \$0.5 million was recorded in the fourth quarter based on actual costs incurred and the review of additional information regarding sublease strategies.

Selling, general and administrative expense also includes \$1.0 million of provisions for doubtful accounts receivable, as compared to \$1.3 million recognized in 1995. The provision for doubtful accounts in both 1995 and 1996 represents a change in estimate of collectibility following extensive communications with the respective customers regarding non-payment of invoices and conclusions or settlements reached during the year regarding ultimate collectibility.

#### Research and Development

Research and development expense was \$0.3 million or 0.1% of revenue in 1996, as compared to \$3.0 million or 1.1% of revenue for 1995. The decrease reflects the fact that the Company's research and development efforts have historically been concentrated on the divested name brand products business units. GTC's manufacturing and engineering services businesses are expected to continue to require limited levels of research and development in the future.

#### Interest Expense

Interest expense was \$2.9 million or 1.3% of revenue in 1996, as compared to \$2.9 million or 1.1% of revenue in 1995. Interest expense remained relatively constant with 1995 levels despite a significant reduction in outstanding debt during 1996. The increased interest rate is partly attributable to the amortization of warrants issued in the first quarter of 1996 in connection with an amended and restated credit facility. The increased interest rate also results from a higher weighted average interest rate incurred in the second half of 1995 and throughout 1996 on the Company's principal credit facility.

#### Income Tax Expense

Income tax expense of \$0.8 million in 1996 is primarily attributable to the Company's international operations and Metrum state taxes payable. While an income tax benefit of \$4.0 million was recognized in 1995, as of December 31, 1995, the Company had substantially exhausted the benefits of any income tax

loss carrybacks. Also as of December 31, 1996, the Company has recorded a valuation allowance for all temporary differences and income tax loss carryforwards.

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Year Ended December 31, 1995 Compared to Year Ended December 31, 1994

#### Revenue

Revenue decreased by 0.2% to \$273.6 million for 1995, as compared to \$274.1 million for 1994. The net change in revenue was derived from an increase in sales by GTC's expanding Latin American operations offset by a decrease in sales related to the divestiture of certain of GTC's name brand product lines during the second quarter of 1995, a decline in sales from the balance of the name brand product lines and a decrease in sales to commercial customers of GTC's domestic manufacturing services business.

#### Gross Profit

Gross profit decreased to \$4.5 million for 1995, compared to \$36.3 million for 1994. The gross margin decreased to 1.6% in 1995 as compared to 13.2% in 1994. The decline in gross profit is attributable to depressed margins on GTC's domestic and international manufacturing services and charges during 1995 totaling \$11.6 million related to inventories, estimated losses on terminated contracts, asset disposals, operating lease liabilities and severance costs. The lower-margin performance on the domestic and international manufacturing service resulted from the start-up of new contracts in GTC's Tampa and Mexican operations which replaced certain high-margin contracts completed in the fourth quarter of 1994. Additionally, a higher percentage of GTC's 1994 revenue was realized from contracts performed with consigned materials at relatively high gross margins as compared to 1995. During 1994, GTC also recognized gross profit of \$4.5 million resulting from favorable changes in contract and claim estimates and \$2.7 million from the settlement of a government contract termination claim.

Management exercises careful judgment in its determination of the adequacy of its reserves for excess and obsolete inventories. Charges recognized by GTC during the second and fourth quarters of 1995 were the result of thorough evaluations conducted by management in the respective quarters of these reserve balances. GTC charged \$2.0 million and \$3.2 million to cost of operations during the second and fourth quarters of 1995, respectively, to increase its reserve for excess and obsolete inventories. Included in the fourth quarter charge for excess and obsolete inventories was \$2.2 million related to Badger inventories. The Badger product line was divested in March 1996.

Concurrent with its review of inventory levels during the second quarter of 1995, management also evaluated a number of its contracts which were not meeting GTC's volume or margin targets. The review resulted in improved pricing on certain contracts; however, it also resulted in decisions, mutually agreed to with customers, to terminate unprofitable contracts. GTC charged \$1.8 million and \$0.5 million to cost of operations during the second and fourth quarters of 1995, respectively, to recognize estimated losses on terminated or unprofitable contracts.

During the fourth quarter of 1995, management evaluated the probability of a contribution to future earnings from a certain specialized manufacturing equipment item currently under lease. The operating lease was entered into in November 1994 and GTC has since been unsuccessful in attracting customers requiring this specific technology. During the implementation of the technology center concept during the fourth quarter of 1995, management determined that this equipment did not adequately match the strategies of any of the technology centers. Following its review of the business opportunities for this equipment, management elected to pursue the disposition of the equipment through a sale or assignment of lease. Management charged \$1.1 million to cost of operations during the fourth quarter of 1995 to recognize the net present value of future costs associated with this lease.

GTC conducted its annual physical inventory count for its domestic and international manufacturing businesses on October 31, 1995 and December 31, 1995, respectively. Management subsequently completed the reconciliation of its perpetual inventory records to its physical count which resulted in a fourth quarter charge to cost of operations of approximately \$1.7 million and an additional inventory adjustment for an accounts payable reconciliation performed contemporaneously with the physical inventory of \$0.8 million. The significant difference

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between the perpetual and physical amounts was not anticipated by management. Management believes that improvements in the stability of GTC's material management system and the implementation of additional inventory control procedures will reduce the likelihood of significant book to physical adjustments in the future. GTC has also implemented user training programs to certify the users on the materials management system. GTC also recognized certain other charges during the fourth quarter totaling \$0.5 million related to the disposal of idle manufacturing equipment.

#### Selling, General and Administrative Expense

Selling, general and administrative expense was \$19.7 million or 7.2% of revenue in 1995, as compared to \$20.6 million or 7.5% of revenue for 1994. Selling, general and administrative expense decreased due to company-wide cost reduction initiatives implemented at various times throughout 1995 and the divestiture of two of Metrum's lines of name brand products during the second quarter. These reductions offset the impact of a \$1.3 million provision for uncollectible accounts during 1995 (including \$0.8 million recorded in the second quarter following extensive communications with the respective customers regarding non-payment of invoices and conclusions or settlements reached regarding ultimate collectibility) and increased costs associated with GTC's Latin American operations. GTC also recognized certain other charges during the second quarter totaling \$0.6 million related to employee severance costs and costs associated with an uncompleted business acquisition. GTC also recognized a charge during the fourth quarter totaling \$0.5 million related to the write-off of terminated financing agreement costs.

#### Research and Development

Research and development expense was \$3.0 million or 1.1% of revenue in 1995, as compared to \$5.2 million or 1.9% of revenue for 1994. Reductions in research and development expense were implemented in the first quarter of 1995, and the second quarter Metrum divestitures resulted in further reductions.

#### Interest Expense

Interest expense was \$2.9 million or 1.1% of revenue in 1995, as compared to \$2.0 million or 0.7% of revenue in 1994. Interest expense increased due to a significant increase in the average debt outstanding and an increase in the Company's interest rate which occurred during the third quarter of 1995.

#### Income Tax Expense

Income taxes include current and deferred tax benefits and expense in 1995 and 1994. GTC recorded a \$4.4 million valuation allowance against its deferred tax assets during 1995. GTC also recorded a current tax benefit for the amount of federal and state income taxes refundable as a result of the 1995 operating loss.

#### Dispositions of Assets

Beginning in 1995, management focused its attention toward the actions necessary to return GTC's core manufacturing services business to profitability. Management believed that the focus of GTC's human and financial resources should be directed to its core business and, therefore, made decisions during 1995 to begin the divestiture of substantially all of GTC's line of name brand products.

Another factor considered by management in reaching its decision to divest these operations was GTC's need to reduce its outstanding debt under its revolving credit agreement, which resulted in part from non-compliance with its credit agreement. These divestitures were completed during the first quarter of 1996.

GTC's product offerings historically included a line of name brand products. All sales of GTC's Metrum subsidiary were considered name brand products, namely computer peripheral products, digital color imaging products and instrumentation recording products. GTC also marketed a line of ruggedized computers under the

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Badger tradename. Management successfully completed sale transactions for substantially all of the assets of the peripherals products and imaging products businesses during the second quarter of 1995 and the instrumentation products and Badger products businesses during the first quarter of 1996. The aggregate sales price of the name brand products businesses was approximately \$18.0 million, which was paid with \$16.4 million in cash and a note receivable of \$1.6 million. GTC retained approximately \$2.4 million in liabilities associated with the Metrum business, which liabilities related primarily to certain employee benefits, accrued income taxes and commissions. GTC retained certain warranty obligations of the Badger product in addition to performance obligations under a contract with a customer who is in competition with the buyer of the assets. GTC recorded charges of \$0.2 million and \$0.3 million to cost of operations and other expense, respectively, during the second quarter of 1995 related to the Metrum divestitures and a \$2.2 million charge to cost of operations during the fourth quarter of 1995 to write down its Badger inventories to the negotiated sale price. GTC recorded a \$0.6 million increase in capital related to the first quarter 1996 instrumentation products divestiture.

Revenue from GTC's name brand products line, in the aggregate, typically generated higher gross profit margins than revenue from GTC's manufacturing and engineering services. However, the development of name brand products and the maintenance and growth of the market position of these name brand products require significantly higher amounts of research and development and selling, general and administrative expenditures than are required by GTC's manufacturing and engineering services.

#### Foreign Currency

In addition to its domestic operations, GTC provides manufacturing services in Brazil and Mexico. The Company recognized foreign currency exchange losses due to the devaluation of the Mexican new peso, which, in the aggregate, amounted to \$0.5 million or 0.2% of revenue in 1994. Foreign currency transaction gains and losses in Latin America have generally not been significant.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$7.7 million and \$9.4 million in 1996 and 1995, respectively. The principal contributors to the positive operating cash flow in 1996 include recognition and collection of a name brand products claim, collection of income tax refunds, collection of accounts receivable and reduced inventory levels. Significant cash payments reducing accounts payable served to partially off-set the positive contributing items. At the end of 1995, the Company was substantially beyond its payment terms with its suppliers. While GTC continues to extend its payments beyond normal terms, a significant effort was made during 1996 to reduce the days accounts payable are outstanding, contributing to the overall reduction in accounts payable. GTC has long-term relationships with a majority of its suppliers and as a result, has been successful in continuing to work on reasonable credit terms with its supplier base.

Net cash provided by investing activities was \$8.2 million as compared to net cash used in investing activities of \$2.8 million in 1995. Capital expenditures in 1996 and 1995 were \$3.4 million and \$8.0 million, respectively.

GTC's investments in manufacturing equipment in both 1996 and 1995 were required to expand its Latin American capacity, maintain its competitive position and respond to technological changes. The Company expects its capital expenditures in 1997 to be comparable to or less than 1996 levels. The divestiture of GTC's name brand product lines during 1996 and 1995 generated net proceeds of approximately \$11.6 million and \$5.2 million, respectively.

Net cash used in financing activities was \$17.4 million and \$5.8 million during 1996 and 1995, respectively. During both 1996 and 1995, GTC significantly reduced debt outstanding on its primary credit agreement and other debt. The 1996 reductions were principally provided for by the divestiture of GTC's name brand products line in the first quarter of 1996, settlement of a name brand products claim, and by income tax refunds received during the year. GFP also invested \$0.3 million in 1995 to provide funding for the start-up of GTC's Brazilian operation.

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The credit agreement between GTC and its bank entered into on March 29, 1996 (the "Credit Agreement") was amended on March 28, 1997. As more fully discussed below, the March 27, 1997 amendment (the "Amendment") resulted in, among other matters, reduced credit availability, an investment from GFP, and more lenient financial covenants. A revolving credit facility issued under the Credit Agreement provided credit availability up to \$27.5 million through December 1996 and, as amended, provides \$13.5 million through March 1998, subject to a borrowing base consisting of eligible accounts receivable and inventories. During 1996, GTC fully repaid a \$5.0 million note and reduced the principal outstanding on a \$3.3 million term note by \$0.6 million. Both of the notes payable were issued under the Credit Agreement. During the first quarter of 1997, GTC repaid an additional \$0.5 million on the \$3.3 million term note.

In connection with execution of the Credit Agreement in 1996, GFP invested \$1.0 million in GTC in exchange for 374,531 shares of GTC Common Stock. GTC also issued warrants to the bank to purchase 1.2 million shares of GTC Common Stock for \$.01 per share, 0.2 million of which became vested at closing. As amended, the Credit Agreement provides for the balance of the warrants to become exercisable as follows; 125,000 on March 31, 1997; 375,000 on June 30, 1997, 250,000 on September 30, 1997; and, 250,000 on December 31, 1997. Vesting of these warrants is also subject to an acceleration clause included in the Credit Agreement. The bank will forfeit any unvested warrants in the event GTC repays all debt outstanding prior to any warrant vesting date.

In connection with the Amendment, during the first quarter of 1997 GFP invested \$2.5 million in GTC in exchange for 250,000 shares of GTC Preferred Stock (the "Preferred Stock"). The Preferred Stock is redeemable and pays quarterly dividends of 8.5% per annum. The Preferred Stock is redeemable at the option of the holder upon repayment by the Company of all of its outstanding Credit Agreement indebtedness. The Preferred Stock is also convertible and each share may be exchanged for 8.3 shares of the Company's Common Stock.

#### Planned Merger

The Company has filed a registration statement with the Securities and Exchange Commission regarding its intent to merge with GFP and two of GFP's subsidiaries. The registration statement has not become effective and the Company can make no assurances regarding the completion of the merger, the timing of the merger or the effect the merger may have on the Company's results of operations or liquidity.

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Item 8. Financial Statements and Supplementary Data



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders  
Group Technologies Corporation

We have audited the accompanying consolidated balance sheets of Group Technologies Corporation as of December 31, 1995 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Group Technologies Corporation at December 31, 1995 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. 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

Tampa, Florida  
March 28, 1997

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GROUP TECHNOLOGIES CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except for share data)

[CAPTION]

	December 31,	
	1995	1996
-----		-----

ASSETS

Current assets:

Cash and cash equivalents	\$2,143	\$661
Accounts receivable, net	31,167	22,754
Inventories, net	46,499	20,220
Other current assets	7,965	2,102
	-----	-----
Total current assets	87,774	45,737
Property and equipment, net	24,090	21,206
Other assets	1,242	522
	-----	-----
	\$113,106	\$67,465
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$37,789	\$17,969
Accrued liabilities	17,892	16,416
Current portion of long-term debt	8,171	3,513
	-----	-----
Total current liabilities	63,852	37,898
Long-term debt	23,050	10,119
Other liabilities	364	45
	-----	-----
Total liabilities	87,266	48,062

Commitments and contingencies

Shareholders' equity:

Preferred Stock, \$.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	0	0
Common stock, \$.01 par value, 40,000,000 shares authorized; 15,828,707 and 16,220,629 shares issued and outstanding in 1995 and 1996, respectively	158	162
Additional paid-in capital	22,537	24,675
Retained earnings (deficit)	3,145	(5,434)
	-----	-----
Total shareholders' equity	25,840	19,403
	-----	-----
	\$113,106	\$67,465
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

GROUP TECHNOLOGIES CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except for per share data)

[CAPTION]

	Years ended December 31,		
	1994	1995	1996
	-----	-----	-----

Revenue	\$274,147	\$273,647	\$224,661
Cost of operations	237,867	269,150	217,890
	-----	-----	-----
Gross profit	36,280	4,497	6,771
Selling, general and administrative expense	20,561	19,683	11,453
Research and development	5,170	3,041	299
	-----	-----	-----
Operating income (loss)	10,549	(18,227)	(4,981)
Interest expense	2,048	2,907	2,858
Other expense (income)	504	521	(59)
	-----	-----	-----
Income (loss) before income taxes	7,997	(21,655)	(7,780)
Income taxes	3,297	(3,982)	799
	-----	-----	-----
Net income (loss)	\$4,700	\$ (17,673)	\$ (8,579)
	=====	=====	=====
Net income (loss) per share:			
Primary	\$0.30	\$ (1.13)	\$ (0.53)
Fully diluted	\$0.30	\$ (1.13)	\$ (0.53)
Shares used in computing per share amounts:			
Primary	15,644	15,695	16,157
Fully diluted	15,789	15,695	16,157

The accompanying notes are an integral part of the consolidated financial statements.

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GROUP TECHNOLOGIES CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(in thousands, except for share data)

[CAPTION]

	Common Stock		Additional	Retained	Deferred	Share-
	Shares	Amount	Paid-In	Earnings	Compen-	holders'
	-----	-----	Capital	(Deficit)	sation	Equity
	-----	-----	-----	-----	-----	-----
Balance at						
December 31, 1993	12,508,800	\$125	\$875	\$16,492	\$ (152)	\$17,340
Common stock issued	2,050,560	20	17,793	0	0	17,813
Compensation expense						
recorded in connection						
with issuance of						
redeemable common stock	0	0	0	277	0	277
Deferred compensation	0	0	0	0	152	152
Conversion of redeemable						
common stock to						
shareholders' equity	1,067,187	11	3,157	(651)	0	2,517
Net income		0	0	4,700	0	4,700
	-----	-----	-----	-----	-----	-----
Balance at						
December 31, 1994	15,626,547	156	21,825	20,818	0	42,799
Common stock issued						
and issuable	202,160	2	712	0	0	714

Net loss	0	0	0	(17,673)	0	(17,673)
	-----	----	-----	-----	----	-----
Balance at						
December 31, 1995	15,828,707	158	22,537	3,145	0	25,840
Common stock issued	391,922	4	1,045	0	0	1,049
Warrants issued	0	0	480	0	0	480
Capital contribution	0	0	613	0	0	613
Net loss	0	0	0	(8,579)	0	(8,579)
	-----	----	-----	-----	----	-----
Balance at						
December 31, 1996	16,220,629	\$162	\$24,675	\$ (5,434)	\$0	\$19,403
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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GROUP TECHNOLOGIES CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

[CAPTION]

	Years ended December 31,		
	1994	1995	1996
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss)	\$4,700	\$(17,673)	\$(8,579)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,402	5,596	5,214
Compensation paid with redeemable common stock	429	0	0
Deferred income taxes	2,499	741	251
Provision for inactive, obsolete and unsalable inventories	540	6,939	3,567
Provision for doubtful accounts	571	1,293	961
Provision for idle leased equipment	0	1,104	0
Loss on equipment disposals and other	273	778	1,134
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	(2,856)	1,875	4,195
Inventories	(7,172)	3,287	15,497
Other current and non-current assets	(4,403)	(3,752)	4,737
Accounts payable	(3,829)	8,043	(18,872)
Accrued and other liabilities	(9,052)	1,183	(389)
	-----	-----	-----
Net cash (used in) provided by operating activities	(12,898)	9,414	7,716
Cash flows from investing activities:			
Capital expenditures	(7,271)	(8,042)	(3,408)
Proceeds from disposal of assets	0	5,214	11,561
	-----	-----	-----
Net cash (used in) provided by investing activities	(7,271)	(2,828)	8,153
Cash flows from financing activities:			
Net proceeds (repayments) under line of credit agreement	19,212	(4,667)	(10,418)
Repayments of notes payable and long-term debt	(22,573)	(1,505)	(7,933)

Net proceeds from issuance of common stock	17,801	401	1,000
	-----	-----	-----
Net cash provided by (used in) financing activities	14,440	(5,771)	(17,351)
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(5,729)	815	(1,482)
Cash and cash equivalents at beginning of year	7,057	1,328	2,143
	-----	-----	-----
Cash and cash equivalents at end of year	\$1,328	\$2,143	\$661
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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GROUP TECHNOLOGIES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business

Group Technologies Corporation (the "Company") was incorporated on December 27, 1988 as a subsidiary of Group Financial Partners, Inc. (the "Parent"), a private holding company. The Parent owns approximately 80% of the outstanding Common Stock of the Company.

The Company provides advanced manufacturing, engineering and testing services to original equipment manufacturers ("OEMs") of electronic products. The Company custom manufactures complex circuit card assemblies, subsystems and end-user products for use in a wide variety of markets, including automotive, commercial avionics, computer, government systems, industrial electronics, networking, space, and telecommunications.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries (hereinafter collectively referred to as the "Company"). The Company's operating subsidiaries are Group Technologies, S.A. de C.V. ("GTC Mexico") and Group Technologies Suprimentos de Informatica Industria e Comercio Ltda. ("GTC Brazil"). Substantially all of the assets of Metrum Inc. ("Metrum"), which remains a wholly owned subsidiary of the Company, were sold on February 9, 1996 (see Note 4). All significant intercompany transactions and accounts have been eliminated.

Use of Estimates

The preparation of the 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. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Inventories

Contract inventories are stated at actual production costs, reduced by the cost of units for which revenue has been recognized. Gross contract inventories are considered work in process. Progress payments under long-term contracts are

specified in the contracts as a percentage of cost and are liquidated as contract items are completed and shipped. Other inventories are stated at lower of cost (first-in, first-out) or market. Inventories of Metrum are stated at lower of cost (last-in, first-out) or market.

#### Property and Equipment

Property and equipment is stated at cost. Leasehold improvements are amortized over the lease term using the straight-line method. Machinery, equipment, furniture and fixtures are depreciated over their estimated economic lives (three to ten years). Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major renewals and improvements are capitalized.

Effective January 1, 1995, the Company changed its method of depreciation for financial reporting purposes for newly acquired machinery, equipment, furniture and fixtures from principally an

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accelerated method to the straight-line method. Management believes that the straight-line method of depreciation provides a preferable matching between expected productivity and cost allocation since the equipment's operating capacity and consumption generally remains consistent over time. The change had no cumulative effect on prior year earnings and was not material to operating results for the year ended December 31, 1995.

#### Amortization

Noncompete agreements are amortized over five years and patents and other intangible assets are amortized over their composite economic life of seven years, using the straight-line method. The excess of the fair value of the net assets of an acquired business over the purchase price of such net assets (negative goodwill) is amortized using the straight-line method over five years. Negative goodwill included in other non-current liabilities at December 31, 1995 was \$261,000. Accumulated amortization of negative goodwill at December 31, 1995 was \$396,000. In connection with the disposition of a portion of Metrum's assets during 1995, negative goodwill with an unamortized basis of \$330,000 was included in the net book value of assets sold for purposes of determining the loss. As a result of the disposition of substantially all of Metrum's remaining assets during 1996, there was no negative goodwill remaining at December 31, 1996.

#### Contract Revenue Recognition

A portion of the Company's business is conducted under long-term fixed-price contracts with OEMs, the United States government and its prime contractors. Contract revenue is included in the statement of operations as units are completed and shipped using the units of delivery, percentage of completion method of accounting. The costs attributed to contract revenue are based upon the estimated average costs of all units to be shipped. The cumulative average costs of units shipped to date is adjusted through current operations as estimates of future costs to complete change (see Contract Accounting).

Revenue recognized under the percentage of completion method of accounting amounted to \$60,500,000, \$57,945,000 and \$54,397,000 in 1994, 1995 and 1996, respectively. Substantially all such amounts were accounted for under the units of delivery method. All other revenue is recognized as product is shipped and title passes.

#### Contract Accounting

For long-term contracts, the Company capitalizes in inventory direct material, direct labor and factory overhead as incurred. The Company also capitalizes certain general and administrative costs for estimating and bidding on contracts awarded (of which approximately \$210,000 remained in inventory at

December 31, 1995 and 1996). Selling costs are expensed as incurred. Costs to complete long-term contracts are estimated on a monthly basis. Estimated margins at completion are applied to cumulative contract revenue to arrive at costs charged to operations.

Accounting for long-term contracts under the percentage of completion method involves substantial estimation processes, including determining the estimated cost to complete a contract. As contracts may require performance over several accounting periods, formal detailed cost to complete estimates are performed which are updated monthly via performance reports. Management's estimates of costs to complete change due to internal and external factors such as labor rate and efficiency variances, revised estimates of warranty costs, estimated future material prices and customer specification and testing requirement changes. Changes in estimated costs are reflected in gross profit in the period in which they are known. If increases in projected costs to complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known. Provisions for losses on

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firm fixed-price contracts amounted to \$1,226,000, \$700,000 and \$2,327,000 in 1994, 1995 and 1996, respectively.

The Company recognized income before income taxes in 1994 of approximately \$4,500,000 resulting from favorable changes in contract and contract claim estimates for which all related costs had been charged to operations in previous years. Approximately \$3,100,000 of such estimate revisions were recognized by the Company during the fourth quarter of 1994. While contract claim reserves were initially established in response to customer assertions regarding product failures, tests regarding the alleged failures ultimately were determined to be inconclusive, requiring a change in estimate. The Company also successfully negotiated the settlement of a government contract termination claim and recognized income before income taxes of approximately \$2,700,000 in 1994. During the second quarter of 1996, the Company successfully settled a name brand products contract claim and recognized revenue and income before income taxes of approximately \$4,100,000 associated with that settlement.

