

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

NATIONAL TECHTEAM INC /DE/
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

10-Q

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

For the quarterly period ended: September 30, 2001

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

For the transition period from ___ to ___

Commission file number 0-16284

NATIONAL TECHTEAM, INC.

(Name of issuer in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer I

27335 West 11 Mile Road, Southfield, MI 48034

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (248) 357-2570

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares of the registrant's only class of common stock outstanding at October 31, 2001 was 10,661,048.

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ACTUAL RESULTS COULD DIFFER FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS DESCRIBED IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2000 PREVIOUSLY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

NATIONAL TECHTEAM, INC.

FORM 10-Q

INDEX

PART I -- FINANCIAL INFORMATION

ITEM 1.

Condensed Consolidated Statements of Operations (Unaudited)
Three and Nine Months Ended
September 30, 2001 and 2000

Condensed Consolidated Statements of Financial Position (Unaudited)
September 30, 2001 and December 31, 2000

Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended
September 30, 2001 and 2000

Notes to the Condensed Consolidated Financial Statements -- September 30, 2001 (Unaudited)

ITEM 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II -- OTHER INFORMATION

ITEM 1.

Legal Proceedings

ITEM 5.

Other Information

ITEM 6.

Exhibits and Reports on Form 8-K

Signatures

PART 1 -- FINANCIAL INFORMATION

NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

ITEM 1 -- FINANCIAL STATEMENTS

	THREE MONTHS ENDED SEPTEMBER 30,		
	2001	2000	2000
	(In Thousands, except per s		
REVENUES			
Corporate Services			
Corporate help desk services.....	\$ 12,098	\$ 11,281	\$
Technical staffing.....	3,575	4,403	
Systems integration.....	1,413	3,089	
Training programs.....	386	800	
Total Corporate Services.....	17,472	19,573	
OEM Call Center Services.....	104	4,301	
Leasing Operations.....	4,591	6,129	
TOTAL REVENUES.....	22,167	30,003	
COST OF SERVICES DELIVERED.....	18,191	23,107	
GROSS PROFIT.....	3,976	6,896	
OTHER EXPENSES			
Selling, general and administrative.....	5,597	5,184	
Michigan Single Business Tax and other.....	240	825	
TOTAL OTHER EXPENSES.....	5,837	6,009	
Operating income (loss).....	(1,861)	887	
Gain on sale of GE Joint Venture.....	0	322	
Interest income.....	301	254	
Interest expense.....	506	342	
NET INTEREST EXPENSE (INCOME).....	205	88	
Income (loss) before income taxes.....	(2,066)	1,121	
Income tax expense (credit).....	(171)	516	
NET INCOME (LOSS).....	\$ (1,895)	\$ 605	\$
BASIC AND DILUTED EARNINGS LOSS PER SHARE.....	\$ (.18)	\$ 0.05	\$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING			
Basic.....	10,606	12,476	
Net effect of dilutive stock options.....	0	0	
Diluted.....	10,606	12,476	

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NET INCOME (LOSS), AS SET FORTH ABOVE.....	\$	(1,895)	\$	605	\$
Foreign currency translation adjustments.....		179		(107)	
COMPREHENSIVE INCOME (LOSS).....	\$	(1,716)	\$	498	\$

See accompanying notes.

3

NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

ASSETS	SEPTEMBER 30, 2001
	(In Thou)
CURRENT ASSETS	
Cash and cash equivalents.....	\$ 29,179
Securities available for sale.....	3,752
Accounts receivable (less allowances of \$431 at September 30, 2001 and \$313 at December 31, 2000).....	16,790
Refundable taxes.....	643
Inventories.....	107
Prepaid expenses and other.....	1,386
Deferred income tax.....	348
	52,205
PROPERTY, EQUIPMENT AND PURCHASED SOFTWARE	
Computer equipment and office furniture.....	15,525
Purchased software.....	8,754
Leasehold improvements.....	2,661
Transportation equipment.....	213
	27,153
Less -- Accumulated depreciation and amortization.....	19,028
	8,125
OTHER ASSETS	
Assets of leasing operations, net of amortization.....	23,023
Intangibles (less accumulated amortization of \$16,563 at September 30, 2001 and \$14,894 at December 31, 2000).....	3,348
Deferred income tax	1,688

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

Loans receivable	133
Other.....	1,153
	29,345
TOTAL ASSETS.....	\$ 89,675

See accompanying notes.

