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NATIONAL TECHTEAM INC /DE/

Form 10-Q

August 14, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

10-Q

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

For the quarterly period ended: June 30, 2001

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

For the transition period from ____ to ____

Commission file number 0-16284

NATIONAL TECHTEAM, INC.

(Name of issuer in its charter)

DELAWARE

38-2774613

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

27335 W. 11 Mile Road, Southfield, MI 48034

(Address of principal executive offices) (Zip Code)

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

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

☒ Yes ☐ No

The number of shares of the registrant's only class of common stock
outstanding at July 31, 2001 was 10,595,673.

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

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NATIONAL TECHTEAM, INC.

FORM 10-Q

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PART 1 -- FINANCIAL INFORMATION

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

ITEM 1 -- FINANCIAL STATEMENTS

| | THREE MONTHS ENDED JUNE 30, | | SIX |
|---|-----------------------------|-----------|------|
| | 2001 | 2000 | 2000 |
| | (IN THOUSANDS, EXCEPT PER S | | |
| REVENUES | | | |
| Corporate Services | | | |
| Corporate help desk services..... | \$ 12,373 | \$ 12,446 | \$ |
| Technical staffing..... | 3,645 | 4,573 | |
| Systems integration..... | 1,441 | 2,655 | |
| Training programs..... | 603 | 953 | |
| Total Corporate Services..... | 18,062 | 20,627 | |
| OEM Call Center Services..... | 104 | 3,716 | |
| Leasing Operations..... | 5,355 | 8,616 | |
| TOTAL REVENUES..... | 23,521 | 32,959 | |
| COST OF SERVICES DELIVERED..... | 18,024 | 24,843 | |
| GROSS PROFIT..... | 5,497 | 8,116 | |
| OTHER EXPENSES | | | |
| Selling, general and administrative..... | 5,810 | 5,567 | |
| Michigan Single Business Tax and other..... | 210 | 200 | |
| TOTAL OTHER EXPENSES..... | 6,020 | 5,767 | |
| Operating income (loss)..... | (523) | 2,349 | |
| Interest income..... | 298 | 153 | |
| Interest expense..... | 184 | 430 | |
| Loss on disposal of assets..... | 254 | - | |
| NET OTHER EXPENSE..... | 140 | 277 | |

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| | | | |
|--|-----------|----------|-------|
| Income (loss) before income taxes..... | (663) | 2,072 | |
| Income tax expense..... | 250 | 961 | |
| | ----- | ----- | ----- |
| NET INCOME (LOSS)..... | \$ (913) | \$ 1,111 | \$ |
| | ===== | ===== | ===== |
| BASIC AND DILUTED EARNINGS PER SHARE..... | \$ (0.09) | \$ 0.08 | \$ |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING | | | |
| Basic..... | 10,543 | 13,188 | |
| Net effect of dilutive stock options..... | - | - | |
| | ----- | ----- | ----- |
| Diluted..... | 10,543 | 13,188 | |
| | ===== | ===== | ===== |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | | |
|---|----------|----------|-------|
| NET INCOME (LOSS), AS SET FORTH ABOVE..... | \$ (913) | \$ 1,111 | \$ |
| Foreign currency translation adjustments..... | (49) | (15) | |
| | ----- | ----- | ----- |
| COMPREHENSIVE INCOME (LOSS)..... | \$ (962) | \$ 1,096 | \$ |
| | ===== | ===== | ===== |

See accompanying notes.