#### Research and Development

Company sponsored research and development costs are expensed as incurred.

#### Income Taxes

The Company and its domestic subsidiaries were included in the consolidated federal income tax return of the Parent from the Company's inception through March 22, 1995. Effective March 23, 1995, as a result of a decrease in the Parent's ownership percentage of the Company, the Company did not meet the 80-percent-voting power and value requirements defined by the Internal Revenue Code for affiliated group membership and ceased to be an includable member of the Parent's affiliated group. The Company and its domestic subsidiaries separately filed its initial consolidated federal income tax return for the period March 23, 1995 through December 31, 1995. Effective March 29, 1996, as a result of an increase in the Parent's ownership percentage of the Company, the Company again met the 80-percent-voting power and value requirements defined by the Internal Revenue Code for affiliated group membership and expects to be an includable member of the Parent's affiliated group beginning March 29, 1996.

For financial reporting purposes during the tax periods in which the Company is or expects to be included in the Parent's consolidated federal income tax return, income taxes are accounted for on a separate return basis, including deferred income taxes. For those tax periods, liabilities for, or refunds of, federal income taxes were calculated on a stand-alone basis and were payable to, or receivable from, the Parent.

The Company has applied the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires an asset and

liability approach in accounting for income taxes for all years presented.

#### Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. The Company's OEM customer base consists primarily of large computer and electronic manufacturers and its commercial accounts receivable are concentrated with a few of these large companies. Although the Company is directly affected by the well being of the computer and electronics industry, management does not believe significant credit risk exists at December 31, 1996.

The Company earned revenue from the United States government and its agencies of approximately \$51,200,000 (19% of revenue), \$53,643,000 (20% of revenue) and \$38,635,000 (17% of revenue) during 1994, 1995 and 1996, respectively. The Company also served as a subcontractor to a

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variety of prime contractors under contract with the federal government, which in the aggregate, represented approximately 11%, 9% and 12% of the Company's revenue in 1994, 1995 and 1996, respectively. The Company's largest commercial customer was IBM which represented approximately 14%, 16% and 16% of the Company's revenue in 1994, 1995 and 1996, respectively. Sales to International Game Technology represented approximately 10% of the Company's revenue in 1996. No other single customer accounted for more than 10% of the Company's revenue in 1994, 1995 or 1996.

#### Foreign Currency Translation

The United States dollar is the functional currency for the Company's GTC Mexico and GTC Brazil subsidiaries. Foreign currency transaction gains and losses, which are insignificant in all years presented, are included in determining net income.

#### Stock-Based Compensation

The Company grants stock options under its Stock Option Plans to employees and independent directors (see Note 13). The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense for the stock option grants.

#### Net Income (Loss) Per Share

Net income per share is computed using the weighted average number of issued and issuable common shares, redeemable common shares and equivalent shares outstanding. Net loss per share is computed using the weighted average number of issued and issuable common shares outstanding. The computation of fully diluted net loss per share was antidilutive during the years ended December 31, 1995 and 1996; therefore, the number of shares used for computing primary and fully diluted loss per share are the same. Stock issued within one year of the Company's initial public offering at below the estimated initial public offering price is reflected as outstanding for 1994. All share and per share data in the accompanying financial statements retroactively reflect a 6-for-1 stock split effected March 4, 1994.

#### Impact of Recently Issued Accounting Standards

In March 1995, Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", was issued which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' underlying carrying amount. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The effect of the implementation of Statement No. 121 in 1996 was not



significant.

In October 1995, Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation," was issued which provides an alternative to APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based compensation issued to employees. The Statement allows for a fair value based method of accounting for employee stock options and similar equity instruments. However, for companies that continue to account for stock-based compensation arrangements under Opinion No. 25, Statement No. 123 requires disclosure of the pro forma effect on net income and earnings per share of its fair value based accounting for those arrangements. These disclosure requirements are effective for fiscal years beginning after December 15, 1995, or upon initial adoption of the statement, if earlier. The Company evaluated the effects of applying Statement 123's fair value method to the Company's stock-based awards and determined that the results in pro forma net income

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and earnings per share were not materially different from the actual amounts reported and therefore no separate pro forma results are being included.

### (3) Acquisitions

On July 4, 1994, GTC Mexico, a wholly-owned subsidiary of the Company, acquired certain assets and assumed certain liabilities of Philips Mexicana, S.A. de C.V. The transaction was accounted for as a purchase in which a liability of \$1,200,000 to the seller based on sales to customers of GTC Mexico during the next five years was allocated based on fair values of assets acquired and liabilities assumed. No goodwill resulted from this transaction. The 1994 consolidated statement of operations includes amounts for GTC Mexico from July 4, 1994.

On July 18, 1995, GTC Brazil acquired certain manufacturing equipment of IBM Brasil-Industria, Maquinas e Sevcicos Ltda. ("IBM Brasil"). The transaction was accounted for as a purchase in which the purchase price of \$4,900,000, in the form of a note payable to the seller, was allocated based on fair values of assets acquired. No goodwill resulted from this transaction. The 1995 consolidated statement of operations includes amounts for GTC Brazil from July 18, 1995.

These acquisitions did not have a significant effect on the Company's results of operations in 1994 and 1995.

### (4) Dispositions

The Company completed two transactions during 1995 and one transaction on February 9, 1996, which, in the aggregate, resulted in the sale of substantially all of the assets of its Metrum subsidiary. On May 31, 1995, the assets of the peripherals products business unit of Metrum were sold to MountainGate Data Systems, Inc., a subsidiary of Lockheed Martin Corporation for \$5,247,000, consisting of cash of \$3,655,000 and a note receivable from the buyer of \$1,592,000. On June 6, 1995, the assets of the imaging business unit of Metrum were sold to Sienna Imaging, Inc. for \$1,331,000 cash. On February 9, 1996, the assets of the instrumentation products business unit of Metrum were sold to Bell Technologies, Inc. ("Bell"), also a subsidiary of the Parent, for \$10,104,000 cash and an earn-out provision which provides for additional payments to the Company, up to \$3,000,000, in the event annual earnings before interest and taxes exceeds defined amounts through December 31, 2000. The sales price for each 1995 transaction approximated the net book value of the respective business units on the date of sale. The sales price for the February 9, 1996 transaction exceeded the net book value of assets and liabilities transferred by \$613,000. The proceeds from the sale transactions were used to reduce the Company's debt balance and to fund working capital needs. Revenue, net income and net income per share for Metrum were \$31,268,000, \$2,348,000 and \$0.15, respectively, for the year ended December 31, 1995.

Due to the common ownership interest of the Parent in the Company and Bell, the Company requested and obtained an independent opinion, which indicated that the consideration received by the Company for the sale of the instrumentation products business was fair, from a financial point of view, to the unaffiliated shareholders of the Company. In addition, due to the common ownership, the amount by which the sales price exceeds the net book value of assets and liabilities transferred of \$613,000 was recorded by the Company as a contribution to its capital.

On March 22, 1996, the Company sold substantially all of the assets related to its Badger line of name brand products. The Company recorded a \$2,200,000 charge to cost of operations during the fourth quarter of 1995 to reduce Badger inventory to the sale price.

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(5) Accounts Receivable

Accounts receivable consist of the following:  
[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Commercial customers	\$28,088	\$20,237
United States Government	3,862	3,763
	-----	-----
	31,950	24,000
Allowance for doubtful accounts	(783)	(1,246)
	-----	-----
	\$31,167	\$22,754
	=====	=====

Accounts receivable from the United States Government includes amounts due under long-term contracts, which are all billed, at December 31, 1995 and 1996 of \$2,568,000 and \$2,463,000, respectively. The provision for doubtful accounts was \$571,000, \$1,293,000 and \$961,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

(6) Inventories

Inventories consist of the following:  
[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Raw materials	\$34,469	\$12,538
Work in process	6,840	4,100
Finished goods	330	107
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	25,766	11,655
Progress payments related to long-term contracts and programs	(12,300)	(3,292)
Reserve for inactive, obsolete and unsalable	(8,606)	(4,888)
	-----	-----
	\$46,499	\$20,220
	=====	=====

The above amounts include inventory valued under the last-in, first-out ("LIFO") method totaling \$5,318,000 at December 31, 1995, which approximates replacement cost at that date. Provisions for inactive, obsolete and unsalable inventories were \$540,000, \$6,939,000 and \$3,567,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

(7) Other Current Assets

Other current assets consist of the following:  
[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Net deferred tax assets	\$589	\$0
Refundable income taxes	5,000	744
Other	2,376	1,358
	-----	-----
	\$7,965	\$2,102
	=====	=====

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(8) Property and Equipment

Property and equipment consists of the following:  
[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Leasehold improvements	\$6,954	\$6,426
Machinery, equipment, furniture and fixtures	39,780	38,594
	-----	-----
	46,734	45,020
Less accumulated depreciation	(22,644)	(23,814)
	-----	-----
	\$24,090	\$21,206
	=====	=====

Depreciation expense was \$5,350,000, \$5,073,000 and \$4,848,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

(9) Accrued Liabilities

Accrued liabilities consist of the following:  
[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Payments received from customers in excess of contract costs	\$5,340	\$3,657
Employee benefit plan accruals	4,045	2,423

Other	8,507	10,336
	-----	-----
	\$17,892	\$16,416
	=====	=====

Included in other current liabilities are employee payroll deductions, advance payments, accrued operating expenses and accrued interest, none of which exceed 5% of total current liabilities.

(10) Long-Term Debt

Long-term debt consists of the following:  
[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Revolving credit (a)	\$25,583	\$6,934
Term note (a)	0	2,690
Other (b)	5,638	4,128
	-----	-----
Total long-term debt	31,221	13,752
Less unamortized original issue discount (a)	0	(120)
Less current portion of long-term debt	(8,171)	(3,513)
	-----	-----
	\$23,050	\$10,119
	=====	=====

(a) On March 29, 1996, the Company entered into a financing agreement (the "Credit Agreement") with its bank to replace a prior debt instrument. The Credit Agreement provided the Company with a revolving line of credit facility (the "Revolver"), a \$3,300,000 two-year facility (the "Term Note") and an additional \$5,000,000 facility (the "1996 Note"). Borrowings under the Credit Agreement are secured by substantially all of the assets of the Company. Under the terms of the Credit Agreement, the Company pays interest monthly on outstanding borrowings at the prime rate (8.25% at December 31, 1996) plus 1.25%. The Company was provided credit availability on the Revolver equal to the lesser of \$27,500,000 or the applicable amount of its eligible accounts receivable and inventories through December 31, 1996. Available borrowings on the Revolver at December 31, 1996 were approximately \$6,800,000. As amended, the Credit Agreement provides credit availability on the

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Revolver equal to the lesser of \$13,500,000 or the applicable amount of its eligible accounts receivable and inventories through March 1998. Principal payments are due monthly on the Term Note. The 1996 Note was repaid in full during 1996.

The Company, in connection with the execution of the Credit Agreement, paid a \$250,000 fee and issued warrants to purchase 1,200,000 shares of Common Stock at \$0.01 per share to the lender. Upon execution of the Credit Agreement, 200,000 of the warrants became exercisable. As amended, the Credit Agreement provides for the balance of the warrants to become exercisable as follows; 125,000 on March 31, 1997; 375,000 on June 30, 1997, 250,000 on September 30, 1997; and, 250,000 on December 31, 1997.

The warrants will expire five years following the issue date. The lender will forfeit any unvested warrants in the event the Company repays all debt outstanding under the Credit Agreement prior to any vesting date. On March 29, 1996, the Company believed that it was probable that the Credit Agreement would be refinanced prior to the remaining warrants becoming exercisable. Therefore,

only the 200,000 warrants were considered in determining the fair value of the transaction. Unamortized original issue discount related to the issuance of the vested warrants is \$120,000 at December 31, 1996.

In connection with an amendment to the Credit Agreement on March 28, 1997, the Parent invested \$2,500,000 in GTC in exchange for 250,000 shares of GTC Preferred Stock (the "Preferred Stock"). The Preferred Stock is redeemable and pays quarterly dividends of 8.5% per annum. The Company agreed to utilize \$500,000 of the proceeds of the Preferred Stock to partially repay the Term Note. The Preferred Stock is redeemable at the option of the holder upon repayment by the Company of all of its outstanding Credit Agreement indebtedness. The Preferred Stock is also convertible and each share may be exchanged for 8.3 shares of the Company's Common Stock.

(b) In connection with two business acquisitions, the Company agreed to make additional payments to the sellers over a five-year period from the respective dates of acquisition based upon sales to certain customers. The Company believed the maximum future payments were probable and recorded debt equal to the net present value of the maximum future payments on the date of acquisition. At December 31, 1996, \$587,000 was payable to the sellers.

In connection with the acquisition of GTC Brazil, the Company is obligated on a note payable to IBM Brasil. The note is for a term of three years and is secured by GTC Brazil's equipment. The Company recorded the note at its net present value discounted at current market interest rates for comparable financing. The principal balance of the note is subject to annual adjustment under an economic price adjustment clause in the debt agreement. The adjustment calculated in 1996 was not significant. At December 31, 1996, \$2,928,000 was payable to the seller.

During 1996, the Company purchased approximately \$1,100,000 of equipment which was financed by the manufacturer. At December 31, 1996, \$613,000 was payable to the manufacturer.

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The annual maturities of long-term debt for each year ended December 31 are presented below. Maturities of debt incurred under the Credit Agreement have been reported on the basis that the commitment to lend under this agreement will be terminated at the end of its current term.

1997	\$3,513
1998	10,119

Interest paid during 1994, 1995 and 1996 was \$2,161,000, \$3,427,000 and \$2,974,000, respectively.

#### (11) Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying amount of debt outstanding under the Company's revolving credit agreement approximates fair value, due to the short-term nature of the instrument. The carrying amount of other long-term debt is assumed to approximate fair value because there have not been any significant changes in market conditions or specific circumstances since the instruments were recorded at fair value.

#### (12) Employee Benefit Plans

The Company sponsors defined contribution plans (the "Plans") for

substantially all domestic employees of the Company. The Plans are intended to meet the requirements of Section 401(k) of the Internal Revenue Code. The Plans allow the Company to match participant contributions as approved by the Board of Directors. Contributions to the Plans during 1994, 1995 and 1996 were \$2,271,000, \$1,783,000 and \$902,000, respectively.

The Company has partially self-insured employee medical plans. The plans limit the Company's annual obligations to fund claims to specified amounts per participant and in the aggregate. The Company is insured for amounts in excess of these limits. Employees are responsible, in some instances, for payment of a portion of the premiums. During 1994, 1995 and 1996, the Company charged \$5,287,000, \$4,526,000 and \$3,732,000, respectively, to operations related to reinsurance premiums, medical claims incurred and estimated, and administrative costs for its employee medical plans. Claims paid during 1994, 1995 and 1996 did not exceed the aggregate limits.

### (13) Stock Plans

In January 1990, the Company's Board of Directors adopted a stock option plan, a stock purchase plan and various incentive plans and adopted a formula price (the "Formula Price") valuation as a basis for establishing a value for a share of Common Stock. All shares of Common Stock issued to employees were subject to a restriction agreement, under which the Company was required to redeem all shares offered for redemption at the option of the employee or upon the termination, retirement, disability or death of the employee. On May 18, 1994, the effective date of the Offering, the 1990 Stock Option Plan and the Stock Purchase Plan were terminated and all restrictions on outstanding shares lapsed.

#### Stock Purchase Plan

The Company maintained a stock purchase plan (the "Stock Purchase Plan") from 1990 through May 1994. Eligible employees were permitted to purchase Common Stock annually for cash or semi-annually through payroll deductions and were awarded one bonus share of Common Stock (a "Bonus Share") for every three shares purchased. The Company amortized compensation expense related to Bonus Shares on a straight-line method over an eighteen-month vesting period. When the Stock Purchase

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Plan was terminated in 1994 all Bonus Shares became fully vested and the Company recognized the unamortized compensation related to the Bonus Shares as an expense.

In addition, compensation expense of \$247,000 was recorded in 1994 on shares purchased between December 31, 1993 and April 3, 1994 for the excess of the fair market value over the purchase price.

During 1994, 20,520 shares valued at \$295,000 were issued under the Stock Purchase Plan.

#### Stock Option Plans

In October 1994, the Board of Directors adopted the 1994 Stock Option Plan for Key Employees (the "1994 Plan") and the Independent Directors' Stock Option Plan (the "Directors Plan"). The 1994 Plan replaced the Stock Option Plan adopted in January 1990 (the "1990 Plan"). Options remain outstanding and exercisable under the terminated 1990 Plan; however, no further grants will be made under the 1990 Plan. During 1994, no options were granted under the 1990 Plan prior to its termination on May 18, 1994.

Under the 1994 Plan, as amended, options may be granted to employees to purchase a maximum of 800,000 shares of Common Stock. Options to purchase 179,000 and 553,066 shares were granted under the 1994 Plan during 1995 and 1996, respectively.

Under the Directors Plan, as amended, options may be granted to members of the Board of Directors who are not employees of the Parent, the Company or its subsidiaries to purchase a maximum of 300,000 shares of Common Stock. Options to purchase 10,000, 25,951 and 78,371 shares were granted under the Directors Plan during 1994, 1995 and 1996, respectively.

On February 2, 1996, the Board of Directors approved, subject to further approval by the shareholders, the Group Technologies Corporation Employee Stock Purchase Plan (the Purchase Plan) and reserved 1,000,000 shares of Common Stock for issuance under the Purchase Plan. No shares have been issued under this plan.

Options granted under the 1990 Plan have a maximum term of 13 years. Options granted under the 1994 Plan and the Directors' Plan have a maximum term of 10 years. The exercise price of all options granted under such plans must be at least 100% of the fair market value of such shares on the date of grant. The Option Plan Committee of the Board of Directors was formed in 1994 to administer the 1994 Plan and the Directors Plan. Until October 1996, the Option Plan Committee had the sole authority to select the individuals who were granted options and determine the number of shares subject to each option, fix the period during which each option may be exercised and fix the price at which shares subject to options may be purchased. Beginning in October 1996, both the full Board of Directors and the Option Plan Committee have authority to administer the stock option plans.

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The following table summarizes option activity for the three years ended December 31, 1996:

[CAPTION]

	Options Outstanding	
	Shares	Option price per share
	-----	-----
Balance at December 31, 1993	1,080,000	\$1.67-2.35
Granted	10,000	7.75
Terminated/forfeited	(60,000)	2.12
	-----	-----
Balance at December 31, 1994	1,030,000	1.67-7.75
Granted	204,951	4.50-6.38
Exercised	(90,000)	1.67
Terminated/forfeited	(125,000)	6.00-6.25
	-----	-----
Balance at December 31, 1995	1,019,951	1.67-7.75
Granted	631,437	0.84-3.00
Terminated/forfeited	(401,700)	2.35-6.00
	-----	-----
Balance at December 31, 1996	1,249,688	\$0.84-7.75
	=====	=====

At December 31, 1996, options to purchase 594,322 shares were exercisable under the Company's stock option plans with a weighted-average share price of \$2.07.

At December 31, 1995 and 1996 the weighted-average share price for options outstanding was \$2.33 and \$2.30, respectively. The weighted-average share price for options granted during 1996 was \$2.46. During 1996, 251,700 and 150,000 options were forfeited and expired, respectively. Forfeited and expired options in 1996 had weighted-average share prices of \$2.79 and \$2.35, respectively. The weighted-average remaining contractual life of options outstanding at December

31, 1996, was approximately five years.

(14) Shareholders' Equity

On February 18, 1994, the Company increased the number of shares of authorized Common Stock from 8,000,000 to 40,000,000 and authorized a new class of 1,000,000 shares of no par value Preferred Stock, none of which have been issued. On March 4, 1994, a 6-for-1 stock split was approved and ratified by the Board of Directors.

On April 20, 1994, the Company's Articles of Incorporation were amended to change the no par value Common Stock and Preferred Stock to \$.01 par value. The stock split and the change to \$.01 par value Common Stock have been retroactively reflected in the accompanying consolidated financial statements.

On May 18, 1994, the Company completed an initial public offering of 2,000,000 shares of Common Stock at \$10.00 per share (the "Offering"). The net proceeds of the Offering, after deducting applicable issuance costs and expenses were \$17,348,000, of which \$13,393,000 was used to reduce the Company's outstanding debt. On June 23, 1994, the Company issued an additional 50,000 shares of Common Stock at \$10.00 per share and applied the net proceeds of approximately \$465,000 to reduce the Company's outstanding debt. The effect on unaudited pro forma earnings per share giving effect to the Offering as if the Offering were consummated as of the beginning of 1994 is not significant.

Also during 1995 and 1996, certain transactions were executed with related parties (see Note 17).

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(15) Commitments and Contingencies

The Company leases all of its real property and certain computer, manufacturing and office equipment. The real property operating leases have terms up to ten years and contain various renewal and rent escalation clauses. The equipment operating leases have terms of up to five years. Future minimum noncancelable lease payments for each year ending December 31, are as follows:  
[CAPTION]

(in thousands)

1997	\$3,638
1998	3,553
1999	2,449
2000	1,151
2001	1,187
Thereafter	593

Rent expense for the years ended December 31, 1994, 1995 and 1996, was \$3,354,000, \$5,194,000 and \$3,660,000, respectively.

The Company is involved in certain litigation and contract issues arising in the normal course of business. While the outcome of these matters cannot, at this time, be predicted in light of the uncertainties inherent therein, management does not expect that these matters will have a material adverse effect on the consolidated financial position or results of operations of the Company.

(16) Income Taxes

The components of income tax expense (benefit) are:  
[CAPTION]

Years ended December 31,		
1994	1995	1996



-----      -----      -----  
(in thousands)

Income taxes currently payable (refundable):			
Federal	\$528	\$ (5,263)	\$ (333)
State	270	112	62
Foreign	0	428	481
	-----	-----	-----
	798	(4,723)	210
Deferred income taxes:			
Federal	2,301	668	589
State	198	73	0
	-----	-----	-----
	2,499	741	589
	-----	-----	-----
	\$3,297	\$ (3,982)	\$ 799
	=====	=====	=====

Income taxes paid during 1994 and 1996 were \$6,421,000 and \$762,000, respectively, including federal income taxes paid to the Parent of \$5,628,000 in 1994. Income tax refunds received during 1995 and 1996 were \$2,350,000 and \$4,928,000, respectively, all of which was received from the Parent. At December 31, 1995 and 1996, federal income taxes receivable from the Parent of \$5,073,000 and \$330,000, respectively, were included in other current assets.

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The following is a reconciliation of income tax expense recognized to that computed by applying the federal statutory rate of 34% in 1994, 1995 and 1996 to income before income taxes:

[CAPTION]

	Years ended December 31,		
	1994	1995	1996
	-----	-----	-----
	(in thousands)		
Federal tax at the statutory rate	\$2,719	\$ (7,363)	\$ (2,645)
State income taxes net of federal tax benefit	305	(76)	46
State tax net operating loss carry forward	0	(1,080)	(617)
Change in valuation allowance for deferred tax asset	0	4,367	3,175
Other	273	170	840
	-----	-----	-----
	\$3,297	\$ (3,982)	\$ 799
	=====	=====	=====

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to the uncertain nature of the ultimate realization of deferred tax assets based upon the Company's financial performance during 1995 and 1996 and the potential expiration of the net operating loss carryforward, the Company has established a valuation allowance against its deferred tax assets. The Company will recognize the benefits associated with the deferred tax assets only as reassessment demonstrates they are realizable. Realization is entirely dependent upon future earnings in specific tax jurisdictions. While the need for this valuation allowance is subject to periodic review, if the allowance is reduced, the tax benefits will be recorded in future operations as a reduction

of the Company's income tax expense.

Significant components of the Company's deferred tax assets and liabilities are as follows:

[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Deferred tax assets:		
Compensation and benefit accruals	\$ 920	\$ 773
Inventory valuation	2,279	1,550
Net operating loss carryforward	1,080	4,442
Other	1,037	1,409
	-----	-----
	5,316	8,174
Valuation allowance	(4,367)	(7,542)
Deferred tax liabilities:		
Depreciation	0	(458)
Contract provisions	(360)	(130)
Other	0	(44)
	-----	-----
Net deferred tax asset	\$ 589	\$ 0
	=====	=====

During the years ended December 31, 1995 and 1996, the Company recorded a valuation allowance of \$4,367,000 and \$3,175,000, respectively, on its deferred tax assets to reduce the total to an amount that management believes will more likely than not be realized. Realization of deferred tax assets is dependent upon sufficient taxable income during the period that temporary differences and carryforwards are expected to be available to reduce taxable income.

