TECHTEAM GLOBAL INC
Form 10-Q
November 07, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

[ ] 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

TECHTEAM GLOBAL, INC.
(Name of issuer in its charter)

DELAWARE	38-2774613
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

27335 W. 11 Mile Road, Southfield, MI 48034
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (248) 357-2866

Registrant's Internet address: www.techteam.com

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.

[X] Yes [ ] No

The number of shares of the registrant's only class of common stock outstanding at October 31, 2003 was 9,712,353.

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, 2002 PREVIOUSLY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

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TECHTEAM GLOBAL, INC.

FORM 10-Q

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PART 1 - FINANCIAL INFORMATION

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

ITEM 1 - FINANCIAL STATEMENTS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDE SEPTEMBER 30,	
	2003	2002	2003	2002
	(In thousands, except per share data)			
REVENUES				
Corporate services				
Corporate help desk services	$ 17,211	$ 14,948	$ 49,677	$ 43,6
Technical staffing	2,233	2,468	7,011	7,8
Systems integration	2,242	1,480	6,524	5,9
Training programs	213	241	674	8
Total corporate services	21,899	19,137	63,886	58,2
Leasing operations	409	1,995	2,101	7,6
TOTAL REVENUES	22,308	21,132	65,987	65,9
COST OF SERVICES DELIVERED	18,057	15,613	54,018	50,1
GROSS PROFIT	4,251	5,519	11,969	15,8
OTHER OPERATING EXPENSES				
Selling, general, and administrative	4,703	4,227	14,088	12,5
Michigan Single Business Tax	-	225	542	6
TOTAL OTHER OPERATING EXPENSE	4,703	4,452	14,630	13,2
Operating income (loss)	(452)	1,067	(2,661)	2,6
Currency transaction gain	86	-	449	
Interest income	397	238	907	7
Interest expense	(9)	(64)	(32)	(1
NET OTHER INCOME	474	174	1,324	5
Income (loss) before income taxes	22	1,241	(1,337)	3,1
Income tax provision	453	545	459	1,4
Income (loss) before cumulative effect of accounting change...	(431)	696	(1,796)	1,7

Cumulative effect of accounting change	--	--	--	1,1
NET INCOME (LOSS)	$ (431)	$ 696	$ (1,796)	$ 6
BASIC EARNINGS (LOSS) PER SHARE				
Income (loss) before cumulative effect of accounting change...	$ (.04)	$ .06	$ (.18)	$.
Cumulative effect of accounting change	--	--	--	(.
Total basic earnings (loss) per share	$ (.04)	$ .06	$ (.18)	$.
DILUTED EARNINGS (LOSS) PER SHARE				
Income (loss) before cumulative effect of accounting change...	$ (.04)	$ .06	$ (.18)	$.
Cumulative effect of accounting change	--	--	--	(.
Total diluted earnings (loss) per share	$ (.04)	$ .06	$ (.18)	$.
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING				
Basic	9,723	10,980	9,975	10,9
Net effect of dilutive stock options	--	230	--	1
Diluted	9,723	11,210	9,975	11,1

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NET INCOME (LOSS), AS SET FORTH ABOVE	$ (431)	$ 696	$(1,796)	$ 6
Foreign currency translation adjustments...........	(28)	19	335	3
COMPREHENSIVE INCOME (LOSS)	$ (459)	$ 715	$(1,461)	$ 9

See accompanying notes.

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

ASSETS	SEPTEMBER 30, 2003
	(In tho
CURRENT ASSETS	
Cash and cash equivalents	$ 45,118
Securities available for sale	-
Accounts receivable - corporate services (less allowances of $496 at September 30, 2003 and $182 December 31, 2002)	19,316
Accounts receivable - leasing (less allowances of $730 at September 30, 2003 and $415 at December 31, 2002)	1,611
Refundable taxes	863
Inventories of off-lease equipment and supplies (less reserves of $2,585 at September 30, 2003 and $1,974 at December 31, 2002)	85
Prepaid expenses and other	1,709
Deferred income tax	1,524
TOTAL CURRENT ASSETS	70,226
PROPERTY, EQUIPMENT, AND PURCHASED SOFTWARE	
Computer equipment and office furniture	20,162
Purchased software	10,613
Leasehold improvements	4,341
Transportation equipment	227
	35,343
Less - Accumulated depreciation and amortization	25,697
	9,646
OTHER ASSETS	
Assets of leasing operations, net of amortization (less reserves of $415 at September 30, 2003 and $823 at December 31, 2002)	766
Intangibles (less accumulated amortization of $6,637 at September 30, 2003 and $6,442 at December 31, 2002)	837
Other	129
	1,732
TOTAL ASSETS	$ 81,604