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

| | JUNE 30, 2001 | |
|--|------------------|--------|
| ASSETS | | (IN TH |
| CURRENT ASSETS | | |
| Cash and cash equivalents..... | \$ 19,577 | |
| Securities available for sale..... | 7,110 | |
| Accounts receivable (less allowances of \$423 at June 30, 2001 and \$313 at December 31, 2000)..... | 18,615 | |
| Refundable taxes..... | 472 | |
| Inventories..... | 346 | |
| Prepaid expenses and other..... | 889 | |
| Deferred income tax..... | 348 | |
| | ----- | |
| | 47,357 | |

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| | |
|--|-----------|
| ----- | |
| PROPERTY, EQUIPMENT AND PURCHASED SOFTWARE | |
| Computer Equipment and office furniture..... | 16,058 |
| Purchased software..... | 8,655 |
| Leasehold improvements..... | 2,591 |
| Transportation equipment..... | 239 |
| | ----- |
| | 27,543 |
| Less -- Accumulated depreciation and amortization..... | 18,869 |
| | ----- |
| | 8,674 |
| ----- | |
| OTHER ASSETS | |
| Assets of leasing operations, net of amortization..... | 27,889 |
| Intangibles (less accumulated amortization of \$16,174 at June 30, 2001 and \$14,894 at December 31, 2000)..... | 4,012 |
| Deferred income tax..... | 1,689 |
| Loans receivable..... | 210 |
| Other..... | 1,235 |
| | ----- |
| | 35,035 |
| | ----- |
| TOTAL ASSETS..... | \$ 91,066 |
| | ===== |

See accompanying notes.

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

| | |
|--|------------------|
| ----- | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | JUNE 30, 2001 |
| ----- | |
| CURRENT LIABILITIES | (IN THOU) |
| Accounts payable..... | \$ 1,002 |
| Accrued payroll, related taxes and withholdings..... | 2,143 |
| Deferred revenues..... | 561 |
| Accrued expenses and taxes..... | 530 |
| Current portion of notes payable..... | 7,555 |
| Other..... | 410 |
| | ----- |
| | 12,201 |
| | ----- |

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| | |
|---|-----------|
| LONG-TERM DEBT..... | 1,864 |
| SHAREHOLDERS' EQUITY | |
| Preferred stock, par value \$.01, 5,000,000 shares authorized, none issued | |
| Common stock, par value \$.01, 45,000,000 shares authorized, issued -- 16,723,000 shares at June 30, 2001 and December 31, 2000..... | 167 |
| Additional paid-in capital..... | 109,153 |
| Retained earnings..... | 3,729 |
| Accumulated other comprehensive loss - foreign currency translation adjustment..... | (319) |
| | ----- |
| | 112,730 |
| Less -- Treasury stock (6,145,629 and 6,041,755 shares at June 30, 2001 and December 31, 2000, respectively)..... | 35,729 |
| | ----- |
| Total shareholders' equity..... | 77,001 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY..... | \$ 91,066 |
| | ===== |

See accompanying notes.

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

| | SIX MONTHS END |
|--|----------------|
| | 2001 |
| | ----- |
| | (IN THOUS |
| OPERATING ACTIVITIES | |
| Net income (loss)..... | \$ (688) |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and Amortization..... | 11,865 |
| Treasury stock contributed to 401(k) plan and other..... | 365 |
| Changes in operating assets and liabilities..... | (1,462) |
| | ----- |
| Net cash provided by operating activities..... | 10,080 |
| | ----- |
| INVESTING ACTIVITIES | |
| Purchase of securities available-for-sale..... | (4,385) |
| (Purchase) disposal of leased equipment, net..... | 2,181 |
| Net change in investment in direct financing leases and residuals. | 2,143 |

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| | |
|--|-----------|
| Purchase of property, equipment and software, net..... | (1,284) |
| Other | 828 |
| | ----- |
| Net cash used in investing activities..... | (517) |
| | ----- |
| FINANCING ACTIVITIES | |
| Proceeds (payments) on notes payable, net..... | (5,188) |
| Purchase of Company common stock..... | (609) |
| Proceeds from issuance of common stock..... | - |
| Other..... | (184) |
| | ----- |
| Net cash used in financing activities..... | (5,981) |
| | ----- |
| Increase (decrease) in cash and cash equivalents..... | 3,582 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD..... | 15,995 |
| | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 19,577 |
| | ===== |

See accompanying notes.

