TECHTEAM GLOBAL INC
Form 10-Q
August 09, 2006

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

Commission File Number: 0-16284

TECHTEAM GLOBAL, INC.
(Exact name of registrant as specified in its charter)

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

27335 WEST 11 MILE ROAD, SOUTHFIELD, MI 48034
(Address of principal executive offices) (Zip Code)

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

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [X]   Non- accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ]   No [X]

The number of shares of the registrant's common stock outstanding at August 1, 2006 was 10,288,352.

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TECHTEAM GLOBAL, INC.

FORM 10-Q

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PART 1 -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

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

(In thousands, except per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS
	2006	2005	2006
REVENUE			
IT outsourcing services	$20,412	$18,640	$39,509
Government technology services	11,702	14,218	23,486
IT consulting and systems integration	6,270	7,080	13,473
Technical staffing	2,185	2,116	4,380
Learning services	300	231	618

TOTAL REVENUE	40,869	42,285	81,466
COST OF REVENUE			
Cost of revenue	31,138	31,284	61,116
Asset impairment loss	--	--	580
TOTAL COST OF REVENUE	31,138	31,284	61,696
GROSS PROFIT	9,731	11,001	19,770
Selling, general, and administrative expense	9,897	8,871	19,601
OPERATING INCOME (LOSS)	(166)	2,130	169
Interest income, net	173	80	320
Foreign currency transaction gain (loss)	(106)	120	(98
INCOME (LOSS) BEFORE INCOME TAXES	(99)	2,330	391
Income tax provision (credit)	(24)	753	129
INCOME (LOSS) FROM CONTINUING OPERATIONS	(75)	1,577	262
Income from discontinued operations, net of tax	--	1	--
NET INCOME (LOSS)	$ (75)	$ 1,578	$ 262
BASIC EARNINGS (LOSS) PER COMMON SHARE			
Income (loss) from continuing operations	$ (0.01)	$ 0.16	$ 0.03
Income from discontinued operations	--	--	--
Total basic earnings (loss) per common share	$ (0.01)	$ 0.16	$ 0.03
BASIC EARNINGS PER PREFERRED SHARE			
Income from continuing operations	$ N/A	$ 0.16	$ N/A
Income from discontinued operations	N/A	--	N/A
Total basic earnings per preferred share	$ N/A	$ 0.16	$ N/A
DILUTED EARNINGS PER COMMON SHARE			
Income (loss) from continuing operations	$ (0.01)	$ 0.16	$ 0.03
Income from discontinued operations	--	--	--
Total diluted earnings (loss) per common share	$ (0.01)	$ 0.16	$ 0.03
WEIGHTED NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING			
Basic -- common	10,025	9,406	9,964
Basic -- preferred	--	299	--
Diluted -- common	10,025	9,772	10,157

See accompanying notes.

TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	JUNE	DECEMBER

ASSETS	30, 2006	31, 2005
	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	$ 28,269	$ 34,756
Accounts receivable (less allowance of $832 at June 30, 2006 and $757 at December 31, 2005)	45,095	43,696
Prepaid expenses and other	4,464	2,467
Deferred income taxes	172	141
Net current assets of discontinued operations	61	130
TOTAL CURRENT ASSETS	78,061	81,190
PROPERTY, EQUIPMENT, AND PURCHASED SOFTWARE		
Computer equipment and office furniture	25,082	23,577
Purchased software	12,934	12,885
Leasehold improvements	5,321	5,047
Transportation equipment	441	425
	43,778	41,934
Less -- accumulated depreciation and amortization	(35,279)	(33,871)
NET PROPERTY, EQUIPMENT, AND PURCHASED SOFTWARE	8,499	8,063
OTHER ASSETS		
Goodwill	22,120	22,104
Intangible assets, net	10,226	11,213
Other	590	440
TOTAL OTHER ASSETS	32,936	33,757
TOTAL ASSETS	$119,496	$123,010

See accompanying notes.

TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(In thousands, except share and per share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY	JUNE 30, 2006	DECEMBER 31, 2005
	(Unaudited)	
CURRENT LIABILITIES		
Accounts payable	$ 7,868	$ 12,753
Accrued payroll, related taxes, and withholdings	9,105	10,020
Accrued expenses	9,655	7,579
Deferred revenue	1,193	303

TOTAL CURRENT LIABILITIES	27,821	30,655
LONG-TERM LIABILITIES		
Long-term debt	7,060	10,937
Deferred income taxes	2,084	2,614
Other long-term liabilities	503	564
TOTAL LONG-TERM LIABILITIES	9,647	14,115
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 4,310,344 shares authorized, none issued and outstanding at June 30, 2006 and December 31, 2005	--	--
Common stock, $0.01 par value, 45,000,000 shares authorized, 10,288,352 and 9,943,262 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	103	99
Additional paid-in capital	70,573	69,148
Unamortized deferred compensation	--	(866)
Retained earnings	10,523	10,261
Accumulated other comprehensive income (loss)	829	(402)
TOTAL SHAREHOLDERS' EQUITY	82,028	78,240
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$119,496	$123,010

See accompanying notes.

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

(In thousands)

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 262	$ 3,328
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,482	2,772
Asset impairment loss	580	--
Non-cash expense related to stock-based compensation	297	375
Other	73	(179)
Changes in current assets and liabilities	(5,511)	(4,311)
Changes in long-term assets and liabilities	(750)	(1,127)
Income from discontinued operations	--	(56)

Net operating cash flow from discontinued operations ..	66	67
Net cash provided by (used in) operating activities	(2,501)	869
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and software	(2,174)	(1,677)
Cash paid for acquisitions, net of cash acquired	(468)	(21,687)
Net cash used in investing activities	(2,642)	(23,364)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	1,927	2,795
Tax benefit from stock options	157	--
Payments on long-term debt	(3,877)	(3,247)
Proceeds from issuance of long-term debt	--	15,000
Net financing cash flow from discontinued operations	--	(11)
Net cash provided by (used in) financing activities	(1,793)	14,537
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS ...	449	(1,315)
DECREASE IN CASH AND CASH EQUIVALENTS	(6,487)	(9,273)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	34,756	40,436
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 28,269	$ 31,163

See accompanying notes.

TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by TechTeam Global, Inc. ("TechTeam" or the "Company" or "we") in accordance with United States generally accepted accounting principles 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 United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and such adjustments are of a normal recurring nature. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE 2 -- COMPREHENSIVE INCOME

Comprehensive income is defined as net income and all non-ownership changes in shareholders' equity. For the Company, comprehensive income consists of net income and the foreign currency translation adjustment for the period. A summary of comprehensive income for the periods presented is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	(In thousands)			
COMPREHENSIVE INCOME				
Net income (loss)...........................	$(75)	$ 1,578	$ 262	$ 3,328
Other comprehensive income (loss) --				
Foreign currency translation adjustment...	816	(1,536)	1,231	(2,603)
Comprehensive income........................	$741	$ 42	$1,493	$ 725

NOTE 3 -- EARNINGS PER SHARE

For periods ending prior to July 1, 2005, earnings per share is computed using the two-class method as required by Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." The two-class method is an earnings allocation formula that determines earnings per share separately for common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Company's redeemable convertible preferred stock, outstanding between April 2003 and May 2005, was a participating security under SFAS 128. The redeemable convertible preferred stock had rights to undistributed earnings, but was not required to participate in net losses of the Company. In May 2005 through a series of transactions, the holder of the Company's preferred stock converted all 689,656 shares of preferred stock into an equal number of shares of unregistered Company common stock and sold those shares in the open market pursuant to rules and regulations of the United States Securities and Exchange Commission.

Earnings per share for common stock is computed using the weighted average number of common shares and common share equivalents outstanding. Common share equivalents consist of stock options, unvested restricted stock issued to employees, and shares held in escrow in connection with the Company's acquisition of TechTeam Akela SRL. Earnings per share for preferred stock is computed using the weighted average number of preferred shares outstanding. Earnings are allocated to each class of stock pro rata based on the weighted average number of shares and share equivalents outstanding for each class of stock.

NOTE 3 -- EARNINGS PER SHARE (continued)

During the three months ended June 30, 2006, 1,144,716 stock options and shares of restricted stock were excluded from the computation of diluted earnings per share due to the net loss for the period. During the three months ended June 30, 2005, 60,000 stock options were excluded from the computation of diluted earnings per share because the exercise prices of the options were higher than the average market price of the Company's common stock for the period. During the six months ended June 30, 2006 and 2005, 349,900 and 65,000 stock options,

respectively, were excluded from the computation of diluted earnings per share because the exercise prices of the options were higher than the average market price of the Company's common stock for the respective period.