4

NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
(UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY	SEPTEMBER 30, 2001
	(In Thou)
CURRENT LIABILITIES	
Accounts payable.....	\$ 1,195
Accrued payroll, related taxes and withholdings.....	3,184
Deferred revenues.....	789
Accrued expenses and taxes.....	1,567
Current portion of notes payable.....	6,382
Other.....	214
	13,331
 LONG-TERM DEBT.....	 879
SHAREHOLDERS' EQUITY	
Preferred stock, par value \$.01, 5,000,000 shares authorized, none issued	
Common stock, par value \$.01, 45,000,000 shares authorized, Issued -- 16,723,000 shares at September 30, 2001 and December 31, 2000.....	167
Additional paid-in capital.....	108,726
Retained earnings.....	1,834
Accumulated other comprehensive loss - foreign currency translation adjustment.....	(140)
	110,587
Less -- Treasury stock (6,084,372 and 6,041,755 shares at September 30, 2001 and December 31, 2000, respectively).....	35,122
Total shareholders' equity.....	75,465
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 89,675

See accompanying notes.

NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED	
	2001	
	(In Thousands)	
OPERATING ACTIVITIES		
Net income (loss).....	\$	(2,583)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization.....		17,300
Treasury stock contributed to 401(k) plan and other.....		536
Sale and equity earnings of GE joint venture.....		-
Changes in operating assets and liabilities.....		2,294
Net cash provided by operating activities.....		17,547
INVESTING ACTIVITIES		
Net change in investment in direct financing leases and residuals.		2,542
(Purchase) disposal of leased equipment, net.....		2,237
Purchase of property, equipment and software, net.....		(1,288)
Purchase of securities available-for-sale.....		(1,027)
Decrease in loans receivable.....		875
Acquisition of assets.....		250
Other-net.....		(2)
Proceeds from sale of GE joint venture and related assets.....		-
Net cash provided by (used in) investing activities.....		3,587
FINANCING ACTIVITIES		
Payments on notes payable.....		(7,346)
Purchase of Company common stock.....		(609)
Other-net.....		5
Net cash used in financing activities.....		(7,950)
Increase (decrease) in cash and cash equivalents.....		13,184
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....		15,995
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$	29,179

See accompanying notes.

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

(UNAUDITED)

The accompanying unaudited condensed consolidated financial statements have been prepared by National TechTeam, Inc. ("TechTeam" or "Company") in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company and Subsidiaries' annual report on Form 10-K for the year ended December 31, 2000.

Certain reclassifications have been made to the 2000 financial statements in order to conform to the 2001 financial statement presentation.

NOTE A -- EARNINGS PER SHARE

Earnings per share is computed using the weighted average number of common shares and common share equivalents outstanding. Common share equivalents consist of stock options and are calculated using the treasury stock method.

NOTE B -- REVENUES FROM MAJOR CLIENTS

Revenues from clients that represented ten percent or more of total revenue are as follows:

	2001		2000	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(In Thousands)			
Three months ended September 30				
Ford Motor Company.....	\$ 10,096	45.5%	\$ 10,555	
DaimlerChrysler.....	3,938	17.7%	5,457	
GE TechTeam, L.P.....	-	-%	4,623	
Nine months ended September 30				
Ford Motor Company.....	\$ 30,482	42.8%	\$ 29,858	
DaimlerChrysler.....	12,963	18.2%	17,214	
GE TechTeam, L.P.....	-	-%	13,204	

NOTE C -- LEGAL PROCEEDINGS

Refer to Part II, Item 1 for a description of legal proceedings.

NOTE D -- STOCK REPURCHASES

In May 2000, the Company announced a stock repurchase program to repurchase up to 2,000,000 shares of common stock. In October 2000, the Company extended this program to repurchase an additional 2,000,000 shares. During 2000 the Company

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

repurchased 2,790,450 shares for \$9,069,000 under this program. For the nine month period ended September 30, 2001, the Company repurchased 229,000 shares for \$609,000 under this program.

