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TECHTEAM GLOBAL INC
Form 10-Q
May 10, 2004

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: March 31, 2004

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

For the transition period from ___ to ___

Commission file number 0-16284

TECHTEAM GLOBAL, INC.

(Name of issuer in its charter)

DELAWARE

38-2774613

(State or other jurisdiction of
incorporation or organization)

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

27335 West 11 Mile Road, Southfield, MI 48034

(Address of principal executive offices) (Zip Code)

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

Registrant's Internet address: www.techteam.com

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

Indicate by check mark whether the registrant is an accelerated filer.
Yes No

The number of shares of the registrant's common stock outstanding at April 30, 2004 was 8,538,800.

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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 MARCH 31,

2004 2003

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| | | |
|--|-----------|-----------|
| REVENUE | | |
| Corporate services | | |
| Corporate help desk services | \$ 19,039 | \$ 16,009 |
| Systems integration | 8,962 | 2,138 |
| Technical staffing | 2,029 | 2,366 |
| Training programs | 135 | 218 |
| | ----- | ----- |
| Total corporate services | 30,165 | 20,731 |
| Leasing operations | 105 | 1,032 |
| | ----- | ----- |
| TOTAL REVENUE | 30,270 | 21,763 |
| | ----- | ----- |
| COST OF SERVICES DELIVERED..... | | |
| Cost of corporate services | 23,007 | 16,041 |
| Cost of leasing operations | 110 | 1,063 |
| | ----- | ----- |
| TOTAL COST OF SERVICES DELIVERED | 23,117 | 17,104 |
| | ----- | ----- |
| GROSS PROFIT | 7,153 | 4,659 |
| Selling, general, and administrative expense | 5,963 | 4,655 |
| | ----- | ----- |
| OPERATING INCOME | 1,190 | 4 |
| | ----- | ----- |
| OTHER INCOME (EXPENSE) | | |
| Interest income, net | 165 | 209 |
| Foreign currency transaction gain (loss) | (199) | 52 |
| | ----- | ----- |
| TOTAL OTHER INCOME (EXPENSE) | (34) | 261 |
| | ----- | ----- |
| INCOME BEFORE INCOME TAXES | 1,156 | 265 |
| Income tax provision | 532 | 206 |
| | ----- | ----- |
| NET INCOME | \$ 624 | \$ 59 |
| | ===== | ===== |
| BASIC EARNINGS PER SHARE | | |
| | \$ 0.07 | \$ 0.01 |
| | ===== | ===== |
| DILUTED EARNINGS PER SHARE | | |
| | \$ 0.07 | \$ 0.01 |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING | | |
| Basic | 8,735 | 10,695 |
| Net effect of dilutive stock options | 155 | 161 |
| Effect of redeemable convertible preferred stock | 690 | -- |
| | ----- | ----- |
| Diluted | 9,580 | 10,856 |
| | ===== | ===== |

See accompanying notes.

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| ASSETS ----- | MARCH 31, 2004 ----- (Unaudited) |
|---|---|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$36,145 |
| Accounts receivable -- corporate services (less allowance of \$668 at March 31, 2004 and \$637 at December 31, 2003) | 23,613 |
| Accounts receivable -- leasing (less allowance of \$750 at March 31, 2004 and \$740 at December 31, 2003) | 382 |
| Prepaid expenses and other | 1,697 |
| Deferred income taxes | 562 |
| | ----- |
| TOTAL CURRENT ASSETS | 62,399 |
| PROPERTY, EQUIPMENT, AND PURCHASED SOFTWARE | |
| Computer equipment and office furniture | 20,619 |
| Purchased software | 11,523 |
| Leasehold improvements | 4,460 |
| Transportation equipment | 269 |
| | ----- |
| | 36,871 |
| Less -- accumulated depreciation and amortization | 27,401 |
| | ----- |
| NET PROPERTY, EQUIPMENT, AND PURCHASED SOFTWARE | 9,470 |
| OTHER ASSETS | |
| Intangible assets, net | 3,527 |
| Goodwill | 2,206 |
| Deferred income taxes | 862 |
| Assets of leasing operations, net | 288 |
| Other | 211 |
| | ----- |
| TOTAL OTHER ASSETS | 7,094 |
| | ----- |
| TOTAL ASSETS | \$78,963 ===== |

See accompanying notes.

