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NATIONAL TECHTEAM INC /DE/
Form 10-Q
May 09, 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: March 31, 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 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 No

The number of shares of the registrant's only class of common stock outstanding at May 7, 2001 was 10,529,943.

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

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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

ITEM 1 -- FINANCIAL STATEMENTS

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

| | THREE MONTH ENDING MARCH 31, 2001 |
|---|---|
| | (IN THOUSAND DOLLARS PER SHARE) |
| REVENUES | |
| Corporate Services | |
| Corporate help desk services..... | \$ 12,889 |
| Technical staffing..... | 4,368 |
| Systems integration..... | 1,669 |
| Training programs..... | 717 |
| Total Corporate Services..... | 19,643 |
| OEM Call Center Services..... | 124 |
| Leasing Operations..... | 5,747 |
| TOTAL REVENUES..... | 25,514 |
| COST OF SERVICES DELIVERED..... | 19,567 |
| GROSS PROFIT..... | 5,947 |
| OTHER EXPENSES | |
| Selling, general and administrative..... | 5,250 |
| Michigan Single Business Tax..... | 300 |
| TOTAL OTHER EXPENSES..... | 5,550 |
| Operating income | 397 |
| Interest income..... | 348 |
| Interest expense..... | 244 |
| NET INTEREST (INCOME) EXPENSE | (104) |
| Income before income taxes..... | 501 |
| Income tax expense..... | 276 |
| NET INCOME | \$ 225 |
| BASIC AND DILUTED EARNINGS PER SHARE..... | \$ 0.02 |

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| | |
|--|--------|
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING | |
| Basic..... | 10,517 |
| Net effect of dilutive stock options..... | 0 |
| | ----- |
| Diluted..... | 10,517 |
| | ===== |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | |
|---|----|-------|
| NET INCOME, AS SET FORTH ABOVE..... | \$ | 225 |
| Foreign currency translation adjustments..... | | (152) |
| | | ----- |
| COMPREHENSIVE INCOME | \$ | 73 |
| | | ===== |

See accompanying notes.

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

| | | |
|---|--------|-------------------|
| | | MARCH 31, 2001 |
| | ASSETS | |
| | | ----- |
| | | (I |
| CURRENT ASSETS | | |
| Cash and cash equivalents..... | \$ | 14,71 |
| Securities available for sale..... | | 6,44 |
| Accounts receivable (less allowances of \$365 at March 31, 2001 and \$313 at December 31, 2000)..... | | 19,00 |
| Refundable taxes..... | | 32 |
| Inventories..... | | 18 |
| Prepaid expenses and other..... | | 2,09 |
| Deferred income tax..... | | 34 |
| | | ----- |
| | | 43,11 |
| | | ----- |
| PROPERTY, EQUIPMENT AND PURCHASED SOFTWARE | | |
| Computer equipment and office furniture..... | | 16,80 |
| Purchased software..... | | 8,30 |

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| | |
|---|----------|
| Leasehold improvements..... | 2,76 |
| Transportation equipment..... | 24 |
| | ----- |
| | 28,11 |
| Less -- Accumulated depreciation and amortization..... | 18,98 |
| | ----- |
| | 9,12 |
| | ----- |
| OTHER ASSETS | |
| Assets of leasing operations, net of amortization..... | 35,56 |
| Intangibles (less accumulated amortization of \$15,636 at March 31, 2001 and \$14,834 at December 31, 2000)..... | 4,55 |
| Loans Receivable..... | 86 |
| Deferred income tax..... | 1,68 |
| Other..... | 1,19 |
| | ----- |
| | 43,87 |
| | ----- |
| TOTAL ASSETS..... | \$ 96,10 |
| | ===== |

See accompanying notes.

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

| | |
|--|-------------------|
| | MARCH 31, 2001 |
| ----- | ----- |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| ----- | ----- |
| | (IN |
| CURRENT LIABILITIES | |
| Accounts payable..... | \$ 1,54 |
| Accrued payroll, related taxes and withholdings..... | 3,13 |
| Deferred revenues..... | 80 |
| Accrued expenses and taxes..... | 63 |
| Current portion of notes payable..... | 8,61 |
| Other..... | 48 |
| | ----- |
| | 15,20 |
| | ----- |
| LONG-TERM DEBT..... | 3,14 |

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SHAREHOLDERS' EQUITY

| | |
|---|----------|
| Preferred stock, par value \$.01, 5,000,000 shares authorized, none issued | |
| Common stock, par value \$.01, 5,000,000 shares authorized, issued 16,723,000 shares at March 31, 2001 and December 31, 2000..... | 16 |
| Additional paid-in capital..... | 109,62 |
| Retained earnings..... | 4,64 |
| Accumulated other comprehensive loss -- foreign currency translation adjustment..... | (27 |
| | ----- |
| | 114,16 |
| Less -- Treasury stock (6,213,434 and 6,041,755 shares at March 31, 2001 and December 31, 2000, respectively)..... | 36,40 |
| | ----- |
| Total shareholders' equity..... | 77,76 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY..... | \$ 96,10 |
| | ===== |

See accompanying notes.