7

NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

NOTE E -- SEGMENT REPORTING

	CORPORATE SERVICES					OEM CA
	CORPORATE HELP DESK SERVICES	TECHNICAL STAFFING	SYSTEMS INTEGRATION	TRAINING PROGRAMS	TOTAL	CENTE SERVIC
	(In Thousands)					

Three months ended September 30, 2001 -----						
Revenues.....	\$ 12,098	\$ 3,575	\$ 1,413	\$ 386	\$ 17,472	\$ 1
Gross profit (loss)...	3,458	612	453	77	4,600	
Depreciation and amortization.....	511	105	4	12	632	
Expenditures for property.....	47	-	-	-	47	
Three months ended September 30, 2000 -----						
Revenues.....	\$ 11,281	\$ 4,403	\$ 3,089	\$ 800	\$ 19,573	\$ 4,3
Gross profit.....	3,491	506	1,076	32	5,105	1,1
Depreciation and amortization.....	307	169	19	49	544	
Expenditures for property.....	478	11	19	-	508	
Nine months ended September 30, 2001 -----						
Revenues.....	\$ 37,360	\$ 11,588	\$ 4,523	\$ 1,706	\$ 55,177	\$ 3
Gross profit.....	11,165	2,021	1,581	251	15,018	1
Depreciation and amortization.....	1,537	316	11	56	1,920	
Expenditures for property.....	840	120	5	-	965	
Nine months ended September 30, 2000 -----						
Revenues.....	\$ 36,918	\$ 13,431	\$ 8,060	\$ 2,572	\$ 60,981	\$ 12,8
Gross profit.....	11,363	2,080	2,151	250	15,844	1,3
Depreciation and amortization.....	817	400	54	100	1,371	1

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

Expenditures for property.....	1,730	634	26	-	2,390
Segment Assets					
September 30, 2001	\$ 14,544	\$ 3,888	\$ 1,200	\$ 483	\$ 20,115
December 31, 2000	12,090	4,439	2,501	1,049	20,079

8

NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

NOTE E -- SEGMENT REPORTING (continued)

A reconciliation of the totals reported for the operating segments to the applicable line item in the condensed consolidated financial statements is as follows:

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(In Thousands)	
Depreciation and amortization		
Total for reportable segments.....	\$ 14,653	\$ 16,816
Corporate assets.....	2,647	2,895
Total depreciation and amortization.....	\$ 17,300	\$ 19,711

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(In Thousands)	
Assets		
Total assets for reportable segments.....		
Corporate assets.....	\$ 46,564	\$ 66,860
Total assets.....	43,111	33,914
	\$ 89,675	\$ 100,774

NOTE F -- ACQUISITION

On September 28, 2001, TechTeam's newly formed subsidiary, TechTeam Cyntergy, LLC, ("TTC") acquired certain assets of Cyntergy Corporation, a privately held company, in a two step transaction.

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

First, TTC purchased and took an assignment of certain credit facilities and promissory notes from Cyntergy's principal lender. As a result, TTC acquired all of the lender's rights as a secured creditor under the Financing and Security Agreement and other documentation of the credit facility. The Cyntergy Corporation debt was in excess of \$6 million dollars. The purchase price of the credit facility was \$1,050,000, of which \$250,000 was paid in September.

Second, TTC entered into an Agreement for Conveyance In Lieu of Foreclosure with Cyntergy Corporation. Under this agreement, TTC acquired certain assets of Cyntergy Corporation by forgiving \$4.5 million dollars of the total debt. These assets included accounts receivable, notes receivable, various fixed assets, and certain customer contracts. TTC is currently providing services to many of Cyntergy Corporation's former customers. Annual revenue derived from these customers is estimated at \$3.5 million dollars.

NOTE G -- SALE OF INTEREST IN GE TECHTEAM, L.P.

On August 22, 2000 the Company sold its 47% interest in the GE TechTeam, LP and its 49% membership interest in Support Central, LLC to the majority partner, GE Warranty Management, Inc. (GEWM). The Company recorded a pre-tax gain of \$322,000 on this transaction. The Company provided staffing services to GEWM through the end of 2000. The Company has also entered into an agreement with GEWM to provide technology services, which include ongoing call center software maintenance, upgrades and customization.

Until the date of sale, TechTeam shared in profits and losses of the GE Joint Venture OEM call center services

9

business based on its partnership interest. Such earnings amounted to \$568,000 for the quarter ended September 30, 2000 and \$331,000 for the nine-month period ended September 30, 2000. As disclosed in the 1999 10K, the GE Joint Venture changed its overhead allocation method, but such change was not agreed to by the Company. The change in 1999 resulted in an additional \$531,000 of costs to National TechTeam previously borne by GE Appliances. In the quarter ended September 30, 2000 the change in the allocation method was reversed. The effect of the reversal increased TechTeam's share in partnership revenue by \$531,000.