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

(In thousands, except share amounts)

| LIABILITIES AND SHAREHOLDERS' EQUITY ----- | MARCH 31, 2004 ----- (Unaudited) |
|---|---|
| CURRENT LIABILITIES | |
| Notes payable | \$ 173 |

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| | |
|---|----------|
| Accounts payable | 4,767 |
| Accrued payroll, related taxes, and withholdings | 6,025 |
| Accrued expenses | 1,033 |
| Accrued income taxes | 827 |
| Deferred revenue | 2,059 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 14,884 |
| LONG-TERM LIABILITIES | 348 |
| REDEEMABLE CONVERTIBLE PREFERRED STOCK, 5,000,000 shares authorized, 689,656 shares issued and outstanding; liquidation preference of \$5,000 at March 31, 2004 and December 31, 2003 | 5,000 |
| SHAREHOLDERS' EQUITY | |
| Common stock, par value \$0.01, 45,000,000 shares authorized, 8,513,800 and 8,817,265 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively | 85 |
| Additional paid-in capital | 57,409 |
| Retained earnings | 692 |
| Accumulated other comprehensive income -- cumulative foreign currency translation adjustment | 545 |
| | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 58,731 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$78,963 |
| | ===== |

See accompanying notes.

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

(In thousands)

| | THREE MONTHS ENDED MARCH | |
|--|--------------------------|---------|
| | 2004 | 2003 |
| | ---- | ---- |
| OPERATING ACTIVITIES | | |
| Net income | \$ 624 | \$ 59 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,044 | 1,640 |
| Non-cash expense related to stock options and common stock issued to 401(k) plan and directors | 74 | 28 |
| Other | 15 | 667 |
| Changes in current assets and liabilities | 3,296 | (2,590) |
| Changes in long-term assets and liabilities | (29) | (20) |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 5,024 | (216) |
| | ----- | ----- |
| INVESTING ACTIVITIES | | |

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| | | |
|--|----------|----------|
| Purchase of property, equipment, and software | (564) | (986) |
| Cash paid for acquisition | (201) | -- |
| Purchase of marketable securities available for sale | -- | (152) |
| Other | -- | 63 |
| | ----- | ----- |
| Net cash used in investing activities | (765) | (1,075) |
| | ----- | ----- |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | 144 | 105 |
| Payments on long-term borrowings | (715) | (194) |
| Purchase of Company common stock | (2,744) | -- |
| | ----- | ----- |
| Net cash used in financing activities | (3,315) | (89) |
| | ----- | ----- |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 6 | 189 |
| | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 950 | (1,191) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 35,195 | 39,435 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$36,145 | \$38,244 |
| | ===== | ===== |

See accompanying notes.

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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 accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and such adjustments are of a normal recurring nature. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

Certain reclassifications have been made to the 2003 financial statements in order to conform to the 2004 financial statement presentation.

NOTE 2 -- EARNINGS PER SHARE

Earnings per share is computed using the weighted average number of common shares and common share equivalents outstanding. Common share equivalents consist of stock options and convertible preferred stock.

The weighted average number of diluted shares fell from 10,065,916 at December 31, 2003 to 9,579,635 at March 31, 2004 primarily due to Company common shares repurchased during the first quarter of 2004 under the Company's stock repurchase program.

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During the first quarter of 2004 and 2003, 360,000 and 645,477 stock options, respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were higher than the average market price of the common shares during the respective period.