At December 31, 1996, for federal income tax purposes, the Company had a net operating loss carryforward of approximately \$7,920,000, which will expire in 2011. At December 31, 1996, for state

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income tax purposes, the Company had a net operating loss carryforward of approximately \$31,830,000, which will expire beginning in 2010.

#### (17) Related Party Transactions

The Company paid a corporate allocation (0.2% of revenue) to the Parent of \$548,000 during 1994. The Company's corporate allocation for 1995, charged to operations, consisted of \$274,000 in cash and 69,813 shares of Common Stock valued at \$300,000, based on the fair market value of the shares during the related period. All shares issuable as of December 31, 1995 were issued during 1996. During 1996, the corporate allocation consisted of the issuance of 17,391 shares of Common Stock valued at approximately \$50,000. The Company is also a party to a consolidated federal income tax sharing agreement with the Parent applicable to the tax periods during which the Company is includable in the Parent's consolidated federal income tax return.

The Company issued 374,531 shares of its Common Stock to the Parent in a private placement transaction in March 1996. The shares were sold to the Parent in exchange for \$1,000,000 in cash. The per share price of the transaction was equal to an average of the prices for the last sale transactions of the Common Stock on each of the last three business days immediately preceding the date of sale.

On February 9, 1996, the Company sold substantially all of the assets of

its Metrum subsidiary to a related party, which resulted in the recognition of additional paid-in capital of \$613,000 (see Note 4).

(18) Geographic Segments

The Company is a multinational corporation with operations in the United States, Mexico and Brazil. For the year ended December 31, 1994, revenue, operating profit and identifiable assets of the Company's foreign operations were not significant. Information about the Company's operations in geographic areas for the years ended December 31, 1996 and 1995 is as follows:

[CAPTION]

	December 31,	
	1995	1996
	-----	-----
	(in thousands)	
Revenue:		
United States	\$233,515	\$166,204
Latin America	40,132	58,457
	-----	-----
	\$273,647	\$224,661
	=====	=====
Operating Loss:		
United States	\$ (16,172)	\$ (3,665)
Latin America	(2,055)	(1,316)
	-----	-----
	\$ (18,227)	\$ (4,981)
	=====	=====
Identifiable Assets:		
United States	\$ 87,049	\$ 47,311
Latin America	26,057	20,154
	-----	-----
	\$113,106	\$ 67,465
	=====	=====

Identifiable assets of foreign subsidiaries are those assets related to the operations of those subsidiaries. The Company's domestic assets consist of all other operating assets of the Company.

(19) Fourth Quarter Adjustments

The Company recognized charges during the fourth quarter of 1995 totaling approximately \$8,300,000, which increased cost of operations by \$7,300,000, selling, general and administrative expense by \$800,000 and other expense by \$200,000. The charges to cost of operations were primarily related to

an inventory adjustment for the discontinued Badger line of name brand products of \$2,200,000, inventory adjustments required based upon the October physical inventory count of \$1,700,000, inventory adjustments for an accounts payable reconciliation performed contemporaneously with the physical inventory of \$800,000, the idle status of specialized manufacturing equipment under lease amounting to \$1,100,000, an increase to the excess and obsolete inventory reserve of \$1,000,000 and the recognition of estimated losses on terminated or unprofitable contracts of \$500,000. The Company believes the inventory adjustments, including the effect of account reconciliations, arose principally from excessive scrap and shrinkage rates and were not determinable prior to a physical count of the inventory. The Company believes that the implementation of system software contributed to this inventory adjustment. The fourth quarter charges to selling, general and administrative expense related primarily to the acceleration of loan fee amortization due to the Company's refinancing agreement described in Note 10 and the increase in the reserve for uncollectible accounts

receivable. The fourth quarter charges to other expense related primarily to losses on the sale of equipment.

The Company recognized charges during the fourth quarter of 1996 totaling approximately \$5,100,000, which increased cost of operations by \$3,800,000 and selling, general and administrative expense by \$1,300,000. The charges to cost of operations were primarily related to a December domestic operations physical inventory adjustment of \$300,000, a December foreign operations physical inventory adjustment of \$700,000, estimate revisions for costs of sales related to long-term contracts of \$800,000, increased reserves for excess inventories of \$600,000, and costs associated with asset disposals and deferred rent payments of \$1,400,000. The fourth quarter charges to selling, general and administrative expense include severance costs of \$500,000, warehouse move costs of \$500,000 and an increase in the reserve for uncollectible accounts receivable of \$300,000. With regard to the warehouse costs, in the second quarter of 1996 GTC implemented a cost saving strategy to integrate the materials warehousing function into its main Tampa facility. The total cost of the move was originally estimated to be \$400,000, but an increased cost of \$500,000 was recorded in the fourth quarter based on actual costs incurred and the review of additional information regarding sublease strategies.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

The following table contains certain information concerning the directors and executive officers of GTC.

[CAPTION]

Name	Age	Position with GTC and Principal Occupation
Jeffrey T. Gill	41	Director and Chairman of the Board; President and Chief Executive Officer of GFP
Robert E. Gill	71	Director; Chairman of the Board of GFP
Sidney R. Petersen	66	Director; Retired; formerly Chairman and Chief Executive Officer of Getty Oil, Inc.
Henry F. Frigon	62	Director; Retired; formerly President and Chief Executive Officer of BATUS, Inc.
Roger W. Johnson	62	Director; Former Administrator of U.S. General Services Administration
Thomas W. Lovelock	54	Director, President and Chief Executive Officer
Aviram Margalith	47	Vice President and General Manager of International EMS Operations and Engineering Services
David D. Johnson	41	Vice President and Chief Financial Officer
James G. Cocke	49	Vice President and Manager of Federal Systems Division

All directors hold office until the next annual meeting of shareholders or until their successors are elected and qualified. Officers are appointed by the GTC Board and serve at the discretion of the GTC Board.

Jeffrey T. Gill has served as a director of GTC since 1989 and as Chairman of the Board of GTC since 1992. Mr. Gill co-founded GFP and has served as a

director of GFP since its inception in 1983 and as its President and Chief Executive Officer since 1992. Mr. Gill also serves as a director and officer of several other privately-held companies which are either direct or indirect subsidiaries of GFP. Jeffrey T. Gill is the son of Robert E. Gill.

Robert E. Gill has served as a director of GTC since 1989. He also served as Chairman of the Board of GTC from 1989 to 1992 and as President and Chief Executive Officer of GTC from October 1996 until February 1997. Mr. Gill co-founded GFP and has served as Chairman of the Board of GFP since its inception in 1983 and as its President and Chief Executive Officer from 1983 through 1992. Mr. Gill also serves as a director and officer of several other privately-held companies which are either direct or indirect subsidiaries of GFP. Robert E. Gill is the father of Jeffrey T. Gill.

Sidney R. Petersen has served as a director of GTC since 1994. In 1984, Mr. Petersen retired as Chairman of the Board and Chief Executive Officer of Getty Oil, Inc. where he served in a variety of increasingly responsible management positions since 1955. Mr. Petersen currently serves as director of

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Avery Dennison Corporation, Union Bank of California, Seagull Energy Corporation, and NICOR, Inc. and its subsidiary, Northern Illinois Gas Company.

Henry F. Frigon has served as a director of GTC since 1994. Mr. Frigon is currently a private investor and business consultant. He most recently served as Executive Vice President-Corporate Development and Strategy and Chief Financial Officer of Hallmark Cards, Inc. from 1990 through 1994. He retired as President and Chief Executive Officer of BATUS, Inc. in March 1990, after serving with that company for over 10 years. Mr. Frigon currently serves as a director of H & R Block, Inc., CompuServe, Inc., Buckeye Cellulose Corporation and Dimon, Inc.

Roger W. Johnson has served as a director of GTC since 1996. Mr. Johnson most recently served as Administrator of the United States General Services Administration from 1993 through 1996. He served as Chairman and Chief Executive Officer of Western Digital Corporation, a manufacturer of computer hard drives, from 1982 through 1993. Mr. Johnson currently serves as a director of Array Microsystems, Elexys International, Inc., Needham Funds, Inc., JTS Corporation, Insulectro and AST Computer.

Thomas W. Lovelock has served as a director of GTC since March 1997 and as President and Chief Executive Officer of GTC since February 1997. He was also Vice President of Operations of GTC from 1989 until 1993. From 1995 to 1997, Mr. Lovelock served as President and Chief Executive Officer of Bell Technologies, Inc. ("Bell"), a subsidiary of GFP which provides electronic products and services to the high technology segment of the electronics industry. From 1993 to 1995, Mr. Lovelock served as Executive Vice President and Chief Operating Officer of Bell.

Aviram Margalith has served as Vice President and General Manager of International EMS Operations and Engineering Services of GTC since January 1996. He has submitted a notice of his intent to resign from this position effective April 4, 1997. Dr. Margalith also served as Vice President of Engineering for GTC from 1989 to 1994 and as Vice President and General Manager of Federal Systems and Engineering during 1995.

David D. Johnson has served as Vice President and Chief Financial Officer of GTC since March 1996. From 1993 to 1996, Mr. Johnson served as Financial Director, Far East South for Molex Incorporated, which manufactures electronic components and tooling used by OEMs. He served Molex in various other management positions since 1984. Prior to 1984, Mr. Johnson was a senior manager for KPMG Peat Marwick in San Francisco, California.

James G. Cocke has served as Vice President and Manager of the Federal Systems Division of GTC since March 1997. From 1995 to 1997, Mr. Cocke was Division Manager of the Services Division of Bell. Prior to 1995, he was employed as Vice President of Finance for Science Applications International

Corporation, which designs and produces ruggedized computer equipment, CAE Link Corporation, which designs and produces military flight simulators, and for Smiths Industries which designs and manufactures a wide range of electronic equipment.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on GTC's review of the copies of reports of ownership on Form 3 and changes in ownership on Forms 4 and 5 filed with the Securities and Exchange Commission (the "Commission") by GTC's officers, directors and certain beneficial shareholders, or written representations furnished to GTC by these reporting persons, GTC believes that, during 1996, its officers, directors, and greater than 10% beneficial owners were in compliance with all applicable filing requirements.

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Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth the annual and long-term compensation paid or accrued by GTC during the years indicated to each of GTC's Chief Executive Officers and its other highest paid executive officers whose total salary and bonus exceeded \$100,000 for the year ended December 31, 1996 (collectively, the "Named Officers").

[CAPTION]

Name and Principal Position	Year	Annual Compensation (1)		Long-Term Compensation Awards		All Other Compensation
		Salary	Bonus	Stock Awards	/SARs (#)	
Carl P. McCormick(2) President & Chief Executive Officer	1996	\$199,529(3)	\$0	\$0	124,066(3)	\$365,916(4)
	1995	280,299	0	0	0	13,868
	1994	269,135	0	0	0	11,216
Robert E. Gill(5) President & Chief Executive Officer	1996	0	0	0	0	0
Aviram Margalith(6) Vice President & General Manager of International EMS Operations	1996	152,885	10,000(7)	0	10,000(7)	8,389(8)
	1995	149,151	0	0	0	7,187
	1994	129,206	0	0	0	6,689
J. Hardie Harris(9) Vice President & General Manager of U.S. EMS Operations	1996	136,154	0	0	80,000	6,286(10)
	1995	99,380	20,000	0	30,000	4,987
David D. Johnson Vice President of Finance & Chief Financial Officer	1996	119,849	50,000(11)	0	120,000	2,319(12)

(1) Includes amounts deferred, at the election of the Named Officers, pursuant to GTC's 401(k) Plan. The Named Officers received certain perquisites and benefits; however, GTC has concluded that the aggregate amount of such personal benefits and other compensation is the lesser of \$50,000 or 10% of

- the total annual salary and bonus paid to each of the Named Officers.
- (2) Carl P. McCormick resigned from his positions as President and Chief Executive Officer of GTC on October 31, 1996. However, he assumed other duties and, therefore, remained on active status on GTC's payroll through December 31, 1996.
  - (3) From March 11, 1996 through December 31, 1996, Mr. McCormick received a portion of his salary in the form of nonstatutory stock options in lieu of cash. The dollar amount shown in the Salary column is the cash portion of his salary. The total number shares represented by stock options received by Mr. McCormick in lieu of his salary is shown in the Options/SARs column. Each of the options for the purchase of these shares has an exercise price that is equal to the fair market value of GTC's Common Stock on the date the option was granted and, accordingly, Mr. McCormick did not realize any additional compensation at the time the options were granted. The expiration date of each option is seven years after the date of grant.
  - (4) The amount shown includes \$355,000 payable to Mr. McCormick pursuant to the terms of a separation agreement signed in December 1996, plus \$9,716 for Matching and Profit Sharing

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Contributions made by GTC pursuant to GTC's 401(k) Plan and \$1,200 of premiums paid by GTC for term life insurance for the benefit of Mr. McCormick during 1996.

- (5) Robert E. Gill replaced Mr. McCormick as President and Chief Executive Officer of GTC on October 31, 1996. Mr. Gill served GTC in these positions, without compensation of any kind from GTC or any third party, until he resigned and was replaced by Thomas W. Lovelock on February 28, 1997.
- (6) Dr. Margalith has submitted a notice of his intent to resign as Vice President and General Manager of International EMS Operations and Engineering Services on April 4, 1997.
- (7) The amount shown is the cash portion of a bonus paid to Dr. Margalith in February 1996. The balance of the bonus was paid to him in the form of a nonstatutory stock option to purchase 10,000 shares of GTC's Common Stock. The total number of shares for the stock option portion of the bonus is shown in the Options/SARs column. The option for the purchase of these shares has an exercise price that is equal to the fair market value of GTC's Common Stock on the date the option was granted and, accordingly, Dr. Margalith did not realize any additional compensation at the time the option was granted. The option is exercisable in annual increments of 5,000 shares each, beginning one year from the date of grant and it expires five years after the date of grant. However, all unexercised options held by Dr. Margalith will be subject to cancelation as of April 4, 1997, in accordance with the terms and conditions of the underlying stock option plans.
- (8) The amount shown is for Matching and Profit Sharing Contributions made by GTC pursuant to GTC's 401(k) Plan.
- (9) J. Hardie Harris was hired as Vice President and General Manager of U.S. EMS Operations on April 3, 1995. He resigned from this position on January 31, 1997.
- (10) The amount shown is for Matching and Profit Sharing Contributions made by GTC pursuant to GTC's 401(k) Plan.
- (11) Mr. Johnson received a hiring bonus from GTC in the amount of \$50,000 on March 22, 1996.
- (12) The amount shown is for Matching and Profit Sharing Contributions made by GTC pursuant to GTC's 401(k) Plan.

Option Grants in Last Fiscal Year

Set forth below is information on stock options granted during the fiscal year ended December 31, 1996 to the Named Officers.

[CAPTION]

Individual Grants(1)		Potential
-----		Realizable
No. of	% of Total	Value at
Securities	Options	Assumed Rates
Underlying	Granted to	of Stock Price
	Exercise	Appreciation for

	Options Granted	Employees in Fiscal Year	Price (\$/Share)	Expiration Date	Option 5%	Term(2) 10%
	-----	-----	-----	-----	-----	-----
Carl P. McCormick(3)	8,417	1.5%	\$3.00	04/10/03	\$10,280	\$23,956
	9,182	1.7%	2.75	05/10/03	10,280	23,956
	6,733	1.2%	3.75	06/10/03	10,280	23,956
	9,619	1.7%	2.625	07/10/03	10,280	23,956
	11,222	2.0%	2.25	08/10/03	10,280	23,956
	14,429	2.6%	1.75	09/10/03	10,280	23,956
	10,632	1.9%	2.375	10/10/03	10,280	23,956
	16,160	2.9%	1.5625	11/10/03	10,280	23,956
	18,364	3.3%	1.375	12/10/03	10,280	23,956
	19,308	3.5%	0.84375	12/30/03	6,632	15,457
Robert E. Gill(4)	0	0.0%	N/A	N/A	0	0
Aviram Margalith(5)	5,000	0.9%	2.75	02/19/01	3,799	8,395
	5,000	0.9%	2.75	02/19/01	3,799	8,395

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J. Hardie Harris(6)	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
	10,000	1.8%	2.75	02/01/06	17,295	43,828
David D. Johnson(7)	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789
	15,000	2.7%	2.25	03/21/06	21,225	53,789

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- (1) Each grant was made pursuant to the GTC 1994 Stock Option Plan for Key Employees.
- (2) The 5% and 10% assumed rates of appreciation are required by rules of the Commission and do not represent GTC's estimate or projection of the future GTC Common Stock price.
- (3) GTC granted stock options to Mr. McCormick on a monthly basis from April 11, 1996 through December 11, 1996. Mr. McCormick also received a stock option from GTC on December 31, 1996. These options each have an exercise price that is equal to the fair market value of GTC's Common Stock on the date the option was granted. Each of the options becomes exercisable two years from the date of grant.
- (4) Mr. Gill served as President and Chief Executive Officer from October 31, 1996 until February 28, 1997 and did not receive any options or other compensation for his services.
- (5) GTC granted Dr. Margalith a stock option for the purchase of 10,000 shares of the GTC's Common Stock as part of a bonus paid to him on February 20, 1996. The option has an exercise price that is equal to the fair market value of GTC's Common Stock on the date the option was granted. The option is exercisable in annual increments of 5,000 shares each, beginning one year from the date of grant. Dr. Margalith submitted a notice of his intent



to resign from his position as Vice President and General Manager of International EMS Operations and Engineering Services on April 4, 1997. All unexercised options held by Dr. Margalith will be subject to cancelation as of April 4, 1997, in accordance with the terms and conditions of the underlying stock option plans.

- (6) The Company granted Mr. Harris a stock option for the purchase of 80,000 shares of the GTC's Common Stock on February 2, 1996. The option was to become exercisable in annual increments of 10,000 shares each, beginning one year from the date of grant. Mr. Harris resigned from his position as Vice President and General Manager of U.S. EMS Operations on January 31, 1997. All options held by Mr. Harris were canceled as of that date.
- (7) The Company granted Mr. Johnson a stock option for the purchase of 120,000 shares of the GTC's Common Stock on March 22, 1996. The option becomes exercisable in annual increments of 15,000 shares each, beginning one year from the date of grant.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Set forth below is information on each exercise of stock options during the fiscal year ended December 31, 1996, and the value as of December 31, 1996, of unexercised stock options held by the Named Officers.

[CAPTION]

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End(1)	
			Exer-cisable	Unexer-cisable	Exer-cisable	Unexer-cisable
Carl P. McCormick(2)	0	\$0	300,000	150,000	\$0	\$0
Robert E. Gill(3)	0	0	0	0	0	0
Aviram Margalith(4)	0	0	180,000	10,000	0	0
J. Hardie Harris(5)	0	0	0	110,000	0	0
David D. Johnson	0	0	0	120,000	0	0

- (1) Based on a market value of the underlying securities of \$0.84375 at December 31, 1996, none of the options were in-the-money as of that date.
- (2) Carl P. McCormick resigned from his positions as President and Chief Executive Officer of GTC on October 31, 1996. All options held by Mr. McCormick which are or will become exercisable on or before December 31, 1998 will remain valid and effective per the terms and conditions of each such option, as amended. All other options held by Mr. McCormick became null and void as of December 31, 1996.
- (3) Robert E. Gill replaced Mr. McCormick as President and Chief Executive Officer of GTC on October 31, 1996. Mr. Gill served GTC in these positions, without compensation of any kind from GTC or any third party, until he resigned and was replaced by Thomas W. Lovelock on February 28, 1997.
- (4) Aviram Margalith submitted a notice of his intent to resign from his position as Vice President and General Manager of International EMS Operations and Engineering Services on April 4, 1997. All unexercised options held by Dr. Margalith will be subject to cancelation as of April 4, 1997, in accordance with the terms and conditions of the underlying stock option plans.
- (5) J. Hardie Harris resigned from his position as Vice President and General Manager of U.S. EMS Operations on January 31, 1997. All options held by Mr. Harris were canceled as of that date.

## Compensation of Directors

Directors who are employees of GTC or any affiliate of GTC are not eligible to receive any compensation for services rendered as a director, but they are reimbursed for travel and related expenses they incur in order to attend Board meetings. Directors of GTC who are not employees of GTC or any affiliate of GTC ("Independent Directors") are compensated pursuant to the terms and conditions of GTC's Independent Directors' Compensation Program. More specifically, each Independent Director is granted a stock option for the purchase of 7,000 shares of GTC's Common Stock each time he or she is elected to serve on GTC's Board of Directors. In addition, each of the Independent Directors is paid an annual retainer of \$15,000 and an attendance fee of \$1,000 for each Board meeting the director attends. Each of the Independent Directors is also reimbursed for travel and related expenses he or she incurs in order to attend Board meetings.

An Independent Director may elect to receive his or her annual retainer and attendance fees either in cash or in the form of stock options granted to him or her by GTC pursuant to the GTC Independent Directors' Stock Option Plan. Those Independent Directors who elect to receive cash compensation may elect to defer any of their compensation by participating in GTC's Management Deferred Compensation Plan. During 1996, Roger W. Johnson elected to receive his annual retainer and

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attendance fees in cash without any deferral. Messrs. Frigon and Petersen elected to receive their annual retainers and meeting fees in the form of stock options. None of the Independent Directors exercised stock options in 1996.

## Employment Contracts

GTC entered into a separation agreement in December 1996, with Carl P. McCormick who resigned as a director and as President and Chief Executive Officer of GTC on October 31, 1996, but who remained employed by GTC through December 31, 1996. Mr. McCormick assisted in the transition of his duties and provided certain other services to GTC during November and December 1996. He continued to receive salary and benefits at his then-current level of pay and he received a car allowance and previously-approved club memberships and similar benefits through December 31, 1996.

In the separation agreement, Mr. McCormick agreed to be bound by certain nonsolicitation, noncompetition and confidentiality provisions and he executed a general release in favor of GTC regarding any employment-based claims. In consideration for these promises and other conditions stated in the separation agreement, GTC agreed to place Mr. McCormick on lay-off status from January 1, 1997 through December 31, 1998 and to pay Mr. McCormick salary continuance during this time period based upon an annual pay rate of \$175,000, less applicable federal and state taxes. Mr. McCormick will also continue to receive customary medical and dental benefits, at employee rates, through GTC's plans until December 31, 1998. GTC also agreed to reimburse Mr. McCormick for the costs of professional executive outplacement services, up to a maximum of \$5,000. GTC amended certain stock option plans and the applicable stock option agreements with Mr. McCormick in order to provide that those stock options which GTC had granted to Mr. McCormick with a exercisability date on or before December 31, 1998, will remain valid and effective for the stated term of the options, unless Mr. McCormick breaches any terms of the separation agreement. All other options held by Mr. McCormick became null and void as of December 31, 1996.

## Compensation Committee Interlocks and Insider Participation

The Committee was formed in August 1994 and is composed of Jeffrey T. Gill, Robert E. Gill, Henry F. Frigon and Sidney R. Petersen. Two members of the Compensation Committee were also executive officers of GTC during 1996: Jeffrey T. Gill served as Chairman of the Board of GTC for the entire year and Robert E.

Gill served as the President and Chief Executive Officer of GTC from October 31, 1996 until February 28, 1997. Neither Jeffrey T. Gill nor Robert. E. Gill received any compensation from GTC for their services as executive officers of GTC.

Jeffrey T. Gill and Robert E. Gill each serve as a director and officer of several other entities which are also subsidiaries of GFP and they beneficially own 32.3% and 39.3%, respectively, of the GFP Common Stock. As described more fully in Item 13 below, GTC has engaged or has proposed to engage in certain transactions with some of these entities.

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Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to beneficial ownership of GTC Common Stock, including beneficial ownership (i) of each person (or group of affiliated persons) who is known by GTC to own beneficially more than 5% of the shares of GTC Common Stock, (ii) by each of GTC's directors who owns shares, (iii) by each of the Named Officers reflected in the Summary Compensation Table and (iv) by all directors and executive officers as a group. Except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares of GTC Common Stock shown as beneficially owned by them.