See accompanying notes.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	SEPTEMBER 30, 2003
	(In tho
CURRENT LIABILITIES	
Accounts payable	$ 3,393
Accrued payroll, related taxes and withholdings	4,277
Deferred revenues	283
Accrued expenses and taxes	1,794
Current portion of notes payable	340
Other	153
TOTAL CURRENT LIABILITIES	10,240
LONG-TERM LIABILITIES	869
REDEEMABLE CONVERTIBLE PREFERRED STOCK, PAR VALUE, $.01, 5,000,000 SHARES AUTHORIZED, 689,656 ISSUED AND OUTSTANDING	5,000
SHAREHOLDERS' EQUITY	
Common stock, par value $.01, 45,000,000 shares authorized, issued - 17,055,167 and 16,953,100 shares at September 30, 2003 and December 31, 2002, respectively	171
Additional paid-in capital	109,807
Retained earnings (deficit)	(681)
Accumulated other comprehensive income - foreign currency translation adjustment	491
Treasury stock (7,342,814 and 6,274,436 shares at September 30, 2003 and December 31, 2002, respectively)	(44,293)
Total shareholders' equity	65,495
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 81,604

See accompanying notes.

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

	NINE MONTHS END
	2003
	(In tho

OPERATING ACTIVITIES	
Income (loss) before cumulative effect of accounting change	$ (1,796)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	4,576
Change in leasing business reserves	1,050
Non-cash stock option compensation expense	56
Treasury stock contributed to 401(k) plan and other	50
Changes in operating assets and liabilities	(1,340)
Changes in long-term liabilities	(60)
Net cash provided by operating activities	2,536
INVESTING ACTIVITIES	
Sale (purchase) of marketable securities	6,492
Purchase of property, equipment, and software, net	(3,840)
Disposal of leased equipment	1,587
Decrease in investment in direct financing leases and residuals	306
Other	62
Net cash provided by (used in) investing activities	4,607
FINANCING ACTIVITIES	
Purchase of Company common stock	(6,750)
Proceeds from issuance of redeemable preferred stock, net	4,817
Proceeds from issuance of common stock	461
Payments on notes payable, net	(323)
Other	335
Net cash used in financing activities	(1,460)
Increase in cash and cash equivalents	5,683
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	39,435
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 45,118

See accompanying notes.

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by TechTeam Global, Inc. ("TechTeam" or "Company" or "We") in accordance with accounting principles generally accepted in the United States for interim financial information and 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 accounting principles generally accepted in the United States 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, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

Certain reclassifications have been made to the 2002 financial statements in order to conform to the 2003 financial statement presentation.

NOTE B - 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.

The weighted average number of diluted shares fell from 11,102,814 at December 31, 2002 to 9,975,202 at September 30, 2003, due primarily to the common shares the Company repurchased during the second and third quarters of 2003 under the Company's stock repurchase program.

For the three and nine month periods ended September 30, 2003, diluted and basic weighted average shares outstanding are the same because the effects of potentially dilutive options would be antidilutive since there are losses in each period.

NOTE C - REVENUES FROM MAJOR CLIENTS

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

	2003		2002	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(In thousands except percent of total data)			
THREE MONTHS ENDED SEPTEMBER 30				
Ford Motor Company	$ 10,389	46.6%	$ 10,751	50.9%
DaimlerChrysler	2,888	13.0%	3,183	15.1%
NINE MONTHS ENDED SEPTEMBER 30				
Ford Motor Company	$ 32,705	49.6%	$ 32,872	49.8%
DaimlerChrysler	9,333	14.1%	9,763	14.8%

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

NOTE D - EFFECTS OF ACCOUNTING PRONOUNCEMENTS

In June 2001, 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 impairment indicators arise. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. As of January 1, 2002, we adopted SFAS 142. Accordingly, we took a charge of $1.1 million related to impaired goodwill in our leasing operations in the first quarter of 2002. Under SFAS 142, the charge recognized upon adoption of the statement was reported as the cumulative effect of an accounting change. As a result of the re-evaluation of amortizable intangible assets as of October 1, 2003, we have determined that the undiscounted cash flows are positive and exceed the recorded cost of the intangibles.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 is effective for instruments entered into after May 31, 2003, and otherwise at the beginning of the first interim period beginning after June 15, 2003 for public entities. SFAS 150 requires instruments containing a mandatory redemption clause to be reported on the balance sheet as a liability. The Company issued redeemable convertible preferred stock in April 2003. The preferred stock contains a mandatory redemption requirement, with the right to convert the preferred stock into common stock (see Note J). The conversion features in the preferred stock prevent the instrument from being subject to the reporting requirements of SFAS 150. Redeemable preferred stock is not shown as a component of equity, but is shown separately between debt and equity on the balance sheet so as not to be confused with permanent capital.