NOTE 3 -- COMPREHENSIVE INCOME

Comprehensive income consists of net income and foreign currency translation adjustments. A summary of comprehensive income is as follows:

| | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|--------|
| | 2004 | 2003 |
| | ---- | ---- |
| | (In thousands) | |
| COMPREHENSIVE INCOME | | |
| Net income | \$ 624 | \$ 59 |
| Other comprehensive income -- | | |
| Foreign currency translation adjustment, net of tax | (137) | 189 |
| | ----- | ----- |
| Comprehensive income | \$ 487 | \$ 248 |
| | ===== | ===== |

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

NOTE 4 -- INCOME TAXES

The consolidated effective tax rate of 46% differs from the statutory tax rate of 34% primarily due to providing a valuation allowance against the future tax benefit of operating loss carryforwards in certain tax jurisdictions.

NOTE 5 -- STOCK-BASED COMPENSATION

We account for stock-based compensation awards granted to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. The effect on net income and earnings per share had compensation costs been recognized based on the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," is as follows:

| | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|-------|
| | 2004 | 2003 |
| | ---- | ---- |
| | (In thousands) | |
| Reported net income | \$ 624 | \$ 59 |
| Add -- total stock-based compensation expense included | | |
| in reported net income, net of tax | -- | 4 |
| Deduct -- total stock-based compensation expense determined | | |

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| | | |
|--|---------|-----------|
| under the fair value method for all awards, net of tax.. | (240) | (209) |
| | ----- | ----- |
| Pro forma net income (loss) | \$ 384 | \$ (146) |
| | ===== | ===== |
| Basic earnings (loss) per share: | | |
| As reported | \$ 0.07 | \$ 0.01 |
| Pro forma | \$ 0.04 | \$ (0.01) |
| Diluted earnings (loss) per share: | | |
| As reported | \$ 0.07 | \$ 0.01 |
| Pro forma | \$ 0.04 | \$ (0.01) |

NOTE 6 -- STOCK REPURCHASE PROGRAM

In February 2004, we announced a new stock repurchase program to repurchase up to 1,000,000 shares of the Company's common stock. Under this program, we purchased 350,000 shares of our common stock from a director of the Company and his immediate family for \$7.84 per share, inclusive of sales commission expense, during the first quarter of 2004.

NOTE 7 -- 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 Senior Management Committee, which is comprised of the President and the lead executives of each of our functional divisions. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different services.

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

NOTE 7 -- SEGMENT REPORTING (continued)

Our reportable operating segments include corporate help desk services, systems integration, technical staffing, and training programs (collectively referred to as corporate services) and leasing operations.

CORPORATE HELP DESK SERVICES -- this segment provides corporations and governments with around-the-clock (24x7x365) technical and customer support for their end-users and other constituencies. We support the full range of a client's information technology ("IT"), client service, and business process infrastructure. We also provide technical support to customers of our client's products and software.

SYSTEMS INTEGRATION -- this segment provides IT infrastructure (personal computers, printers, phone systems, networks, servers, switches, etc.) support through systems integration, technology deployment, and implementation services from project planning and maintenance to full-scale network server and workstation installations. We offer a wide range of information technology services for the customer, ranging from technology consulting to desk-side support to network monitoring. We also provide full-service IT staff and consulting services to companies to help manage their IT infrastructure.

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TECHNICAL STAFFING -- this segment maintains a staff of trained technical personnel, which we place at our clients' facilities to provide technical support services including help desk technicians, software developers, and network support.

TRAINING PROGRAMS -- this segment provides custom training and documentation solutions that include computer-based training, distance learning, course catalogs, registration, instructional design consultants, customized course materials, certified trainers, evaluation options, desk-side tutorials, and custom reports. We provide customized training programs for many of our customers' proprietary applications.

LEASING OPERATIONS -- this segment previously wrote leases for computer, telecommunications, and other types of capital equipment. Effective March 31, 2000, we ceased looking for new leasing opportunities and are currently running out our lease portfolio.

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, 2003. We evaluate segment performance based on segment gross profit.