[CAPTION]

Name	Shares Beneficially Owned	
	Number	Percent (1)
-----	-----	-----
Group Financial Partners, Inc. (2) 455 South Fourth Avenue Louisville, Kentucky 40202	13,039,625	80.4%
Carl P. McCormick (3)	432,486	2.6%
David D. Johnson (4)	16,525	*
Aviram Margalith (5)	216,516	1.3%
J. Hardie Harris (6)	0	*
Henry F. Frigon (7)	75,146	*
Sidney R. Petersen (8)	73,466	*
Roger W. Johnson (9)	7,000	*
Robert E. Gill (10)	4,000	*
Jeffrey T. Gill (11)	675	*
All directors and executive officers as a group	13,865,439	82.2%

\* less than 1%

- (1) The percentages shown were calculated based upon 16,220,629 shares of GTC Common Stock which were outstanding as of March 24, 1997, plus the respective number of additional shares for each person which are deemed outstanding pursuant to Rule 13d-3(d) (1) under the Exchange Act.
- (2) GFP directly owns shares of GTC Common Stock. Robert E. Gill, Jeffrey T. Gill, R. Scott Gill, Virginia G. Gill and Patricia G. Gill own 19.4%, 32.2%, 27.9%, 19.8% and 0.1%, respectively (99.4% in the aggregate), of the GFP Common Stock and, therefore, may be deemed to have an indirect beneficial interest in the shares of GTC Common Stock owned by GFP. Robert E. Gill is also a director of GTC and Jeffrey T. Gill is a director and an executive officer of GTC.
- (3) Includes 300,000 shares issuable under currently exercisable options.
- (4) Includes 15,000 shares issuable under currently exercisable options.
- (5) Includes 185,000 shares issuable under currently exercisable options. However, Dr. Margalith has submitted a notice of his intent to resign from his position as Vice President and General Manager of International EMS Operations and Engineering Services on April 4, 1997. All unexercised

options held by Dr. Margalith will be subject to cancelation as of April 4, 1997, in accordance with the terms and conditions of the underlying stock option plans.

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- (6) Mr. Harris resigned from his position as Vice President and General Manager of U.S. EMS Operations on January 31, 1997. All options held by Mr. Harris were canceled as of that date.
- (7) Includes 70,146 shares issuable under currently exercisable options.
- (8) Includes 70,966 shares issuable under currently exercisable options.
- (9) Includes 7,000 shares issuable under currently exercisable options.
- (10) Includes shares owned by Robert E. Gill and his spouse, but none of the shares attributed to them because of their ownership interest in GFP.
- (11) Includes shares owned by Jeffrey T. Gill, but none of the shares attributed to him or his spouse because of their ownership interest in GFP.

#### Item 13. Certain Relationships and Related Transactions

Robert E. Gill served as President and Chief Executive Officer of GTC from October 31, 1996 until February 28, 1997. He currently is a director of GTC and he also serves as Chairman of the Board of GFP, a private holding company which holds controlling interests in GTC, Tube Turns Technologies, Inc. ("TTT") and Bell and as a Director and executive officer of TTT and Bell. Robert E. Gill is the father of Jeffrey T. Gill and R. Scott Gill. Jeffrey T. Gill, a director and Chairman of the Board of GTC, also serves as a director and President and Chief Executive Officer of GFP, as Chairman of the Board of TTT and as Chairman of the Board of Bell. R. Scott Gill serves as Vice President and a director of GFP, and as a director of TTT and Bell. Robert E. Gill (including those shares owned by his wife Virginia G. Gill) and Jeffrey T. Gill (including those shares owned by his wife Patricia G. Gill) and R. Scott Gill own 39.3%, 32.3%, and 27.9% respectively, of the outstanding shares of GFP Common Stock.

Historically, GTC paid a monthly management fee to GFP in exchange for financial advisory and management consulting services. The management fee to GFP was suspended as of January 31, 1996, and accordingly, the only payment made by GTC for these in 1996 consisted of the issuance of 17,391 shares of GTC Common Stock to GFP on February 21, 1996. The number of shares issued was computed based upon a monthly management fee of \$50,000 and a per share price equal to the average closing price of the GTC Common Stock on the last three trading days of January 1996.

On February 9, 1996, the assets of the instrumentation products business unit of Metrum were sold by GTC to Bell for \$10,104,000 cash and an earn-out provision which provides for additional payments to GTC of up to \$3,000,000 in the event annual earnings before interest and taxes exceeds defined amounts through December 31, 2000. The proceeds from the sale transaction was used to reduce GTC's debt balance and to fund working capital needs. Due to the common ownership interest of GFP in GTC and Bell, GTC requested and obtained an independent opinion, which indicated that the consideration received by GTC for the sale of the instrumentation products business was fair, from a financial point of view, to the unaffiliated shareholders of GTC. In addition, due to the common ownership, the amount by which the sales price exceeded the net book value of assets and liabilities transferred has been recorded by GTC as a contribution to its capital of \$613,000. GTC reported this transaction on a Form 8-K filed with the Commission on February 23, 1996, and amended on March 28, 1996.

GTC and its domestic subsidiaries are parties to a tax sharing agreement with GFP and were included in the consolidated federal income tax return of GFP from GTC's inception through March 22, 1995. Effective March 23, 1995, as a result of a decrease in GFP's ownership percentage of GTC, GTC did not meet the 80-percent-voting power and value requirements defined by the Internal Revenue Code for affiliated group membership and ceased to be an includable member of GFP's affiliated group. Effective March 29, 1996, as a result of an investment by GFP of \$1,000,000 in GTC as described below,

GFP's ownership percentage in GTC exceeded 80% and, therefore, GTC expects to be included as a member of GFP's affiliated group as of that date.

In connection with the restructuring of GTC's credit agreement on March 29, 1996, GFP invested \$1,000,000 in GTC in exchange for 374,531 shares of GTC Common Stock. The per share price of the transaction was equal to the average closing price of the GTC Common Stock on the three trading days preceding the date of sale.

On January 24, 1997, GTC filed a registration statement on Form S-4 with the Commission regarding its proposal to merge with GFP, Bell, and TTT. In connection with this proposed merger, the Board of GTC formed a special committee of Independent Directors to evaluate the fairness of the transaction to the unaffiliated shareholders of GTC and to make a recommendation to the Board regarding the transaction. The registration statement has not yet become effective.

In connection with an amendment to GTC's credit agreement effective on December 1, 1996, GFP, on March 28, 1997, invested \$2,500,000 in GTC in exchange for 250,000 shares of 8.5% cumulative convertible preferred stock of GTC (the "Preferred Shares"). GFP, or any subsequent holders of record of each of the Preferred Shares, is entitled to the rights and preferences stated in the Statement of Designation of Relative Rights and Preferences filed by GTC with the Florida Department of State on March 28, 1997 as part of the Third Amendment to GTC's Articles of Incorporation. Such rights and preferences include the right of the holder to, among other things: (i) exchange each of the Preferred Shares for 8.3 shares of GTC Common Stock, which number was determined on March 28, 1997 by dividing the fair market value of GTC Common Stock into the value of the Liquidation Preference of the Preferred Shares, and (ii) at any time after GTC repays the amount it owes its lender under the credit agreement, the right to put the Preferred Shares to GTC for repurchase at a price of \$10.00 per share, plus any accrued dividends and any interest thereon. Additionally, in connection with the issuance of the Preferred Shares to GFP, GTC and GFP executed a Stock Purchase and Registration Rights Agreement dated March 28, 1997, wherein GTC, among other things, granted GFP demand and incidental registration rights for any shares of GTC Common Stock which are acquired by GFP upon the conversion of the Preferred Shares.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this Report:

1. Financial Statements

The financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements on Page 16.

2. Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts is on page 47.

All other consolidated financial statement schedules have been omitted because the required information is shown in the consolidated financial statements or notes thereto or they are not applicable.

SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS  
GROUP TECHNOLOGIES CORPORATION

[CAPTION]

Balance at Beginning	Charged to Costs and	Balance at End of
-------------------------	-------------------------	----------------------

	of Period	Expenses	Deductions	Period
	-----	-----	-----	-----
Allowance for doubtful accounts:				
Year ended				
December 31, 1996	\$783,000	\$961,000	\$498,000 (1)	\$1,246,000
	=====	=====	=====	=====
Year ended				
December 31, 1995	\$538,000	\$1,293,000	\$1,048,000 (1)	\$783,000
	=====	=====	=====	=====
Year ended				
December 31, 1994	\$1,144,000	\$571,000	\$1,177,000 (1)	\$538,000
	=====	=====	=====	=====
Reserve for inactive, obsolete and unsalable inventories:				
Year ended				
December 31, 1996	\$8,606,000	\$3,567,000	\$7,285,000 (2)	\$4,888,000
	=====	=====	=====	=====
Year ended				
December 31, 1995	\$2,230,000	\$6,939,000	\$563,000 (2)	\$8,606,000
	=====	=====	=====	=====
Year ended				
December 31, 1994	\$2,139,000	\$540,000	\$449,000 (2)	\$2,230,000
	=====	=====	=====	=====

- 
- (1) Uncollectible accounts written off, net of reserves.  
(2) Inactive, obsolete and unsalable inventories written off.

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### 3. Exhibits

#### Exhibit

Number	Note	Description
-----	-----	-----
2.1	(1)	Purchase and Sale Agreement among Honeywell Inc., Defense Communications Products Corporation (prior name of Registrant), and Group Financial Partners, Inc. dated May 21, 1989.
2.2	(1)	Purchase and Sale Agreement among Alliant Techsystems Inc., MAC Acquisition I, Inc. and the Registrant dated December 31, 1992.
2.3	(1)	Purchase and Sale Agreement among Philips Electronic North America Corporation and the Registrant dated June 25, 1993.
2.4	(4)	Purchase Agreement among IBM-Brasil-Industria, Maquinas e Servicos, Ltda. and Group Technologies Suporte de Informatica Industria e Comercio Ltda. dated April 28, 1995.
2.4.1	(5)	Amendment dated July 18, 1995 to the Purchase Agreement among IBM Brasil-Industria, Maquinas e Servicos, Ltda. and Group Technologies Suporte de Informatica Industria e Comercio Ltda. dated April 28, 1995.
2.5	(4)	Purchase and Sale Agreement among Metrum, Inc. and MountainGate Data Systems, Inc. dated May 3, 1995.
2.6	(4)	Purchase and Sale Agreement among Metrum, Inc. and Sienna Imaging, Inc. dated June 6, 1995.
2.7	(6)	Asset Purchase Agreement among Metrum, Inc., Registrant and F.W. Bell, Inc. dated February 9, 1996.
2.8	(7)	Asset Purchase Agreement among Registrant, Teklogix Enterprises, Inc. and Teklogix International, Inc. dated March 22, 1996.
2.9	(11)	Agreement and Plan of Reorganization among Registrant, Group Financial Partners, Inc., Tube Turns Technologies, Inc. and Bell Technologies, Inc. dated January 15, 1997.

- 3.1 (1) Amended and Restated Articles of Incorporation of the Registrant.
- 3.2 (1) Amended and Restated Bylaws of the Registrant.
- 3.3 (1) Articles of Amendment to the Amended and Restated Articles of Incorporation of the Registrant.
- 3.4 (1) Second Amendment to the Amended and Restated Articles of Incorporation of the Registrant.
- 3.5 Third Amendment to the Amended and Restated Articles of Incorporation of the Registrant.
- 10.1 (2) Revolving Credit and Security Agreement between the Registrant and First Union Credit Corporation dated November 22, 1994.
- 10.2 (3) First Amendment to Revolving Credit and Security Agreement between Registrant and First Union Commercial Corporation dated March 29, 1995.
- 10.3 (5) Forbearance Agreement between the Registrant and First Union Commercial Corporation dated November 7, 1995.

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Exhibit

Number Note Description  
 - - - - -

- 10.4 (7) Amended and Restated Credit and Security Agreement between the Registrant and First Union Commercial Corporation dated March 29, 1996.
- 10.4.1 (9) First Amendment to Amended and Restated Credit and Security Agreement, dated May 13, 1996.
- 10.4.2 (9) Second Amendment to Amended and Restated Credit and Security Agreement, dated September 5, 1996.
- 10.4.3 (9) Letter Agreement dated November 7, 1996 Pertaining to Amended and Restated Credit and Security Agreement.
- 10.4.4 Third Amendment to Amended and Restated Credit and Security Agreement, dated March 28, 1997.
- 10.5 (1) Form of U.S. Government Award/Contract.
- 10.6 (1) Preferred Supplier Purchase Agreement for Circuit Card Assembly between the Registrant and Honeywell, Inc. dated July 1, 1990.
- 10.7 (1) Purchase Order between the Registrant and Martin Marietta.
- 10.8 (1) Standard OEM Purchase Agreement between Kulicke and Soffa Industries, Inc. and Registrant dated March 16, 1993.
- 10.9 (1) Purchase/Supply Agreement between Philips Circuit Assemblies and International Game Technology dated July 31, 1992.
- 10.10 (5) Purchase Order between the Registrant and Lockheed Martin Corporation dated September 21, 1995.
- 10.11 OEM Purchase Agreement between Instruments SA, Inc. and Registrant dated December 11, 1996.
- 10.12 (1) Cooperation and Licensing Agreement between Dauphin Technology Incorporated and the Registrant dated August 11, 1993.
- 10.13 (1) Master Lease Agreement between General Electric Capital Corporation and the Registrant dated April 1, 1993.
- 10.14 (1) Lease between Copelco Leasing Corporation and the Registrant dated April 20, 1993.
- 10.15 (1) Master Rental Agreement and related documents between Hewlett-Packard Company and the Registrant.
- 10.16 (1) Master Equipment Lease Agreement between Ellco Leasing Corporation and the Registrant dated November 9, 1990.
- 10.17 (1) Master Lease Agreement between General Electric Capital Corporation and the Registrant dated March 9, 1993.
- 10.18 (1) Lease between John Hancock Mutual Life Insurance Company and Honeywell, Inc. dated April 27, 1979; related Notice of Assignment from John Hancock Mutual Life Insurance Company to Sweetwell Industrial Associates, L.P., dated July 10, 1986; related Assignment and Assumption of Lease between Honeywell, Inc. and Defense Communications Products Corporation (prior name of Registrant) dated May 21, 1989; and related Amendment I to Lease Agreement between

## Exhibit

Number	Note	Description
		Sweetwell Industries Associates, L.P. and the Registrant dated October 25, 1991, regarding Tampa Industrial park property.
10.19	(1)	Lease between the Registrant and TMC Properties, Inc. dated August 24, 1994, regarding North 46th Street Property.
10.19.1	(4)	Amendment No.1 to Lease between Registrant and TMC Properties, Inc. dated August 24, 1994 regarding North 46th Street Property.
10.20	(1)	Agreements between the Registrant and International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America Local Union No. 930 dated September 25, 1993.
10.21	(1)	Agreements between the Registrant and International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America Local Union No. 930 dated November 22, 1994.
10.22	(1)	Group Technologies Corporation Stock Option Plan, as amended.
10.22.1	(10)	Group Technologies Corporation Stock Option Plan, Restated effective June 28, 1996, dated January 22, 1990.
10.22.2		Group Technologies Corporation Stock Option Plan, Restated effective December 17, 1996.
10.23	(1)	Group Technologies Corporation Executive Staff Incentive Compensation Plan, as amended.
10.24	(4)	Group Technologies Corporate Management Deferred Compensation Plan Restated effective January 1, 1994 dated May 5, 1995.
10.25	(5)	Group Technologies Corporate Management Deferred Compensation Plan Restated effective October 1, 1995 dated August 29, 1995.
10.26	(4)	Group Technologies Corporation Independent Directors' Stock Option Plan dated October 27, 1994, as approved and ratified at Annual Shareholder Meeting dated April 21, 1995.
10.26.1	(8)	Group Technologies Corporation Independent Directors' Stock Option Plan Restated effective February 21, 1996, dated October 27, 1994.
10.26.2	(9)	Group Technologies Corporation Independent Directors' Stock Option Plan Restated effective October 29, 1996, dated October 27, 1994.
10.27	(4)	Group Technologies Corporation 1994 Stock Option Plan for Key Employees dated October 27, 1994, as approved and ratified at annual shareholder meeting dated April 21, 1995.
10.27.1	(8)	Group Technologies Corporation 1994 Stock Option Plan for Key Employees Restated effective on February 21, 1996, dated October 27, 1994.
10.27.2	(9)	Group Technologies Corporation 1994 Stock Option Plan for Key Employees Restated effective on October 29, 1996, dated October 27, 1994.
10.27.3		Group Technologies Corporation 1994 Stock Option Plan for Key Employees Restated effective December 17, 1996, dated October 27, 1994.

## Exhibit

Number	Note	Description
10.28	(8)	Group Technologies Corporation Independent Directors' Compensation Program Restated effective on February 21, 1996, dated September 1, 1995.
10.29	(8)	Group Technologies Corporation 1996 Special Recovery Bonus Plan for Vice Presidents effective as of January 2, 1996.
10.30	(8)	Sublease between Group Technologies Supr. Informatica Ind. e Com. Ltda. and Ceccato S/A Comercio de Utilidades Domesticas dated March 20, 1996 regarding the Campinas, Brazil property.
10.31	(11)	Separation letter agreement dated December 10, 1996 between the Registrant and Carl P. McCormick.



- 10.32 Stock Purchase Agreement and Registration Rights Agreement  
between Registrant and Group Financial Partners, Inc. dated March  
28, 1997.
- 11 Statement re: Computation of per share earnings.
- 18 (3) Letter from Ernst & Young LLP, regarding change in accounting  
principles.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Ernst & Young, LLP, independent auditors for the  
Registrant.
- 27 Financial Data Schedule (for SEC use only).

- 
- (1) Incorporated by reference to the Registrant's Registration Statement on  
Form S-1 filed May 18, 1994 (Registration No. 33-76326).
- (2) Incorporated by reference to the Registrant's Form 10-K for fiscal year  
ended December 31, 1994 filed on March 31, 1995.
- (3) Incorporated by reference to the Registrant's Form 10-Q for the Quarterly  
Period ended April 2, 1995 filed on May 17, 1995.
- (4) Incorporated by reference to the Registrant's Form 10-Q for the Quarterly  
Period ended July 2, 1995 filed on August 16, 1995.
- (5) Incorporated by reference to the Registrant's Form 10-Q for the Quarterly  
Period ended October 2, 1995 filed on November 15, 1995.
- (6) Incorporated by reference to the Registrant's Form 8-K filed on February  
23, 1996.
- (7) Incorporated by reference to the Registrant's Form 10-K for the fiscal year  
ended December 31, 1995 filed on April 1, 1996.
- (8) Incorporated by reference to the Registrant's Form 10-Q for the Quarterly  
Period ended March 31, 1996 filed on May 14, 1996.
- (9) Incorporated by reference to the Registrant's Form 10-Q for the Quarterly  
Period ended September 29, 1996 filed on November 13, 1996.
- (10) Incorporated by reference to the Registrant's Registration Statement on  
Form S-8 filed on June 28, 1996 (Registration No. 333-07111).
- (11) Incorporated by reference to the Registrant's Registration Statement on  
Form S-4 filed January 22, 1997 (Registration No. 333-20299).

(b) Reports on Form 8-K:

No reports were filed by the Company during the fiscal quarter ended  
December 31, 1996.

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#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities  
Exchange Act of 1934, the registrant has duly caused this Annual Report to be  
signed on its behalf by the undersigned, thereunto duly authorized, on March 31,  
1997.

GROUP TECHNOLOGIES CORPORATION  
(Registrant)

/s/ Thomas W. Lovelock  
President and Chief Executive Officer

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

Principal Executive Officer:

/s/ Thomas W. Lovelock March 31, 1997

Principal Financial and Accounting Officer:

/s/ David D. Johnson March 31, 1997

Directors:

/s/ Henry F. Frigon	March 31, 1997
/s/ Jeffrey T. Gill	March 31, 1997
/s/ Robert E. Gill	March 31, 1997
/s/ Thomas W. Lovelock	March 31, 1997
Sidney R. Petersen	
/s/ Roger W. Johnson	March 31, 1997

ARTICLES OF AMENDMENT RELATING  
TO  
THIRD AMENDMENT  
TO  
THE AMENDED AND RESTATED ARTICLES OF INCORPORATION  
OF  
GROUP TECHNOLOGIES CORPORATION

On behalf of Group Technologies Corporation, a Florida corporation (the "Corporation"), the undersigned hereby files the following Third Amendment to The Amended and Restated Articles of Incorporation of the Corporation in accordance with Section 607.0602, Florida Statutes:

1. The name of the Corporation is Group Technologies Corporation.

2. The Amended and Restated Articles of Incorporation of the Corporation, as amended, are hereby further amended to include the Statement of Designation of Relative Rights and Preferences of the Corporation's 8.5% Cumulative Convertible Preferred Stock, par value \$0.01 per share, which is attached hereto as Exhibit A.

3. This Third Amendment to the Corporation's Amended and Restated Articles of Incorporation was duly adopted by the Corporation's Board of Directors by the unanimous written consent of said Board of Directors on March 28, 1997. This Third Amendment was duly adopted by the Corporation's Board of Directors without shareholder action, as shareholder action was not required.

IN WITNESS WHEREOF, the undersigned has executed this Third Amendment effective as of March 28, 1997.

GROUP TECHNOLOGIES CORPORATION

By: /s/ David D. Johnson  
David D. Johnson, Vice President of Finance  
and Chief Financial Officer

EXHIBIT A

GROUP TECHNOLOGIES CORPORATION  
8.5% CUMULATIVE CONVERTIBLE PREFERRED STOCK

STATEMENT OF DESIGNATION OF  
RELATIVE RIGHTS AND PREFERENCES  
AND OTHER TERMS AS FIXED AND DETERMINED  
BY THE BOARD OF DIRECTORS

1. Number of Shares; Designation of Series.

There shall be a series of the class of preferred stock, \$0.01 par value per share (the "Preferred Stock") of Group Technologies Corporation (the "Company"), consisting of 250,000 shares designated as "8.5% Cumulative Convertible Preferred Stock" (hereinafter called this "Series").

2. Dividends.

(a) The holders of record of each share of this Series shall be entitled to receive, but only out of funds legally available for the payment of dividends, dividend payments in cash at the rate of 8.5% per annum (the "Dividend

Rate") of the Liquidation Preference, or \$0.85 per share per annum, plus 8.5% per annum (the "Additional Rate") on the amount of accrued dividends (whether or not earned or declared and including all dividends accrued at the Additional Rate from prior quarters), that remain unpaid as of the fifth day after the date on which such dividends are payable (the "Dividend Date") (such additional dividend accrual to occur from such Dividend Date through the earlier of the date on which all accrued dividends are paid or the day preceding the next succeeding quarterly Dividend Date). With respect to any such dividend, if the Board of Directors of the Company (the "Board") determines that the Company does not have the financial ability to pay such dividend (due to such payment potentially placing the Company in violation of any applicable law or in breach of a material contract), the Company may forego the payment of such dividend until the Board believes that the Company has the ability to do so, and additional dividends shall accrue on such unpaid dividends at the Additional Rate in accordance with the provisions hereof. Such dividends, when, if and as declared, shall be payable in four equal (except as may be provided for the first Dividend Date after issuance, or with respect to dividends accrued on unpaid dividends) quarterly installments on the last day of March, June, September and December of each year, commencing March 31, 1997, to holders of record on the day immediately preceding such Dividend Date. Dividends on each share of this Series shall be cumulative and shall accrue, whether or not declared and paid, from the date of original issuance thereof, except: (i) as provided in Sections 4 and 8; and (ii) that in the case of shares issued in exchange or replacement for or upon transfer of shares previously issued, such dividends shall accrue and be cumulative from the quarterly dividend payment date next preceding the date of issue of such shares, unless the date of issue is a quarterly dividend payment date or is a date between the record date for the determination of holders of shares of this Series entitled to receive a quarterly dividend and the date of payment for such quarterly dividend, in either of which events such dividends shall accrue and be cumulative from such quarterly dividend date. Dividends payable on a share of this Series for any period less than a full quarterly dividend period shall be computed on the basis of a 365-day year.

(b) During any calendar quarter no dividend shall be paid upon, or declared and set apart for, any share of this Series or for any share of any other series of the Preferred Stock which may be hereafter issued ranking on a parity with shares of this Series as to dividends unless during such calendar quarter a like proportionate dividend, ratably in proportion to the respective dividends applicable thereto, shall be paid upon, or be declared and set apart for, all shares of this Series as to which dividends shall have accrued. Holders of shares of this Series shall not be entitled to any dividend, whether payable in cash, securities or other property, in excess of full cumulative dividends, as herein provided, on shares of this Series.

(c) So long as any shares of this Series are outstanding, no dividend (other than a dividend payable in the common stock, \$.01 par value, of the Company (the "Common Stock") or in any other stock of the Company ranking junior to this Series as to dividends and upon liquidation, and other than as provided in paragraph 2(b)), shall be declared or paid or set aside for payment, nor shall any other distribution be declared or made, upon the Common Stock or upon any other stock of the Company ranking junior to or on a parity with this Series as to dividends or upon liquidation, nor shall any of the Common Stock nor any other stock of the Company ranking junior to or on a parity with this Series as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys paid to or made available for a sinking fund for the redemption of any shares of any such stock) by the Company (except by conversion into or exchange for shares of Common Stock or of any other stock of the Company ranking junior to this Series as to dividends and upon liquidation) unless, in each case, the full cumulative dividends on all outstanding shares of this Series for all past quarterly dividend periods shall have been paid or declared and set apart for payment.