NOTE H -- EFFECTS OF ACCOUNTING PRONOUNCEMENTS

Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," was issued by the Financial Accounting Board (FASB) in June 2001. SFAS 141 eliminates the pooling-of-interest method of accounting for business combinations except for qualifying business combinations initiated after prior to July 1, 2001. In addition, SFAS 141 changes the criteria to recognized intangible assets apart from goodwill. In accordance with the requirements of the SFAS 141, the Company adopted the new standard effective July 1, 2001.

Also in June 2002, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets." Under Statement 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment, or more frequently if impairments indicators arise. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. The Company intends to conform to the requirements of the new SFAS upon its required adoption date of January 1, 2002. The company believes that goodwill related to leasing operations may be impaired under SFAS 142 as of the adoption date. At December 31, 2001 the leasing operations goodwill is expected to be \$1,123,000.

ITEM 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

Certain of the statements contained in this report that are not historical facts and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Our actual results may differ materially from those included in the forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We do not undertake an obligation to revise or publicly release the results of any revisions to these forward-looking statements. You should carefully review the risk factors described in other documents the Company files from time to time with the SEC, including the Annual Report on Form 10-K for the year ended December 31, 2000.

OVERVIEW

NATIONAL TECHTEAM, INC. is a global provider of information technology and business process outsourcing services to Fortune 1000, multinational companies and governments worldwide. The core services provided by TechTeam are its integrated help desk support services. TechTeam also provides technical staffing, systems integration, and training services. TechTeam provides these support services in Europe through its subsidiaries: TechTeam Europe, NV/Sa; TechTeam Europe, Ltd.; and TechTeam Europe, GmbH.

CORPORATE SERVICES

TechTeam's Corporate Services primarily consist of corporate help desk services, technical staffing, systems integration, and training programs.

HELP DESK SERVICES

TechTeam provides customized help desk solutions, which provide corporate end users with around-the-clock technical support provided either from the client's facilities or from TechTeam's help desk sites. TechTeam supports the full range of a client's IT infrastructure, from network environments to computing systems, and shrink-wrap to advanced proprietary and acquired application systems. TechTeam follows a "single point of contact" (SPOC) model to enable corporations to consolidate their incident resolution support functions into one centralized help desk. TechTeam's technicians are specially trained in the customer's products and applications to diagnose problems and answer technical questions. The Company's technicians answer questions and diagnose technical problems ranging from simple error messages to wide area network failures. If the technician is not able to resolve the problem with the

10

end user over the phone, the call is escalated to the appropriate resource to solve the problem.

In line with its focus on help desk solutions, the Company has developed an integrated, Internet-based, help desk technology tool, called the Support Portal. From the Support Portal web site, an individual seeking support may access a knowledgebase to obtain a solution to their problem, use self-healing software to solve the problem, submit a problem for resolution to a support technician, or check the status of their help desk incident. TechTeam's proprietary call tracking tool, the Global Call Center, has been integrated with robust knowledge management and solution products and TechTeam's customers are able to access detailed performance reports and other management tools. The Company believes that the Support Portal's knowledge management, data analytics, computer diagnostics and tracking technology will help to increase the Company's efficiency in providing support, improve the end user's experience with the help desk and enable TechTeam's customers to benefit from lower cost and improved

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

efficiency of their users.

The Company has deployed the technology internally and to certain of its existing customers. The Support Portal is an important part of the help desk solutions provided to new customers.

The Company operates major help desks in the United States from its Dearborn, Michigan, Southfield, Michigan and Davenport, Iowa locations. From its facility in Brussels, Belgium, TechTeam provides multi-lingual help desk support for its customers in as many as 12 languages. TechTeam also provides these services from its customers' sites.

TECHNICAL STAFFING

The Company maintains a staff of trained technical personnel to provide computer and technical support to its clients at the clients' facilities. The Company recruits a technically proficient employee base. TechTeam enhances its employees' proficiency by providing access to extensive technical training programs. Training in new Internet technology, advanced operating systems like Windows NT and Unix, and sophisticated applications such as SAP and PeopleSoft, allows TechTeam to provide its clients with highly skilled professionals, trained and certified in the latest technology.

SYSTEMS INTEGRATION

TechTeam provides systems integration and implementation services from project planning and management, to full-scale network server and workstation installations. TechTeam performs a wide range of maintenance services to the client ranging from desk-side support to network monitoring.

TRAINING

The Company provides custom training and documentation solutions that include a wide spectrum of options including computer based training, course catalogs, instructional design consultants, customized course materials, certified trainers, evaluation options, desk-side tutorials, and custom reports.