Financial information for our operating segments is as follows:

| | THREE MONTHS ENDED MARCH 31, | |
|-----------------------------------|------------------------------|-----------|
| | 2004 | 2003 |
| | (In thousands) | |
| REVENUE | | |
| Corporate services: | | |
| Corporate help desk services..... | \$ 19,039 | \$ 16,009 |
| Systems integration..... | 8,962 | 2,138 |
| Technical staffing..... | 2,029 | 2,366 |
| Training programs..... | 135 | 218 |
| | 30,165 | 20,731 |
| Total corporate services..... | | |
| Leasing operations..... | 105 | 1,032 |
| | \$ 30,270 | \$ 21,763 |
| Total revenue..... | \$ 30,270 | \$ 21,763 |

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

NOTE 7 -- SEGMENT REPORTING (continued)

| | THREE MONTHS ENDED MARCH 31, | |
|--|------------------------------|------|
| | 2004 | 2003 |
| | (In thousands) | |

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| | | |
|---|----------|----------|
| GROSS PROFIT (LOSS) | | |
| Corporate services: | | |
| Corporate help desk services..... | \$ 4,943 | \$ 3,595 |
| Systems integration..... | 1,810 | 557 |
| Technical staffing..... | 390 | 499 |
| Training programs..... | 15 | 39 |
| | ----- | ----- |
| Total corporate services..... | 7,158 | 4,690 |
| Leasing operations..... | (5) | (31) |
| | ----- | ----- |
| Total gross profit..... | 7,153 | 4,659 |
| Selling, general, and administrative expense..... | (5,963) | (4,655) |
| Interest income, net..... | 165 | 209 |
| Foreign currency transaction gain (loss)..... | (199) | 52 |
| | ----- | ----- |
| Income before income taxes..... | \$ 1,156 | \$ 265 |
| | ===== | ===== |

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 MARCH 31, | |
|---------------------|------------------------------|-----------|
| | 2004 | 2003 |
| | ---- | ---- |
| | (In thousands) | |
| REVENUE | | |
| United States..... | \$ 21,523 | \$ 16,097 |
| Europe: | | |
| Belgium..... | 5,136 | 3,365 |
| United Kingdom..... | 1,516 | 1,313 |
| Other..... | 2,095 | 988 |
| | ----- | ----- |
| Total Europe..... | 8,747 | 5,666 |
| | ----- | ----- |
| Total revenue..... | \$ 30,270 | \$ 21,763 |
| | ===== | ===== |

We provide corporate services for major companies on an international scale. Revenue from Ford Motor Company comprised 40.1% and 53.4% of total Company revenue for the three months ended March 31, 2004 and 2003, respectively. Revenue from DaimlerChrysler comprised 9.4% and 15.4% of total Company revenue for the three months ended March 31, 2004 and 2003, respectively. At March 31, 2004 and December 31, 2003, aggregate amounts due from these two customers accounted for 44.5% and 53.4% of total accounts receivable, respectively.

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DIGITAL SUPPORT CORPORATION:

Digital Support Corporation ("DSC") provides services to the Air National Guard and other departments within the Department of Defense ("DoD"). A Facility Security Clearance ("FSC") is required as a condition for DSC to perform its services for the DoD. As the acquiring entity, TechTeam also needs to obtain an FSC. We have applied for an FSC, but as of the date of the filing of this document, we have not received a response from the DoD. It is reasonably possible that we will not be deemed eligible for an FSC due to foreign ownership, control or influence of the Company; specifically, the beneficial ownership of over 5% of our capital stock by ChrysCapital II, LLC, a Mauritius entity ("ChrysCapital"), and ChrysCapital's right to appoint a member of our Board of Directors. If we are not able to receive an FSC, we will be required to negate the foreign ownership, control, or influence. We have applied to the DoD for a Security Control Agreement ("SCA") between DSC and the DoD in order to negate the foreign interest. The SCA, if approved, would negate the foreign interest without affecting TechTeam's ability to integrate DSC into the TechTeam group of companies.

LEGAL PROCEEDINGS:

The Company is a party to various legal proceedings that 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 our liquidity, financial condition, or results of operations, although no assurances can be given in this regard.