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

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

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

NOTE A -- EARNINGS PER SHARE

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

NOTE B -- REVENUES FROM MAJOR CLIENTS

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

| | 2001 | | |
|--------------------------|----------|------------|----------------|
| | ---- | | |
| | AMOUNT | PERCENT OF | A |
| | | TOTAL | |
| | | | (IN THOUSANDS) |
| Three months ended | | | |
| June 30 | | | |
| ----- | | | |
| Ford Motor Company | \$ 9,880 | 42.0% | \$1 |
| DaimlerChrysler | 4,273 | 18.2% | |
| GE TechTeam, L.P. | -- | -- % | |
| Six months ended | | | |
| June 30 | | | |
| ----- | | | |
| Ford Motor Company | \$20,385 | 41.6% | \$1 |
| DaimlerChrysler | 9,025 | 18.4% | 1 |
| GE TechTeam, L.P. | -- | -- % | |

NOTE C -- LEGAL PROCEEDINGS

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

NOTE D -- STOCK REPURCHASES

In May 2000, the Company announced a stock repurchase program to repurchase up to 2,000,000 shares of common stock. In October 2000, the Company extended this program to repurchase an additional 2,000,000 shares. During 2000 the Company repurchased 2,790,450 shares for \$9,069,000 under this program. For the six month period ended June 30, 2001, the Company repurchased 229,000 shares for \$609,000 under this program.

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

NOTE E -- SEGMENT REPORTING

| CORPORATE SERVICES | | | | | |
|--------------------|-----------|-------------|----------|-------|----------|
| CORPORATE | TECHNICAL | SYSTEMS | TRAINING | | OEM CALL |
| HELP DESK | STAFFING | INTEGRATION | PROGRAMS | TOTAL | CENTER |
| SERVICES | | | | | SERVICES |
| ----- | ----- | ----- | ----- | ----- | ----- |

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(IN THOUSANDS)

Three months ended
June 30, 2001

| | | | | | | | | | | | | |
|--------------------------------------|----|--------|----|-------|----|-------|----|-----|----|--------|----|-----|
| Revenues..... | \$ | 12,373 | \$ | 3,645 | \$ | 1,441 | \$ | 603 | \$ | 18,062 | \$ | 104 |
| Gross profit..... | | 3,931 | | 558 | | 541 | | 89 | | 5,119 | | 45 |
| Depreciation and amortization.... | | 517 | | 105 | | 3 | | 20 | | 645 | | - |
| Expenditures for property..... | | 397 | | 81 | | 3 | | - | | 481 | | - |

Three months ended
June 30, 2000

| | | | | | | | | | | | | |
|--------------------------------------|----|--------|----|-------|----|-------|----|-----|----|--------|----|-------|
| Revenues..... | \$ | 12,446 | \$ | 4,573 | \$ | 2,655 | \$ | 953 | \$ | 20,627 | \$ | 3,716 |
| Gross profit..... | | 3,920 | | 527 | | 1,047 | | 166 | | 5,660 | | 98 |
| Depreciation and amortization.... | | 316 | | 159 | | 28 | | 38 | | 541 | | 67 |
| Expenditures for property..... | | 138 | | 9 | | 5 | | - | | 152 | | - |

Six months ended
June 30, 2001

| | | | | | | | | | | | | |
|--------------------------------------|----|--------|----|-------|----|-------|----|-------|----|--------|----|-----|
| Revenues..... | \$ | 25,262 | \$ | 8,013 | \$ | 3,110 | \$ | 1,320 | \$ | 37,705 | \$ | 228 |
| Gross profit..... | | 7,707 | | 1,409 | | 1,128 | | 174 | | 10,418 | | 102 |
| Depreciation and amortization.... | | 1,026 | | 211 | | 7 | | 44 | | 1,288 | | - |
| Expenditures for property..... | | 765 | | 148 | | 5 | | - | | 918 | | - |