During 2003, the FASB issued FASB Interpretation 46, Consolidation of Variable Interest Entitie's. FASB Interpretation 46 requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The Company is in process of evaluating the effects of FASB Interpretation 46. Based upon the in-process review, the Company believes that adoption of the pronouncement will have no significant effect on reported financial position or results of operations.

NOTE E - STOCK OPTIONS

We account for stock options under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employee's, and related interpretations.

Pro forma information regarding net income/(loss) and earnings/(loss) per share is required by SFAS No. 123, Accounting for Stock-Based Compensation, and has been determined as if the Company had accounted for its employee stock options under the fair value method.

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

NOTE E - STOCK OPTIONS (continued)

For purposes of pro forma disclosures, the estimated fair value of the stock options is amortized over the options' vesting period. Our pro forma information is as follows:

	2003	2002
	(In thousands, except per share da	
THREE MONTHS ENDED SEPTEMBER 30		
Reported net income (loss)	$ (431)	$ 696
SFAS No. 123 expense	(69)	(111)
Pro forma net income (loss)	$ (500)	$ 585
Pro forma income (loss) per share		
Basic	(.05)	.06
Diluted	(.05)	.06
NINE MONTHS ENDED SEPTEMBER 30		
Reported net income (loss)	$ (1,796)	$ 633
Executive stock option	-	269
SFAS No. 123 expense	(459)	(329)
Pro forma net income (loss)	$ (2,255)	$ 573
Pro forma income (loss) per share		
Basic	(.23)	.06
Diluted	(.23)	.06

NOTE F - CHANGES IN ESTIMATES

Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from the estimates and assumptions made. TechTeam senior management reviews these estimates and reserves to ensure their reasonableness.

In the second quarter of 2003, we recorded a reduction to the values of the Company's off-lease equipment inventory due to the significant decline in the secondary market for used computer equipment. After obtaining an independent valuation of this inventory equipment, management increased its reserve to reduce the net book value of the inventory. We reduced the book value of off-lease inventory by $1.00 million to $166,000, to reflect the deterioration in the secondary computer equipment market.

Reserves against certain receivables were also increased during the second and third quarters of 2003. After thorough examination of the collectibility of certain receivables, management determined that there was a decreased probability of collection. Allowances against certain receivables were increased by $267,000 in the second quarter and $295,000 in the third quarter to reflect the revised estimate of collectibility. The value of these items net of their reserves was $100,000 at September 30, 2003.

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

NOTE G - STOCK REPURCHASE PROGRAMS

In April 2003, we announced a new stock repurchase program to repurchase up to 2,000,000 shares of Company common stock. Under this program, we repurchased 1,074,178 shares for $6,749,610 inclusive of sales commission expense.

In August 2002, we announced a stock repurchase program to repurchase up to 2,000,000 shares of common stock. Under this program, we repurchased 470,600 shares for $3,422,701, inclusive of sales commission expense, in 2002. The Company did not acquire any shares of its common stock during the first quarter of 2003 in connection with the program, which expired on February 26, 2003.

NOTE H - SEGMENT AND GEOGRAPHIC REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-making group is the senior management committee, which is comprised of the president and the lead executives of each of our functional divisions. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products.

Our reportable operating segments include corporate services (consisting of corporate help desk services, technical staffing, systems integration, and training programs), and leasing operations.

Our reportable geographic segments are the United States and Europe. The European segment provides corporate help desk services and technical staffing. The United States geographic segment provides services in all operating segments. Revenues are attributed to geographic segments based upon the location of service delivery.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in our Form 10-K for the year ended December 31, 2002. We evaluate performance based on stand-alone operating segment gross profit.