NOTE 9 -- PRO FORMA INFORMATION

TechTeam acquired 100% of the outstanding capital stock of DSC on December 31, 2003. The unaudited pro forma condensed consolidated results of operations for the three months ended March 31, 2003 are presented below as though DSC had been acquired as of January 1, 2003.

| | THREE MONTHS ENDED MARCH 31, 2003 ---- |
|--------------------------------------|--|
| | (In thousands) |
| Revenue | |
| As reported..... | \$ 21,763 |
| Pro forma..... | \$ 26,129 |
| Net income | |
| As reported..... | \$ 59 |
| Pro forma..... | \$ 224 |
| Basic and diluted earnings per share | |
| As reported..... | \$ 0.01 |
| Pro forma..... | \$ 0.02 |

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

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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 or 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

As an IT and business process support services provider, we provide our customers with assistance in designing, implementing, managing, and maintaining their IT infrastructure and computer systems through our provision of technical help desk services, systems integration, technical staffing, professional services, and training programs.

Our 2004 results to date reflect the early realization of certain operating efficiencies from initiatives implemented in 2003 and gradually improving global and domestic economies. However, we remain cautiously optimistic about indicators of improving economies insofar as they relate to our future expectations. During 2003, we also explored the advantages and disadvantages of establishing an "offshore" presence in various countries given the increasing prevalence of "offshore" help desk service providers and the need to improve operating performance to maintain our competitiveness. We concluded that establishing operations in Romania presented the best opportunity for increasing our operating performance because (1) the technical support personnel in Romania have established and proven skills, (2) Romanians can provide support services in the major Western European languages, (3) developing a blended solution with our Belgian operation would provide operational efficiencies, thereby improving the gross margin of our existing business, and (4) the cost of conducting business in Romania was comparable to other possible offshore locations we explored. Our Romanian call center began providing support services in the French, English, Spanish, Italian, and German languages in April 2004.

As part of our long-term strategic plan, we are also committed to further expanding our footprint in the IT systems integration sector. We believe the further development of infrastructure support services is an important aspect of our sales strategy as it provides services that have a shorter sales cycle than help desk services. In December 2003, we purchased Digital Support Corporation ("DSC"), a provider of diversified information technology services and solutions, including network infrastructure, information assurance, enterprise application, healthcare technology, systems integration, and hardware services and solutions to various governmental and commercial customers. DSC made a positive earnings contribution to TechTeam during the three months ended March

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31, 2004 as discussed below.

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Total revenue grew 39.1% to \$30.3 million for the three months ended March 31, 2004, from \$21.8 million for the comparable period in 2003. Excluding revenue contributed by DSC, revenue grew 7.6% to \$23.4 million for the three months ended March 31, 2004, from the comparable period in 2003. We achieved 45.5% revenue growth from corporate services (total Company revenue less revenue from leasing operations) to \$30.2 million for the three months ended March 31, 2004, from \$20.7 million for the comparable period in 2003. Excluding revenue contributed by DSC, revenue from corporate services increased 12.5% to \$23.3 million for the three months ended March 31, 2004, from the comparable period in 2003.

Gross profit improved 53.5% to \$7.15 million for the three months ended March 31, 2004, from \$4.66 million for the comparable period in 2003. Excluding the gross profit contributed by DSC, gross profit improved 26.5% to \$5.89 million for the three months ended March 31, 2004, from the comparable period in 2003. The Company's gross margin (gross profit expressed as a percentage of revenue) improved to 23.6% for the three months ended March 31, 2004, from 21.4% for the comparable period in 2003 and from 18.3% for the three months ended December 31, 2003. Excluding the results contributed from DSC, the Company's gross margin improved to 25.2% for the three months ended March 31, 2004. As more fully discussed below, the improvement in gross margin is primarily due to realization of the aforementioned operational efficiencies, increased business with new and existing customers, and the wind down of our leasing operations, which had an adverse effect on our gross margin in 2003.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO MARCH 31, 2003