The following table reconciles the numerators and denominators of the basic and diluted earnings per common share computations for income from continuing operations:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS
	2006	2005	2006
	(In thousands, except per share		
Income (loss) from continuing operations	$ (75)	$1,577	$ 26
Less - Income from continuing operations allocated to preferred shareholders	--	49	-
Income (loss) from continuing operations available to common shareholders	$ (75)	$1,528	$ 26
Basic weighted average common shares	10,025	9,406	9,96
Common stock equivalents	--	366	19
Diluted weighted average common shares	10,025	9,772	10,15
Weighted average preferred shares	--	299	-
Earnings (loss) per share from continuing operations:			
Basic earnings (loss) per common share	$ (0.01)	$ 0.16	$ 0.0
Basic earnings per preferred share	$ N/A	$ 0.16	$ N/
Diluted earnings (loss) per common share	$ (0.01)	$ 0.16	$ 0.0

NOTE 4 -- PROPERTY, EQUIPMENT, AND PURCHASED SOFTWARE

We continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful lives of long-lived assets may warrant revision or that the remaining balances may not be recoverable. When factors indicate that such costs should be evaluated for possible impairment, we estimate the undiscounted cash flows of the long-lived assets over their remaining lives to evaluate whether the costs are recoverable. In the first quarter of 2006, we determined that certain software would no longer be used. Since we expect no future cash flows related to the software asset, we recorded an impairment loss of $580,000 in the first quarter of 2006 to cost of revenue in our IT outsourcing services segment, which represented the net book value of the asset. We did not record an impairment loss in any other period presented.

NOTE 5 -- GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill since December 31, 2005 consist of

the following:

	IT OUTSOURCING SERVICES	GOVERNMENT TECHNOLOGY SERVICES	IT CONSULTING AND SYSTEMS INTEGRATION	TOTAL
	(In thousands)			
Balance as of January 1, 2006........	$371	$19,670	$2,063	$22,104
Goodwill acquired (recovered).....	--		(14)	(14)
Effect of exchange rate changes...	--	--	30	30
Balance as of June 30, 2006..........	$371	$19,670	$2,079	$22,120

Goodwill is not amortized, but instead is subject to an annual impairment test on October 1 or whenever significant events or changes occur that might indicate impairment of recorded costs. In performing the Company's goodwill impairment evaluation, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to these reporting units. The Company determines the estimated fair value of each reporting unit and compares it to the carrying amount of the reporting unit. We did not record an impairment loss in any period presented.

In the future, to the extent the carrying amount of a reporting unit exceeds the fair value of a reporting unit, an indication would exist that a reporting unit's goodwill may be impaired, and the Company would be required to perform the second step of the impairment test. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation in an acquisition. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Other intangible assets consist of the following at June 30, 2006:

	COST	ACCUMULATED AMORTIZATION	WEIGHTED AVERAGE AMORTIZATION PERIOD
	(In thousands)		
Customer-related assets ..	$12,677	$3,289	7.8 years
Noncompete agreement	885	293	4.3 years
Trademark and name	384	138	3.9 years
	$13,946	$3,720	

Intangible assets acquired in a business combination are recognized only if such assets arise from a contractual or other legal right and are separable, that is, capable of being sold, transferred, licensed, rented, or exchanged. Intangible

assets acquired in a business combination that do not meet these criteria are considered a component of goodwill. The useful life of amortizable intangible assets is determined based on the period from which we expect to realize cash flows from these assets and considers, among other items, ability and cost to renew contracts with similar terms and conditions and historical customer retention rates.

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

NOTE 5 -- GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

We re-evaluate amortizable intangible assets based on undiscounted operating cash flows whenever significant events or changes occur that might indicate impairment of recorded costs. If undiscounted cash flows are insufficient to recover recorded costs, we write down the carrying value of the assets to fair value based on discounted cash flows or market values. We did not record an impairment loss for amortizable intangible assets in any period presented.

Our expected future amortization expense for intangible assets held at June 30, 2006 is as follows: $1,062,000 for the remainder of 2006, $1,914,000 in 2007, $1,908,000 in 2008, $1,630,000 in 2009, and $1,483,000 in 2010.

NOTE 6 -- STOCK-BASED COMPENSATION

ADOPTION OF SFAS 123R

Effective January 1, 2006, the Company adopted the provisions of SFAS 123R, "Share-Based Payment," which requires companies to measure and recognize compensation expense for all share-based payment awards to employees and directors based on estimated fair values of all awards. Compensation expense is recognized over the period during which an employee or director is required to provide service in exchange for the award. SFAS 123R supersedes the Company's previous accounting methodology using the intrinsic value method under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," and related interpretations. Under the intrinsic value method, no share-based compensation expense had been recognized in the Company's consolidated statements of operations for stock option awards with an exercise price equal to or greater than the fair value of the underlying stock on the date of grant.

The Company adopted SFAS 123R using the modified prospective transition method. Under this transition method, stock-based compensation expense recognized after the effective date includes: (1) compensation expense for all share-based awards granted prior to, but not yet vested, as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (2) compensation cost for all share-based awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, the Company's consolidated financial statements from prior periods have not been restated and do not include the impact of SFAS 123R.

The company recorded pre-tax and after-tax amounts of $39,000 and $26,000, respectively, for share-based compensation expense during the three months ended June 30, 2006, as a result of adopting SFAS 123R. The company recorded pre-tax and after-tax amounts of $203,000 and $134,000, respectively, for share-based

compensation expense during the six months ended June 30, 2006, as a result of adopting SFAS 123R.

Stock-based compensation expense recognized in each period is based on the value of the portion of the share-based award that is ultimately expected to vest during the period. SFAS 123R requires that forfeitures be estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In our pro forma disclosures required under SFAS 123 for periods prior to 2006, we accounted for forfeitures as they occurred.

On November 10, 2005 the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 123R-3, "Transition Election Related to Accounting for Tax Effect of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effect of share-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effect of employee share-based compensation, and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee and director share-based awards that are outstanding as of the adoption of SFAS 123R.

NOTE 6 -- STOCK-BASED COMPENSATION (continued)

STOCK OPTIONS

We have stock options outstanding under three plans -- the 2004 Incentive Stock and Awards Plan ("2004 Plan"), the 1996 Non-Employee Directors Stock Plan ("1996 Plan"), and the 1990 Nonqualified Stock Option Plan ("1990 Plan"). As a result of the adoption of the 2004 Plan, options may no longer be granted under the 1990 Plan. Furthermore, our ability to issue options under the 1996 Plan expired on December 31, 2005. The Company expects to seek approval from its shareholders for a new non-employee directors stock plan.

Options outstanding under the 1990 Plan have expiration terms ranging from four to six years and become exercisable ratably over periods ranging from three to five years. Options outstanding under the 1996 Plan were granted with ten-year terms and became exercisable immediately on the date of grant. Non-employee directors of the Company received 100 shares of common stock for attendance at each Board meeting and an annual award of 10,000 stock options under the 1996 Plan prior to its expiration on December 31, 2005.

Under the 2004 Plan, the Compensation Committee of the Board of Directors may issue stock options, performance shares, and restricted stock to employees and consultants representing up to 1,200,000 shares of our common stock. Stock options may be granted with terms up to ten years and must have an exercise price that is equal to or greater than the fair market value of our common stock on the date of grant.

The company recorded $39,000 and $203,000 of compensation expense during the three and six months ended June 30, 2006, respectively, relating to outstanding options. No compensation expense was recorded during the three and six months

ended June 30, 2005 related to outstanding options. As of June 30, 2006, total unrecognized compensation cost related to stock options was $262,000, which we expect to recognize over a weighted-average period of approximately 1.1 years.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The Company uses historical data among other factors to estimate the expected price volatility, the expected option term, and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the date of grant for the expected term of the option. The following assumptions were used to estimate the fair value of options granted during the six months ended June 30, 2006 and 2005:

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
Expected dividend yield	0.0%	0.0%
Weighted average volatility ..	42%	43%
Risk free interest rate	4.4%-4.7%	3.3%-3.8%
Expected term (in years)	3.0	3.1

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

NOTE 6 -- STOCK-BASED COMPENSATION (continued)

The following table summarizes the Company's activities with respect to its stock option plans as of and for the six months ended June 30, 2006:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding at January 1, 2006	1,402,970	$ 9.41		
Granted	135,000	$ 9.69		
Exercised	(305,336)	$ 6.31		
Canceled	(197,667)	$12.07		
Outstanding at June 30, 2006	1,034,967	$ 9.77	7.8 Years	$404,380
Vested and expected to vest in the future at June 30, 2006	1,034,967	$ 9.77	7.8 Years	$404,380
Exercisable at June 30, 2006	931,967	$ 9.92	7.9 Years	$285,140

No options were issued during the three months ended June 30, 2006. The weighted average grant-date fair value of options issued during the three months ended June 30, 2005 was $3.50. The weighted average grant-date fair value of options issued during the six months ended June 30, 2006 and 2005, was $3.21 and $3.61, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2006 and 2005, was $888,000 and $1,918,000, respectively, and the total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005, was $1,169,000 and $2,041,000, respectively. The intrinsic value were determined as of the date of exercise.