(d) Subject to the foregoing provisions, dividends, whether payable in cash, stock or otherwise as the Board may determine, may be declared and paid on Common Stock and on any other class or series of stock of the Company ranking as to dividends or upon liquidation junior to or on a parity with this Series, from time to time, out of the remaining funds of the Company legally available for the payment of dividends, and this Series shall not be entitled to participate

in any such dividends.

### 3. Optional Redemption.

(a) The Company, at its option, may redeem, out of funds legally available therefor, outstanding shares of this Series, as a whole but not in part, at any time after the issuance of such shares, at a redemption price per share equal to the Liquidation Preference (as defined below), together with an amount equal to all accrued dividends (whether or not earned or declared) on each share being redeemed through the redemption date.

(b) In the event the Company shall redeem shares of this Series, notice of such redemption shall be given by first class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the redemption date, to each holder of record of the shares to be redeemed at such holder's address as the same appears on the stock register of the Company. Neither failure to mail such notice to one or more of such holders nor any defect in any such notice shall affect the sufficiency of the proceedings for redemption as to other holders. Each such notice shall state: (i) the redemption date; (ii) the redemption price; (iii) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (iv) that, unless the Company defaults in making the redemption payment, all of the shares called for redemption shall, after the redemption date, (x) no longer be deemed to be outstanding, (y) no longer accrue dividends and (z) no longer have any voting or other rights (except only the right of the holders thereof to receive the redemption price plus all unpaid dividends accrued to the date of redemption).

(c) If notice of redemption has been given pursuant to paragraph 3(b) and if, on or before the redemption date specified in such notice, the funds necessary for such redemption have been deposited by the Company with a paying agent, or otherwise designated or set aside, then from and after the redemption date, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, (i) all of the shares so called for redemption shall no longer be deemed outstanding, (ii) any dividends payable thereon shall cease to accrue, and (iii) all voting and other rights with respect to such shares shall cease and terminate (except the right to receive the redemption price, plus all unpaid dividends accrued to the redemption date, upon a surrender of certificates representing such shares). Upon surrender in accordance with said notice of the certificates for any shares so called for redemption (properly endorsed or assigned for transfer, if the Board shall so require and the notice shall so state), such shares shall be redeemed by the Company at the redemption price plus all unpaid dividends accrued to the redemption date.

### 4. Conversion Rights.

(a) Subject to and upon compliance with the provisions of this section 4, the holder of any shares of this Series may at such holder's option, at any time after the date of the issuance of such shares, convert such shares into such number of shares of Common Stock as shall be equal to the number which is the result of dividing (x) the Liquidation Preference (as defined below) of the shares being converted by (y) the Fair Market Value of a share of Common Stock of the Company on the date of the issuance of the shares of this Series, with any fractional number being rounded off to the nearest tenth of a share (the "Conversion Price"). Any accrued and unpaid dividends on the converted shares through the Conversion Date shall be converted into such number of shares of Common Stock as shall be equal to the number which is the result of dividing (x) the amount of such accrued and unpaid dividends through the Conversion Date by (y) the Fair Market Value of a share of Common Stock of the Company on the Conversion Date. At the option of the holder of the shares being converted, all accrued and unpaid dividends through the Conversion Date on the shares being converted may be paid to said holder in cash (rather than shares of Common Stock) as soon as practicable after the Conversion Date, so long as there are sufficient funds legally available for such cash payment. If any share of this Series is called for redemption as provided in Section 3 hereof, the holder thereof may convert such share through the close of business on the third business day preceding the redemption date, at which time conversion rights with respect to such share shall terminate. For the purposes hereof, the term "Fair

Market Value" shall mean the average Quoted Price for the three Trading Days immediately preceding the date of the issuance of the shares of this Series or the Conversion Date, as applicable. The "Quoted Price" for each day shall be: (i) the last reported sales price or, in case no such reported sale took place on such day, the average of the last reported bid and asked prices for such day, in either case on the principal national securities exchange on which the Common Stock is permitted to trade; or (ii) if the Common Stock does not trade on any national securities exchange, but is traded in the over-the-counter market, the last reported sales price or, in the case no such reported sale took place on such day, the average of the closing bid and asked prices of the Common Stock on NASDAQ or any comparable system; or (iii) if the Common Stock is not quoted on NASDAQ or a comparable system, the last reported sales price or, in case no such reported sale took place on such day, the average of the closing bid and asked prices as furnished by two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose. A "Trading Day" shall be a day for which a Quoted Price is available.

(b) The holder of any shares of this Series may exercise the conversion right as to any of them by delivering to the Company or its designated agent during regular business hours, at the office of the transfer agent for this Series or at any such other place as may be designated by the Company, the certificate or certificates for the shares to be converted, duly endorsed or assigned in blank or to the Company (if required by it), with the conversion notice on the reverse thereof duly completed and executed. Conversion shall be deemed to have been effected on the business day when such delivery is made (or on the next succeeding business day if such delivery is made on a day other than a business day), and such date is referred to herein as the "Conversion Date." As promptly as practicable after the Conversion Date, the Company shall issue and deliver to or upon the written order of such holder a certificate or certificates for the number of full shares of Common Stock to which any such holder is entitled, and a check or cash in respect of any fractional interest in a share of Common Stock as provided in paragraph 4(d). The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of record of the Common Stock on the Conversion Date, and the applicable Conversion Price shall be that in effect on the Conversion Date. Upon conversion of only a portion of the number of shares of this Series covered by a certificate surrendered for conversion, the Company shall issue and deliver to or upon the written order of the holder of the certificate so surrendered for conversion, at the Company's expense, a new certificate for the shares of this Series representing the unconverted portion of the certificate so surrendered, which new certificate shall entitle the holder thereof to dividends on the shares represented thereby in accordance with the provisions of Section 2 hereof.

(c) No fractional shares of Common Stock or scrip shall be issued upon conversion of shares of this Series. Instead, the Company shall pay a cash adjustment in respect of such fractional interest in an amount equal to the Fair Market Value of a share of Common Stock on the Conversion Date multiplied by such fractional interest. Fractional interests shall not be entitled to dividends, and the holders of fractional interests shall not be entitled to any rights as holders of Common Stock in respect thereof.

(d) The Conversion Price shall be subject to adjustment from time to time, calculated to the nearest cent, as follows, except that no adjustments to the Conversion Price shall be made in respect of any accrued dividends:

(i) Adjustments for Changes in Capital Stock. If the Company:

(A) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock;

(B) subdivides its outstanding shares of Common Stock into a greater number of shares;

(C) combines its outstanding shares of Common Stock into a smaller number of shares;

(D) makes a distribution on its Common Stock in shares of

its capital stock other than Common Stock; or

(E) issues by reclassification of its Common Stock any shares of its capital stock,

then the conversion privilege and the Conversion Price in effect immediately prior to such action shall be adjusted so that the holder of shares of this Series thereafter converted may receive the number of shares of capital stock of the Company which he would have owned immediately following such action if he had converted such shares immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment, a holder of shares of this Series upon conversion of such shares may receive shares of two or more classes of capital stock of the Company, the adjusted Conversion Price shall be proportionately allocated in good faith by the Board of Directors between the classes of capital stock. After such allocation, the conversion privilege and the Conversion Price of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this paragraph.

(ii) When No Adjustment Required. No adjustment need be made for a transaction referred to in clause (i) if the holders of shares of this Series are to participate in the transaction on a basis and with notice that the Board determines to be fair and appropriate in light of the basis and notice on which holders of Common Stock participate in the transaction and the percentage of voting stock of the Company which the holders of shares of this Series have a right to obtain upon conversion of such shares is not affected by such transaction.

No adjustment need be made for a change in the par value of the Common Stock.

To the extent the shares of this Series become convertible into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

(iii) Notice of Certain Transactions. If:

(A) the Company takes any action that would require an adjustment in the Conversion Price pursuant to clause (i) (other than the payment of dividends on Common Stock in shares of Common Stock), and if the Company does not allow holders of shares of this Series to participate therein pursuant to clause (ii);

(B) the Company takes any action that would require an adjustment in the Conversion Price pursuant to clause (iv);  
or

(C) there is a liquidation or dissolution of the Company,

the Company shall mail to holders of shares of this Series a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, transfer, liquidation or dissolution. The Company shall mail the notice at least 15 days before such date. Failure to mail the notice or any defect in it shall not affect the validity of the transaction.

(iv) Reorganization of Company. If the Company is a party to a reclassification (excluding that referred to in clause (i)) or

shall consolidate with or merge into any other corporation or transfer all of its properties and assets as an entirety to any person, upon consummation of such transaction each share of this Series shall automatically become convertible into and, notwithstanding any other provisions hereof, only into the kind and amount of securities, cash or other assets which the holder of such share would have owned immediately after such reclassification, consolidation, merger or transfer if such holder had converted such share immediately before the effective date of such transaction.

If this clause applies, clause (i) does not apply.

(v) Company Determination Final. Any determination that the Company or the Board of Directors must make pursuant to clauses (i) or (ii) is conclusive if made in good faith.

(vi) Voluntary Adjustment. If the Company deems it to be in its best interest to induce the holders of the shares of this Series to convert such shares into shares of Common Stock so as to permit the Company to avoid further obligations to pay dividends in respect of shares of this Series, the Company from time to time may in its sole discretion decrease the Conversion Price and hence increase the number of shares of Common Stock into which the Convertible Preferred Shares may be converted. Such decrease in the Conversion Price may be by any amount the Company deems sufficient to achieve the goal of inducing conversion of the Convertible Preferred Shares, and for any period of time, if the period is at least 20 days and if the reduction is irrevocable during the period (including any extension thereof), provided, that in no event may the Conversion Price be less than the par value of a share of Common Stock. Whenever the Conversion Price is reduced, the Company shall mail to holders of shares of this Series a notice of the reduction. The Company shall mail the notice at least 15 days before the date the reduced Conversion Price takes effect. The notice shall state the reduced Conversion Price and the period it will be in effect.

(f) Whenever the Conversion Price shall be adjusted as provided in paragraph 4(e), the Company shall forthwith file, at the office of the transfer agent for shares of this Series or at such other place as may be designated by the Company, a statement, signed by its independent certified public accountants, showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment. The Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of shares of this Series at his or her address appearing on the Company's records. Where appropriate, such copy may be sent in advance and may be included as part of a notice required to be mailed under the provisions of clause 4(e) (iii).

(g) The Company shall reserve, free from preemptive rights, out of its authorized but unissued Common Stock solely for the purpose of effecting the conversion of shares of this Series, sufficient shares of Common Stock to provide for the conversion of all such shares outstanding from time to time. All shares of Common Stock issued upon conversion of shares of this Series shall be fully paid and nonassessable. The Company shall pay any documentary, stamp or similar issue or transfer tax due on the issuance of shares of Common Stock upon the conversion, except that the holder of the converted shares shall pay any such tax which is due because the shares of Common Stock are issued in a name other than such holder's name.

## 5. Voting.

(a) The shares of the Series shall have voting rights in all ways equal to the voting rights of the Common Stock of the Company, except that the holder of each share in this Series is entitled to the number of votes equal to the number of shares of Common Stock that would be receivable upon conversion. Accordingly, the holders of the shares of the Series shall be entitled to



receive notice of all meetings of the shareholders of the Company and shall be entitled to vote on any and all issues upon which the holders of Common Stock are entitled to vote in the same manner as the holders of the Common Stock of the Company.

(b) So long as any shares of this Series shall be outstanding, the Company shall not, without the consent, given in writing or by resolution adopted at a meeting duly called for that purpose, of the holders of record of at least two-thirds of the number of shares of this Series then outstanding, change any of the provisions of the Company's Amended and Restated Articles of Incorporation, as amended, or this Designation so as to affect materially and adversely any of the rights or preferences of the shares of this Series.

(c) In addition to the foregoing rights, the holders of this Series shall have the following voting rights:

(i) The right to vote in the manner and to the extent required by law.

(ii) So long as any shares of this Series are outstanding, the affirmative vote or written consent of the holders of at least two-thirds of the outstanding shares of this Series will be required:

(A) to establish a class of stock or a series of any class of stock of the Company ranking senior to or equal to this Series as to dividends or voting rights or upon liquidation, or

(B) for any amendment, alteration or repeal of any provisions of the Amended and Restated Articles of Incorporation that would adversely affect the powers, preferences or rights of all Preferred Stock as a class, provided, however, that nothing herein shall limit the rights provided to the holders of this Series pursuant to paragraph 5(a).

(d) Shares of this Series held by the Company directly or through entities of which a majority of the voting securities are held by the Company shall not be deemed to be outstanding for purposes of any voting rights granted in this Section 5.

(e) If the Company:

(A) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock;

(B) subdivides its outstanding shares of Common Stock into a greater number of shares;

(C) combines its outstanding shares of Common Stock into a smaller number of shares;

(D) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock; or

(E) issues by reclassification of its Common Stock any shares of its capital stock,

then the number of votes to which each share of the Series is entitled immediately prior to such action shall be adjusted so that the holder of shares of this Series is thereafter entitled to such number of votes which it would have been entitled immediately following such action if he had converted such shares immediately prior to such action.

6. Liquidation Rights.

(a) Upon the dissolution, liquidation or winding up of the Company, the holders of record of the shares of this Series shall be entitled to receive out of the assets of the Company available for distribution to shareholders, before any payment or distribution shall be made on the Common Stock or on any other class or series of stock of the Company ranking junior to this Series upon liquidation, an amount equal to \$10.00 per each share of the Series (the "Liquidation Preference") together with a sum equal to all accrued but unpaid dividends (whether or not earned or declared) on such shares accrued thereon to the date of final distribution. Written notice of such dissolution, liquidation or winding up, stating a payment date, the amount of such payment and the place where payment will be made shall be given by certified mail, postage prepaid, not less than 30 nor more than 60 days prior to the payment date stated therein to the holders of record of this Series, such notice to be addressed to each holder at his address as the same appears on the stock register of the Company.

(b) Neither the sale, lease or other transfer of all or substantially all the property or business of the Company, nor the merger or consolidation of the Company into or with any other corporation or other business entity nor the merger or consolidation of any other corporation or other business entity into or with the Company, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 6.

(c) After the payment to the holders of the shares of this Series of the full preferential amounts provided for in this Section 6, the holders of shares of this Series, as such holders, shall have no right or claim to any of the remaining assets of the Company.

(d) In the event the assets of the Company available for distribution to the holders of shares of this Series, and to the holders of any other class or series of stock of the Company ranking on a parity with the shares of this Series upon liquidation, upon any dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to paragraph 6(a) and the terms of such other stock, no such distribution shall be made on account of any shares of any other series of Preferred Stock, or of any other class, ranking on a parity with the shares of this Series upon such dissolution, liquidation or winding up unless proportionate distributive amounts shall be paid on account of the shares of this Series, ratably in accordance with the sums which would be payable in such distribution if all sums payable in respect of the shares of all such series of Preferred Stock and any such other class as aforesaid were discharged in full.

## 7. Ranking.

For purposes of this resolution, any stock of any class or classes or of any series of the Company shall be deemed to rank:

(a) senior to the shares of this Series, either as to dividends or upon liquidation, if the holders of such stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Company, as the case may be, in preference or priority to the holders of shares of this Series;

(b) on a parity with shares of this Series, either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates or redemption or liquidation prices per share or sinking fund provisions, if any, be different from those of this Series, if the holders of such stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Company, as the case may be, in proportion to their respective dividend rates or liquidation preferences, without preference or priority, one over the other, as between the holders of such stock and the holders of shares of this Series; and

(c) junior to shares of this Series, either as to dividends or upon liquidation, if such class shall be Common Stock or if the holders of shares of this Series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Company, as the case may be, in preference or priority to the holders of such stock.

8. Transfer and Reissuance.

(a) All or any shares of this Series acquired by the Company and not retired may be transferred by the Company to any other person(s). However, for so long as such shares are held by the Company, and until such shares are transferred to another person, no dividends shall accrue with respect to such shares.

(b) The number of shares of this Series available for issuance under this Designation at any time shall be the difference between the authorized number of shares designated in Section 1 and the number issued at such time, and no reduction shall be made for any shares of this Series acquired by the Company and subsequently retired, or redeemed under Section 3 or converted into Common Stock under Section 4.

9. Sinking Fund.

Shares of this Series are not subject or entitled to the benefit of a sinking fund.

10. Right of Holders to Put Shares.

(a) At any time after the payment in full of all of the Company's indebtedness to First Union Bank of North Carolina, the holders of the shares of this Series shall have the right to sell to the Company, in which case the Company shall have the obligation to purchase from such holders (but only if there are sufficient funds legally available for such purchase), all or any part of such shares held by such holders at a purchase price equal to the Liquidation Preference of such shares plus all accrued and unpaid dividends (whether or not earned or declared) on the shares being purchased through the date of purchase, including any dividends accruing at the Additional Rate (the "Purchase Price").

(b) The holder of any shares of this Series may exercise the right described in paragraph 10(a) by delivering to the Company or its designated agent during regular business hours, at the office of the transfer agent for this Series or at any such other place as may be designated by the Company, the certificate or certificates for the shares to be sold to the Company, duly endorsed or assigned in blank or to the Company (if required by the Company). The purchase and sale shall be deemed to have been effected on the business day when such delivery is made (or on the next succeeding business day if such delivery is made on a day other than a business day), and such date is referred to herein as the "Purchase Date." As promptly as practicable after the Purchase Date, the Company shall deliver to such holder, by check or wire transfer, cash in an amount equal to the full Purchase Price.

THIRD AMENDMENT TO AMENDED AND RESTATED  
CREDIT AND SECURITY AGREEMENT  
AND  
FIRST AMENDMENT TO STOCK PURCHASE WARRANT

This Third Amendment, dated as of March 28, 1997, but effective December 1, 1996, to Amended and Restated Credit and Security Agreement ("Amendment") by and between GROUP TECHNOLOGIES CORPORATION, a Florida corporation (the "Borrower"), and FIRST UNION COMMERCIAL CORPORATION, a North Carolina corporation (the "Lender"), amends the Amended and Restated Credit and Security Agreement, dated March 29, 1996, by and between the Borrower and the Lender, as amended on May 13, 1996 and September 5, 1996 (as so amended, and as amended, modified, extended, restated, enlarged or supplemented from time to time, the "Agreement"). This Amendment also amends the Stock Purchase Warrant (No. 1) dated March 29, 1996 between the Borrower and the Lender (the "Warrant").

RECITAL

The Borrower has requested that the Lender waive the operation of certain covenants of the Agreement and amend certain provisions of the Agreement and amend certain provisions of the Warrant, and the Lender is willing to grant such waivers and make such amendments, all upon the terms and subject to the conditions set forth herein.

AGREEMENT

In consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Capitalized Terms. Capitalized terms used in this Amendment and not otherwise defined herein, shall have the meanings ascribed to them in the Agreement (including the defined terms added in this Amendment).

2. New Definition. Three new definitions are added to Section 1 of the Agreement, in alphabetical order, to read as follows:

"Convertible Preferred Stock" shall mean the Convertible Preferred Stock issued to GFP on March 28, 1997, for a subscription price of \$2,500,000, and containing the terms and preferences set forth on Annex A attached to the Third Amendment.

"EBITDAR" shall mean, for any period, the aggregate of net income (or loss) of the Borrower for such period, determined in accordance with GAAP, plus (a) the sum of the following amounts for such period in accordance with GAAP to the extent included in the determination of such net income (loss): (i) interest expense on Indebtedness (including the Obligations), (ii) income tax expense (to the extent it is a positive number), and (iii) amortization and depreciation; less (b) the sum of the following amounts in accordance with GAAP to the extent included in the determination of such net income (loss): (i) the net income (loss) of any other Person that is accounted for by the equity method of accounting except to the extent of the amount of dividends or distributions paid by such Person to the Borrower, (ii) the net income (loss) of any other Person acquired by the Borrower in a transaction accounted for as a pooling of interests for any period prior to the date of such acquisition, and (iii) all royalty income received or accrued by the Borrower.

"Third Amendment" shall mean the Third Amendment to Amended and Restated Credit and Security Agreement and First Amendment to Warrant Agreement, dated as of March 28, 1997 but effective as of December 1, 1996, among the Borrower, the Lender and the Guarantors

3. Reduction in Revolving Line of Credit. (a) Section 2.1(a) of the Agreement is hereby amended in its entirety to read as follows:

2.1(a) Revolving Line of Credit. Subject to all of the terms and conditions set forth in this Agreement and the other Loan Documents, the Lender shall make a revolving line of credit available for the Borrower's use from time to time on and after the Closing Date and until the Commitment Termination Date. Unless a Default or Event of Default exists or would result from the making of a Loan or the issuance of a Letter of Credit, pursuant to the Revolving Line of Credit, the Lender, upon the Borrower's request therefor, will make Loans and, subject to its sole and absolute discretion in each instance, cause the issuance of Letters of Credit for the account of the Borrower or any Subsidiary, on a revolving credit basis, in an aggregate amount at any one time outstanding not to exceed Thirteen Million Five Hundred Thousand Dollars (\$13,500,000) minus all GT Mexico Loans then outstanding. If, at any time or times, the aggregate principal amount of all revolving credit Loans, Letter of Credit Obligations and GT Mexico Loans exceeds the Borrowing Base in effect at such time, whether by reason of a reduction in the Borrowing Base or otherwise, Borrower will immediately repay the amount of such Overadvance; provided, however, that if and to the extent that the Overadvance results from a reduction of the Borrowing Base caused solely by a change in the eligibility criteria with respect to Accounts and Inventory or Lender's establishing a reserve against the Borrowing Base, the Borrower shall have a ten (10) day grace period during which to either reduce the Obligations under the Revolving Line of Credit or increase the Collateral so as to completely eliminate the Overadvance. The failure to make such payment within one Business Day following the occurrence of the Overadvance, or within such ten-day grace period, as the case may be, shall constitute an Event of Default under this Agreement. Nothing herein shall require or imply any obligation on the part of the Lender to make any Overadvance.

(b) Section 2.4 of the Agreement is hereby amended in its entirety to read as follows:

2.4 Maximum Revolving Facility. Notwithstanding anything to the contrary contained in this Agreement or any of the other Loan Documents, (a) the aggregate amount of revolving credit Loans and Letter of Credit Obligations shall not exceed at any time Thirteen Million Five Hundred Thousand Dollars (\$13,500,000) minus all GT Mexico Loans (which in no event may exceed \$6,000,000 under the GT Mexico Credit Agreement) from the Lender to GT Mexico outstanding at such time, and (b) in no event shall the Lender be required to make any revolving credit Loans if, after giving effect to such Loans and all then outstanding Letters of Credit, Availability would not be a positive amount. If, at any time, such Overadvances exist, the Borrower shall either reduce the Revolving Line of Credit Obligations or increase the amount of Collateral in the Borrowing Base so that such sum is a positive amount; provided, however, that if and to the extent that such excess results from a reduction of the Borrowing Base caused solely by a change in the eligibility criteria with respect to Accounts and Inventory or Lender's establishing a reserve against the Borrowing Base, the Borrower shall have ten (10) days during which to either reduce the Revolving Line of Credit Obligations or increase the Collateral. All of the foregoing shall be calculated in accordance with a Borrowing Base Certificate. In determining Availability, the Lender shall have the right from time to time to establish and reestablish such reserves (in addition to those set forth in Exhibit A) against the Borrowing Base as it deems appropriate in its sole discretion.

4. Negative Covenants. (a) Financial Covenants. Sections 8.11 and 8.15 of the Agreement are deleted in their entirety, a new Section 8.11 (Minimum EBITDAR) is added to the Agreement to read as set forth below, Sections 8.13 and 8.14 of the Agreement are amended in their entirety to read as set forth below, and the remaining sections of Section 8 are renumbered accordingly:

8.11 Minimum EBITDAR. Permit EBITDAR for the fiscal quarter listed below to be less than the amounts shown below for such quarter:

[CAPTION]

	Period -----	Amounts -----
For Borrower on a consolidated basis:	1996 4th quarter:	None
	1997 1st quarter:	\$(2,200,000)
	1997 2nd quarter:	\$( 500,000)
	1997 3rd quarter:	\$ 500,000
	1997 4th quarter:	\$ 1,000,000
	1998 1st quarter:	\$ 1,000,000
For Borrower on an unconsolidated basis:	1996 4th quarter:	None
	1997 1st quarter:	\$(2,500,000)
	1997 2nd quarter:	\$(1,200,000)
	1997 3rd quarter:	\$(1,200,000)
	1997 4th quarter:	\$(1,000,000)
	1998 1st quarter:	\$(1,000,000)

8.13 Current Ratio. Permit the ratio of Current Assets to Current Liabilities at any time to be less than eight tenths-to-one (0.8-to-1) at any time.