| | THREE MONTHS ENDED MARCH 31, | | INCREASE (DECREASE) |
|-----------------------------------|------------------------------|-----------|------------------------|
| | 2004 | 2003 | |
| | ----- | | ----- |
| | (In thousands) | | |
| REVENUE | | | |
| Corporate services: | | | |
| Corporate help desk services..... | \$ 19,039 | \$ 16,009 | \$ 3, |
| Systems integration..... | 8,962 | 2,138 | 6, |
| Technical staffing..... | 2,029 | 2,366 | (|
| Training programs..... | 135 | 218 | |
| | 30,165 | 20,731 | 9, |
| Total corporate services..... | | | |
| Leasing operations..... | 105 | 1,032 | (|
| | 30,270 | 21,763 | \$ 8, |
| Total revenue..... | \$ 30,270 | \$ 21,763 | \$ 8, |

Revenue from corporate help desk services increased 18.9% to \$19.0 million for the three months ended March 31, 2004, from \$16.0 million for the comparable period in 2003, primarily due to additional business from existing customers in Europe and the strengthening of the euro and British pound sterling relative to the U.S. dollar. Revenue from systems integration services increased 319.2% to \$8.96 million for the three months ended March 31, 2004, from \$2.14 million for the comparable period in 2003, due to our acquisition of DSC. Excluding revenue

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contributed by DSC, systems integration revenue slightly decreased 0.9% to \$2.12 million for the three months ended March 31, 2004, from the comparable period in 2003. Revenue from technical staffing services decreased 14.2% to \$2.03 million for the three months ended March 31, 2004, from \$2.37 million for the comparable period in 2003, primarily due to price concessions granted to Ford Motor Company ("Ford"), our largest customer, during the second half of 2003 and staffing reductions, which were only partially offset by additional business received from Ford in Europe.

Revenue from leasing operations decreased 89.8% to \$105,000 for the three months ended March 31, 2004, from \$1.03 million for the comparable period in 2003. The decline in leasing operations revenue was the result of our decision in March 2000 to discontinue actively seeking new leasing business and to commence the wind down of our lease portfolio. The trend of reduced revenue from our leasing operations will continue over the next year depending on the size and duration of renewals.

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Revenue generated in the United States increased 33.7% to \$21.5 million for the three months ended March 31, 2004, from \$16.1 million for the comparable period in 2003, due to our acquisition of DSC. Excluding revenue contributed by DSC, revenue generated in the United States decreased 8.8% to \$14.7 million for the three months ended March 31, 2004, from the comparable period in 2003, primarily due to price concessions granted to existing customers in second half of 2003, the maturation of help desks leading to reduced volumes, and a decrease in revenue from our leasing operations to \$105,000 from \$1.03 million. Revenue generated in Europe increased 54.4% to \$8.75 million for the three months ended March 31, 2004, from \$5.67 million for the comparable period in 2003, primarily due to growth in Belgium and the strengthening of the euro and British pound sterling relative to the U.S. dollar. Revenue from our Belgian operation increased 52.6% to \$5.14 million for the three months ended March 31, 2004, from \$3.37 million for the comparable period in 2003, primarily due to growth in our existing customer base and the strengthening of the euro relative to the U.S. dollar. The strengthening of the euro and pound sterling relative to the U.S. dollar positively impacted revenue in Europe by approximately \$1.00 million for the three months ended March 31, 2004, relative to the comparable period in 2003.

| | THREE MONTHS ENDED MARCH 31, | | INCREASE (DECREASE) |
|-----------------------------------|------------------------------|----------|------------------------|
| | 2004 | 2003 | |
| | ---- | ---- | ----- |
| | (In thousands) | | |
| GROSS PROFIT | | | |
| Corporate services: | | | |
| Corporate help desk services..... | \$ 4,943 | \$ 3,595 | \$ 1,348 |
| Systems integration..... | 1,810 | 557 | 1,253 |
| Technical staffing..... | 390 | 499 | (109) |
| Training programs..... | 15 | 39 | (24) |
| | 7,158 | 4,690 | 2,468 |
| Leasing operations..... | (5) | (31) | 26 |
| | \$ 7,153 | \$ 4,659 | \$ 2,497 |