Cash received from option exercises under all plans for the three months ended June 30, 2006 and 2005, was $1,366,000 and $2,568,000, respectively. Cash received from option exercises under all plans for the six months ended June 30, 2006 and 2005, was $1,927,000 and $2,795,000, respectively. The actual tax benefit realized related to tax deductions from option exercises under all plans totaled approximately $32,000 and $255,000 for the three months ended June 30, 2006 and 2005, respectively. The actual tax benefit realized related to tax deductions from option exercises under all plans totaled approximately $71,000 and $289,000 for the six months ended June 30, 2006 and 2005, respectively.

RESTRICTED COMMON STOCK

All restricted stock is authorized and issued under the 2004 Plan. Under the 2004 Plan, the Compensation Committee of the Board of Directors may issue stock options, performance shares, and restricted stock to employees and consultants representing up to 1,200,000 shares of our common stock. Performance shares and restricted stock awards may be granted subject to such terms and conditions as the Compensation Committee deems appropriate, including a condition that one or more performance goals be achieved for the participant to realize all or a portion of the award. No shares of restricted stock were granted under the 2004 Plan during the three months ended June 30, 2006. The Company issued 26,000 shares of restricted stock under the 2004 Plan during the six months ended June 30, 2006, which vest ratably over a period of four years. No shares of restricted stock were granted under the 2004 Plan during the three and six months ended June 30, 2005. No performance shares were granted during any period presented.

NOTE 6 -- STOCK-BASED COMPENSATION (continued)

Effective for 2004, our Board of Directors approved the Executive Long-Term Incentive Plan ("Long-Term Incentive Plan"), under which awards may be issued under: (1) a restricted stock program that focuses on retaining high performing executives over a longer period of time, (2) a performance stock program that focuses on rewarding extraordinary performing executives, and (3) a non-qualified stock option program that focuses on the long-term retention of key executives. Awards under these programs are administered in conjunction with the 2004 Plan whereby shares available for issuance are funded by the shares available for issuance under the 2004 Plan.

Under the restricted stock program, certain members of management are entitled to an award of restricted stock equal to a percentage of the participant's salary if certain operating targets are met on a rolling three-year basis, except that the first year of the plan will be based on the operating target for

only the first year, and the second year of the plan will be based on the cumulative operating target for the first and second years. Restricted stock awards do not vest ratably but instead become 100% vested at the end of five years from the date of grant. During the three months ended June 30, 2006 and 2005, no shares of restricted stock were granted under the Long-Term Incentive Plan. During the six months ended June 30, 2006 and 2005, the Company granted 42,306 and 46,460 shares of restricted stock, respectively, to certain employees under the Long-Term Incentive Plan.

The Company recorded approximately $15,000 and $23,000 of compensation expense related to outstanding shares of restricted stock under all plans during the three months ended June 30, 2006 and 2005, respectively. The Company recorded approximately $81,000 and $47,000 of compensation expense related to outstanding shares of restricted stock under all plans during the six months ended June 30, 2006 and 2005, respectively. The weighted average grant date fair value of restricted stock granted under all plans during the six months ended June 30, 2006 and 2005, was $10.47 and $11.35 per share, respectively. Under the Long-Term Incentive Plan, the fair value of restricted stock awards is determined based on the average closing trading price of the Company's common stock for thirty (30) trading days prior to the date of grant. The fair value of restricted stock awards granted under the 2004 Plan was determined based on the closing trading price of the Company's common stock on the grant date.

At June 30, 2006 and 2005, there was approximately $733,000 and $486,000, respectively, of total unrecognized compensation expense related to nonvested shares of restricted stock granted to employees. Unrecognized compensation expense at June 30, 2006 is expected to be recognized over a weighted-average period of 3.9 years. Unrecognized compensation expense related to nonvested shares of restricted stock awards was recorded as unamortized deferred compensation within shareholders' equity at December 31, 2005. As part of the modified prospective transition method of adoption of SFAS 123R, approximately $866,000 of unamortized deferred compensation at December 31, 2005 has been reclassified as a component of additional paid-in-capital.

The following table summarizes the Company's activities with respect to its nonvested stock activity for the six months ended June 30, 2006:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Nonvested at January 1, 2006 ..	46,460	$11.35
Granted	68,306	$10.47
Vested	--	$ --
Forfeited	(29,587)	$10.93
Nonvested at June 30, 2006	85,179	$10.79

TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 6 -- STOCK-BASED COMPENSATION (continued)

PRO FORMA EMPLOYEE SHARE-BASED COMPENSATION EXPENSE

Prior to December 31, 2005, the Company accounted for its share-based compensation arrangements in accordance with the provisions and related interpretations of APB 25. The following pro forma table illustrates the effect on net income and earnings per share had the share-based awards been determined consistent with SFAS 123R:

	THREE MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2005
	(In thousands, except per share data)	
Reported net income	$1,578	$3,328
Add -- total stock-based compensation expense included in reported net income, net of tax	29	56
Deduct -- total stock-based compensation expense determinedd under the fair value method for all awards, net of tax	(351)	(623)
Pro forma net income	$1,256	$2,761
Basic earnings per common and preferred share:		
As reported	$ 0.16	$ 0.34
Pro forma	$ 0.13	$ 0.28
Diluted earnings per common share:		
As reported	$ 0.16	$ 0.33
Pro forma	$ 0.12	$ 0.28

NOTE 7 -- INCOME TAXES

For the three months ended June 30, 2006, the consolidated effective tax rate of 24.2% differs from the statutory tax rate in the United States of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34%, the utilization of foreign tax loss carryforwards, and adjusting the year-to-date effective tax rate to approximate the estimated effective tax rate for fiscal 2006. For the six months ended June 30, 2006, the consolidated effective tax rate of 33.0% differs from the statutory tax rate of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34% and utilization of foreign tax loss carryforwards.

For the three and six months ended June 30, 2005, the consolidated effective tax rate of 32.3% and 31.9%, respectively, differs from the statutory tax rate of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34% and the tax benefit of certain permanent deductions.

No provision has been made with respect to approximately $8,773,000 million of undistributed earnings of foreign subsidiaries at June 30, 2006, since we consider these earnings to be permanently reinvested.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a recognition

threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. FIN 48 also provides guidance regarding subsequent reversal of a tax position, balance sheet classification, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not completed its analysis of the potential impact of FIN 48 on the Company's financial position or results of operations.

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

NOTE 8 -- SEGMENT 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 Executive Leadership Team, 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 services.

The accounting policies of the operating segments are the same as those described in Note 1 to the Company's consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. We evaluate segment performance based on segment gross profit. We do not allocate assets to operating segments, but we allocate certain amounts of depreciation and amortization expense to operating segments.

Financial information for our operating segments is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS END
	2006	2005	2006
	(In thousands)		
REVENUE			
IT outsourcing	$20,412	$18,640	$39,509
Government technology services	11,702	14,218	23,486
IT consulting and systems integration	6,270	7,080	13,473
Technical staffing	2,185	2,116	4,380
Learning services	300	231	618
Total revenue	$40,869	$42,285	$81,466
GROSS PROFIT			
IT outsourcing	$ 4,778	$ 4,528	$ 9,619
Less-- asset impairment loss	--	--	580
Total IT outsourcing services	4,778	4,528	9,039
Government technology services	3,283	4,256	6,723
IT consulting and systems integration	1,179	1,588	3,025
Technical staffing	387	538	783

Learning services	104	91	200
Total gross profit	9,731	11,001	19,770
Selling, general, and administrative expense	9,897	8,871	19,601
Interest income, net	173	80	320
Foreign currency transaction gain (loss)	(106)	120	(98)
Income (loss) before income taxes	$ (99)	$ 2,330	$ 391

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

NOTE 8 -- SEGMENT REPORTING (continued)

We attribute revenue to different geographic areas on the basis of the location providing the services to the customer. Revenue by geographic area is presented below:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	(In thousands)			
REVENUE				
United States	$27,063	$29,550	$54,897	$58,945
Europe:				
Belgium	9,061	9,361	17,868	18,266
Other	4,745	3,374	8,701	7,112
Total Europe	13,806	12,735	26,569	25,378
Total revenue	$40,869	$42,285	$81,466	$84,323

Revenue from customers, or groups of customers under common control, that comprise 10% or greater of our total revenue in any period presented are as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
Ford Motor Company and Subsidiaries	27.2%	27.5%	27.0%	27.9%
United States Government	25.1%	29.6%	25.3%	29.8%
Total	52.3%	57.1%	52.3%	57.7%

We conduct business under multiple contracts with various entities within the Ford Motor Company organization and with various agencies and departments of the United States Government. For the three and six months ended June 30, 2006 and 2005, no single agency or department of the United States Government comprised 10% or greater of the Company's total revenue.

NOTE 9 -- CONTINGENCIES

On July 21, 2006, the Company was notified by the U.S. Department of Labor Occupational Safety and Health Agency that its former Vice President, Chief Financial Officer, and Treasurer, David W. Morgan, had filed a complaint against the Company alleging discriminatory employment practices in violation of Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1514A. In his complaint, Mr. Morgan asserts that he resigned from employment with the Company due to actions taken against him as a result of certain alleged protected activities. Mr. Morgan seeks unspecified economic and special damages. The Company believes Mr. Morgan's assertions are without merit, and it intends to vigorously defend itself against this complaint.