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

NOTE H - SEGMENT AND GEOGRAPHIC REPORTING (continued)

Financial information for our business segments is as follows:

	CORPORATE SERVICES			
	CORPORATE HELP DESK SERVICES	TECHNICAL STAFFING	SYSTEMS INTEGRATION	TRAINING PROGRAMS
				(in thousands)
THREE MONTHS ENDED SEPTEMBER 30, 2003				
Revenues	$17,211	$ 2,233	$ 2,242	$ 213
Gross profit (loss)	3,522	436	600	36
Depreciation and	--			
amortization	783	--	14	2
Expenditures for property	976	1	10	1
THREE MONTHS ENDED SEPTEMBER 30, 2002				
Revenues	$14,948	$ 2,468	$ 1,480	$ 241
Gross profit	4,188	408	324	58
Depreciation and amortization	727	4	1	2
Expenditures for property	426	3	1	2
NINE MONTHS ENDED SEPTEMBER 30, 2003				
Revenues	$49,677	$ 7,011	$ 6,524	$ 674
Gross profit (loss)	10,417	1,450	1,678	116
Depreciation and amortization	2,291	1	32	5
Expenditures for property	3,165	1	19	3
NINE MONTHS ENDED SEPTEMBER 30, 2002				
Revenues	$43,676	$ 7,870	$ 5,926	$ 824
Gross profit	11,970	1,219	1,468	168
Depreciation and amortization	2,130	17	6	6
Expenditures for property	2,097	15	5	6
SEGMENT ASSETS				
September 30, 2003	$21,523	$ 2,124	$ 2,064	$ 218
December 31, 2002	16,695	1,919	1,350	216

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

NOTE H - SEGMENT AND GEOGRAPHIC REPORTING (continued)

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

	NI
	200
Depreciation and amortization	
Total for reportable segments	$
Corporate assets	
Total depreciation and amortization	$

	NI
	200
Expenditures for property	
Total assets for reportable segments	$
Corporate assets	
Total expenditures for property	$

	SEPTEMBE 200
Assets	
Total assets for reportable segments	$
Corporate assets	
Total assets	$

========

Financial information from our geographic segments is as follows:

	REVENUE	
	THREE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
	(In thousan	
United States	$ 14,993	$ 16,421
Europe	7,315	4,711
Total	$ 22,308	$ 21,132

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

NOTE H - SEGMENT AND GEOGRAPHIC REPORTING (continued)

	GROSS PROFI	
	THREE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
	(In thousand	
United States	$ 3,360	$ 3,623
Europe	891	1,896
Total	$ 4,251	$ 5,519

	ASSETS	
	SEPTEMBER 30, 2003	DECEMBER 31, 2002
	(In thousands)	
United States..................................	$ 65,290	$ 71,731

Europe	16,314	10,133
Total	$ 81,604	$ 81,864

NOTE I - INCOME TAXES

The consolidated effective tax rate differs from the statutory tax rate and has changed during the third quarter due to the following: 1) a change in Management's estimate of U.S. income before taxes for 2003, 2) the impact of non-deductible expenses for U.S. tax purposes, 3) the impact of foreign losses incurred for which future tax benefits have not been recorded, and 4) varying tax rates specific to non-U.S. locations.

NOTE J - PRIVATE PLACEMENT PREFERRED STOCK TRANSACTION

On April 8, 2003, TechTeam Global, Inc. completed a private placement of 689,656 shares of newly created Series A Convertible Preferred Stock ("Series A Preferred Stock") with ChrysCapital II, LLC, ("CCII") a Mauritius limited liability company for $5,000,006 or $7.25 per share. Series A Preferred Stockholders are currently entitled to elect one director to the Company's Board of Directors. The holder of Series A Preferred Stock may convert any or all of its Series A Preferred Stock into Common Stock at any time after the first anniversary of the initial issuance thereof on a one share of Series A Preferred Stock for one share of Common Stock basis. The holder(s) of Series A Preferred Stock has the right to vote each share of its Series A Preferred Stock as if it were converted to the Company's Common Stock. The Company is required to redeem the Series A Preferred Stock on April 8, 2006 or earlier in certain circumstances.

NOTE K - FOREIGN CURRENCY TRANSLATION

We translate the results of operations of our foreign subsidiaries on a monthly basis using the simple average exchange rates for the month, whereas we translate balance sheet accounts using either period end rates for assets and liabilities, or historical rates for stockholders' equity. Resulting currency translation adjustments are recorded as a component of stockholders' equity. Foreign currency transaction gains and losses are recorded in the consolidated statements of earnings. Currency transaction gains for the three and nine month periods ended September 30, 2003 were $86,000 and $449,000, respectively, comprised of recalculation of intercompany payables and customer receivables based on currency exchange rate at quarter end. Currency transaction gains and losses for the three and nine months ended September 30, 2002 were not significant.