Six months ended
June 30, 2000

| | | | | | | | | | | | | |
|--------------------------------------|----|--------|----|-------|----|-------|----|-------|----|--------|----|-------|
| Revenues..... | \$ | 24,534 | \$ | 9,028 | \$ | 6,074 | \$ | 1,772 | \$ | 41,408 | \$ | 8,581 |
| Gross profit..... | | 7,468 | | 1,246 | | 1,479 | | 218 | | 10,411 | | 263 |
| Depreciation and amortization.... | | 510 | | 231 | | 35 | | 51 | | 827 | | 134 |
| Expenditures for property..... | | 1,252 | | 623 | | 7 | | - | | 1,882 | | - |

Segment Assets

| | | | | | | | | | | | | |
|-------------------|----|--------|----|-------|----|-------|----|-------|----|--------|----|-------|
| June 30, 2001 | \$ | 15,756 | \$ | 4,216 | \$ | 1,313 | \$ | 740 | \$ | 22,025 | \$ | - |
| December 31, 2000 | | 12,090 | | 4,439 | | 2,501 | | 1,049 | | 20,079 | | 1,049 |

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E -- SEGMENT REPORTING (continued)

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

| | | SIX MONTHS ENDED JUNE 30, | |
|--|----|------------------------------|-----------|
| | | 2001 | 2000 |
| | | (IN THOUSANDS) | |
| Depreciation and amortization | | | |
| Total for reportable segments..... | \$ | 10,227 | \$ 11,156 |
| Corporate assets..... | | 1,638 | 2,030 |
| Total depreciation and amortization..... | \$ | 11,865 | \$ 13,186 |

| | | JUNE 30, 2001 | DECEMBER 31, 2000 |
|---|----|------------------|----------------------|
| | | (IN THOUSANDS) | |
| Assets | | | |
| Total assets for reportable segments..... | \$ | 54,979 | \$ 66,860 |
| Corporate assets..... | | 36,087 | 33,914 |
| Total assets..... | \$ | 91,066 | \$ 100,774 |

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

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

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Report on Form 10-K for the fiscal year ended December 31, 2000.

OVERVIEW

NATIONAL TECHTEAM, INC. ("TechTeam" or "Company") is a provider of technology and knowledge management support solutions and services to Fortune 1000, multinational companies and governments worldwide. The core services provided by TechTeam are its integrated help desk support services. TechTeam also provides technical staffing, systems integration, and training services. TechTeam provides these support services in Europe through its subsidiaries, TechTeam Europe, NV/Sa; TechTeam Europe, Ltd.; and TechTeam Europe, GmbH.

CORPORATE SERVICES

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

HELP DESK SERVICES

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

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

The Company has deployed the technology internally, and is currently in the process of deploying the Support Portal to certain of its existing customers. The Support Portal is an important part of its help desk solutions provided to new customers, and in its sales efforts.

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

TECHNICAL STAFFING

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

SYSTEMS INTEGRATION

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

TRAINING

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

OEM SERVICES AND EQUIPMENT LEASING

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

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

RESULTS OF OPERATIONS

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

Revenues decreased 29% to \$23.5 million from \$33.0 million. The decrease resulted from revenue decreases in OEM Call Center Services of \$3.6 million, system integration revenues of \$1.2 million, and leasing operations revenue of \$3.3 million. OEM Call Center revenues were down due to the Company selling its interest in the GE Joint Venture as previously announced and ceasing to provide personnel services to the new owner of the Joint Venture as of year ended 2000. Systems integration revenues decreased due to a reduction in computer upgrades and installation work at a major automotive client as well as the completion of systems work at two smaller customers in 2000. Leasing revenues decreased due to the Company's decision to cease looking for new leasing opportunities as well as

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gains from lease residual interest of \$1.3 million in the second quarter of 2000, which did not take place in 2001. Technical staffing revenues also decreased by \$1.0 million due to the Company's two major automotive customers making cuts in subcontracted staffing to reduce their cost structure. Corporate help desk services remained consistent at \$12.4 million in revenues.

Gross profit as a percentage of sales decreased to 23.4% from 24.6%. The decrease was primarily due to the gains or (losses) from lease residuals (\$0.3) million in 2001 compared to a gain of \$1.3 million in 2000. This decrease was offset by the nonrecurrence of low margin OEM Call Center Services provided to the GE Joint Venture and overall improvement in the margins on Corporate Services revenues.