8.14 Minimum Tangible Net Worth. Permit Tangible Net Worth plus Subordinated Debt, on a consolidated basis, at any time to be less than the amounts shown below for the applicable quarter listed below:

[CAPTION]

Period -----	Amounts -----
On December 31, 1996	\$14,000,000
On the last day of each fiscal quarter thereafter	\$16,500,000;

provided, however, that for purposes of this section, there shall be added to Tangible Net Worth (i) all amounts deducted or amortized by reason of the Warrants issued to the Lender, (ii) the restructuring fee paid to the Lender in connection with the Third Amendment, (iii) all amounts representing the Convertible Preferred Stock but only if, and to the extent, such Stock is treated as debt in the Borrower's financial statements, and (iv) all dividends and interest, if any, accrued on the Convertible Preferred Stock.

(b) Transfer of Assets to Foreign Subsidiaries. Notwithstanding the restrictions contained in Section 8.21 of the Agreement, the Borrower shall be entitled to transfer the assets described on Schedule 1 attached to this Amendment to GT Brazil and GT Mexico, as provided in such Schedule.

5. No Further Management Fees to GFP. Section 8.16 of the Agreement is deleted from the Agreement, and the reference to Section 8.16 in Section 8.8 is deleted from the Agreement.

6. Amendment of Stock Purchase Warrant . The vesting schedule set forth on the first page of the Warrant shall be amended in its entirety to read as follows:

[CAPTION]

Obligations Paid Prior to -----	Maximum Number of Stock Units -----
---------------------------------------	---

March 31, 1997	200,000
June 30, 1997	325,000
September 30, 1997	700,000
December 31, 1997	950,000

7. Conditions Precedent to Effectiveness of Amendment. The effectiveness of the amendments of the covenants in Sections 4 and 5 of this Amendment is conditioned upon the Borrower, on or before 3:00 p.m. Miami, Florida time on March 28, 1997, (i) receiving not less than \$2,500,000 in cash from GFP in consideration for the issuance to GFP of the Convertible Preferred Stock, (ii) using \$500,000 of the proceeds of such issuance to prepay Term Loan I in the inverse order of the maturity of Term Loan I, and (iii) paying to the Lender a one-time restructuring fee (in addition to any other fees payable to the Lender pursuant to the Agreement) of \$100,000.

8. Reaffirmation and Modification of Guaranties and Pledges.

The form, terms and conditions of each of the following documents are hereby ratified and reaffirmed in all respects:

(i) Security and Pledge (Guarantor), dated August 10, 1994, executed by the Borrower in favor of the Lender;

(ii) Security and Pledge (Pledgor), dated August 10, 1994, executed by GT Mexico Holding Company in favor of the Lender;

(iii) Guaranty and Security Agreement (the "Metrum Guaranty"), dated November 22, 1994, executed by Metrum in favor of the Lender;

(iv) Guaranty and Security Agreement (the "GT Mexico Holding Company Guaranty"), dated November 22, 1994, executed by GT Mexico Holding Company in favor of the Lender;

(v) Guaranty (the "GT Mexico Guaranty"), dated November 22, 1994, executed by GT Mexico in favor of the Lender;

(vi) Pledge Agreement, dated November 22, 1994, executed by the Borrower in favor of the Lender, regarding the pledge of Metrum stock;

(vii) Pledge Agreement, dated November 22, 1994, executed by the Borrower in favor of the Lender, regarding the pledge of GT Mexico Holding Company stock; and

(viii) Guaranty (the "GT Brazil Guaranty"), dated March 29, 1996, executed by GT Brazil in favor of the Lender.

Each of the Borrower, Metrum, GT Mexico Holding Company, GT Mexico, and GT Brazil acknowledges and agrees that it is and shall remain liable for the payment of all Obligations to the full extent provided in the Metrum Guaranty, the GT Mexico Holding Company Guaranty, the GT Mexico Guaranty and the GT Brazil Guaranty, respectively.

9. Lender's Expenses. Borrower shall pay to or for the account of the Lender all costs and expenses, including legal fees and disbursements of counsel to the Lender, incurred by the Lender in connection with this Amendment.

10. No Other Modifications. Except as expressly amended or modified by the terms hereof, the Agreement and the Warrant shall remain in full force and effect. This Amendment shall not affect, modify or diminish the obligations of Borrower which have accrued prior to the effectiveness of the provisions hereof.

11. Representations and Warranties True and Correct. The Borrower hereby certifies that the representations and warranties contained in the Agreement continue to be true and correct and that no Default or Event of Default has

occurred.

12. Choice of Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF FLORIDA.

13. JURY TRIAL WAIVER. EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY SUIT OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AMENDMENT.

14. Counterpart Signatures. This Amendment may be executed in any number of counterparts all of which together shall constitute one and the same agreement of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to Amended and Restated Credit Agreement to be duly executed, sealed and delivered the day and year first above written.

BORROWER:

GROUP TECHNOLOGIES CORPORATION,  
a Florida corporation

By: /s/ David D. Johnson  
Name: David D. Johnson  
Title: Vice President

LENDER:

FIRST UNION COMMERCIAL CORPORATION,  
a North Carolina corporation

By: /s/Michael Quackenbush  
Name: Michael Quackenbush  
Title: Vice President

Each of the Guarantors whose name is set forth below acknowledges that it has reviewed, confirmed and consented to the terms of this Amendment and each of the documents and transactions contemplated hereby, including, but not limited to, the terms of Section 3 of this Amendment.

GROUP TECHNOLOGIES S.A. de C.V.

By: /s/ Richard L. Davis  
Name: Richard L. Davis  
Title: Authorized Signatory

GROUP TECHNOLOGIES MEXICAN HOLDING COMPANY

By: /s/ David D. Johnson  
Name: David D. Johnson  
Title: Vice President

METRUM, INC.

By: /s/ David D. Johnson  
Name: David D. Johnson



Title: Secretary & Treasurer

GROUP TECHNOLOGIES SUPRIMENTOS DE  
INFORMATICA INDUSTRIA E COMERCIO LTDA.

By: /s/ Richard L. Davis  
Name: Richard L. Davis  
Title: Authorized Signatory

INSTRUMENTS SA, INC. AND GROUP TECHNOLOGIES, INC.  
OEM PURCHASE AGREEMENT

This agreement is made and entered on 11 day of December 1996, by and between Instruments SA, Inc., a Delaware Corporation, located at 3880 Park Avenue, Edison, New Jersey 08820 (hereafter called the COMPANY or ISA) and Group Technologies Corporation located at 10901 Malcolm McKinley Drive, Tampa, Florida 33612 (hereafter called the BUYER or G.T.C.)

RECITALS

Whereas, BUYER wishes to purchase and COMPANY desires to sell Products as defined on Appendix A of this Agreement; and

Whereas, Buyer has previously issued Purchase Order #560000445 ("Purchase Order") to COMPANY and COMPANY has previously issued an Acknowledgment for same ("Acknowledgment"); and

Whereas, the parties desire to amend the term and conditions of the Purchase Order and Acknowledgment.

Now therefore the parties agree as follows:

1. Term of Agreement

BUYER agrees to purchase and COMPANY agrees to sell the Products listed in Appendix A which is attached hereto and incorporated herein. This agreement shall cover and is limited to the 298 units of Product ordered by the BUYER in the above-referenced Purchase Order.

2. Governing Terms and Conditions

This Agreement sets forth the terms and conditions applicable to any and all purchase orders issued during the term of this Agreement, including but not limited to that certain Purchase Order 560000445, irrespective of whether this Agreement is referenced by the purchase order. In the event of any conflict between the terms of this Agreement and the terms of any purchase order, acknowledgment or other document issued, this agreement will take precedence.

3. Purchase Order

BUYER and COMPANY mutually agree and acknowledge that the Purchase Order referenced hereunder can not be canceled nor may the product be returned for restocking, except as may be provided in Sections 11, 12 and 13. Notwithstanding any of the foregoing, the parties mutually agree that delivery of units delineated on the Purchase Order may be rescheduled in accordance with the following:

[CAPTION]

Number of Days Notice -----	Percent to be Rescheduled -----
0 - 30	0%
31 - 60	10%
61 - 90	25%
91 - 120	50%
Beyond 120	100%

Any changes to the purchase order must be mutually agreed to. The BUYER will provide, on a monthly basis, a copy of IBM's forecast and BUYER's open order report delineating the delivery schedule for all open orders. COMPANY will review this report and fax back acceptance to BUYER within 7 business days.

4. Purchase Price  
BUYER further agrees to purchase and COMPANY agrees to sell the Product at the prices delineated on po#560000445. BUYER asserts products are for resale.
5. Safety Stock  
ISA (U.S.) and Instruments SA (FRANCE) will each stock 5 units as finished goods for this order. The quantity available for delivery will depend on BUYER's usage rate. If BUYER's usage rate remains at 30 units/month, COMPANY will need 60 days to replenish the stock.
6. Delivery Schedule  
The lead time for the products described in Appendix A is 120 days. This lead time assumes a usage rate of less than 15 units per month. The lead time for quantities > 15 per month may require longer than 120 days
7. TERMS of PAYMENT  
Payment shall be made in full within 30 days from date of COMPANY'S invoice. A monthly service charge of 1.5% may be added to balances extending beyond 60 days. The COMPANY maintains the right to withhold shipment of additional goods if the BUYER has payables extending beyond 30 days. This does not relieve BUYER of its responsibility to purchase units as specified on the purchase order and this agreement.
8. Title  
BUYER shall be liable for payment of purchase price of goods covered by this agreement as soon as they have been delivered by the COMPANY to carrier. However, title to such goods shall remain with the COMPANY until price specified has been paid.
9. Delivery  
Risk of Loss. Delivery shall be F.O.B. Edison, NJ. All delivery and handling charges shall be paid for by BUYER. BUYER shall bear the risk of loss upon COMPANY'S delivery of goods to the carrier. If due to COMPANY'S failure, delivery cannot be made at the agreed time, by the specified method of transportation, COMPANY will at no additional cost to BUYER, use other expedient means to affect delivery.

Delivery Schedule. COMPANY agrees to deliver the Product in accordance with the delivery schedule delineated on the Purchase Order 560000445 or as the parties may mutually agree in writing. BUYER and COMPANY also agree that BUYER may reschedule delivery of the Product in accordance with Section 3.

Notwithstanding any of the foregoing, BUYER agrees and acknowledges that it will take delivery for all units on the Purchase Order on or before September 1, 1997.

10. Warranty  
The COMPANY warrants for a period of 14 months beginning at date of delivery to BUYER of the device that all components manufactured and delivered by the COMPANY will be free of manufacturing defect in materials and workmanship. ISA will, at no additional expense to BUYER, make every reasonable effort to repair or replace within 45 days, those components found with manufacturing defect in materials and workmanship.

This warranty shall not apply to any COMPANY manufactured components that have been repaired or altered by anyone not authorized by the COMPANY in writing. The warranty shall not apply to any components subjected to misuse due to negligence, adverse environmental conditions, or accident, nor to any components which are not operated in accordance with good optical and engineering practice. Time, materials, and expenses shall be billed to the BUYER at the rates then in effect for non-contract customers or any repairs or replacements not covered by this warranty. All defective items replaced pursuant to the above warranty become the property of the company.

THIS WARRANTY IS GIVEN EXPRESSLY IN LIEU OF ALL WARRANTIES OF MERCHANTABILITY, FITNESS FOR PURPOSE, OR OTHER WARRANTIES, EXPRESS OR

IMPLIED. CORRECTION OF NON CONFORMITIES, IN THE MANNER AND FOR THE PERIOD OF TIME PROVIDED ABOVE, SHALL CONSTITUTE FULFILLMENT OF ALL LIABILITIES OF COMPANY WHETHER BASED ON CONTRACT, NEGLIGENCE OR OTHERWISE WITH RESPECT TO, OR ARISING OUT OF SUCH SYSTEM. THE REMEDIES SET FORTH HEREIN ARE EXCLUSIVE AND THE COMPANY SHALL NOT BE LIABLE FOR SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES.

11. Force Majeure

The COMPANY will use every reasonable effort to affect shipment on or before the date requested. The COMPANY shall not be liable for delay in performance or inability to perform occasioned by any unforeseen conditions, including but not limited to, strike, embargo, government regulation or inability to obtain materials. If performance by the COMPANY is delayed by reason thereof, it shall notify the BUYER promptly and in writing of the force majeure event, the expected duration of such inability to perform, and of any developments that appear likely to affect the ability of COMPANY to perform any of its obligations hereunder in whole or in part. Time and performance shall be extended for the period of such contingency. If the period of nonperformance exceeds 60 days from the date of delivery of the last shipment, BUYER may terminate this agreement without penalty by giving written notice to COMPANY.

12. Remedies of Buyer-With Cause

The BUYER may cancel this agreement and or defer shipment of product upon 30 days advance written notice to COMPANY, if the COMPANY has materially breached this agreement and failed to cure such nonperformance within 30 days after the written notice is received or such additional cure period as the BUYER may authorize in writing. Any money paid in advance by the BUYER to the COMPANY for goods not shipped will be reimbursed. The foregoing shall be the exclusive remedy of BUYER for any breach of this agreement by the COMPANY.

13. Remedies of Company-With Cause

If the BUYER fails to pay the price as it becomes due or wrongfully rejects the merchandise as per Section 15 hereunder, then the COMPANY shall give written notice to BUYER of non-performance. If BUYER fails to cure such non-performance within 30 days after the written notice is received (or such additional cure period as the COMPANY may authorize in writing), the COMPANY, without notice may (i) defer shipment hereunder until such breach or repudiation is removed and/or(ii) cancel any undelivered portion of this Agreement, provided however that BUYER shall not be liable for the purchase price of any undelivered portion of the Purchase Order which COMPANY cancels pursuant to this provision. Notwithstanding any of the foregoing, BUYER'S potential total liability for any damages which COMPANY may incur as a result of any asserted breach or non-performance shall not, in any case, exceed the purchase price of the units specified in the Purchase Order. In the event the COMPANY shall retain counsel to enforce any of the terms hereof, and prevail, the BUYER shall pay the COMPANY all costs of enforcement of the successfully asserted claim(s), including attorney's fees, court costs and expert witnesses. The foregoing constitutes COMPANY'S sole remedy for any single or multiple assertions of any breach of this agreement.

14. Copying or Replicating Products

The products sold may not be copied or replicated. The BUYER shall be liable for all damages including loss of anticipatory profits incurred by the COMPANY as a result of its conduct.

15. Inspection and Acceptance

All delivered items will be subject to inspection and acceptance by BUYER at BUYER'S plant notwithstanding any prior payment. Within thirty (30) days of receipt of any product specified within this agreement, BUYER shall notify COMPANY of any products that do not meet the specifications outlined in this agreement. Upon notification, COMPANY shall provide BUYER with a return authorization number to be used by the BUYER to return the rejected item to COMPANY at COMPANY'S expense, for correction or replacement. All products rejected for failure to meet the specifications as outlined in this agreement will be charged back at full billing price plus the cost of

inbound freight. Excluded for charge back will be unpaid inbound freight and handling costs, and products damaged due to shipment, misuse or misapplication.

16. Patent, Copyrights & Mask work rights

COMPANY shall defend, at its own expense, any suit or claim that may be instituted against BUYER or any customer of BUYER for alleged infringement of patents, copyrights or mask work rights relating to the maintenance, sale, or use of the Goods, except for any such infringement resulting from COMPANY's compliance with detailed designs provided by BUYER, and COMPANY shall indemnify BUYER and its customers for all costs and damage arising out of such alleged infringement. BUYER shall promptly notify COMPANY in writing of the existence of any claim, demand or other matter ("Claim") to which, in BUYER's reasonable judgment, COMPANY's indemnification obligations hereunder would apply. COMPANY shall thereafter have ten (10) business days to determine whether, in its reasonable judgment, it is obligated to indemnify Buyer with respect to such claim. If COMPANY determines, within such ten (10) business day period, that it is so obligated, the COMPANY shall notify BUYER of its determination thereof. Thereafter, COMPANY, upon BUYER's request shall assume the defense thereof, including retaining counsel reasonably satisfactory to BUYER to represent BUYER, and shall pay the fees and expenses of any such counsel related to such proceeding as well as any fees or expense incurred by BUYER to the date of COMPANY's assumption of the defense. In any such proceeding, BUYER shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of BUYER.

All costs incurred by BUYER in the defense, settlement or compromise of any Claim described hereunder shall, to the extent COMPANY would otherwise be obligated to pay such costs, be reimbursed to BUYER by COMPANY. If the Claim is one that cannot by its nature be defended solely by COMPANY (including, without limitation, any federal or state tax proceeding), then BUYER shall make available information and assistance (but not financial assistance) reasonably required to defend the Claim.

17. Publicity

This agreement shall not be construed to give either party a right to authorize any news release advertisement, or other disclosure which shall deny or confirm the existence of this agreement without the prior written consent of the other party, except as may be required to perform this agreement. In the event state or federal law, or court order compels either the disclosure or the existence of this agreement and or the contents thereof, the compelled party will provide the other party written notification of the existence of a circumstance which, in the compelled party's reasonable judgment, compels disclosure within 24 hours of determining the need for any such disclosure.

18. Waiver

The failure of either party to insist upon the performance of any provision of this agreement, or to exercise any right or privilege granted to either party under this agreement, shall not be construed as waiving such provision or any other provision of this agreement, and the same shall continue in full force and effect. If any provision of this agreement is found to be illegal or otherwise unenforceable by any court or other judicial or administrative body, the other provisions of this agreement shall not be affected thereby, and shall remain in full force and effect.

19. Termination

BUYER and COMPANY mutually agree and acknowledge that the Purchase Order referenced hereunder can not be canceled nor may product be returned for restocking, except as may be provided in sections 11, 12 and 13.

20. Entire Agreement

This agreement contains the final and entire agreement between the BUYER and the COMPANY and no understanding, representations, agreement, modifications, alterations or additions shall be effective unless in writing signed by the BUYER and the COMPANY.

21. Confidentiality & Proprietary Information

BUYER and COMPANY agree that the discussions regarding purchases here under are of a confidential nature. COMPANY and BUYER further agree not to disclose the terms of this agreement to others without prior written approval, with the exception of IBM, IBM's employees, and companies or individuals necessary to perform the business of producing WDM sub-assemblies for BUYER. COMPANY will however, notify BUYER in advance, of any discussions with IBM concerning issues related to the technical aspects of this product and offer an opportunity for BUYER to participate in such discussions. Similarly, BUYER will notify COMPANY in advance, of any discussions with IBM concerning issues related to the technical aspects of this product and offer an opportunity for COMPANY to participate in such discussions. BUYER further agrees not to disclose any technical specifications of COMPANY supplied components to any company or individual, without prior written approval from COMPANY.

22. Governing Law, Dispute Resolution and Venue  
State of New Jersey.

23. Assignment

Neither COMPANY nor BUYER shall have the right to assign any of its rights under this Agreement without the prior written consent of the other party hereto, and no purported assignment shall be binding upon the non-consenting party. Such assignment shall not be unreasonably withheld.

24. Notices

Notice shall be deemed given five (5) days after being mailed certified or registered mail by either party to the address listed above. Notices being mailed to the COMPANY will be sent in duplicate to Instruments SA, Inc. 3880 Park Avenue, Edison, NJ 08820 to the attention of: 1) Darryln Tarantino, OEM Accounts Manager, and 2) President. For notices being mailed to the BUYER the address will include: 10901 Malcolm McKinley Drive, Tampa, Florida 33612 to the attention of 1) Ray Doucet, Senior Buyer, and 2) Legal Counsel.

For the BUYER

/s/ S. Spencer Benard  
S. Spencer Benard  
Asst. Legal Counsel  
Group Technologies Corporation  
(BUYER)

For the COMPANY

/s/ Darryln Tarantino  
Darryln Tarantino  
OEM Accounts Manager  
Instruments S.A., Inc.  
(The COMPANY)

Appendix A

Catalog Number: 11070211

DESCRIPTION:

20 CHANNEL OPOS High Density Wavelength Division Multiplexoer, with radial connector, unit as specified in IBM document number KLISA050995.

Group Technologies Corporation  
Stock Option Plan  
Adopted on January 22, 1990

Amended and Restated on December 17, 1996

1. Purpose

To provide key management employees with the opportunity to receive potentially significant financial rewards from long term appreciation of the Corporation's stock resulting from their efforts to achieve superior performance by the Corporation and its personnel.

2. Participants

The Board of Directors of the Corporation (the "Board") shall have the right to select certain key individuals of the management team to be recipients of options for the purchase of shares of the common stock of the Corporation (the "Common Stock") and those key individuals shall be known as the Participants.

3. Purchase Price

The option to purchase shares of stock in the Corporation shall always carry an exercise price per share that is equal to the Calculated Value of the Corporation's share price on the date the option is issued and shall be clearly designated on the face of the option certificate. Such Calculated Value was determined in accordance with the formula contained in the Employee Stock Purchase Plan of the Corporation, dated January 22, 1990, as amended and was deemed by the Board to be equal to the fair market value of the shares of stock being made available for purchase by Participants on the date of grant as such shares were not then traded on the over-the-counter market nor listed on any exchange and did not have a known market value.

4. Date of Issue

The date of issue shall be designated by the Board and shall be clearly marked on the face of the option certificate.

5. Period of Eligibility

The Board, or a designated committee thereof, shall have the sole right to determine the period during which time the option shall be exercisable. This authority shall include the right to establish both a waiting period prior to the option becoming eligible to be exercised and an expiration period after which it shall no longer be eligible to be exercised. Both the date of eligibility and the date of expiration shall be clearly marked on the option certificate.

6. Purchase

Each option shall provide that the purchase price of the shares as to which an option shall be exercised shall be paid to the Corporation at the time of exercise either in cash or in such other consideration as the Board, or a designated committee thereof, deems acceptable, and which other consideration in the Board's or the committee's sole discretion may include: (i) Common Stock of the Corporation already owned by the Participant having a total fair market value on the date of exercise, determined in accordance with Section 9 hereof, equal to the purchase price, (ii) Common Stock of the Corporation issuable upon the exercise of an option and withheld by the Corporation having a total fair market value on the date of exercise, determined in accordance with Section 9 hereof, equal to the purchase price, or (iii) a combination of cash and Common Stock of the Corporation (either shares already owned by the Participant or shares being withheld upon the exercise of an option) having a total fair market value on the date of exercise, determined in accordance with Section 9 hereof, equal to the amount of the purchase price not paid in cash.

## 7. Manner of Exercise

Subject to the terms and conditions of any applicable option agreement, any option granted under this Stock Option Plan may be exercised in whole or in part. To initiate the process for the exercise of an option: (i) the Participant shall deliver to the Corporation, or to a broker-dealer in the Common Stock with the original copy to the Corporation, a written notice of intent to exercise an option specifying the number of shares as to which the option is being exercised and, if determined by counsel for the Corporation to be necessary, representing that such shares are being acquired for investment purposes only and not for the purpose of resale or distribution; and (ii) the Participant, or the broker-dealer, shall pay for the purchase price of such shares with cash, or if the Board, or a designated committee thereof, in its discretion agrees to so accept, by delivery to the Corporation of Common Stock of the Corporation (either shares already owned by the Participant or shares being withheld upon the exercise of an option), or in some combination of cash and such Common Stock acceptable to the Board. If payment of the purchase price is made with Common Stock, the value of the Common Stock used for such payment shall be the fair market value of the Common Stock on the date of exercise, determined in accordance with Section 9 hereof. The date of exercise of a stock option shall be determined under procedures established by the Board or a designated committee thereof, but in no event shall the date of exercise precede the date on which both the written notice of intent to exercise an option and full payment of the purchase price for the shares as to which the option is being exercised have been received by the Company. Promptly after receiving full payment for the shares as to which the option is being exercised and, provided that all conditions precedent contained in the Plan are satisfied, the Corporation shall, without transfer or issuance tax or other incidental expenses to Participant, deliver to Participant a certificate for such shares of the Common Stock. If Participant fails to accept delivery of the Common Stock, his rights to exercise the applicable portion of the option shall terminate.