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

Certain of the statements contained in this report that are not historical facts 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 fiscal year ended December 31, 2002.

OVERVIEW

TECHTEAM GLOBAL, INC. ("TechTeam" or "Company" or "We") is a global provider of information technology (IT) and business process outsourcing (BPO) support services to entities, including Fortune 1000 companies, multinational companies, product providers, and governments. These services are provided with a single point of contact philosophy centralized on our IT help desk support services. We also offer other services, including technology deployment and migration services, consulting, systems integration, training, and technical staffing. We provide support services in Europe through our subsidiaries: TechTeam Europe, NV/SA; TechTeam Europe, Ltd.; TechTeam Europe, GmbH; and TechTeam Europe, AB.

TechTeam Global, Inc. is incorporated under the laws of the State of Delaware. The Company's common stock is traded on the Nasdaq National Market(R) under the symbol "TEAM". Our client base includes Ford Motor Company, DaimlerChrysler, Deere & Company, Cendant Corporation, Liberty Mutual Insurance Company, Schering-Plough Research Institute, and other companies in the manufacturing, pharmaceutical, office equipment, insurance, logistics, hospitality, food service, retail, and other industries.

EQUIPMENT LEASING

TechTeam Capital Group, L.L.C. ("Capital Group"), a subsidiary of the Company, 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, the majority of 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 of existing leases, the majority of the original leases were completed by the end of the second quarter 2003. We cannot predict how many lease renewals we will receive or how long they will be in effect.

IMPACT OF BUSINESS WITH MAJOR CLIENTS

Historically, we have been heavily dependent upon two or three major clients for a substantial portion of our revenues. Any loss of (or failure to retain a significant amount of business with) these key clients would have a material adverse impact on the Company. Our major clients include Ford Motor Company ("Ford") and DaimlerChrysler. For the third quarter 2003 and 2002, Ford accounted for 46.6% and 50.9% and DaimlerChrysler accounted for 13.0% and 15.1%, respectively. For the nine months ended September 30, 2003 and 2002, Ford accounted for 49.6% and 49.8% and DaimlerChrysler accounted for 14.1% and 14.8%, respectively.

EUROPEAN OPERATIONS

We service our clients in Europe through four wholly-owned subsidiaries: TechTeam Europe, Ltd., in Chelmsford, England; TechTeam Europe, NV/SA, in Brussels, Belgium; TechTeam Europe, GmbH, in Cologne, Germany; and TechTeam Europe, AB in Gothenburg, Sweden.

TechTeam Europe, Ltd., TechTeam Europe, GmbH, and TechTeam Europe, AB provide clients with technical staffing and help desk services. TechTeam Europe, NV/SA provides our clients primarily with multilingual help desk support. A significant portion of our business in Europe is driven by our client base in the United States.

Our international business is subject to risks customarily encountered in foreign operations, including changes in a specific country's or region's political or economic conditions, trade protection measures, import or export licensing requirements, the overlap of different tax structures, unexpected changes in regulatory requirements, and natural

disasters. We are also exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, and assets and liabilities denominated in currencies other than the U.S. dollar. While these risks are believed to be manageable, no assurances can be given.

LEASING OPERATIONS

TechTeam Capital Group, L.L.C. is in the final stages of running out its lease portfolio. Capital Group ceased writing new leases in March of 2000. There are four areas of concern in winding-down the leasing operation: a) the remaining revenue stream, b) the residual value of the assets still being leased, c) the value of the off-lease equipment held in inventory, and d) collecting Capital Group's accounts receivable.

While there are a few leases whose original lease termination dates extend through March of 2005, the vast majority of the lease terminations have already occurred. The total value of the future revenue stream for the remaining contractually committed leases (which excludes month-to-month leases) is $128,000 as of September 30, 2003. During the first nine months of 2003, Capital Group recorded $1.32 million in revenue above the contractually committed lease revenue amount. This revenue is from contractual month-to-month extensions of outstanding leases. We have not estimated additional revenues from future lease renewals, as it is not possible for us to predict how many lease renewals we will receive, or how long they will be extended.