Selling, General and Administrative expenses were \$5.8 million compared to \$5.6 million in 2000. The \$5.8 million in 2001 includes a net settlement of \$370,000 related to earnout and release agreements with former officers of TechTeam Capital Group and severance payments of \$120,000 that were paid to administrative employees

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terminated during the second quarter. In addition, a \$165,000 write down was taken due to the Company's decision to cease making payments on insurance contracts for a former officer of the Company. Without these costs, selling, general and administrative costs would have decreased by approximately \$400,000 for the quarter.

Interest expense decreased due to less debt related to leasing operations. Interest income increased due to an improved cash position, which resulted from the Company's decision to no longer underwrite new lease business.

Loss on disposal of assets includes \$167,000 related to the write off of an equity interest in a Company acquired in 1999 and \$87,000 due to the closing of a call center office in Michigan.

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

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO JUNE 30, 2000

Revenues decreased 24.5% to \$49.0 million from \$64.9 million. The decrease resulted from revenue decreases in OEM Call Center Services of \$8.4 million, system integration revenues of \$3.0 million, leasing operations revenue of \$3.8 million, and technical staffing revenues of \$1.0 million. OEM Call Center revenues were down due to the Company selling its interest in the GE Joint Venture and ceasing to provide personnel services to the new owner of the Joint Venture in 2000. Systems integration revenues decreased due to a reduction in computer upgrade and installation work at a major automotive client as well as the completion of systems work at two smaller customers in 2000. Leasing revenues decreased due to the Company's decision to cease looking for new leasing opportunities. Technical staffing revenues decreased due to the Company's two major automotive customers making cuts in subcontracted staffing to reduce their cost structure.

Gross profit increased as a percentage of sales to 23.3% from 22.2%. The increase was due to the non-recurrence of low margin OEM call center services provided to the GE Joint Venture offset by the impact of the change in net gains or (losses) from lease residuals of \$1.3 million in 2000 and (\$0.3) million in

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2001.

Selling, General and Administrative expenses were comparable for the six month period at \$11.1 million in 2001 and \$10.8 million in 2000.

Interest expense decreased due to less debt related to leasing operations. Interest income increased due to an improved cash position, which resulted from the Company's decision to no longer underwrite new lease business.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Provided from Operations

Cash flow provided from operating activities was \$10.1 million for the six months ended June 30, 2001. Cash flow provided was primarily due to \$11.9 million of non-cash depreciation and amortization expense mainly related to the leasing operations, offset by a net cash decrease of \$1.5 million due to changes in operating assets and liabilities and a net operating loss of \$0.7 million.

Cash Flow Used by Investing Activities

Cash flow used by investing activities was \$0.5 million. The Company used \$4.4 million to purchase investments and \$1.3 million to purchase assets to be used on help desk service projects which was offset by \$4.3 million received from the sale of assets used in leasing operations.

Cash Flow Used in Financing Activities

Cash flow used in financing activities was \$6.0 million. The Company used \$5.2 million to pay down debt related to leasing operations and \$0.6 million to repurchase Company stock in accordance with the stock repurchase program (see notes to the financial statements for more discussion on the stock repurchase program).

The Company's working capital position at June 30, 2001 was \$35.2 million compared to \$23.1 million at December 31, 2000. The Company believes that cash flows from operations will continue to be sufficient to meet its ongoing working capital needs.