## 8. Tax Withholding

To the extent required by applicable federal, state, local or foreign law, the Participant shall, on the date of exercise, make arrangements satisfactory to the Corporation for the satisfaction of any withholding tax obligations that arise by reason of an option exercise or any sale of shares. The Board, or a designated committee thereof, in its sole discretion, may permit these obligations to be satisfied in whole or in part with: (i) cash paid by the Participant or by a broker-dealer on behalf of the Participant, (ii) shares of Common Stock that otherwise would be issued to the Participant upon exercise of the option, and/or (iii) shares of Common Stock previously acquired. The Corporation shall not be required to issue shares for the exercise of an option until such tax obligations are satisfied and the Corporation may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the Participant.

## 9. Fair Market Value of the Common Stock

The fair market value of the Common Stock on any given measurement date shall be determined as follows:

(i) if the common stock of the Corporation is traded on the over-the-counter market, the average of the closing bid and asked quotations or the closing high bid quotation, whichever is available, for the Common Stock in the over-the-counter market, as reported by the National Association of Securities Dealers Automated Quotation System, on the business day immediately preceding the measurement date; or

(ii) if the Common Stock is listed on a national securities exchange, the average of the closing prices of the Common Stock on the Composite Tape for the ten (10) consecutive trading days immediately preceding the measurement date; or

(iii) if the Common Stock is neither traded on the over-the-counter market nor listed on a national securities exchange, such value as the Board, in good



faith, shall determine.

#### 10. Compliance With Other Laws and Regulations

This Stock Option Plan, the grant and exercise of options thereunder, and the obligation of the Corporation to sell and deliver Common Stock under such options, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. The Corporation shall not be required to issue or deliver any certificates for Common Stock before (i) the listing of the Common Stock on any stock exchange or over-the-counter market on which the Common Stock may then be listed, and (ii) the completion of any registration or qualification of any governmental body which the Corporation shall, in its sole discretion, determine to be necessary or advisable. To the extent the Corporation meets the then applicable requirements for the use thereof and to the extent the Corporation may do so without undue cost or expense, and subject to the determination by the Board of Directors of the Corporation that such action is in the best interests of the Corporation, the Corporation intends to register the issuance and sale of such Common Stock by the Corporation under federal and applicable state securities laws using a Form S-8 registration statement under the Securities Act of 1933, as amended, or such successor Form as shall then be available.

#### 11. Capital Adjustments Affecting Stock, Mergers and Consolidations

A. Capital Adjustments. In the event of a capital adjustment in the Common Stock resulting from a stock dividend, stock split, reorganization, merger, consolidation, or a combination or exchange of shares, the number of shares of Common Stock subject to this Stock Option Plan and the number of shares under option shall be automatically adjusted to take into account such capital adjustment. By virtue of such a capital adjustment, the price of any share under option shall be adjusted so that there will be no change in the aggregate purchase price payable upon exercise of any such option.

B. Mergers and Consolidations. In the event the Corporation merges or consolidates with another entity, or all or a substantial portion of the Corporation's assets or outstanding capital stock are acquired (whether by merger, purchase or otherwise) by a Successor, the kind of shares of Common Stock that shall be subject to this Stock Option Plan and to each outstanding option shall, automatically by virtue of such merger, consolidation or acquisition, be converted into and replaced by shares of common stock, or such other class of securities having rights and preferences no less favorable than the Common Stock, of the Successor, and the number of shares subject to the option and the purchase price per share upon exercise of the option shall be correspondingly adjusted, so that, by virtue of such merger, consolidation or acquisition, each Participant shall have the right to purchase (a) that number of shares of common stock of the Successor that have a book value equal, as of the date of such merger, conversion or acquisition, to the book value, as of the date of such merger, conversion or acquisition, of the shares of Common Stock of the Corporation theretofore subject to the Participant's option, (b) for a purchase price per share that, when multiplied by the number of shares of common stock of the Successor subject to the option, shall equal the aggregate exercise price at which the Participant could have acquired all of the shares of Common Stock of the Corporation theretofore optioned to the Participant.

C. No Effect on Corporation's Rights. The granting of an option pursuant to this Stock Option Plan shall not effect in any way the right and power of the Corporation to make adjustments, reorganizations, reclassifications, or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

#### 12. No Rights as Shareholder

No Participant nor any representative of Participant shall have any rights as a shareholder with respect to the underlying shares of Common Stock for an option before the Corporation issues a certificate or certificates to the Participant for such shares.

### 13. Restrictions On Transfer

All Options granted hereunder shall not be transferable by the Participant other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder. For the purposes of the preceding sentence, the designation of a beneficiary by the Participant does not constitute a transfer.

### 14. Requirements Upon Death, Incompetency, Disability, Retirement, Resignation or Termination of Employment

Upon the death, disability, retirement or resignation of the Participant, or upon the termination of the Participant's employment by the Corporation, or upon the Participant becoming adjudicated incompetent, the Participant or if the Participant is deceased, the executor, personal representative, or administrator of his or her estate, shall have the right to exercise all eligible options for the purchase of stock in the Corporation within thirty (30) days after such event in accordance with the terms set forth in this Stock Option Plan, unless the Board, or a designated Committee thereof, in its sole discretion, has, prior to the date of such event, specifically approved a longer period of time during which the Participant has the right to exercise such options. In the event that the Participant does not exercise eligible options for the purchase of stock within the applicable time frame, the options shall expire and become null and void.

Likewise, unless the Board, or a designated Committee thereof, has, in its sole discretion, prior to the date of any of the aforementioned events, specifically approved otherwise, all options to purchase stock in the Corporation that are not yet eligible to be exercised shall be deemed to have expired and become null and void on the date of such event.

### 15. Transfer of Employment

Upon the termination of the Participant's employment by the Corporation to accept employment with another corporation owned and/or controlled by Group Financial Partners, Inc., all options regardless of eligibility shall become eligible on the effective date of Participant's employment at the other company owned or controlled by Group Financial Partners Inc. and the Participant shall have the right to exercise all options for the purchase of stock in the Corporation within thirty (30) days after such event in accordance with the terms set forth in this Stock Option Plan.

### 16. Sale of the Company

In the event Group Financial Partners, Inc. reaches an agreement to sell all or a majority of its shares of stock in the Corporation to an unrelated third party, all options, regardless of eligibility, shall become eligible on the effective date of such agreement.

### 17. Binding Effect

This Stock Option Plan shall be binding upon and shall operate for the benefit of the Participant and his or her respective administrators, and shall be binding upon any person to whom any options of the Participant are transferred in violation of the provisions of this Stock Option Plan and the executor or administrator of such person. This Stock Option Plan shall also be binding upon and shall operate for the benefit of any beneficiary, heir or trustee of any deceased Participant.

### 18. Changes to the Plan

The Stock Option Plan and any agreements issued hereunder may be amended, modified, changed or supplemented when such amendments, modifications, changes of supplements are approved by the Board and agreed to in writing by both parties to the agreements.

#### 19. Termination of This Stock Option Plan

This Stock Option Plan has been terminated by the Board as of April 8, 1994, however, such termination of the plan did not affect any options granted under the plan prior to April 8, 1994.

#### 20. Authorization of Corporation

The Corporation is authorized to enter into agreements which are consistent with the terms of this Stock Option Plan by virtue of resolutions adopted by its Board on January 22, 1990, April 8, 1994, February 21, 1996, June 26, 1996 and December 17, 1996.

#### 21. Shares Subject to Plan

Subject to any adjustments and substitutions made pursuant to Section 11 hereof, the aggregate number of shares that may be issued upon exercise of all options currently outstanding under this Stock Option Plan is eight hundred forty thousand (840,000) shares of the Company's authorized and unissued shares of Common Stock. If any option granted hereunder expires or terminates for any reason without having been exercised in full in accordance with the terms hereof, the shares of Common Stock subject to, but not delivered under, such option shall become available for any lawful corporate purpose, including for transfer pursuant to other options granted to the same Participant or other Participants without decreasing the aggregate number of shares of Common Stock that may be issued hereunder.

#### 22. Notices

Any notice, request, demand, report, certificate or other instrument which may be required or permitted to be furnished to or served upon any party shall be deemed sufficiently given or furnished or served if in writing and delivered in person, or deposited in the United States mail, registered or certified, return receipt requested, or duly deposited for transmission by telegraph addressed to the Participant at the address of his or her residence as last recorded in the Participant's employee file as maintained by the Corporation and to the Corporation at 10901 Malcolm McKinley Drive, Tampa, Florida 33612 or such other address or addresses of which either party may notify the other party in accordance with this paragraph. A notice to a personal representative may be sent to a decedent or incompetent's last address unless the Corporation has actual knowledge of the address of the personal representative, in which case such notice shall be sent to the personal representative's address. Instruments and communications delivered personally shall be deemed received when so delivered. Except as otherwise provided herein, instruments and communications mailed shall be deemed received forty-eight (48) hours after deposit thereof in the United States mail; instruments and communications telegraphed shall be deemed received when the telegraphic agencies confirm to the sender that delivery thereof has been made to the addressee.

#### 23. Complete Agreement

This Stock Option Plan, along with the applicable stock option agreement and the applicable stock option certificate, contain all of the covenants, terms, and undertakings of the parties with respect to the stock options of the Corporation granted hereunder.

#### 24. Severability

The invalidity, illegality or unenforceability of any provision of this Plan shall not affect any other provision thereof except to the extent that reference is made to the Employee Stock Purchase Plan for calculation of the value of the Corporation's shares.

#### 25. Further Assurances and Administration

The Participant and the Corporation agree to execute and deliver all such other and additional instruments and documents and do all such other acts and things as may be necessary more fully to effectuate this Plan. The Board, or a designated committee thereof, shall interpret this Plan and prescribe such

rules, regulations and procedures in connection with the operations of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan. All questions of interpretation and application of the Plan, or as to stock options granted under the Plan, shall be subject to the determination of the Board or the designated committee, which determination shall be final and binding.

26. Applicable Law

This Plan shall be construed in accordance with the laws of Florida.

27. Legal Remedies

It is mutually agreed that there is no adequate remedy at law in favor of the one party in the event of the breach of any provision hereof by the other party and that either party, in addition to all other rights which may be available, shall have the right of specific performance in the event of any breach or of injunction in the event of any threatened breach by the other party.

Dated this 17th day of December, 1996.

GROUP TECHNOLOGIES CORPORATION

By: /s/Jeffrey T. Gill  
Jeffrey T. Gill  
Chairman of the Board

Attest:

/s/Michael L. Schuman  
Michael L. Schuman  
Secretary

GROUP TECHNOLOGIES CORPORATION  
1994 STOCK OPTION PLAN FOR KEY EMPLOYEES  
ADOPTED ON OCTOBER 27, 1994

AMENDED AND RESTATED ON DECEMBER 17, 1996

1. Purpose. The purpose of the Group Technologies Corporation 1994 Stock Option Plan for Key Employees is to promote the interests of the Company by affording an incentive to certain key employees to remain in the employ of the company and its Subsidiaries and to use their best efforts in its behalf; and further to aid the Company and its Subsidiaries in attracting, maintaining, and developing capable personnel of a caliber required to ensure the continued success of the Company and its Subsidiaries by means of an offer to such persons of an opportunity to acquire or increase their proprietary interest in the Company through the granting of incentive stock options and nonstatutory stock options to purchase the Company's stock pursuant to the terms of the Plan.

2. Definitions.

A. Board. The word "Board" means the Company's Board of Directors.

B. Code. The word "Code" means the Internal Revenue Code of 1986, as amended.

C. Common Stock. The term "Common Stock" means the Company's common stock, \$.01 par value, or the common stock or securities of a Successor that have been substituted theretofore pursuant to Section 9 hereof.

D. Company. The word "Company" means Group Technologies Corporation, a Florida corporation, with its principal place of business at 10901 Malcolm McKinley Drive, Tampa, Florida 33612.

E. ISO. The acronym "ISO" means an option to purchase Common Stock which at the time the option is granted under the Plan qualifies as an incentive stock option within the meaning of Code Section 422.

F. NSO. The acronym "NSO" means a nonstatutory stock option to purchase Common Stock which at the time the option is granted under the Plan does not qualify as an ISO.

G. Option Price. The term "Option Price" means the price to be paid for Common Stock upon the exercise of an option granted under the Plan, in accordance with Section 7.B hereof.

H. Optionee. The word "Optionee" means an employee to whom options have been granted under the Plan.

I. Plan. The word "Plan" means the Group Technologies Corporation 1994 Stock Option Plan for Key Employees, as set forth herein, and as amended from time to time.

J. Plan Committee. The term "Plan Committee" means the committee appointed by the Board to administer the Plan, pursuant to Section 4 hereof.

K. Subsidiary. The word "Subsidiary" shall mean any corporation which at the time an option is granted under the Plan qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Code Section 424(f), or any similar provision thereafter enacted.

L. Successor. The word "Successor" means the entity surviving a merger or consolidation with the Company, or the entity that acquires all or a substantial portion of the Company's assets or outstanding capital stock (whether by merger, purchase or otherwise).

M. Ten Percent Shareholder. The term "Ten Percent Shareholder" means an employee who, at the time an option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or Subsidiary employing the Optionee or of its parent (within) the meaning of Code Section 424(e) or subsidiary (within the meaning of Code Section 424(f)) corporation.

3. Shares Subject to Plan.

A. Authorized Unissued or Treasury Shares. Subject to the provisions of Section 9 hereof, the shares to be delivered upon exercise of options granted under the Plan shall be made available, at the discretion of the Board, from the authorized unissued shares or treasury shares of Common Stock.

B. Aggregate Number of Shares. Subject to adjustments and substitutions made pursuant to the provisions of Section 9 hereof, the aggregate number of shares that may be issued upon exercise of all options that may be granted under the Plan shall not exceed eight hundred thousand (800,000) of the Company's authorized shares of Common Stock.

C. Shares Subject to Expired Options. If any option granted under the Plan expires or terminates for any reason without having been exercised in full in accordance with the terms of the Plan, the shares of Common Stock subject to, but not delivered under, such option shall become available for any lawful corporate purpose, including for transfer pursuant to other options granted to the same employee or other employees without decreasing the aggregate number of shares of Common Stock that may be granted under the Plan.

4. Administration. The Plan shall be administered by the Board or, at the discretion of the Board, by the Plan Committee, whose membership shall be determined and reviewed from time to time by the Board. The Plan Committee shall consist of not less than two (2) members of the Board. Jeffrey T. Gill and Robert E. Gill shall serve as members of the Plan Committee until delivery of their written resignation to the Board or until removal by the Board. Both the Board and the Plan Committee shall have full power and authority to construe, interpret, and administer the Plan and either the Board or the Plan Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem proper and in the best interests of the Company.

5. Grant of Options. Subject to the terms, provisions and conditions of the Plan, either the Board or the Plan Committee shall have full and final authority in its discretion: (i) to select the employees to whom options shall be granted; (ii) to authorize the granting of ISO's, NSO's or a combination of ISO's and NSO's; (iii) to determine the number of shares of Common Stock subject to each option; (iv) to determine the time or times when options will be granted, the manner in which each option shall be exercisable, and the duration of the exercise period; (v) to fix such other provisions of the option agreement as it may deem necessary or desirable consistent with the terms of the Plan; and (vi) to determine all other questions relating to the administration of the Plan. Notwithstanding the foregoing, the aggregate fair market value (determined as of the date the option is granted) of the Common Stock for which ISOs will first become exercisable by an Optionee in any calendar year under all ISO plans of the Company and its Subsidiaries shall not exceed \$100,000. The interpretation of any provisions of the Plan by either the Board or the Plan Committee shall be final, conclusive, and binding upon all persons and the officers of the Company shall place into effect and shall cause the Company to perform its obligations under the Plan in accordance with the determinations of the Board or the Plan Committee in administering the Plan.

6. Eligibility. Key employees of the Company and its subsidiaries including officers and directors, shall be eligible to receive options under

the Plan. No director of the Company who is not also an employee of the Company or a Subsidiary shall be entitled to receive an option under the Plan. Key employees to whom options may be granted under the Plan will be those elected by either the Board or the Plan Committee from time to time who, in the sole discretion of the Board or the Plan Committee, have contributed in the past or who may be expected to contribute materially in the future to the successful performance of the Company and its Subsidiaries.

7. Terms and Conditions of Options. Each option granted under the Plan shall be evidenced by an option agreement signed by the Optionee and by a member of the Plan Committee on behalf of the Company. An option agreement shall constitute a binding contract between the Company and the Optionee, and every Optionee, upon acceptance of such option agreement, shall be bound by the terms and restrictions of the Plan and of the option agreement. Such agreement shall be subject to the following express terms and conditions and to such other terms and conditions that are not inconsistent with the Plan and that either the Board or the Plan Committee may deem appropriate.

A. Option Period. Each option agreement shall specify the period for which the option thereunder is granted and shall provide that the option shall expire at the end of such period. Either the Plan Committee or the Board, may extend such period provided that, in the case of an ISO, such extension shall not in any way disqualify the option as an ISO without the Optionee's consent. In no case shall such period, including any such extensions, exceed ten (10) years from the date of grant, provided, however, that in the case of an ISO granted to a Ten Percent Stockholder, such period, including extensions, shall not exceed five (5) years from the date of grant.

B. Option Price. The Option Price per share of Common Stock shall be determined by either the Board or the Plan Committee at the time an option is granted. The Option Price for ISO's and NSO's shall be not less than: (i) the fair market value of the Common Stock on the date the option is granted, or (ii) in the case of an ISO granted to a Ten Percent Shareholder, one hundred ten percent (110%) of the fair market value of the Common Stock on the date the option is granted and shall be subject to adjustments in accordance with the provisions of Section 9 hereof.

C. Fair Market Value. The fair market value of Common Stock on any given measurement date shall be determined as follows:

(i) if the Common Stock is traded on the over-the-counter market, the average of the closing bid and asked quotations or the closing high bid quotation, whichever is available, for the Common Stock in the over-the-counter market, as reported by the National Association of Securities Dealers Automated Quotation System, on the business day immediately preceding the measurement date; or

(ii) if the Common Stock is listed on a national securities exchange, the average of the closing prices of the Common Stock on the Composite Tape for the ten (10) consecutive trading days immediately preceding the measurement date; or

(iii) if the Common Stock is neither traded on the over-the-counter market nor listed on a national securities exchange, such value as either the Board or the Plan Committee, in good faith, shall determine.

D. Payment of Option Price. Each option shall provide that the purchase price of the shares as to which an option shall be exercised shall be paid to the Company at the time of exercise either in cash or in such other consideration as either the Board or the Plan Committee deems acceptable, and which other consideration in either the Board's or the Plan Committee's sole discretion may include: (i) Common Stock of the Company already owned by the Optionee having a total fair market value on the date of exercise, determined in accordance with Section 7.C hereof, equal to the purchase price, (ii) Common Stock of the Company issuable upon the exercise of a Plan option and withheld by the Company having a total fair market value on the date of exercise, determined in accordance with Section 7.C hereof, equal to the purchase price, or (iii) a combination of cash and Common Stock of the Company (either shares

already owned by the Optionee or shares being withheld upon the exercise of a Plan option) having a total fair market value on the date of exercise, determined in accordance with Section 7.C hereof, equal to the amount of the purchase price not paid in cash.

E. Manner of Exercise. Subject to the terms and conditions of any applicable option agreement, any option granted under the Plan may be exercised in whole or in part. To initiate the process for the exercise of an option: (i) the Optionee shall deliver to the Company, or to a broker-dealer in the Common Stock with the original copy to the Company a written notice specifying the number of shares as to which the option is being exercised and, if determined by counsel for the Company to be necessary, representing that such shares are being acquired for investment purposes only and not for the purpose of resale or distribution; and (ii) the Optionee, or the broker-dealer, shall pay for the exercise price of such shares with cash, or if the Board or the Plan Committee in its discretion agrees to so accept, by delivery to the Company of Common Stock of the Company (either shares already owned by the Optionee or shares being withheld upon the exercise of a Plan option), or in some combination of cash and such Common Stock acceptable to the Board or the Plan Committee. If payment of the Option Price is made with Common Stock, the value of the Common Stock used for such payment shall be the fair market value of the Common Stock on the date of exercise, determined in accordance with Section 7.C hereof. The date of exercise of a stock option shall be determined under procedures established by either the Board or the Plan Committee, but in no event shall the date of exercise precede the date on which both the written notice of intent to exercise an option and full payment of the exercise price for the shares as to which the option is being exercised have been received by the Company. Promptly after receiving full payment for the shares as to which the option is being exercised and, provided that all conditions precedent contained in the Plan are satisfied, the Company shall, without transfer or issuance tax or other incidental expenses to Optionee, deliver to Optionee a certificate for such shares of the Common Stock. If Optionee fails to accept delivery of the Common Stock, his rights to exercise the applicable portion of the option shall terminate.

F. Exercises Causing Loss of Compensation Deduction. No part of an option may be exercised to the extent the exercise would cause the Optionee to have compensation from the Company and its affiliated companies for any year in excess of \$1 million and which is nondeductible by the Company and its affiliated companies pursuant to Code Section 162(m) and the regulations issued thereunder. Any option not exercisable because of this limitation shall continue to be exercisable in any subsequent year in which the exercise would not cause the loss of the Company's or its affiliated companies compensation tax deduction, provided such exercise occurs before lapse of the option, and otherwise complies with the terms and conditions of the Plan and option agreement.

G. Investment Representation. Each option agreement may provide that, upon demand by either the Board or the Plan Committee for such a representation, the Optionee or Optionee's Representative shall deliver to the Board or the Plan Committee at the time of any exercise of an option or portion thereof a written representation that the shares to be acquired upon such exercise are to be acquired for investment and not for resale or with a view to the distribution thereof. Upon such demand, delivery of such representation before delivery of Common Stock issued upon exercise of an option and before expiration of the option period shall be a condition precedent to the right of the Optionee or Optionee's Representative to purchase Common Stock.

H. ISOs. Each option agreement which provides for the grant of an ISO to an employee shall contain such terms and provisions as either the Board or the Plan Committee deems necessary or desirable to qualify such option as an ISO within the meaning of Code Section 422.

I. Exercise in the Event of Death or Termination of Employment Unless the Board, or the Plan Committee, in its sole discretion, has, prior the date of any of the following events, specifically approved otherwise, these conditions shall apply to the ability of an Optionee to exercise his or her options:



[1] If an Optionee dies (i) while an employee of the Company or a subsidiary, or (ii) within three (3) months after termination of his or her employment with the Company or a Subsidiary because of a disability, his or her options may be exercised by the Optionee's Representative, to the extent that the Optionee shall have been entitled to do so on the date of his or her death or such termination of employment, but not later than the expiration date specified in paragraph A of this Section 7 or one (1) year after the Optionee's death, whichever date is earlier.

[2] If an Optionee's employment by the Company or a Subsidiary terminates because of his or her disability and the Optionee has not died within the following three (3) months, he or she may exercise his or her options, to the extent that he or she shall have been entitled to do so at the date of the termination of employment, at any time, or from time to time, but not later than the expiration date specified in paragraph A of this Section 7 or one (1) year after termination of employment, whichever date is earlier.

[3] If an Optionee's employment terminates by reason of his or her retirement in accordance with the terms of the Company's tax-qualified retirement plans or with the consent of either the Board or the Plan Committee, all right to exercise his or her options shall terminate at the expiration date specified in paragraph A of this Section 7 or three (3) months after termination of employment, whichever date is earlier.

[4] If an Optionee's employment terminates for any reason other than death, disability, or retirement, all rights to exercise his or her options shall terminate on the date of his or her termination of employment.

J. Leaves of Absence. Either the Plan Committee or the Board may, in its discretion, treat all or any portion of any period during which an Optionee is on military or on an approved leave of absence from the Company or a Subsidiary as a period of employment of such Optionee by the Company or Subsidiary for purposes of accrual of his rights under the Plan. Notwithstanding the foregoing, if a leave of absence exceeds ninety (90) days and reemployment is not guaranteed by contract or statute, the Optionee's employment by the Company or a Subsidiary for the purposes of the Plan shall be deemed to have terminated on the 91st day of the leave.

K. Transferability of Options. An option granted under the Plan may not be transferred by the Optionee otherwise than by will or the laws of descent and distribution, and during the lifetime of the Optionee to whom granted, may be exercised only by such Optionee.

L. No Rights as Shareholder. No Optionee or Optionee's Representative shall have any rights as a shareholder with respect to Common Stock subject to his option before the date of transfer to him of a certificate or certificates for such shares.

M. No Rights To Continued Employment. The Plan and any option granted under the Plan shall not confer upon any Optionee any right with respect to continuance of employment by the Company or any Subsidiary, nor shall it interfere in any way with the right of the Company or any Subsidiary by which an Optionee is employed to terminate his employment at any time.