As of September 30, 2003, the equipment still on lease had a residual book value of $727,000, with a reserve of $415,000 for an adjusted net book value of $312,000 or 3.3% of original cost of the equipment. During the first nine months of 2003, we sold leased equipment for an average of 7.6% of original cost. During the fourth quarter of 2003, leased assets with a residual value of $556,000 and a reserve of $407,000, for a net of $149,000 or 1.6% of original cost, are scheduled to come off lease and transfer into inventories, unless the leases are renewed or the equipment is sold.

During the second quarter of 2003, we determined we would not be able to obtain the value we had previously expected from the sale of our equipment inventories due to the significant decline in the fair market value of the equipment in the marketplace. In recognition of the deterioration in market prices, the Company increased its reserves for the inventory by $1.0 million. As of September 30, 2003, inventories of off-lease equipment was carried at a book value of $2.67 million and a reserve of $2.58 million for an adjusted net value of $85,000, which represents 0.64% of the original equipment cost.

Capital Group's accounts receivable decreased to $1.61 million, net of reserves, at September 30, 2003 from $2.91 million, net of reserves, at December 31, 2002. As we close down our portfolio and as our leasing relationships end, we are experiencing additional collection delays. Allowances against accounts receivable were increased to $730,000 at September 30, 2003 from $415,000 at December 31, 2002 in recognition of the additional collection challenges.

Effective June 30, 2003, Edward J. Penkala, President of TechTeam Capital Group and an Executive Officer of TechTeam Global, Inc., resigned from the Company. On

June 30, 2003, we entered into a consulting services agreement with Mr. Penkala for the period July 1, 2003 through December 31, 2003 under which Mr. Penkala is compensated only for successfully assisting Capital Group in completing its run off of the leasing portfolio.

RESULTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO SEPTEMBER 30, 2002

Revenues increased 5.6% to $22.3 million from $21.1 million. This increase was primarily due to the 14.4% increase in the corporate services segment, partially offset by the 79.5% decrease in the leasing operations segment. Leasing operations revenue decreased to $409,000 from $1.99 million for the comparable period of 2002. The decrease was a result of our decision to cease actively seeking new leasing business and to manage the winding down of the leasing portfolio. The corporate services segment, comprised of corporate help desk services, technical staffing, systems integration, and training programs, experienced a 14.4% increase in revenue, reaching $21.9 million, up from $19.1 million for the comparable period last year. Revenues from corporate help desk services increased 15.1% to $17.2 million from $14.9 million, due primarily to growth in business with our existing customers. Revenues from systems integration increased 51.5% to $2.24 million from $1.48 million. These revenue increases were offset by revenue decreases in the other product lines. Revenues from technical staffing decreased 9.5% to $2.23 million from $2.47 million principally as a result of price concessions granted to existing customers and reductions in placements. Revenue from the provision of training programs declined 11.8% to $213,000 from $241,000.

Gross profit as a percentage of sales decreased to 19.1% in the third quarter of 2003 from 26.1% in the third quarter of 2002. This decrease was primarily due to a decrease in gross profit margins from our leasing operations, to a negative gross profit margin of 83.8% in 2003 from a positive gross profit margin of 27.1% in 2002. The year over year decline in gross margin for leasing operations is primarily a result of management's decision to increase the reserve for equipment in inventory during the second quarter of 2003.

Gross profit margin for corporate services decreased to 21.0% from 26.0%. Within the corporate services product segment, the corporate help desk services gross profit margin decreased to 20.5% from 28.0% due primarily to the price concessions included in the multi-year contracts negotiated during 2002 and 2003 with some of our help desk customers, including Ford Motor Company, and costs related to the launch of new business in our expanded help desk in Belgium. The training program gross profit margin decreased to 16.8% from 23.9%. These gross profit margin decreases were partially offset by improvements in the systems integration gross profit margin to 26.8% from 21.9% and the technical staffing gross profit margin to 19.5% from 16.5%.

Selling, general, and administrative (SG&A) expense increased to $4.70 million in the third quarter of 2003 from $4.23 million in the third quarter of 2002. The selling portion of SG&A expense increased by $200,000 for payroll, benefits and payroll tax expense for additional sales personnel. The general and administrative portion of SG&A expense increased $275,000 primarily due to increased bad debt expense, professional service costs, and computer system maintenance and repair expense, less savings in payroll costs, facilities expenses, and travel and training expenses.

The Company's Michigan Single Business Tax expense decreased from $225,000 in the third quarter of 2002 to zero in the third quarter of 2003, due to a change in the 2003 tax law, which was favorable to the Company.