Separately, Mr. Morgan has made a demand on the Company seeking compensation for an allegedly wrongful termination of his employment with the Company. He has also demanded retraction of certain allegedly defamatory statements published by the Company, and payment of unspecified damages as result of these statements having been made.

NOTE 9 -- CONTINGENCIES (continued)

As previously reported in the Company's Quarterly Report on Form 10-Q for the first quarter of 2006, the Company terminated the Company's employment contract with William F. Coyro, Jr., its former President and Chief Executive Officer. Dr. Coyro has notified the Company that he is seeking damages resulting from his alleged wrongful termination and alleged defamatory statements published by the Company.

No amounts have been recorded in the accompanying financial statements for any potential liability to Dr. Coyro or Mr. Morgan as the Company believes their claims are without merit and that any potential liability cannot be reasonably estimated at this time.

In addition to the above matters, from time to time the Company is involved in various routine litigation matters arising in the ordinary course of its business. None of these matters, individually or in the aggregate, currently is material to the Company.

NOTE 10 -- DISCONTINUED OPERATIONS

TechTeam Capital Group, LLC ("Capital Group"), a subsidiary of the Company, previously wrote leases for computer, telecommunications, and other types of capital equipment. Capital Group ceased writing new leases in March 2000 and has no remaining active leases. The primary activity that remains in closing down the leasing operation is the collection of accounts receivable. As a result,

Capital Group has been presented as a discontinued operation in accordance with SFAS No. 144, "Accounting for the Disposal or Impairment of Long-Lived Assets." Under SFAS 144, the operating results of Capital Group are presented separately from continuing operations in the accompanying financial statements for all periods presented. Capital Group previously was reported as a separate operating segment. Summarized information for Capital Group is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	(In thousands)			
Revenue	$--	$1	$--	$68
Income before income taxes...	$--	$1	$--	$84

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of TechTeam Global, Inc. and its consolidated subsidiaries ("TechTeam") to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of revenue, gross margin, expenses, earnings or losses from operations, synergies, or other financial items; any statements of the plans, strategies, and objectives of management for future operations; any statement concerning developments or performance relating to our services; any statements regarding future economic conditions or performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the performance of contracts by suppliers, customers, and partners; employee management issues; the difficulty of aligning expense levels with revenue changes; complexities of global political and economic developments; and other risks that are described herein, including but not limited to the items discussed in "Factors that Could Affect Future Results" set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of this report, and that are otherwise described from time to time in TechTeam's Securities and Exchange Commission reports filed after this report. TechTeam assumes no obligation and does not intend to update these forward-looking statements.

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

OVERVIEW

TechTeam is a global provider of information technology ("IT") and business process outsourcing services to Fortune 1000 companies, multinational companies, product providers, small and mid-size companies, and government entities.

Our operating results have declined in the first and second quarters of 2006, from the comparable periods in 2005, as evidenced by a decline in revenue, gross

profit and gross margin, and, consequently, operating and net income. The net decline in performance is primarily the result of the conclusion and wind-down of certain contracts in both our Government Technology Services and IT Consulting and Systems Integration segments, the latter of which provided significant growth in 2005. These declines were partially offset by organic revenue growth in our IT Outsourcing Services segment from new customer accounts obtained in the fourth quarter of 2005; however, our profitability in this segment suffered due to expenses incurred in the ramp-up of two of these new customer accounts, the largest of which was launched in three phases over the past eight months.

We are committed to delivering world-class service. For that reason, we have been careful to staff these new customer accounts with additional resources during their initial ramp-up. While this has delayed profitability on these accounts, we believe it has proven our determination to deliver quality customer results, on which long-term client relationships are built. These accounts improved their performance from the first quarter and, as our partnerships with these new customers grow and as our action plans are executed, we expect continuing improvement in the profitability of these accounts.

Our operating results for the six months ended June 30, 2006, also include the negative impact of an asset impairment loss of $580,000, recorded to cost of revenue during the first quarter, and legal and professional fees incurred during the first and second quarters totaling $1.3 million associated with a complaint filed by a shareholder, Costa Brava Partnership III, L.P. ("Costa Brava"), seeking to inspect certain books and records of the Company, the related proxy contest initiated by Costa Brava related to the election of the Company's Board of Directors, and the Settlement Agreement resolving these matters. The negative impact of these items was partially offset by the positive impact from improved utilization of our facilities in Southfield, Michigan, and Bucharest, Romania, the increasing utilization of our Romanian help desk to reduce the cost of existing business, and our acquisition of TechTeam Akela SRL ("Akela").

We will meet certain challenges as we look to improve our operating performance in future periods. We anticipate certain increases to selling, general and administrative ("SG&A") expense as we continue to make investments in our global sales and marketing capabilities, additional executive talent, our technology infrastructure, and the expansion of the technical certifications of the Company and its employees in areas such as the Information Technology Infrastructure Library standard, or ITIL. Furthermore, we expect the costs of ongoing compliance with the Sarbanes-Oxley Act of 2002 ("SOX Act") to increase over the second half of 2006, when compared to the first half of 2006, as we move further into our assessment of controls as of December 31, 2006. However, we also expect certain reductions to SG&A expense in future periods as certain leases have expired and have not been renewed, we attempt to reduce inefficient and non-value-added costs, and we continue to maintain our balance between investing in revenue growth and containing costs.

While the integration of our help desk facility in Romania has improved the profitability and flexibility of our existing business and multi-lingual help desk, the effects of increasing competition for resources can be seen in Romania. Over the past year, a number of companies, including outsourcing competitors, have opened call centers in Bucharest. As a result of the increased competition for multi-lingual resources, over the long-term, we expect our labor costs to continue to increase at a rate greater than the Company experiences in other regions in which we operate. In an effort to address this risk, we are

evaluating other regions within Romania and in the Asia-Pacific region to establish new operations.

Finally, as reported in the Company's Annual Report on Form 10-K, we renewed the Company's Ford Motor Company ("Ford") Global SPOC Program contract in December 2005. While Ford continues to be a significant customer of the Company, we estimate that our total revenue from Ford under all programs will decline approximately 3-5% in 2006 from 2005. Please refer to our discussion of Ford in the "Impact of Business with Major Clients" section of MD&A.

Leadership Transition

In addition to the operating challenges we are navigating, TechTeam has been undergoing a period of transition in its leadership over the past three quarters. Most importantly, William C. Brown was hired in February 2006 as President and Chief Executive Officer, replacing William F. Coyro, Jr., the founder of the Company. In June 2006, the Company named a new Chief Financial Officer, and in November 2005, the Company hired a new President of TechTeam Government Solutions, Inc. ("TTGSI," formerly Digital Support Corporation), to replace the departing Presidents of TTGSI and Sytel, Inc. ("Sytel"). As Mr. Brown has gained knowledge and insight about the Company's service offerings, customers, management, and business opportunities, he has initiated the process of realigning our management structure into three macro business units -- the Americas; Europe, Middle East and Africa ("EMEA"); and TechTeam Government Solutions -- with the leader for each unit being responsible for the unit's profit and loss financial performance. Consistent with the realignment of TechTeam's organization along geographic units, he has realigned certain executives and managers in order to support growth and address the continued globalization of the Company's business, including the need to further standardize the Company's processes and service delivery, and the expansion into new geographies such as the Asia-Pacific Region.

We implemented a new sales management process in the first quarter with the goal of substantially increasing the focus of our new business pipeline development activities. Pipeline status is now managed by business unit and by sales resource within each business unit. As a result of this process change, the size and quality of the opportunities in our pipeline has improved. However, our sales cycle remains lengthy and we may not see the full benefits of our efforts until later in 2006 or early 2007. Furthermore, to the extent that we are successful in obtaining large IT outsourcing customers, our experience indicates that there is a lag time between the launch of the project and when it produces a profit, the length of which is dependent upon the size of the customer, the project's launch schedule, and the complexity of the project.

A leadership change also occurred in the members of the Company's Board of Directors. As a result of the Settlement Agreement entered into between the Company and Costa Brava on May 4, 2006, a Board of Directors consisting of six new directors was elected at the Company's Annual Meeting on June 14, 2006. Aside from the six new directors, the other two directors on the Company's Board are Mr. Brown and Richard R. Widgren. Mr. Brown became a director on April 26, 2006, and Mr. Widgren has been a director since May 24, 2005. This reconstituted Board has strong industry knowledge and leadership experience.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO JUNE 30, 2005

REVENUE

	THREE MONTHS ENDED JUNE 30, 2006	2005	INCREASE (DECREASE)	% CHANGE
	(In thousands, except percentages)			
REVENUE				
IT outsourcing services	$20,412	$18,640	$ 1,772	9.5%
Government technology services	11,702	14,218	(2,516)	(17.7)%
IT consulting and systems integration ..	6,270	7,080	(810)	(11.4)%
Technical staffing	2,185	2,116	69	3.3%
Learning services	300	231	69	29.9%
TOTAL REVENUE	$40,869	$42,285	$(1,416)	(3.3)%

As shown in the above table, the majority of the overall revenue decline of 3.3% to $40.9 million for the quarter ended June 30, 2006, from $42.3 million for the comparable quarter in 2005, is attributable to the conclusion of certain contracts in our Government Technology Services segment, and the wind-down of certain systems implementation and training projects in our IT Consulting and Systems Integration segment that drove significant growth in this segment in 2005. These decreases were partially offset by our acquisition of TechTeam Akela SRL ("Akela") on October 3, 2005, and revenue growth in our IT Outsourcing Services segment from new customer accounts. Excluding revenue from Akela, revenue decreased 5.8% to $39.8 million for the quarter ended June 30, 2006, from the comparable quarter in 2005. The effect of exchange rate changes on reported revenue for the second quarter of 2006, relative to the second quarter of 2005, was not significant.