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

| | THREE MONTH |
|--|-------------|
| | 2001 |
| | (IN |
| OPERATING ACTIVITIES | |
| Net income..... | \$ 22 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and Amortization..... | 6,13 |
| Treasury stock contributed to 401(k) plan and other..... | 17 |
| Changes in operating assets and liabilities..... | (1,12 |
| | ----- |
| Net cash provided by operating activities..... | 5,41 |
| | ----- |
| INVESTING ACTIVITIES | |
| Purchase of securities available-for-sale..... | (3,71 |
| Decrease in investment in direct financing leases and residuals..... | 1,08 |
| Purchase of property, equipment and software, net..... | (64 |
| (Purchase) disposal of leased equipment, net..... | 14 |

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| | |
|--|----------|
| Other | 3 |
| | ----- |
| Net cash used in investing activities..... | (3,09 |
| | ----- |
| FINANCING ACTIVITIES | |
| Proceeds (payments) on notes payable, net..... | (2,85 |
| Purchase of Company common stock..... | (60 |
| Proceeds from issuance of common stock..... | |
| Other..... | (14 |
| | ----- |
| Net cash provided by (used) in financing activities..... | (3,60 |
| | ----- |
| Decrease in cash and cash equivalents..... | (1,28 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD..... | 15,99 |
| | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 14,71 |
| | ===== |

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 three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company and Subsidiaries' annual report on Form 10-K for the year ended December 31, 2000.

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

NOTE A -- EARNINGS PER SHARE

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

NOTE B -- REVENUES FROM MAJOR CLIENTS

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

| THREE MONTHS ENDED MARCH 31, | | | | |
|------------------------------|-----------|------------------|----|--------|
| 2001 | | | | |
| (IN THOUSANDS) | | | | |
| | AMOUNT | PERCENT OF TOTAL | | AMOUNT |
| Ford Motor Company..... | \$ 10,505 | 41.1% | \$ | 8,938 |
| DaimlerChrysler..... | 4,752 | 18.6% | | 6,200 |
| GE TechTeam, L.P..... | - | -% | | 4,865 |

NOTE C -- Legal Proceedings

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

NOTE D -- Stock Repurchase Programs

In May of 2000, the Company announced a stock repurchase program to repurchase up to 2,000,000 shares of common stock. In October of 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. During the quarter ended March 31, 2001 the Company repurchased an additional 229,000 shares for \$609,000 under this program.

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

NOTE E -- SEGMENT REPORTING

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

Three months ended
 March 31, 2001

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| | | | | | | |
|--------------------------------------|-----------|----------|----------|--------|-----------|----------|
| Revenues..... | \$ 12,889 | \$ 4,368 | \$ 1,669 | \$ 717 | \$ 19,643 | \$ 124 |
| Gross profit..... | 3,776 | 851 | 587 | 85 | 5,299 | 57 |
| Depreciation and amortization.... | 509 | 106 | 4 | 24 | 643 | - |
| Expenditures for property..... | 368 | 67 | 2 | - | 437 | - |
| Three months ended | | | | | | |
| March 31, 2000 | | | | | | |
| Revenues..... | \$ 12,088 | \$ 4,455 | \$ 3,419 | \$ 819 | \$ 20,781 | \$ 4,865 |
| Gross profit (loss). | 3,548 | 722 | 432 | 52 | 4,754 | 165 |
| Depreciation and amortization.... | 194 | 72 | 7 | 13 | 286 | 67 |
| Expenditures for property..... | 1,114 | 614 | 8 | - | 1,736 | - |
| Segment Assets | | | | | | |
| March 31, 2001 | \$ 15,845 | \$ 4,739 | \$ 1,458 | \$ 840 | \$ 22,882 | \$ 222 |
| December 31, 2000 | 12,090 | 4,439 | 2,501 | 1,049 | 20,079 | 1,049 |