Currency transaction gains of $86,000 for the three months ended September 30, 2003 were due to the continued depreciation of the U.S. dollar against the euro, British pound sterling, and the Swedish krona. Currency transaction gains and losses for the three months ended September 30, 2002 were not significant.

Interest income increased to $397,000 from $238,000 in the third quarter of 2003 and 2002, respectively. This increase was due primarily to $141,000 in interest income associated with a successful federal income tax refund claim for the years 1998 through 2000. The federal income tax refunds and interest income payments were received in October 2003. Interest expense decreased to $9,000 from $64,000 due primarily to the continuing reduction in outstanding debt related to our leasing operations.

The consolidated effective tax rate differs from the statutory tax rate and has changed during the third quarter due to the following: 1) a change in Management's estimate of total U.S. income before taxes for 2003, 2) the impact of non-deductible expenses for U.S. tax purposes, 3) the impact of foreign losses incurred for which future tax benefits have not been recorded, and 4) varying tax rates specific to non-U.S. locations.

RESULTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO SEPTEMBER 30, 2002

Revenues were $66.0 million for the nine months ended September 30, 2003, the same amount reported for the comparable period in 2002. Leasing operations reported a decrease in revenue of 72.7%, generating $2.10 million in 2003, down from $7.69 million in 2002 for the reasons previously noted under Leasing Operations. The corporate services segment, comprised of corporate help desk services, technical staffing, system integration, and training programs, reported a 9.6% increase in year to date revenue, generating $63.9 million versus $58.3 million in the comparable period of the prior year. Revenues from corporate help desk services increased 13.7% to $49.7 million from $43.7 million due to growth in business with new and existing customers. Revenues from systems integration services increased 10.1% to $6.52 million from $5.93 million. Revenues from technical staffing decreased 10.9% to $7.01 million from $7.87 million as a result of price concessions granted to existing customers and reductions in placements. Revenue from the provision of training programs decreased 18.2% to $674,000 from $824,000.

Gross profit as a percentage of sales decreased to 18.1% in 2003 from 24.0% in 2002, due primarily to a decline in gross profit margins of our leasing operations. This business segment posted a negative gross profit margin of 80.5% in 2003, as opposed to a positive gross profit margin of 13.3% in 2002.

Gross profit margin decreased for corporate services to 21.4% from 25.4%. Corporate help desk services gross profit margin decreased to 21.0% from 27.4% due primarily to price concessions included in multi-year contracts negotiated during 2002 and 2003 with some of our help desk customers, including Ford Motor Company, costs for the launch for our expanded help desk in Belgium, and severance expense related to re-aligning our cost structure in our European operations in the second quarter. The training programs gross profit margin decreased to 17.3% from 20.4%. These gross profit margin decreases were partially offset by improvements in the systems integration gross profit margin to 25.7% from 24.8% and in the technical staffing gross profit margin to 20.7%

from 15.5%.

Selling, general, and administrative (SG&A) expense increased to $14.1 million in 2003 from $12.6 million in 2002. The selling portion of SG&A expense increased by $622,000 as we invested in additional sales during 2003. The additional sales staff increased payroll and travel expenses by $520,000 and $88,000, respectively, over the comparable period of 2002. The general and administrative portion of SG&A expense increased $915,000 due primarily to increased professional service costs, bad debt expense, facilities expense, computer system maintenance and repairs expense, and insurance expense, less savings in travel expenses. SG&A expense in 2002 included a non-cash charge of $410,000 resulting from the appreciation in the intrinsic value of a variable stock option agreement made to the Company's president and chief executive officer, pursuant to an employment agreement entered into on August 9, 2001.

The Company's Michigan Single Business Tax expense decreased $133,000 to $542,000 in 2003 from $675,000 in 2002, principally as a result of a favorable change in the tax law.

Currency transactions gains of $449,000 for the nine months ended September 30, 2003 were due to the continued depreciation of the U.S. dollar against the euro, British pound sterling, and the Swedish krona. Currency transaction gains and losses for the nine months ended September 30, 2002 were not significant.

Interest income increased to $907,000 in 2003 from $712,000 in 2002. This increase is primarily a result of the $141,000 in interest income associated with a successful federal income tax refund claim for the years 1998 through 2000. The federal income tax refunds and interest income payments were received in October 2003. Interest expense decreased to $32,000 from $148,000 due primarily to the continuing reduction in outstanding debt, related to our leasing operations.