IT Outsourcing Services

Revenue from our IT Outsourcing Services segment increased to $20.4 million for the quarter ended June 30, 2006, from $18.6 million for the comparable quarter in 2005. We experienced an increase in revenue of 15.2% from IT Outsourcing Services in the United States, while revenue in Europe increased 4.2%. The revenue growth in the U.S. is primarily due to new customer contracts obtained during the fourth quarter of 2005 that provided $1.8 million in revenue in the second quarter. The revenue growth in Europe is primarily from our shared services offering for our pharmaceutical clients, which grew by 47.9% from the second quarter of 2005, and revenue growth from Ford Motor Company ("Ford").

Globally, IT Outsourcing Services revenue generated from Ford declined 3.0% to $9.2 million for the quarter ended June 30, 2006, from $9.5 million for the comparable quarter in 2005. Revenue from Ford declined in each country except the United Kingdom, where we began providing SPOC services to the Jaguar and Land Rover group on March 17, 2006. Revenue from Ford in other regions decreased primarily due to a reduction in the number of seats supported as Ford continues to restructure its operations and reduce its worldwide workforce and from lower prices charged under the Global SPOC Program contract renewal on December 1, 2005. Please refer to our discussion of Ford in the "Impact of Business with Major Clients" section of MD&A.

Government Technology Services

Revenue from our Government Technology Services segment decreased 17.7% to $11.7

million for the quarter ended June 30, 2006, from $14.2 million for the comparable quarter in 2005, primarily due to the conclusion of certain contracts that provided $2.0 million in revenue in the second quarter of 2005, and the completion of projects at other customers. We are diligently working to replace this revenue through our pursuit of new contract vehicles, while maintaining a keen focus on existing contracts that are scheduled to expire where the Company will have to recompete for the work. The new business development team and sales pipeline have been rebuilt. Consistent with our other leadership and process changes, it may take two or more quarters for the full benefit of

these changes to be realized through enough contract wins to reflect year-over-year revenue growth.

IT Consulting and Systems Integration

Revenue from our IT Consulting and Systems Integration segment decreased 11.4% to $6.3 million for the quarter ended June 30, 2006, from $7.1 million for the comparable quarter in 2005, due to the wind-down of certain systems implementation and training projects in the hospitality industry that drove significant growth in this segment in 2005. The decline in revenue was partially offset by our acquisition of TechTeam Akela SRL ("Akela") on October 3, 2005. Excluding revenue from Akela, revenue from IT Consulting and Systems Integration decreased 21.8% to $5.5 million for the quarter ended June 30, 2006, from the comparable quarter in 2005. While the decline in revenue from certain project-based work was expected, we were not able to replace the work prior to the decline in revenue. Yet, we expect to execute a new contract with a current, major hospitality customer that, depending on the customer's plans, could represent a substantial new, multi-year program beginning in the fourth quarter of 2006.

Geographic Discussion

Total revenue generated in the United States decreased 8.4% to $27.1 million for the quarter ended June 30, 2006, from $29.6 million for the comparable quarter in 2005, primarily due to the aforementioned decline in revenue from our Government Technology Services and IT Consulting and Systems Integration segments. These declines were partially offset by revenue from new customer contracts awarded in the fourth quarter of 2005.

Revenue generated in Europe increased 8.4% to $13.8 million for the quarter ended June 30, 2006, from $12.7 million for the comparable quarter in 2005, primarily due to our acquisition of Akela. Excluding revenue from Akela, revenue generated in Europe increased 0.3% to $12.8 million for the quarter ended June 30, 2006, from the comparable period in 2005, primarily due to an increase in revenue from IT Outsourcing Services offset by a decrease in revenue from IT Consulting and Systems Integration services. The effect of exchange rate changes on reported revenue for the second quarter of 2006, relative to the second quarter of 2005, was not significant.

GROSS PROFIT

	THREE MONTHS ENDED JUNE 30,	
	2006	2005

	AMOUNT	GROSS MARGIN %	AMOUNT	GROSS MARGIN %	INCREASE (DECREASE)	% CHANGE
	(In thousands, except percentages)					
GROSS PROFIT						
IT outsourcing services ...	$4,778	23.4%	$ 4,528	24.3%	$ 250	5.5%
Government technology services	3,283	28.1%	4,256	29.9%	(973)	(22.9)%
IT consulting and systems integration	1,179	18.8%	1,588	22.4%	(409)	(25.8)%
Technical staffing	387	17.7%	538	25.4%	(151)	(28.1)%
Learning services	104	34.7%	91	39.4%	13	14.3%
TOTAL GROSS PROFIT	$9,731	23.8%	$11,001	26.0%	$(1,270)	(11.5)%

Consistent with revenue, the majority of the overall decline in gross profit of 11.5% to $9.7 million for the quarter ended June 30, 2006, from $11.0 million for the comparable quarter in 2005, is attributable to the conclusion of certain contracts in our Government Technology Services segment and the wind-down of certain systems implementation and training projects in our IT Consulting and Systems Integration segment that drove significant growth in this segment in 2005. These decreases were partially offset by gross profit growth in our IT Outsourcing Services segment from new customer accounts.

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IT Outsourcing Services

Gross profit from our IT Outsourcing Services segment increased 5.5% to $4.8 million for the quarter ended June 30, 2006, from $4.5 million for the comparable quarter in 2005. Gross margin (defined as gross profit divided by revenue) from IT Outsourcing Services decreased to 23.4% for the quarter ended June 30, 2006, from 24.3% for the comparable period in 2005. This segment experienced an increase in gross profit and gross margin related to our shared services offering for our pharmaceutical clients where we experienced 47.9% revenue growth and were successful in transitioning the majority of the service delivery for these customers to our Romanian facility. However, the improvement in gross margin was fully offset by delayed profitability on two, major, new customer accounts, the largest of which was launched in three phases over the past eight months. We are committed to delivering world-class service. For that reason, we have been careful to staff these new customer accounts with additional resources during their initial ramp-up. While this has delayed profitability on these accounts, we believe it has proven our determination to deliver quality customer results, on which long-term client relationships are built. These accounts improved their performance from the first quarter and, as our partnerships with these new customers grow and as our action plans are executed, we expect continuing improvement in these accounts.

Government Technology Services

Gross profit from our Government Technology Services segment decreased 22.9% to $3.3 million for the quarter ended June 30, 2006, from $4.3 million for the comparable quarter in 2005. Gross margin from Government Technology Services decreased to 28.1% for the quarter ended June 30, 2006, from 29.9% for the comparable period in 2005. The decrease in gross profit and gross margin is primarily due to the conclusion of certain contracts that provided $2.0 million

in revenue in the second quarter of 2005, and the completion of projects at other customers. The inclusion of resale items for both periods had the effect of reducing gross margin by approximately 90 and 20 basis points in the second quarter of 2006 and 2005, respectively.

IT Consulting and Systems Integration

Gross profit from our IT Consulting and Systems Integration segment decreased 25.8% to $1.2 million for the quarter ended June 30, 2006, from $1.6 million for the comparable quarter in 2005. Gross margin from IT Consulting and Systems Integration decreased to 18.8% for the quarter ended June 30, 2006, from 22.4% for the comparable quarter in 2005. The decrease in gross profit and gross margin was primarily due to the wind-down of certain systems implementation and training projects in the hospitality industry that drove significant growth in this segment in 2005, and we experienced a temporary decline in gross profit and gross margin from our on-going project installing personal computers at Ford subcontracted through Dell Inc. These declines were partially offset by our acquisition of Akela on October 3, 2005. Excluding the gross profit contributed by Akela, gross profit decreased 40.9% to $938,000 for the quarter ended June 30, 2006, from the comparable quarter in 2005, and gross margin decreased to 16.9% from 22.4%. While some of the decline in gross profit and gross margin from the wind-down of certain project-based work was expected, we were not able to replace the work prior to these declines. Yet, we expect to execute a new contract with a current, major hospitality customer that, depending on the customer's plans, could represent a substantial new, multi-year program beginning in the fourth quarter of 2006.