OEM SERVICES AND EQUIPMENT LEASING

In August 2000, TechTeam sold its interest in GE TechTeam LP to GE Warranty Management, Inc. As a result of this sale, TechTeam provided personnel to the new ownership through December 31, 2000, when TechTeam's employees providing OEM support through GE TechTeam LP were transitioned to the new owner. TechTeam continues to look in the OEM industry for business opportunities.

TechTeam Capital Group, L.L.C. (Capital Group) previously wrote leases for computer, telecommunications, and other types of capital equipment, with initial lease terms ranging from 2 to 5 years. Effective March 31, 2000, TechTeam restructured Capital Group. At that time, the majority of the Capital Group staff was terminated and Capital Group ceased looking for new leasing opportunities. Capital Group is currently running out its lease portfolio. With the exception of renewals, the portfolio will run off in approximately two years.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO SEPTEMBER 30, 2000

Revenues decreased 26% to \$22.2 million from \$30.0 million. The decrease resulted from revenue decreases in

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

OEM Call Center Services of \$4.2 million, system integration revenues of \$1.7 million, leasing operations revenue of \$1.5 million and Technical Staffing revenues of \$0.8, offset by an increase in Corporate Help Desk services of \$0.8 million. OEM Call Center revenues were down due to the Company selling its interest in the GE Joint Venture as previously announced and ceasing to provide personnel services to the new owner of the Joint Venture as of December 31, 2000. Systems integration revenues decreased due to a reduction in computer upgrades and installation work at a major automotive client as well as the completion of systems work at two smaller customers in 2000. Leasing revenues decreased due to the Company's decision to cease looking for new leasing opportunities in 2000. Technical staffing revenues also decreased due to one of the Company's major automotive customers making cuts in subcontracted staffing to reduce their cost structure. Corporate help desk services increased due to obtaining a new customer in the pharmaceutical industry during 2001.

Gross profit as a percentage of sales decreased to 17.9% from 23.0%. The decrease was primarily due to the gains or (losses) from lease residuals of (\$1.1) million in 2001 compared to a gain of \$0.1 million in 2000.

Selling, General and Administrative expenses were \$5.6 million compared to \$5.2 million in 2000. The \$5.6 million in 2001 includes severance costs of \$140,000 for administrative employees terminated during the third quarter and write offs of \$215,000 for assets determined to be impaired, including goodwill related to the acquisition of a company in 1996.

The Michigan Single Business tax decreased because in 2000 the Company reversed certain credits that it had previously expected to receive.

Interest expense increased due to interest accumulated from an underpayment of prior years federal income taxes. Interest income increased due to an improved cash position, which resulted from the Company's decision to no longer underwrite new lease business.

The Company's effective tax rate differs from the statutory tax rate primarily due to nondeductible goodwill amortization.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO SEPTEMBER 30, 2000

Revenues decreased 25% to \$71.2 million from \$94.9 million. The decrease resulted from revenue decreases in OEM Call Center Services of \$12.6 million, leasing operations revenue of \$5.4 million, system integration revenues of \$3.5 million, and technical staffing revenues of \$1.8 million. OEM Call Center revenues were down due to the Company selling its interest in the GE Joint Venture and ceasing to provide personnel services to the new owner of the Joint Venture in 2000. Leasing revenues decreased due to the Company's decision to cease looking for new leasing opportunities. Systems integration revenues decreased due to a reduction in computer upgrade and installation work at a major automotive client as well as the completion of systems work at two smaller customers in 2000. Technical staffing revenues decreased due to the Company's two major automotive customers making cuts in subcontracted staffing to reduce their cost structure.

Gross profit decreased as a percentage of sales to 21.7% from 22.8%. The decrease was due to the impact of the change in net gains or (losses) from lease residuals of (\$1.3) million in 2001 and \$1.3 million in 2000 offset by the non-recurrence of low margin OEM call center services provided to the GE Joint Venture.

Selling, general and administrative expenses were \$16.9 million compared to 16.2 million in 2000. The \$16.9 million in 2001 includes a net settlement of \$370,000

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

related to earn out and release agreements with former officers of TechTeam Capital Group, severance payments of \$260,000 for administrative employees that were terminated, write-offs of \$200,000 for remaining goodwill and equity interest of prior acquisitions determined to be impaired, a \$87,000 loss on disposal of assets due to the closing of a call center office and a \$95,000 loss related to the write-off of a supply agreement no longer being used. In addition, a \$165,000 write down was taken due to the Company's decision to cease making payments on insurance contracts for an officer of the Company. Without these costs, selling, general and administrative costs would have decreased by approximately \$500,000 for the nine-month period.