N. Tax Withholding. To the extent required by applicable federal, state, local or foreign law, the Optionee shall, on the date of exercise, make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of an option exercise or any sale of shares. Either the Board or the Plan Committee, in its sole discretion, may permit these obligations to be satisfied in whole or in part with: (i) cash paid by the Optionee or by a broker-dealer on behalf of the Optionee, (ii) shares of Common Stock that otherwise would be issued to the Optionee upon exercise of the option, and/or (iii) shares of Common Stock already owned by the Optionee. The Company shall not be required to issue shares for the exercise of an option until such tax obligations are satisfied and the Company may, to the extent permitted by law, deduct any such tax

obligations from any payment of any kind otherwise due to the Optionee.

8. Compliance With Other Laws and Regulations. The Plan, the grant and exercise of options thereunder, and the obligation of the Company to sell and deliver Common Stock under such options, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. The Company shall not be required to issue or deliver any certificates for Common Stock before: (i) the listing of the Common Stock on any stock exchange or over-the-counter market on which the Common Stock may then be listed and (ii) the completion of any registration or qualification of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable. To the extent the Company meets the then applicable requirements for the use thereof and to the extent the Company may do so without undue cost or expense, and subject to the determination by the Board of Directors of the Company that such action is in the best interest of the Company, the Company intends to register the issuance and sale of such Common Stock by the Company under federal and applicable state securities laws using a Form S-8 registration statement under the Securities Act of 1933, as amended, or such successor Form as shall then be available.

9. Capital Adjustments Affecting Stock, Mergers and Consolidations.

A. Capital Adjustments. In the event of a capital adjustment in the Common Stock resulting from a stock dividend, stock split, reorganization, merger, consolidation, or a combination or exchange of shares, the number of shares of Common Stock subject to the Plan and the number of shares under option shall be automatically adjusted to take into account such capital adjustment. By virtue of such a capital adjustment, the price of any share under option shall be adjusted so that there will be no change in the aggregate purchase price payable upon exercise of any such option.

B. Mergers and Consolidations. In the event the Company merges or consolidates with another entity, or all or a substantial portion of the Company's assets or outstanding capital stock are acquired (whether by merger, purchase or otherwise) by a Successor, the kind of shares of Common Stock that shall be subject to the Plan and to each outstanding option shall, automatically by virtue of such merger, consolidation or acquisition, be converted into and replaced by shares of common stock, or such other class of securities having rights and preferences no less favorable than the Common Stock, of the Successor, and the number of shares subject to the option and the purchase price per share upon exercise of the option shall be correspondingly adjusted, so that, by virtue of such merger, consolidation or acquisition, each Optionee shall have the right to purchase (a) that number of shares of common stock of the Successor that have a book value equal, as of the date of such merger, conversion or acquisition, to the book value, as of the date of such merger, conversion or acquisition, of the shares of Common Stock of the Company theretofore subject to the Optionee's option, (b) for a purchase price per share that, when multiplied by the number of shares of common stock of the Successor subject to the option, shall equal the aggregate exercise price at which the Optionee could have acquired all of the shares of Common Stock of the Company theretofore optioned to the Optionee.

C. No Effect on Company's Rights. The granting of an option pursuant to the Plan shall not effect in any way the right and power of the Company to make adjustments, reorganizations, reclassifications, or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

10. Amendment, Suspension, or Termination. The Board shall have the right, at any time, to amend, suspend or terminate the Plan in any respect that it may deem to be in the best interests of the Company, except that, without approval by shareholders of the Company holding not less than a majority of the votes represented and entitled to be voted at a duly held meeting of the Company's shareholders, no amendment shall be made that would:

A. increase the maximum number of shares of Common Stock which may be delivered under the Plan, except as provided in Section 9 hereof;

B. change the Option Price for an ISO, except as provided in Section 9 hereof;

C. extend the period during which an ISO may be exercised beyond the period provided in Section 7.A hereof;

D. make any changes in any outstanding option, without the consent of the Optionee, which would adversely affect the rights of the Optionee; or

E. extend the termination date of the Plan.

11. Effective Date, Term and Approval. The effective date of the Plan shall be October 27, 1994 (the date of Board adoption of the Plan), subject to approval by stockholders of the Company holding not less than a majority of the shares present and voting at its 1995 annual meeting on April 21, 1995. The Plan shall terminate ten (10) years after the effective date of the Plan and no options may be granted under the Plan after such time, but any option granted prior thereto may be exercised in accordance with its terms.

12. Governing Law; Severability. The Plan shall be governed by the laws of the State of Florida. The invalidity or unenforceability of any provision of the Plan or any option granted pursuant to the Plan shall not affect the validity and enforceability of the remaining provisions of the Plan and the options granted hereunder, and such invalid or unenforceable provision shall be stricken to the extent necessary to preserve the validity and enforceability of the Plan and the options granted hereunder.

Dated this 17th day of December, 1996.

GROUP TECHNOLOGIES CORPORATION

By: /s/ Jeffrey T. Gill  
Jeffrey T. Gill  
Chairman of the Board

ATTEST:

/s/ Michael L. Schuman  
Michael L. Schuman  
Secretary

STOCK PURCHASE AND REGISTRATION RIGHTS AGREEMENT

THIS STOCK PURCHASE AND REGISTRATION RIGHTS AGREEMENT ("Agreement") is made and entered into this 28th day of March, 1997, by and between GROUP FINANCIAL PARTNERS, INC., a Kentucky corporation (the "Buyer"), and GROUP TECHNOLOGIES CORPORATION, a Florida corporation (the "Company"). All capitalized terms not specifically defined herein shall have the meaning ascribed to them in the 8.5% Convertible Preferred Stock Statement of Designation of Relative Rights and Preferences and Other Terms as fixed by the Board of Directors, filed with the Florida Secretary of State on March 28, 1997 (the "Designation of Rights").

W I T N E S S E T H:

WHEREAS, the Buyer desires to purchase, and the Company desires to sell to the Buyer, subject to the terms and conditions set forth herein, 250,000 shares of the 8.5% Cumulative Convertible Preferred Stock, \$.01 par value per share (the "Preferred Stock") of the Company;

WHEREAS, upon the terms and conditions set forth in the Articles of Incorporation of the Company and the amendments thereto, each share of the Preferred Stock of the Company is convertible into such shares of the common stock, par value \$.01 per share, of the Company (the "Common Stock") as shall be determined pursuant to the terms of Section 4(a) of the Designation of Rights, attached hereto as Exhibit A and incorporated by reference herein; and

WHEREAS, the Company desires to grant to the Buyer certain registration rights with respect to the Common Stock of the Company into which the Preferred Stock is convertible.

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound thereby, agree as follows:

1. Purchase and Payment. The Buyer hereby agrees to purchase, and the Company hereby agrees to issue to Buyer, at the Closing (as defined below), 250,000 shares of the Preferred Stock of the Company at an aggregate purchase price of \$2,500,000.00 (the "Purchase Price"). The Company acknowledges that the Buyer, simultaneous herewith, has deposited with the Company an amount equal to the Purchase Price (the "Deposit") to be held by the Company in trust for the Buyer until the Closing. In the event that the Closing does not occur on or before March 31, 1997, the Company shall return the full amount of the Deposit to the Buyer, and the parties hereto shall thereafter have no further rights, obligations, or duties under this Agreement.

2. Closing. The closing (the "Closing") of the transactions contemplated by Section 1 above shall occur as soon as practicable after the execution (the "Execution Date") of that certain Third Amendment to the Amended and Restated Credit and Security Agreement and First Amendment to Warrant Agreement of even date herewith; the Closing shall under no circumstances occur at any time prior to the Execution Date. At the Closing, the Company shall issue to the Buyer one or more certificates representing 250,000 shares of the Preferred Stock, and, upon such issuance, the Deposit shall become the sole property of the Company and shall no longer be held in trust for the Buyer by the Company.

3. Representations and Warranties of the Buyer. The Buyer understands and acknowledges that the Preferred Stock is being offered and sold under the exemption from registration provided for in Sections 3(b) and 4(2) of the Securities Act of 1933 (the "Act"), that the Buyer is purchasing the Preferred Stock without being furnished any offering literature or prospectus, that this transaction has not been scrutinized by the United States Securities and Exchange Commission or by any administrative agency charged with the administration of the securities laws of any state because of the private aspects of the offering, that all documents, records and books pertaining to

this investment have been made available to the Buyer and its representatives, and the Buyer hereby represents and warrants as follows:

- (a) The Buyer represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Company and of making an informed investment decision.
- (b) The Buyer is able to bear the economic risk of this investment.
- (c) The Preferred Stock hereby purchased is being acquired by the Buyer in good faith solely for its own account, for investment purposes only, and is not being purchased for resale, resyndication, distribution, subdivision or fractionalization thereof.
- (d) The Buyer understands that no Federal or state agency has reviewed this transaction or passed on or made any recommendation or endorsement of the Preferred Stock.

#### 4. Registration Rights.

(a) Definition of "Registrable Securities." For the purposes of this Agreement, the term "Registrable Securities" shall mean the shares of Common Stock acquired by the Buyer upon the conversion of shares of Preferred Stock purchased by the Buyer pursuant to this Agreement.

(b) Demand Registration. The Company shall, upon the written demand of the Buyer at any time after the acquisition of Registrable Securities, use its reasonable best efforts to effect the registration (the "Demand Registration") under the Act of such number of Registrable Securities held by the Buyer as shall be indicated in a written demand sent to the Company by the Buyer; provided, however, that the Company shall not be required to effect a Demand Registration if counsel for the Company reasonably acceptable to the Buyer shall deliver to the Buyer an opinion reasonably acceptable to counsel for the Buyer that, pursuant to Rule 144 under the Securities Act or otherwise, the Buyer can sell Registrable Securities proposed to be included in the Demand Registration without registration under the Act, without limitation as to the number of Registrable Securities that are proposed to be sold by the Buyer. The Company shall pay all expenses in connection with a Demand Registration. Upon receipt of the Buyer's written demand, the Company shall expeditiously (but in any event within 90 days) file a registration statement under the Act for the Registrable Securities and use its best efforts to have such registration statement declared effective as soon as practicable after the filing thereof; provided that (A) the Company shall not be required to cause any special audit to be undertaken in connection with any such registration and (B) the Company shall not be required to file any registration statement during any period of time (not exceeding 90 days) when (I) the Company is contemplating a public offering of its securities and, in the judgment of the managing underwriter thereof (or the Company, if such offering is not underwritten) such filing would have a material adverse effect on the contemplated offering, (II) the Company is in possession of material information that it deems advisable not to disclose in a registration statement or (III) the Company is engaged in any program for the repurchase of voting securities of the Company. The Buyer shall have the right to select the underwriters for a Demand Registration, subject to the approval of the Company, which approval will not be unreasonably withheld.

(c) Incidental Registration. If the Company proposes to register any of its equity securities under the Securities Act (other than a registration (i) on Form S-8 or S-4 or any successor or similar forms, (ii) relating to equity securities issuable upon exercise of employee stock options or in connection with any employee benefit or similar plan of the Company or in connection with a direct or indirect acquisition by the Company of another company), whether or not for sale for its own account, in a manner that would permit registration of Registrable Securities for sale to the public under the Securities Act, it will on each such occasion give prompt written notice to the Buyer of its intention to do so and of

the Buyer's rights under this Section 4(c), at least 30 days prior to the anticipated filing date of the registration statement relating to such registration. Any such notice shall offer the Buyer the opportunity to request to include in such registration statement such number of Registrable Securities as the Buyer may request (a "Piggyback Registration"). The Company shall pay all expenses in connection with such Piggyback Registration. Upon the written request of the Buyer made within 20 days after the receipt of notice from the Company, the Company will use its best efforts to effect the registration under the Securities Act of all Registrable Securities which the Company has been so requested to register by the Buyer, to the extent requisite to permit the disposition (in accordance with such intended methods thereof) of the Registrable Securities so to be registered; provided that (i) if such registration involves an underwritten public offering, the Buyer must sell its Registrable Securities to the underwriters selected by the Company on the same terms and conditions as apply to the Company, and (ii) if, at any time after giving written notice of its intention to register any securities pursuant to this Section 4(c) and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company shall give written notice to the Buyer and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such Registration.

(d) Registration Procedures. Whenever the Buyer requests that any Registrable Securities be registered pursuant to Section 4(b) or Section 4(c), the Company will use its best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof as quickly as practicable, and the Company, in connection with any such request, will:

(i) Prepare and file with the Commission, as expeditiously as possible, a registration statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate and which form shall be available for the sale of the Registrable Securities to be registered thereunder and which shall state, if applicable, that the subject Registrable Securities are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, and use its best efforts to cause such registration statement to become and remain effective for the period of distribution contemplated thereby (determined as hereinafter provided).

(ii) Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period specified in this Section 4(d) and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement in accordance with the sellers' intended method of disposition set forth in such registration statement for such period.

(iii) Use its best efforts to register or qualify the Registrable Securities under such other securities or blue sky laws of such jurisdictions in the United States as the managing underwriter or Buyer shall reasonably request and cause such Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company and to do any and all other acts and things that may be reasonably necessary or advisable to enable the Buyer to consummate the disposition of the Registrable Securities owned by the Buyer; provided that the Company will not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (iii), (B) subject itself to taxation in any such jurisdiction or (C) consent to general service of process in any such jurisdiction.

(iv) Prepare a supplement or amendment to the prospectus

contained in such registration statement if an event occurs the result of which is that the prospectus contained in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statement therein not misleading in the light of the circumstances then existing.

(v) Will otherwise use its best efforts to comply with all applicable rule and regulations of the Commission.

(vi) Use its best efforts to cause all such Registrable Securities to be listed on each securities exchange or interdealer quotation system on which the same or similar securities issued by the Company are then listed.

For purposes of paragraphs (i) and (ii) of this Section 4(d), (A) the period of distribution of securities in an underwritten public offering shall be deemed to extend until the later of the date each underwriter has completed the distribution of all securities purchased by it and the termination of the period in which prospectuses must be delivered under Rule 174 of the Securities Act, and (B) the period of distribution of securities in any other registration shall be deemed to extend until the earlier of the sale of all securities covered thereby and 60 days after the effective date thereof.

(e) Indemnification.

(i) By the Company. If the Buyer includes Registrable Securities in a registration statement pursuant to Section 4(b) or 4(c), the Company agrees to indemnify and hold harmless that Buyer, and each person, if any, who controls the Buyer within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, pending or threatened claims, damages, liabilities, joint or several (or actions in respect thereof), including, as incurred and without limitation, reasonable legal, accounting, expert witnesses, or other costs of investigating, preparing or defending any such claim or action ("expenses"), arising under the Securities Act or otherwise, caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue statement or omission or alleged untrue statement or omission based upon and in conformity with information relating to the Buyer or its plan of distribution of the Registrable Securities furnished in writing to the Company by the Buyer or on the Buyer's behalf expressly for use therein; provided, however, that with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus, or in any prospectus, as the case may be, the indemnity agreement contained in this paragraph shall not apply to the extent that any such loss, claim, damage, liability or expenses results from the fact that a current copy of the prospectus (or, in the case of a prospectus, the prospectus as amended or supplemented) was not sent or given to the person asserting any such loss, claim, damage, liability or expenses at or prior to the written confirmation of the sale of the Registrable Securities concerned to such person if it is determined that the Company has provided such prospectus and it was the responsibility of the Buyer to provide such person with a current copy of the prospectus (or such amended or supplemented prospectus, as the case may be) and such current copy of the prospectus (or such amended or supplemented prospectus, as the case may be) would have cured the defect giving rise to such loss, claim, damage, liability or expense. The Company also agrees to indemnify any underwriters of the Registrable

Securities, their officers and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Buyer provided in this Section 4(e).

(ii) Indemnification by the Buyer and Underwriters. The Buyer, if any of its Registrable Securities are included in any registration statement, agrees to indemnify and hold harmless the Company, its officers, directors and agents and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to the Buyer, but only with respect to information relating to the Buyer or its plan of distribution of the Registrable Securities furnished in writing by the Buyer or on the Buyer's behalf expressly for use in any registration statement or prospectus relating to the Registrable Securities, or any amendment or supplement thereto, or any preliminary prospectus. The Buyer also agrees to indemnify and hold harmless underwriters of the Registrable Securities, their officers and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Company provided in this Section 4(e)(ii). In no event and under no circumstances shall Buyer be liable for indemnification in an amount in excess of the proceeds received by Buyer from the sale of Registrable Securities pursuant to the registration statement. As a condition to including Registrable Securities in any registration statement filed in accordance with Sections 4(b) and 4(c) hereof, the Company may require that it shall have received an undertaking reasonably satisfactory to it from any underwriter to indemnify and hold it harmless to the extent customarily provided by underwriters with respect to similar securities.

(iii) Conduct of Indemnification Proceedings. In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 4(e)(i) or (ii), such person (an "Indemnified Party") shall promptly notify the person against whom such indemnity may be sought (the "Indemnifying Party") in writing and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party, and shall assume the payment of all fees and expenses; provided that the failure of any Indemnified Party to notify the Indemnifying Party shall not relieve the Indemnifying Party of its obligation hereunder except to the extent that the Indemnifying Party is materially prejudiced by such failure to notify. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, and the fees and expenses of the counsel of such Indemnified Party shall be at the expense of such Indemnifying Party if (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) in the reasonable judgment of such Indemnified Party representation of both parties by the same counsel would be inappropriate because there may be defenses available to the Indemnified Party which are different from or additional to those available to the Indemnifying Party or if the interests of the Indemnified Party reasonably may be deemed to conflict with the interests of the Indemnifying Party. It is understood that the Indemnifying Party shall not, in connection with any proceeding or related proceedings, in the same jurisdiction, be liable for the reasonable fees and expenses of more than one counsel for the Buyer's Indemnified Parties and one counsel for the underwriters' Indemnified Parties (in each case in addition to any local counsel) at any time for all such Indemnified Parties, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firms for the Indemnified Parties, such firm shall be designated in writing by the Indemnified Parties. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent which consent shall not be unreasonably withheld, but if settled with such consent, or if



there shall be a final judgment for the plaintiff, the Indemnifying Party shall indemnify and hold harmless such Indemnified Parties from and against any loss or liability (to the extent stated above) by reason of such settlement or judgment. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability arising out of such proceeding.

(iv) Other Indemnification. Indemnification similar to that specified herein (with appropriate modifications) shall be given by the Company and the Buyer with respect to any required registration or other qualification of securities under any state law or regulation or governmental authority other than the Securities Act.

5. Miscellaneous.

(a) Notices. Any notices or other communications required or permitted hereunder shall be given in writing and shall be delivered or sent by certified or registered mail, postage prepaid, addressed as follows:

If to the Company, to:

Group Technologies Corporation  
10901 Malcolm McKinley Drive  
Tampa, Florida 33612  
Attention: Michael Schuman, Esq.

If to the Buyer, to:

Group Financial Partners, Inc.  
455 Fourth Avenue  
Louisville, Kentucky 40202  
Attention: Jeffrey T. Gill

or to such other address as shall be furnished in writing by such party, and any such notice or communication shall be effective and be deemed to have been given as of two (2) days following the date so mailed; provided that any notice or communications changing any of the addresses set forth above shall be effective and deemed given only upon its receipt.

(b) Entire Agreement. This Agreement, including the exhibits and other documents referred to herein which form a part hereof, contains the entire understanding of the parties with respect to the transactions contemplated hereby and supersede all prior arrangements or understandings with respect thereto. There are no restrictions, agreements, promises, warranties, covenants, or undertakings other than those expressly set forth herein or therein.

(c) Modifications and Amendments. No change, modification or termination of any terms, provisions, or conditions of this Agreement shall be effective unless made in writing and signed or initialed by all parties hereto, their successor and assigns.

(d) Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same Agreement and each of which shall be deemed an original.

(e) Governing Law. This Agreement shall be governed by the laws of the State of Florida, United States of America (regardless of the laws that might be applicable under principles of conflicts of law) as to all matters, including, but not limited to, matters of validity, construction, effect, and performance.

(f) Litigation Venue. This Agreement shall be deemed for all

purposes to have been entered into in Hillsborough County, Florida. Any litigation arising directly or indirectly from a dispute hereunder shall be litigated solely in the Circuit Court of the State of Florida in Hillsborough County, Florida or in the United States District Court for the Middle District of Florida, Tampa Division (unless the actual location of real estate that is the subject of any suit requires otherwise). The parties hereto submit to the personal jurisdiction of such courts and agree that such courts shall be the sole situs of venue for the resolution of any such dispute through litigation.

(g) Attorneys' Fees. In the event of litigation between the parties arising directly or indirectly pursuant to this Agreement, the prevailing party shall be entitled to the reimbursement of all costs (including reasonable attorneys' fees at the trial and appellate court levels) from the non-prevailing party.

(h) Separability. If any section, subsection or other provision of this Agreement, or the application of such section, subsection or provision, is held invalid, then the remainder of the Agreement, and the application of such section, subsection or provision to person or circumstances other than those with respect to which it is held invalid, shall not be affected thereby.

(i) Headings and Captions. The titles or captions of sections and subsections contained in this Agreement are provided for convenience of reference only, and shall not be considered a part hereof for purposes of interpreting or applying this Agreement, and, therefore, such titles or captions do not define, limit, extend, explain, or describe the scope or extent of this Agreement or any of its terms, provisions, representations, warranties, conditions, etc., in any manner or way whatsoever.

(j) Gender and Number. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine or neuter, and to the singular or plural, as the identity of the person or entity or person or entities may require.

(k) Waiver. To the extent permitted by applicable law, each party may, by written instrument, extend the time for the performance of any of the obligations or other acts of any other party hereto, and (a) waive such other party's performance of any of the obligations set out in this Agreement and (b) waive any condition to its obligations under this Agreement.

IN WITNESS WHEREOF, this Agreement is being entered into as of the date first written above.

GROUP TECHNOLOGIES CORPORATION

By: /s/ David D. Johnson  
Name: David D. Johnson  
Title: Vice President of Finance  
and Chief Financial Officer

GROUP FINANCIAL PARTNERS, INC.

By: /s/ Jeffrey T. Gill  
Name: Jeffrey T. Gill  
Title: President and Chief Executive Officer

## EXHIBIT 11

STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE  
GROUP TECHNOLOGIES CORPORATIONPrimary Earnings Per Share  
[CAPTION]

	Years ended December 31,		
	1994	1995	1996
	-----	-----	-----
Weighted average shares outstanding	14,953,708	15,695,094	16,156,758
Net effect of shares issued within 12 months of offering date	5,130	0	0
Net effect of dilutive stock options (based on treasury method)	685,489	0	0
	-----	-----	-----
Total	15,644,327	15,695,094	16,156,758
	=====	=====	=====
Net income (loss)	\$4,700,000	\$ (17,673,000)	\$ (8,579,000)
Net income (loss) per share	\$ 0.30	\$ (1.13)	\$ (0.53)

Fully Diluted  
Earnings Per Share  
[CAPTION]

	Years Ended December 31,		
	1994	1995	1996
	-----	-----	-----
Weighted average primary shares outstanding	15,644,327	15,695,094	16,156,758
Net effect of dilutive stock options (based on treasury method)	144,529	0	0
	-----	-----	-----
Total	15,788,856	15,695,094	16,156,758
	=====	=====	=====
Net income (loss)	\$4,700,000	\$ (17,673,000)	\$ (8,579,000)
Net income (loss) per share	\$ 0.30	\$ (1.13)	\$ (0.53)

SUBSIDIARIES OF THE REGISTRANT

The Registrant's subsidiaries are:

Group Technologies S.A. de C.V., a Mexican corporation which is a wholly-owned subsidiary of the Registrant.

Group Technologies Mexican Holding Company, a Florida corporation which is a wholly-owned subsidiary of the Registrant.

Group Technologies Suprimentos de Informatica Industria e Comercio, a Brazilian limited liability company which is a majority-owned subsidiary of the Registrant.

Group Technologies Integracoes em Electronica, Ltda., a Brazilian limited liability company which is a majority-owned subsidiary of the Registrant.

Metrum, Inc., a Colorado corporation which is a wholly-owned subsidiary of the Registrant.

Consent of Independent Certified Public Accountants

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to Group Technologies Stock Option Plan Dated January 22, 1990 (No. 333-07111), Group Technologies Corporation Independent Director's Stock Option Plan (No. 333-07199) and Group Technologies Corporation 1994 Stock Option Plan for Key Employees (No. 333-07195) of our report dated March 28, 1997, with respect to the consolidated financial statements and schedule of Group Technologies Corporation included in the Annual Report on Form 10-K for the year ended December 31, 1996.

/s/ Ernst & Young LLP

Tampa, Florida  
March 28, 1997

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1996 AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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