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OPERATING EXPENSES AND OTHER

	THREE MONTHS ENDED JUNE 30, 2006	THREE MONTHS ENDED JUNE 30, 2005	INCREASE (DECREASE)	% CHANGE
	(In thousands, except percentages)			
OPERATING EXPENSES AND OTHER				
Selling, general, and administrative expense ..	$9,897	$8,871	$1,026	11.6%
Net interest income	$ 173	$ 80	$ 93	116%
Foreign currency transaction gain (loss)	$ (106)	$ 120	$ (226)	(188)%
Income tax provision (credit)	$ (24)	$ 753	$ (777)	(103)%

Selling, general, and administrative ("SG&A") expense increased 11.6% to $9.9 million, or 24.2% of total revenue, for the three months ended June 30, 2006, from $8.9 million, or 21.0% of total revenue, for the comparable period in 2005. The increase in SG&A expense can be primarily attributed to: (1) legal and professional fees associated with responding to a complaint filed by a shareholder, Costa Brava Partnership III, L.P. ("Costa Brava"), seeking to inspect certain books and records of the Company, matters relating to the proxy contest initiated by Costa Brava related to the election of the Company's Board of Directors, and the Settlement Agreement with respect to these matters ($851,000), (2) the acquisition of Akela ($285,000), and (3) an increase in sales and marketing expenses as we continue to make prudent investments in our sales and marketing function globally ($426,000). These increases were partially offset by: (1) a decrease in costs associated with the Company's ongoing

compliance with the SOX Act ($525,000) and a shift in these costs from the first half of the year to the second half of the year when compared to 2005, and (2) a decline in incentive compensation expense ($60,000) as a result of the decline in the Company's revenue and operating income from 2005.

On May 4, 2006, the Company and Costa Brava entered into a settlement agreement (the "Settlement"). Under the terms of the Settlement, Costa Brava withdrew its proposal to nominate its own slate of directors for the Company and dismissed the complaint with prejudice upon the election of directors at the Company's Annual Shareholders' Meeting on June 14, 2006. Further, under the Settlement, the Company agreed to reimburse Costa Brava for its documented expenses incurred in connection with Costa Brava's efforts to replace the Company's current Board and its efforts to obtain certain books and records of the Company. The Company recorded a charge of $600,000 in the quarter ended June 30, 2006, for the estimated amount of expense reimbursement, which is included in the $851,000 of legal and professional fees noted in the preceding paragraph.

Net interest income increased to $173,000 for the three months ended June 30, 2006, from $80,000 for the comparable period in 2005, as a result of higher average rates of return on invested cash equivalents and less average outstanding long-term debt.

For the three months ended June 30, 2006, the consolidated effective tax rate of 24.2% differs from the statutory tax rate in the United States of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34%, the utilization of foreign tax loss carryforwards, and adjusting the year-to-date effective tax rate to approximate the estimated effective tax rate for fiscal 2006. For the three months ended June 30, 2005, the consolidated effective tax rate of 32.3% differs from the statutory tax rate of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34% and the tax benefit of certain permanent deductions.

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RESULTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO JUNE 30, 2005

REVENUE

	SIX MONTHS ENDED JUNE 30,			
	2006	2005	INCREASE (DECREASE)	% CHANGE
	(In thousands, except percentages)			
REVENUE				
IT outsourcing services	$39,509	$37,739	$ 1,770	4.7%
Government technology services	23,486	29,180	(5,694)	(19.5)%
IT consulting and systems integration ..	13,473	12,931	542	4.2%
Technical staffing	4,380	4,132	248	6.0%
Learning services	618	341	277	81.2%
TOTAL REVENUE	$81,466	$84,323	$(2,857)	(3.4)%

As shown in the above table, the majority of the overall revenue decline of 3.4% to $81.5 million for the six months ended June 30, 2006, from $84.3 million from the comparable period in 2005, is attributable to the conclusion of certain contracts in our Government Technology Services segment and the wind-down of certain systems implementation and training projects in our IT Consulting and Systems Integration segment that drove significant growth in this segment in 2005. These decreases were partially offset by our acquisition of Akela on October 3, 2005, and revenue growth in our IT Outsourcing Services segment from new customer accounts. Excluding revenue from Akela, revenue decreased 5.6% to $79.6 million for the six months ended June 30, 2006, from the comparable period in 2005. Revenue for the six months ended June 30, 2006 was also negatively affected by the strengthening of the U.S. dollar relative to the European euro and other international currencies in which the Company conducts business, which reduced revenue by approximately $1.4 million over the comparable period in 2005.

IT Outsourcing Services

Revenue from our IT Outsourcing Services segment increased to $39.5 million for the six months ended June 30, 2006, from $37.7 million for the comparable period in 2005. We experienced an increase in revenue of 11.8% from IT Outsourcing Services in the United States, while revenue in Europe decreased 1.9%. The revenue growth in the U.S. is primarily due to new customer contracts obtained during the fourth quarter of 2005 that provided $3.2 million in revenue for the six months ended June 30, 2006. Europe experienced revenue growth primarily from our shared services offering for our pharmaceutical clients, which grew by 26.5% in 2006 from the six months ended June 30, 2005. Revenue growth in Europe was offset by a decline in revenue from Ford and the strengthening of the U.S. dollar relative to the European euro and other international currencies in which the Company conducts business. The strengthening of the U.S dollar reduced revenue by approximately $1.0 million over the comparable period in 2005.

IT Outsourcing Services revenue generated from Ford declined 7.7% to $17.9 million for the six months ended June 30, 2006, from $19.4 million for the comparable period in 2005. Revenue from Ford declined in each country except the United Kingdom, where we began providing SPOC services to the Jaguar and Land Rover group on March 17, 2006. Revenue from Ford in other regions decreased primarily due to a reduction in the number of seats supported as Ford continues to restructure its operations and reduce its worldwide workforce and from lower prices charged under the Global SPOC Program contract renewal on December 1, 2005. Excluding the effect of changes in foreign exchange rates, revenue from Ford declined approximately 5-6% in 2006 from the six months ended June 30, 2005. Please refer to our discussion of Ford in the "Impact of Business with Major Clients" section of MD&A.

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Government Technology Services

Revenue from our Government Technology Services segment decreased 19.5% to $23.5 million for the six months ended June 30, 2006, from $29.2 million for the comparable period in 2005, primarily due to the conclusion of certain contracts that provided additional revenue of $3.6 million for the six months ended June 30, 2005, as compared to the same period in 2006, and the completion of other projects at other customers. As noted earlier, we are diligently working to replace this revenue through our pursuit of new contract vehicles, while maintaining a keen focus on existing contracts that are scheduled to expire where the Company will have to recompete for the work. The new business development team and sales pipeline have been rebuilt under the leadership of

our new President of TTGSI. Consistent with our other leadership and process changes, it may take two or more quarters for the full benefit of these changes to be realized through enough contract wins to reflect year-over-year revenue growth.

IT Consulting and Systems Integration

Revenue from our IT Consulting and Systems Integration segment increased 4.2% to $13.5 million for the six months ended June 30, 2006, from $12.9 million for the comparable period in 2005, due to our acquisition of Akela on October 3, 2005. Excluding revenue from Akela, revenue from IT Consulting and Systems Integration decreased 5.9% to $12.2 million for the six months ended June 30, 2006, from the comparable period in 2005, due to the previously-mentioned wind-down of certain systems implementation and training projects in the hospitality industry that drove significant growth in this segment in 2005. While the decline in revenue from this project-based work was expected, we were not able to replace the work prior to the decline in revenue. Yet, we expect to execute a new contract with a current, major hospitality customer that, depending on the customer's plans, could represent a substantial multi-year program beginning in the fourth quarter of 2006.

Geographic Discussion

Total revenue generated in the United States decreased 6.9% to $54.9 million for the six months ended June 30, 2006, from $58.9 million for the comparable period in 2005, primarily due to the aforementioned decline in revenue from our Government Technology Services and IT Consulting and Systems Integration segments. These declines were partially offset by revenue from new customer contracts awarded in the fourth quarter of 2005.

Revenue generated in Europe increased 4.7% to $26.6 million for the six months ended June 30, 2006, from $25.4 million for the comparable period in 2005, primarily due to our acquisition of Akela. Excluding revenue from Akela, revenue generated in Europe decreased 2.5% to $24.7 million for the six months ended June 30, 2006, from the comparable period in 2005, primarily due to the effect of changes in foreign exchange rates. If revenue in Europe for the six months ended June 30, 2006 were translated into U.S. dollars at the average exchange rate for the comparable period in 2005, reported revenue would have been increased by approximately $1.4 million. Since most of the Company's international operating expenses are also incurred in the same foreign currencies in which the associated revenue is denominated, the net impact of exchange rate fluctuations on net income is considerably less than the estimated impact on revenue and is not significant.