The Michigan Single Business tax decreased because in 2000 the Company reversed certain credits that it had previously expected to receive.

12

Interest expense increased due to interest accumulated from an underpayment of prior years federal income taxes. Interest income increased due to an improved cash position, which resulted from the Company's decision to no longer underwrite new lease business.

The Company's effective tax rate differs from the statutory tax rate primarily due to nondeductible goodwill amortization.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Provided from Operations

Cash flow provided from operating activities was \$17.5 million for the nine months ended September 30, 2001. Cash flow from operations was due to a net operating loss of \$2.6 million, offset by the add back of \$17.3 million of non-cash depreciation and amortization expense mainly related to the leasing operations and a net cash increase of \$2.3 million due to changes in operating assets and liabilities.

Cash Flow Provided by Investing Activities

Cash flow provided by investing activities was \$3.6 million. The Company received \$4.8 million from the sale of assets used in leasing operations and \$0.9 million from loans receivable, offset by \$1.3 million to purchase assets to be used on help desk service projects and \$1.0 million to purchase available for sale securities.

Cash Flow Used in Financing Activities

Cash flow used in financing activities was \$8.0 million. The Company used \$7.3 million to pay down debt related to leasing operations and \$0.6 million to repurchase Company stock in accordance with the stock repurchase program (see notes to the condensed consolidated financial statements for more discussion on the stock repurchase program).

The Company's working capital position at September 30, 2001 was \$38.9 million compared to \$23.1 million at December 31, 2000. The Company believes that cash flows from operations will continue to be sufficient to meet its ongoing working capital needs.

PART II -- OTHER INFORMATION

ITEM 1 -- LEGAL PROCEEDINGS

The Company is a party to legal proceedings, which are routine and incidental to its business. Although the consequences of these proceedings are not presently determinable, in the opinion of management, they will not have a material adverse affect on the Company's liquidity, financial position or results of

operations.

ITEM 5 -- OTHER INFORMATION

On August 1, 2001, the Company entered into a one-year contract with Ford Motor Company under which the Company will provide SPOC (Single Point of Contact) support services for clients who utilize Ford Motor Company's IT products and services. The program scope encompasses support center, desk-side support, and program management services for Ford Motor Company, Ford Financial, and Ford Motor Company's Premier Auto Group. The purchase orders for the program total approximately \$25 million dollars. The program staff is distributed throughout North America and Europe and the Support Centers handle support related requests from Ford Motor Company locations in the United States and Europe.

13

ITEM 6 -- EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.19 Assignment of Credit Facilities and Financing Documents between TechTeam Cynergy, LLC and Bank of America dated September 28, 2001.
- 10.20 Financing and Security Agreement between Cynergy Corporation and Bank of America dated January 29, 1999.
- 10.21 Agreement for Conveyance in Lieu of Foreclosure and Other Matters between TechTeam Cynergy, LLC and Robert N. Grimes and Beth Grimes dated September 28, 2001.
- 10.22 Employment Agreement between National TechTeam, Inc. and William F. Coyro, Jr. dated August 9, 2001.
- 10.23 Agreement with Ford Motor Company dated August 1, 2001.

(b) Reports on Form 8-K. No reports were filed on Form 8-K during the quarter ended September 30, 2001.

ITEMS 2, 3, AND 4 ARE NOT APPLICABLE AND HAVE BEEN OMITTED

14

SIGNATURES

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

National TechTeam, Inc.

(Registrant)

Date: 11/14/01

By: /s/William F. Coyro, Jr.

William F. Coyro, Jr.

Edgar Filing: NATIONAL TECHTEAM INC /DE/ - Form 10-Q

Chief Executive Officer
and President

Date: 11/14/01

By: /s/Jean Francois D. Delpy

Jean Francois D. Delpy
Chief Financial Officer and Treasurer

15

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
10.19	Assignment of Credit Facilities and Financing Documents between TechTeam Cyntergy, LLC and Bank of America dated September 28, 2001.
10.20	Financing and Security Agreement between Cyntergy Corporation and Bank of America dated January 29, 1999.
10.21	Agreement for Conveyance in Lieu of Foreclosure and Other Matters between TechTeam Cyntergy, LLC and Robert N. Grimes and Beth Grimes dated September 28, 2001.
10.22	Employment Agreement between National TechTeam, Inc. and William F. Guyro, Jr. dated August 9, 2001.
10.23	Agreement with Ford Motor Company dated August 1, 2001.