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Gross profit from corporate help desk services increased 37.5% to \$4.94 million for the three months ended March 31, 2004, from \$3.60 million for the comparable period in 2003. Gross margin from corporate help desk services increased to 26.0% for the three months ended March 31, 2004, from 22.5% for the comparable period in 2003. The increase in gross profit dollars and margin was primarily due to realization of the aforementioned operational efficiencies from re-aligning our cost structure and expanding our help desk capabilities in Belgium, and increased business with new and existing customers. Gross profit from systems integration services increased 225.0% to \$1.81 million for the three months ended March 31, 2004, from \$557,000 for the comparable period in 2003. Gross margin from systems integration services decreased to 20.2% for the three months ended March 31, 2004, from 26.1% for the comparable period in 2003. The increase in gross profit dollars and decrease in gross margin was due to our acquisition of DSC. Excluding the gross profit contributed by DSC, gross profit slightly decreased 1.1% to \$551,000 and gross margin decreased to 26.0% for the three months ended March 31, 2004, from the comparable period in 2003. Gross profit and gross margin from DSC were \$1.26 million and 18.4%, respectively, for the three months ended March 31, 2004. DSC's gross margin excluding \$1.55 million of low-margin equipment sales was 22.6% for the three months ended March 31, 2004. DSC's revenue from equipment sales will fluctuate from period to period depending on the nature of DSC's contracts. Gross profit from technical staffing decreased 21.8% to \$390,000 for the three months ended March 31, 2004, from \$499,000 for the comparable period in 2003. Gross margin from technical staffing decreased to 19.2% for the three months ended March 31, 2004, from 21.1% for the comparable period in 2003. The decrease in gross profit dollars and margin was primarily due to price concessions granted to Ford during the second half of 2003 and staffing reductions, which were only partially offset by additional business received from Ford in Europe.

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| | THREE MONTHS ENDED MARCH 31, | | | INCREASE (DECREASE) |
|---|------------------------------|----------|----|------------------------|
| | 2004 | 2003 | | |
| | ----- | | | ----- |
| | ---- | | | ---- |
| | (In thousands) | | | |
| OPERATING EXPENSES AND OTHER | | | | |
| Selling, general, and administrative expense..... | \$ 5,963 | \$ 4,655 | \$ | 1, |
| Net interest income..... | \$ 165 | \$ 209 | \$ | |
| Foreign currency transaction gain (loss)..... | \$ (199) | \$ 52 | \$ | (|
| Income tax provision..... | \$ 532 | \$ 206 | \$ | |

Selling, general, and administrative expense increased 28.1% to \$5.96 million, or 19.7% of total revenue, for the three months ended March 31, 2004, from \$4.66 million, or 21.4% of total revenue, for the comparable period in 2003, primarily due to our acquisition of DSC. Excluding the revenue and expenses contributed by DSC, selling, general, and administrative expense was \$5.07 million, or 21.6% of total revenue, for the three months ended March 31, 2004. Expenses have increased to support revenue growth and expansion in Romania, but expenses as a percentage of revenue have remained stable due to internal cost containment efforts in all areas of the Company. Operating expenses incurred in Romania for the three months ended March 31, 2004 totaled \$232,000 and were consistent with expectations.

Net interest income decreased to \$165,000 for the three months ended March 31, 2004, from \$209,000 for the comparable period in 2003, due to higher average cash balances maintained in 2003.

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Foreign currency transaction gain (loss) decreased to a loss of \$(199,000) for the three months ended March 31, 2004, from a gain of \$52,000 for the comparable period in 2003, primarily due to the U.S. dollar strengthening since December 31, 2003 relative to the euro and British pound sterling whereas the U.S. dollar weakened relative to the euro and pound sterling in the three months ended March 31, 2003. In addition, our European subsidiaries had higher average liabilities denominated in currencies other than the local currency, principally in U.S. dollars, during the three months ended March 31, 2004 as compared to the comparable period in 2003.