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GROSS PROFIT

	SIX MONTHS ENDED JUNE 30,					
	2006		2005			
	AMOUNT	GROSS MARGIN %	AMOUNT	GROSS MARGIN %	INCREASE (DECREASE)	% CHANGE
	(In thousands, except percentages)					
GROSS PROFIT						

IT outsourcing services..	$ 9,619	24.4%	$ 9,441	25.0%	$ 178	1.9%
Asset impairment loss....	(580)	--	--	--	(580)	--
Total IT outsourcing..	9,039	22.9%	9,441	25.0%	(402)	(4.3)%
Government technology services..............	6,723	28.6%	8,592	29.4%	(1,869)	(21.8)%
IT consulting and systems integration...........	3,025	22.5%	2,626	20.3%	399	15.2%
Technical staffing.......	783	17.9%	942	22.8%	(159)	(16.9)%
Learning services........	200	32.4%	108	31.7%	92	85.2%
TOTAL GROSS PROFIT..........	$19,770	24.3%	$21,709	25.7%	$(1,939)	(8.9)%

Consistent with revenue, the majority of the overall decline in gross profit of 8.9% to $19.8 million for the six months ended June 30, 2006, from $21.7 million for the comparable period in 2005, is attributable to the conclusion of certain contracts in our Government Technology Services segment, the wind-down of certain systems implementation and training projects in our IT Consulting and Systems Integration segment that drove significant growth in this segment in 2005, and a pre-tax charge to cost of revenue for the net carrying value of assets of $580,000 related to the Company's decision to discontinue using certain software. These decreases were partially offset by gross profit growth from our acquisition of Akela and our IT Outsourcing Services segment from new customer accounts.

IT Outsourcing Services

Gross profit from our IT Outsourcing Services segment decreased 4.3% to $9.0 million for the six months ended June 30, 2006, from $9.4 million for the comparable period in 2005. Gross margin from IT outsourcing services decreased to 22.9% for the six months ended June 30, 2006, from 25.0% for the comparable period in 2005. For the six months ended June 30, 2006, gross profit includes an asset impairment loss for the net carrying value of assets of $580,000 related to the Company's decision to discontinue using certain software. Excluding the asset impairment loss, gross margin decreased to 24.4% for the six months ended June 30, 2006, from 25.0% for the comparable period in 2005. This segment experienced an increase in gross profit and gross margin related to our shared services offering for our pharmaceutical clients where we experienced 26.5% revenue growth and were successful in transitioning the majority of the service delivery for these customers to our Romanian facility. However, the improvement in gross margin was partially offset by delayed profitability on two, major, new customer accounts, the largest of which was launched in three phases over the past eight months. We are committed to delivering world-class service. For that reason, we have been careful to staff these new customer accounts with additional resources during their initial ramp-up. While this has delayed profitability on these accounts, we believe it has proven our determination to deliver quality customer results, on which long-term client relationships are built. These accounts improved their performance from the first quarter and, as our partnerships with these new customers grow and as our action plans are executed, we expect continuing improvement in these accounts.

Government Technology Services

Gross profit from our Government Technology Services segment decreased 21.8% to $6.7 million for the six months ended June 30, 2006, from $8.6 million for the

comparable period in 2005. Gross margin from Government Technology Services decreased to 28.6% for the six months ended June 30, 2006, from 29.4% for the comparable period in 2005. The decrease in gross profit and gross margin is primarily due to the conclusion of certain contracts that provided additional revenue of $3.6 million for the six months ended June 30, as compared to the same period in 2006, and the completion of other projects at other customers. The inclusion of resale items for both periods had the effect of reducing gross margin by approximately 60 basis points for the six months ended June 30, 2006 and 2005.

IT Consulting and Systems Integration

Gross profit from our IT Consulting and Systems Integration segment increased 15.2% to $3.0 million for the six months ended June 30, 2006, from $2.6 million for the comparable period in 2005. Gross margin from IT Consulting and Systems Integration increased to 22.5% for the six months ended June 30, 2006, from 20.3% for the comparable period in 2005. The increase in gross profit and gross margin was primarily due to our acquisition of Akela on October 3, 2005. Excluding the gross profit contributed by Akela, gross profit decreased 3.0% to $2.5 million for the six months ended June 30, 2006, from the comparable period in 2005, and gross margin increased to 20.9% from 20.3%. The decrease in gross profit was primarily due to the wind-down of certain systems implementation and training projects during the second quarter of 2006 in the hospitality industry that drove significant growth in this segment in 2005, and we experienced a temporary decline in gross profit and gross margin in the second quarter of 2006 from our on-going project installing personal computers at Ford subcontracted through Dell Inc.

OPERATING EXPENSES AND OTHER

	SIX MONTHS ENDED JUNE 30,		INCREASE	%
	2006	2005	(DECREASE)	CHANGE
	(In thousands, except percentages)			
OPERATING EXPENSES AND OTHER				
Selling, general, and administrative expense ..	$19,601	$17,162	$ 2,439	14.2%
Net interest income	$ 320	$ 163	$ 157	96.3%
Foreign currency transaction gain (loss)	$ (98)	$ 97	$ (195)	(201)
Income tax provision	$ 129	$ 1,535	$(1,406)	(91.6)

Selling, general, and administrative ("SG&A") expense increased 14.2% to $19.6 million, or 24.1% of total revenue, for the six months ended June 30, 2006, from $17.2 million, or 20.4% of total revenue, for the comparable period in 2005. The increase in SG&A expense can be primarily attributed to: (1) legal and professional fees associated with responding to a complaint filed by a shareholder, Costa Brava, seeking to inspect certain books and records of the Company, matters relating to the proxy contest initiated by Costa Brava related to the election of the Company's Board of Directors, and the Settlement Agreement with respect to these matters ($1.3 million), (2) the placement of the Company's new president and chief executive officer ($110,000), (3) the acquisition of Akela ($553,000), (4) stock-based compensation expense related to the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," primarily attributable to stock options issued in the first quarter of 2006 ($203,000), and (5) an increase in sales and marketing expenses as we continue to make prudent investments in our sales and marketing function globally ($253,000). These increases were partially offset by: (1) a decrease in costs associated with the Company's ongoing compliance

with the SOX Act ($400,000) and a shift in these costs from the first half of the year to the second half of the year when compared to 2005, and (2) a decline in incentive compensation expense ($160,000) as a result of the decline in the Company's revenue and operating income from 2005.

On May 4, 2006, the Company and Costa Brava entered into a settlement agreement (the "Settlement"). Under the terms of the Settlement, Costa Brava withdrew its proposal to nominate its own slate of directors for the Company and dismissed the complaint with prejudice upon the election of directors at the Company's Annual Shareholders' Meeting on June 14, 2006. Further, under the Settlement, the Company agreed to reimburse Costa Brava for its documented expenses incurred in connection with Costa Brava's efforts to replace the Company's current Board and its efforts to obtain certain books and records of the Company. The Company recorded a charge of $600,000 in six months ended June 30, 2006, for the estimated amount of expense reimbursement, which is included in the $1.3 million of legal and professional fees noted in the preceding paragraph.

Net interest income increased to $320,000 for the six months ended June 30, 2006, from $163,000 for the comparable period in 2005, as a result of higher average rates of return on invested cash equivalents and less average outstanding long-term debt.

For the six months ended June 30, 2006, the consolidated effective tax rate of 33.0% differs from the statutory tax rate in the United States of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34% and utilization of foreign tax loss carryforwards. For the six months ended June 30, 2005, the consolidated effective tax rate of 31.9% differs from the statutory tax rate of 34% primarily due to the tax benefit of tax rates in certain foreign countries that are lower than 34% and the tax benefit of certain permanent deductions.

IMPACT OF BUSINESS WITH MAJOR CLIENTS

We conduct business under multiple contracts with various entities within the Ford organization and with various agencies and departments of the United States Government. For the quarter ended June 30, 2006 and 2005, Ford accounted for 27.2% and 27.5%, respectively, of the Company's total revenue, and the United States Government accounted for 25.1% and 29.6%, respectively, of the Company's total revenue. For the six months ended June 30, 2006 and 2005, Ford accounted for 27.0% and 27.9%, respectively, of the Company's total revenue, and the United States Government accounted for 25.3% and 29.8%, respectively, of the Company's total revenue. No single agency or department of the United States Government comprised 10% or greater of the Company's total revenue for any period presented.

Ford Motor Company

Our business with Ford consists of help desk and desk side services, technical staffing, network management, and a specific project installing personal computers subcontracted through Dell Inc. Revenue generated through our business with Ford decreased to $22.0 million for the six months ended June 30, 2006, from $23.5 million for the comparable period in 2005.

At present, Ford is under significant financial pressures, which is reflected in Ford's long-term debt rating being lowered to "below investment grade" status. As Ford implements its publicly-announced restructuring plan, we expect to see a

reduction in the number of seats that we support absent further expansion into new areas of Ford. The number of seats supported will be determined bi-annually on December 1 and June 1 of each year. If certain contractual conditions are met, Ford and TechTeam will have the right during each six month period to request one out-of-cycle seat adjustment on a prospective basis. Although we are unable to predict the pace of Ford's restructuring plan, we estimate that our total revenue from Ford will decline approximately 3-5% in 2006 from 2005.

We anticipate that, due to Ford's financial condition, Ford will continue to seek price concessions on services that we perform on their behalf outside of the Global SPOC Program. However, we do not believe that Ford's financial condition will otherwise affect our business with Ford or the collectibility of our accounts receivable from Ford. However, any loss of (or failure to retain a significant amount of business with) Ford or bankruptcy filing by Ford would have a material adverse effect on the Company's operating results and liquidity.