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- MARCH 31, 2001
(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:

| | THREE MONTHS ENDED MARCH 31, | |
|------------------------------------|---------------------------------|----------|
| | 2001 | 2000 |
| | ----- | |
| | (IN THOUSANDS) | |
| Depreciation and amortization | | |
| Total for reportable segments..... | \$ 5,291 | \$ 5,324 |
| Corporate assets..... | 842 | 1,127 |

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| | | |
|---|-------------------|----------------------|
| Total depreciation and amortization..... | \$ 6,133 | \$ 6,451 |
| | ===== | ===== |
| | MARCH 31, 2001 | DECEMBER 31, 2000 |
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Assets | | |
| Total assets for reportable segments..... | \$ 62,758 | \$ 66,860 |
| Corporate assets..... | 33,351 | 33,914 |
| | ----- | ----- |
| Total assets..... | \$ 96,109 | \$ 100,774 |
| | ===== | ===== |

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

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

Certain of the statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Our actual results may differ materially from those included in the forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We do not undertake an obligation to revise or publicly release the results of any revisions to these forward-looking statements. You should carefully review the risk factors described in other documents the Company files from time to time with the SEC, including the Annual Report on Form 10-K for the 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. Data collected by TechTeam technicians show trends in IT usage and trouble spots. TechTeam implements root cause analysis on the data to identify the cause(s) of problem areas. From this analysis, TechTeam can recommend to its clients other solutions to reduce the cost of operating their IT infrastructure.

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

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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.

TechTeam is a manufacturer-authorized training provider for many products including Sun Microsystems. The Company also offers training on other industry leading software such as Microsoft, Novell and others. A significant portion of the Company's training revenues is generated from the SUN certification program.

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 MARCH 31, 2001 COMPARED TO MARCH 31, 2000

Revenues decreased 20% to \$25.5 million from \$32.0 million. The decrease resulted from revenue decreases in OEM Call Center Services of \$4.7 million, system integration revenues of \$1.8 million, and leasing operations revenue of \$0.6 million, offset by revenue increases in corporate help desk services of \$0.8 million. OEM Call Center revenues were down due to the Company selling its interest in the GE Joint Venture and ceasing to provide personnel services to the new owner of the Joint Venture in 2000. Systems integration revenues decreased due to non-recurring revenue related to upgrading the computer systems of a local government in 2000. Leasing revenues decreased due to the Company's decision to cease looking for new leasing opportunities. Corporate help desk revenues increased due to continued expansion of global help desk services at Ford Motor Company and additional revenues generated by the Belgium call center office.

Gross profit increased as a percentage of sales to 23.3% from 19.6%. The increase was due to the non-recurrence of low margin OEM call center services provided to the GE Joint Venture and low margin system integration business provided to a local government in 2000.

Selling, General and Administrative expenses remained consistent at \$5.3 million.

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.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Provided from Operations

Cash flow provided from operating activities was \$5.4 million for the three months ended March 31, 2001. Cash flow provided was primarily due to earnings, combined with \$6.1 million of non-cash depreciation and amortization expense mainly related to the leasing operations and a net decrease of \$1.1 million in operating assets and liabilities.

Cash Flow Used by Investing Activities

Cash flow used by investing activities was \$3.1 million. The Company used \$3.7 million to invest in short term securities and \$0.6 million to purchase computer equipment and software to develop the Company's portal technology offset by cash provided through the sale of \$1.1 million of assets coming off lease.

Cash Flow Used in Financing Activities

Cash flow used by financing activities was \$3.6 million. The Company reduced debt by \$2.9 million and used \$0.6 million to repurchase Company stock in accordance with the stock repurchase program.

The Company's working capital position at March 31, 2001 was \$27.9 million compared to \$23.1 million at December 31, 2000.

The Company has a line-of-credit agreement with Bank One, which provides for short-term borrowings of up to \$25 million at the prime rate, the line-of-credit is unsecured. There were no borrowings under this line at March 31, 2001.

The Company believes that cash flows from operations will continue to be sufficient to meet its ongoing working capital needs.

PART II -- OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

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

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ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits - None
- (b) Reports on Form 8-K. No reports were filed on Form 8-K during the quarter ended March 31, 2001.

ITEMS 2, 3, 4 AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED

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SIGNATURES

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

National TechTeam, Inc.

(Registrant)

Date: 05/09/01

By: /s/M. Anthony Tam

M. Anthony Tam
President and Chief
Executive Officer

Date: 05/09/01

By: /s/Kenneth G. Shelton

Kenneth G. Shelton
Controller

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