The consolidated effective tax rate of 46% differs from the statutory tax rate of 34% primarily due to providing a valuation allowance against the future tax benefit of operating loss carryforwards in certain tax jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$36.1 million at March 31, 2004, as compared to \$35.2 million at December 31, 2003. During the three months ended March 31, 2004, cash and cash equivalents increased \$950,000 primarily due to \$5.02 million in cash provided by operations offset by \$2.74 million in cash used to repurchase 350,000 shares of our common stock under our stock repurchase program, \$201,000 in cash used to pay expenses related to our acquisition of DSC, \$564,000 in cash used for capital expenditures, and \$715,000 in payments on long-term debt. Our payments on long-term debt include repayment of a \$647,000 note payable acquired in our acquisition of DSC.

A significant source of operating cash flow for the three months ended March 31, 2004 resulted from increased working capital as accounts payable and accrued liabilities increased \$4.30 million whereas current assets only increased \$1.00 million. Additional sources of operating cash flow for the three months ended March 31, 2004 primarily included net income of \$624,000 and depreciation and amortization expense of \$1.04 million.

In February 2004, we announced a new stock repurchase program to repurchase up to 1,000,000 shares of the Company's common stock. Under this program, we purchased 350,000 shares of our common stock from a director of the Company and his immediate family for \$7.84 per share, inclusive of sales commission expense, during the first quarter of 2004.

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Long-term cash requirements, other than for normal operating expenses, are anticipated for the continued expansion in Europe, enhancements of existing technologies, possible repurchases of our common stock, additional consideration that is payable to the selling shareholders of DSC if specific performance conditions and operating targets are met in 2004 and 2005, and the possible acquisition of businesses complementary to the Company's existing business. We believe that positive cash flows from operations, together with existing cash balances, will continue to be sufficient to meet our ongoing requirements for working capital, capital expenditures, and possible stock repurchases for the next twelve months and foreseeable future. We have historically not paid dividends and intend to continue our policy of retaining earnings to finance future growth.

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 of our Annual Report on Form 10-K for the year ended December 31, 2003.

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FACTORS INFLUENCING FUTURE RESULTS

Refer to Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2003.

ITEM 4 -- CONTROLS AND PROCEDURES

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

During the first quarter of 2004, the Company converted its accounting and financial reporting system in Europe, with the exception of Romania, to a pre-existing common information technology platform that had been deployed in the United States in prior periods. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2003. As of March 31, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operations of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2004.

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PART II -- OTHER INFORMATION

ITEM 1 -- LEGAL PROCEEDINGS

The Company is a party to various legal proceedings that 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 our liquidity, financial condition, or results of operations, although no assurances can be given in this regard.

ITEM 2 -- CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company purchased shares of its common stock during the three months ended March 31, 2004 as follows:

| PERIOD | TOTAL NUMBER OF SHARES PURCHASED | AVERAGE PRICE PAID PER SHARE | TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAMS |
|---------------------------------------|--|------------------------------------|---|
| January 1, 2004 to January 31, 2004 | -- | -- | -- |
| February 1, 2004 to February 29, 2004 | 350,000 | \$7.84 | 350,000 |
| March 1, 2004 to March 31, 2004 | -- | -- | -- |

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

(a) Exhibits.

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

- (i) Announcement of the acquisition of Digital Support Corporation on December 31, 2003.
- (ii) Filing of the Stock Purchase Agreement related to our acquisition Digital Support Corporation on December 31, 2003.
- (iii) Announcement of a new stock repurchase program.
- (iv) Announcement on February 26, 2004 of the Company's earnings for 2003 and the three months ended December 31, 2003.
- (v) Announcement on February 26, 2004 of the Company's purchase of 350,000 shares of Company common stock from a director of the Company and his immediate family.
- (vi) Filing of the financial statements of a business acquired related to our acquisition Digital Support Corporation on December 31, 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: May 10, 2004

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

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

Date: May 10, 2004

By: /s/ David W. Morgan

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

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EXHIBIT INDEX

| Exhibit No | Description |
|------------|---|
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