United States Government

The U.S. Government's fiscal year ends on September 30 of each year. It is not uncommon for government agencies to award extra tasks or complete other contract actions in the weeks before the end of the fiscal year in order to avoid the loss of unexpended fiscal year funds. Moreover, in years when the U.S. Government does not complete its budget process before the end of its fiscal year, government operations typically are funded pursuant to a "continuing resolution" that authorizes agencies of the government to continue to operate, but traditionally does not authorize new spending initiatives. When the government operates pursuant to a continuing resolution, delays can occur in procurement of products and services, and such delays can affect the Company's revenue, profit, and cash flow during the period of delay.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $28.3 million at June 30, 2006, as compared to $34.8 million at December 31, 2005. During the six months ended June 30, 2006, cash and cash equivalents decreased $6.5 million primarily due to $2.5 million in net cash used in operating activities, $2.2 million in cash used for capital expenditures, $3.9 million in long-term debt repayments, and $468,000 in cash paid for past acquisitions. The uses of cash were partially offset by $1.9 million in cash proceeds from the exercise of stock options. The negative cash flow from operating activities of $2.5 million for the six months ended June 30, 2006 was primarily due to a significant decrease in current liabilities of $2.8 million and a temporary increase in accounts receivable and prepaid expenses of $3.4 million, which were partially offset by income prior to non-cash charges for depreciation and amortization.

Under various task order contracts with the United States Department of Homeland Security ("DHS"), we serve as the prime contractor and Electronic Data Systems Corporation ("EDS") serves as the subcontractor. EDS performs in excess of 95% of the work under the contract and creates the invoices, which the Company forwards to the DHS. Under the subcontract agreement with EDS, we do not pay EDS' invoices until Sytel, a subsidiary within our Government Technology Services business segment, receives payment from the DHS. Furthermore, we record revenue under this contract on a net basis whereby we only record revenue for the portion of the work that Sytel performs under the contract along with an administrative fee related to revenue earned by EDS. As a result, our accounts receivable include the gross amount billed to DHS by Sytel, including EDS' invoice, and our accounts payable include the amounts billed by EDS, but our

recorded revenue does not include the amounts billed to Sytel by EDS. This has negatively affected our calculation of days sales outstanding.

Long-term cash requirements, other than for normal operating expenses, are anticipated for the continued expansion in Europe, enhancements of existing technologies, additional consideration that is payable to the selling shareholders Akela and TechTeam A.N.E. NV/SA if specific performance conditions and operating targets are met, possible global expansion activities, the possible payment of Company dividends, possible repurchases of our common stock, and the possible acquisition of businesses complementary to the Company's existing businesses. We believe that positive cash flows from operations, together with existing cash balances, will continue to be sufficient to meet our ongoing requirements for the next twelve months and foreseeable future. We have historically not paid dividends.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2006, the Company adopted the provisions of SFAS 123R, "Share-Based Payment," which requires companies to measure and recognize compensation expense for all share-based payment awards to employees and directors based on estimated fair values of all awards. SFAS 123R supersedes the Company's previous accounting methodology using the intrinsic value method under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," and related interpretations. Under the intrinsic value method, no share-based compensation expense had been recognized in the Company's consolidated statements of operations for stock option awards with an exercise price equal to the fair value of the underlying stock on the date of grant.

The Company adopted SFAS 123R using the modified prospective transition method. Under this transition method, stock-based compensation expense recognized after the effective date includes: (1) compensation expense for all share-based awards granted prior to, but not yet vested, as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (2) compensation cost for all share-based awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, the Company's consolidated financial statements from prior periods have not been restated and do not include the impact of SFAS 123R.

The company recorded pre-tax and after-tax amounts of $39,000 and $26,000, respectively, for share-based compensation expense during the three months ended June 30, 2006, as a result of adopting SFAS 123R. The Company recorded pre-tax and after-tax amounts of $203,000 and $134,000, respectively, for share-based compensation expense during the six months ended June 30, 2006, as a result of adopting SFAS 123R.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. FIN 48 also provides guidance regarding subsequent reversal of a tax position, balance sheet classification, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not completed its analysis of the potential impact of FIN 48 on the Company's financial position or results of operations.

MATERIAL COMMITMENTS

There have been no significant changes in our material commitments disclosed in "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no changes in the selection and application of critical accounting policies and estimates disclosed in "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2005, except for the addition of the following item:

STOCK-BASED COMPENSATION:

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The Company uses historical data among other factors to estimate the expected price volatility, the expected option term, and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the date of grant for the expected term of the option.

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The following assumptions were used to estimate the fair value of options granted during the six months ended June 30, 2006 and 2005, using the Black-Scholes option-pricing model:

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
Expected dividend yield.......	0%	0%
Weighted average volatility...	42%	43%
Risk free interest rate.......	4.4% - 4.7%	3.3% - 3.8%
Expected term (in years)......	3.0	3.1

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock-based compensation.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in reported market risks disclosed in "Item 7A -- Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 4 -- CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2006, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2006, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 1 -- LEGAL PROCEEDINGS

On July 21, 2006, the Company was notified by the U.S. Department of Labor Occupational Safety and Health Agency that its former Vice President, Chief Financial Officer, and Treasurer, David W. Morgan, had filed a complaint against the Company alleging discriminatory employment practices in violation of Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1514A. In his complaint, Mr. Morgan asserts that he resigned from employment with the Company due to actions taken against him as a result of certain alleged protected activities. Mr. Morgan seeks unspecified economic and special damages. The Company believes Mr. Morgan's assertions are without merit, and it intends to vigorously defend itself against this complaint.

Separately, Mr. Morgan has made a demand on the Company seeking compensation for an allegedly wrongful termination of his employment with the company He also demanded retraction of certain allegedly defamatory statements published by the Company, and payment of unspecified damages as result of these statements having been made.

As previously reported in the Company's Quarterly Report on Form 10-Q for the first quarter of 2006, the Company terminated the Company's employment contract

with William F. Coyro, Jr., its former President and Chief Executive Officer. Dr. Coyro has notified the Company that he is seeking damages resulting from his alleged wrongful termination and alleged defamatory statements published by the Company.

No amounts have been recorded in the accompanying financial statements for any potential liability to Dr. Coyro or Mr. Morgan as the Company believes their claims are without merit and that any potential liability cannot be reasonably estimated at this time.

In addition to the above matters, from time to time the Company is involved in various routine litigation matters arising in the ordinary course of its business. None of these matters, individually or in the aggregate, currently is material to the Company.

ITEM 1A -- RISK FACTORS

There have been no changes in the risk factors disclosed in "Item 1A -- Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2005, except that the following risk factor described as "We may become engaged in a proxy contest relating to the election of our Board of Directors, which contest could adversely affect our business," as disclosed in our Annual Report on Form 10-K, is no longer applicable as a result of the Company executing a settlement agreement with a shareholder.

ITEM 2 -- UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of unregistered equity securities of the Company during the three months ended June 30, 2006.

The following table sets forth the information with respect to purchases made by the Company of shares of its common stock during the second quarter of 2006:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAMS	MAXIMUM NUMB SHARES THAT M BE PURCHASED THE PROGR
April 1, 2006 to April 30, 2006	6,017 (a)	$10.05	--	--
May 1, 2006 to May 31, 2006	5,958 (a)	$10.25	--	--
June 1, 2006 to June 30, 2006	6,613 (a)	$ 9.39	--	--

(a) All purchases of shares were made for the purpose of contributing the purchased shares to the TechTeam Global Retirement Savings Plan (one of the Company's 401(k) plans) for employer matching contributions. The purchases were not made pursuant to publicly announced plans and were made in the open market.

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

The Company held its Annual Meeting of Shareholders on June 14, 2006. The holders of 6,645,965 shares of the Company's common stock were present in person or by proxy, representing attendance by at least 66% of the outstanding shares

eligible to vote. The following is a summary of the matters voted on at that meeting.

(a) The following persons were elected to the Company's Board of Directors. The number of shares cast favor and withheld were as follows:

Name	For	Withheld
William C. Brown	6,635,671	10,294
Kent Heyman	6,639,394	6,571
John P. Jumper	6,637,372	8,593
James A. Lynch	6,605,394	40,571
Alok Mohan	6,605,394	40,571
James D. Roche	6,639,372	6,593
Andrew R. Siegel	6,603,088	42,877
Richard R. Widgren	6,639,372	6,593

(b) Ratification of Ernst & Young LLP as the Company's independent registered public accountant:

For	Against
6,639,836	929

ITEM 6 -- EXHIBITS

The following exhibits are filed as part of this report on Form 10-Q:

31.1 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: August 9, 2006

By: /s/ William C. Brown
William C. Brown
President and Chief Executive Officer (Principal Executive Officer)

By: /s/ Marc J. Lichtman
Marc J. Lichtman
Vice President, Chief Financial Officer, and Treasurer (Principal Financial Officer)

Exhibit Index

Exhibit No.	Description
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.