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PART II -- OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

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

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

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The Company held its Annual Meeting of Shareholders on May 9, 2001. The holders of 9,832,181 shares were present in person or by proxy, representing attendance by at least 85% of the outstanding shares. 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 in favor and withheld were as follows:

| Name | For ----- | Withheld ----- |
|----------------------|--------------|-------------------|
| Kim A. Cooper | 9,753,545 | 78,636 |
| Peter T. Kross | 9,751,701 | 80,480 |
| Kenneth G. Meade | 9,753,688 | 78,493 |
| Wallace D. Riley | 9,749,238 | 82,943 |
| Richard G. Somerlott | 9,750,485 | 81,696 |
| Gregory C. Smith | 9,749,135 | 83,046 |
| M. Anthony Tam | 9,748,410 | 83,771 |
| Ronald T. Wong | 9,748,863 | 83,318 |

- (b) Ratification of Ernst & Young as independent auditors:

| For ----- | Withheld ----- |
|--------------|-------------------|
| 9,777,569 | 54,612 |

ITEM 5. OTHER INFORMATION

On August 9, 2001, the Board of Directors of the Company removed M. Anthony Tam as the Company's President and Chief Executive Officer and replaced him with William F. Coyro, Jr. Dr. Coyro will report directly to the Company's Chairman of the Board, Wallace D. Riley. Mr. Tam remains as a director of the Company.

Dr. Coyro, age 58, founded the Company in 1987. For the past eighteen months, Dr. Coyro has been an employee of the Company performing special projects for the Board of Directors. Prior to such time, he served as Chairman of the Board and President and Chief Executive Officer of the Company from its inception through February 2000 and December 1998, respectively. The Company and Dr. Coyro are currently negotiating the terms of an appropriate employment agreement.

Effective June 24, 2001, the Board of Directors appointed Jean F. Delpy, C.F.A. as the Company's Chief Financial Officer to replace Mr. Tam, whose term expired at such time. Mr. Delpy, age 42, joined the Company in May 2000 as Director of Finance and Planning, and he has also served as the Company's Treasurer since June 2000. Prior to joining the Company, Mr. Delpy was C.F.O. at Libralter Engineered Plastics Systems, an OEM supplier of engineered plastic components to the automotive industry, from January 1998 through April 2000. He also served as a financial consultant at Watson Wyatt from January 1997 through 1998. Prior to that time, he held various positions, including director of Corporate Finance at ARINC, Inc. Corp. from April 1989 through December 1997.

A copy of the Company's press release, dated August 13, 2001, announcing the

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foregoing management changes is filed as Exhibit 10.20 to this Quarterly Report on Form 10-Q.

SHAREHOLDER PROPOSALS OR NOMINATIONS

In accordance with the Company's Bylaws, any shareholder proposal or nomination of a person for election to the Board of Directors must be submitted in writing to the Secretary of the Company not less than 90 nor more than 120 days in advance of the date specified in the Company's proxy statement in connection with the previous year's Annual Meeting of shareholders. The submission must include certain specified information concerning the proposal or nominee, as the case may be, and information about the proponent's ownership of the Company's common stock.

Proposals or nominations not meeting these requirements will not be entertained at the Annual Meeting. A proponent should contact the Secretary regarding the proper form and content of submissions.

CHANGE OF CONTROL AGREEMENTS

In the 2nd quarter, the Company entered into Change of Control Agreements with 13 of its management group including M. Anthony Tam, President and CEO, Douglas H. Tayler, V.P. of Sales and Marketing and Jeffrey J. Ruffini, V.P. of Operations. Among other things, these agreements provide 1 year salary payments to these

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individuals in the event of their employment termination as a result of a Change of Control of the Board of Directors or sale of substantially all of the Company's assets. The potential cost of these agreements for Executive Management listed in the 2001 Proxy is approximately \$550,000. See Item 6a.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.19 Employment Agreement Relating to Change of Control.

10.20 Second quarter press release

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

ITEMS 2 AND 3 ARE NOT APPLICABLE AND HAVE BEEN OMITTED

SIGNATURES

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

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National TechTeam, Inc.

(Registrant)

Date: 8/14/01

By: /s/ William F. Coyro Jr.

William F. Coyro Jr.
President and Chief Executive
Officer

Date: 8/14/01

By: /s/ Kenneth G. Shelton

Kenneth G. Shelton
Controller

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Exhibit Index

| Exhibit No. | Description |
|-------------|---|
| 10.19 | Employment Agreement Relating to Change or Control. |
| 10.20 | Second quarter press release |