The consolidated effective tax rate differs from the statutory tax rate and has changed during the third quarter due to the following: 1) a change in management's estimate of U.S. income before taxes for 2003, 2) the impact of non-deductible expenses for U.S. tax purposes, 3) the impact of foreign losses incurred for which future tax benefits have not been recorded, and 4) varying tax rates specific to non-U.S. locations.

LIQUIDITY AND CAPITAL RESOURCES

BALANCE SHEET

Cash, cash equivalents, and marketable securities decreased by $809,000, from $45.9 million on December 31, 2002 to $45.1 million on September 30, 2003. Our working capital position decreased by $694,000 during the first nine months of 2003, from $60.7 million as of December 31, 2002 to $60.0 million as of September 30, 2003.

Our total debt decreased by $324,000 during the first nine months of 2003, from a balance of $698,000 on December 31, 2002 to $374,000 on September 30, 2003. The Company's total debt as a percentage of its cash, cash equivalents, and securities decreased from 1.5% on December 31, 2002 to 0.8% on September 30, 2003.

CASH PROVIDED BY OPERATIONS

Cash provided by operating activities was $2.54 million for the nine months ended September 30, 2003. Net working capital increased as a result of an increase of $3.69 million in accounts receivable. Depreciation and amortization expense for the nine months ended September 30, 2003 was $4.58 million, of which $1.18 million came from our leasing operations.

CASH PROVIDED BY INVESTING ACTIVITIES

Net cash provided by investing activities was $4.61 million for the nine months ended September 30, 2003. We received $6.49 million from the sale of marketable securities, $1.59 million from the sale of assets used in leasing operations, and $0.37 million from other activities. We used $3.84 million to purchase assets to be used in the provision of customer services.

CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities was $1.46 million. We used $6.75 million to purchase Company common stock and $323,000 to pay down debt related to leasing operations. We received $4.82 million from the issuance of preferred stock and $461,000 from the issuance of common stock related to the exercise of stock options. Additionally, $335,000 resulted from foreign currency transaction adjustments.

ITEM 4 - CONTROLS AND PROCEDURES

As of September 30, 2003, an evaluation was performed under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective as of September 30, 2003. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to September 30, 2003.

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 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

On April 8, 2003, TechTeam Global, Inc. completed the private placement of 689,656 shares of a newly created Series A Redeemable Convertible Preferred Stock ("Series A Preferred Stock") with ChrysCapital II, LLC ("CCII") for $5,000,006 or $7.25 per share. Expenses incurred by the Company in connection with the issuance of the Series A Preferred Stock were approximately $183,300, including a commission of $50,000, none of which were paid or are

owed to directors or officers of the Company. The net offering proceeds are approximately $4,816,700. We anticipate using these funds to acquire businesses in the Far East. The transaction is exempt from registration requirements under section 5 of the Securities Act of 1933 ("Act") under section 4(2) of the Act, as amended, and Rule 506 of Regulation D promulgated by the U.S. Securities and Exchange Commission. Specifically, CCII is a partnership with total assets in excess of $5,000,000. The holder of Series A Preferred Stock may convert its Series A Preferred Stock into Common Stock at any time after the first anniversary of the initial issuance thereof on a one share of Series A Preferred Stock for one share of Common Stock basis. The conversion ratio is subject to adjustment if there is a dilutive issuance. Upon expiration of the agreement, the Company is required to redeem the Series A Preferred Stock (See Note J).

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.4	Bylaws of National TechTeam, Inc. (A Delaware Corporation) as amended and restated October 28, 2003
10.6	TechTeam Sixth Amendment To Lease
10.19	TechTeam Global, Inc. Executive Annual Incentive Plan
31.1	Written Statement of the Chief Executive Officer
31.2	Written Statement of the Chief Financial Officer
32	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 10 U.S.C. Section 1350

(b) Three reports on Form 8-K were filed during the quarter ended September 30, 2003

(i) Announcement of the Company's earnings for the second quarter of 2003, dated August 14, 2003

(ii) Announcement of the posting of the Company's corporate presentation to its website, dated August 29, 2003

ITEMS 3, 4, AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED

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.

TechTeam Global, Inc.

(Registrant)

Date: 11/07/03 By: /s/William F. Coyro, Jr.

William F. Coyro, Jr.
President and Chief Executive Officer

Date: 11/07/03 By: /s/David W. Morgan

David W. Morgan
Vice President, Chief Financial Officer, and Treasurer

EXHIBIT INDEX

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