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NATIONAL TECHTEAM INC /DE/
Form 10-K
March 26, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

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

Delaware
(State or other jurisdiction of
incorporation)

0-16284
(Commission File Number)

38-2774
(I.R.S. Employer

27335 West 11 Mile Road, Southfield, MI
(Address of principal executive offices)

48034
(Zip Code)

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

Securities registered pursuant
to Section 12(b) of the Act: None

Securities registered pursuant
to Section 12(g) of the Act: Common Stock, \$.01 par value
(Title of Class)

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 /X/

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K (229.405 of this chapter) is not contained herein, and will
not be contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K
or any amendment to this Form 10-K. / /

The aggregate market value of the voting stock held by non-affiliates of the
registrant as of March 19, 2001 was approximately \$ 33,400,000.

The number of shares outstanding of the registrant's common stock as of March
19, 2001 was 10,687,880.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of National TechTeam, Inc.'s definitive Proxy Statement, which are to

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be filed no later than 120 days after the end of the year covered by this report, are incorporated by reference into Part.

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E 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 herein and in other documents. Readers should carefully review the risk factors that are described in the documents the Company has filed and files, from time to time, with the Securities and Exchange Commission.

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PART I

ITEM 1. BUSINESS

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.

National TechTeam is traded under the symbol "TEAM". TechTeam's client base includes Ford Motor Company, DaimlerChrysler, Visteon Automotive Systems, Deere & Company, Liberty Mutual Insurance Company, and other companies in the office equipment, insurance, logistics, and pharmaceutical industries, among others.

The Company had total employees of 1,296 and 2,011 at December 31, 2000 and 1999, respectively.

INDUSTRY BACKGROUND

The IT services industry continues to rapidly evolve in response to the increasingly interconnected business community. With the increasing delivery of enterprise critical business systems via the Internet, many companies are now maintaining mainframe, client/server, and Internet infrastructure and applications. The result is highly complex information systems that, for example, manage whole supply chains, provide instant access to government regulations, or permit the monitoring and repair of industrial equipment. These complex business systems require reliable support of the infrastructure, and the ability to respond quickly to the issues, questions, and training requirements of the individuals using the systems.

Further, organizations are constantly seeking to reduce their costs and improve productivity of their IT investments. Improvements in knowledge management and data mining technologies are increasing the value of centralized help desk solutions, which enable the information gathered from the entire organization to be used across the entire organization, rather than just in isolated pockets. In light of these trends, organizations often choose to focus on their core strengths by outsourcing non-core functions, such as technical support operations.

SERVICES

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National TechTeam originally commenced operations as a value-added reseller of computer hardware and software that also provided training for its customers. During the late 1980's the Company added IT staffing and systems integration services as a complement to its existing training business. In 1993, as a result of the Company's growing expertise in providing IT staffing of on-site help desks, TechTeam entered the technology support (help desk/call center) industry.

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

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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

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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 service from its customer's 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 its 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 (CBT), distance learning, course catalogs, registration, mobile classrooms, instructional design consultants, customized course materials, certified trainers, evaluation options, desk-side tutorials, and custom reports. The Company provides customized training programs.

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 large portion of the Company's training revenues are generated from the SUN certification program.

OEM SERVICES AND EQUIPMENT LEASING

In August 2000, TechTeam sold its stake in GE TechTeam, L.P. 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, L.P. were transitioned to the new owner. See Note Q of Item 8, Consolidated Financial Statements. 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

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opportunities. Capital Group is currently running out its lease portfolio. With the exception of renewals, the portfolio will run off in approximately three years.

IMPACT OF BUSINESS WITH MAJOR CLIENTS

Historically, TechTeam has been heavily dependent upon major clients for a substantial portion of its revenues. Any loss of (or failure to retain a significant amount of business with) its key clients could have a material adverse impact on the Company. The Company's major clients include DaimlerChrysler, Ford Motor Company ("Ford") and GE TechTeam LP. For the years ended December 31, 2000, 1999 and 1998 respectively, DaimlerChrysler accounted for 18.2%, 19.3% and 23.1% of revenues, Ford accounted for 32.3%, 19.2% and 16.6%, and GE TechTeam LP accounted for 13.0%, 20.6% and 20.6%. As discussed above, the Company ceased to provide staffing to the GE TechTeam, L.P. as of December 31, 2000. Therefore, the Company will no longer generate staffing revenues from GE TechTeam, L.P. as described; however, management believes that this loss of revenues will not adversely affect the future earnings potential of the Company.

Management continues to diversify its client base from both a client and industry perspective. However, because TechTeam believes that its existing client base presents opportunities for the cross marketing of its services, the Company will continue to seek additional business from its largest clients. The Company anticipates that its major clients will continue to account for a high percentage of TechTeam's revenues in the future.

COMPETITION

The Company is engaged in a highly competitive business. While there are many companies that provide similar services, no one company is dominant. Competition for many of TechTeam's services is often in the form of competitive bidding in response to requests for proposals. The Company competes principally on the basis of service excellence, the ability to provide a best in breed help desk services, price, experience and reputation in the industry, technological capabilities, ISO quality practices, responsiveness to client needs, and referrals from existing clients.

The Company believes the following factors give it significant competitive advantages over the competition:

- Strong Internationally Recognized Client Base-- TechTeam's existing multinational clients provide TechTeam with a strong foundation for the development of new business.
- Qualified Technical Staff-- TechTeam focuses on developing and retaining high quality talent. Its large employee pool is trained and provided a career path to higher level positions.
- Quality Client-Driven Metrics and Service Excellence-- As an ISO 9001:1994 certified company, TechTeam follows a well-defined quality system with a focus on continuous improvement.
- Technology-- The Company believes that its proprietary and industry-leading technology enables it to maintain its position as a leading provider of IT support services.

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While these competitive advantages do not guarantee success, the Company believes they provide a solid foundation upon which it can profitably grow its business.

EUROPEAN OPERATIONS

TechTeam services its clients in Europe through three wholly owned subsidiaries: TechTeam Europe, Ltd., in Chelmsford, England; TechTeam Europe, NV, in Brussels, Belgium; and TechTeam Europe, GmbH, in Cologne, Germany.

TechTeam Europe Ltd. and TechTeam Europe, GmbH provide clients with systems integration and help desk services. TechTeam Europe, NV primarily provides TechTeam's clients with multi-lingual help desk support. A significant proportion of the Company's business in Europe is driven by its client base in the United States.

The Company's international business is subject to risks customarily encountered in foreign operations, including changes in a specific country's or region's political or economic conditions, trade protection measures, import or export licensing requirements, the overlap of different tax structures, unexpected changes in regulatory requirements, and natural disasters. The Company is also exposed to foreign currency exchange rate risk, inherent in its sales commitments, anticipated sales, and assets and liabilities denominated in currencies other than the U.S. dollar. Accordingly, these risks are believed to be manageable.

ITEM 2. PROPERTIES

TechTeam's World Headquarters and executive offices are located in Southfield, Michigan. The following table sets forth the primary real properties, which TechTeam leases and occupies:

| LOCATION | FUNCTION | LEASE TERM BEG AND EXPIRI |
|----------------------|------------------------------------|------------------------------|
| Dearborn, MI | Training Center | 04/01/97 - 03 |
| Southfield, MI | World Headquarters and Call Center | 11/01/93 - 12 |
| Harper Woods, MI | Call Center | 06/15/96 - 06 |
| Farmington Hills, MI | TechTeam Capital Group Operations | 08/01/99 - 07 |
| Brussels, Belgium | Call Center | 08/01/97 - 07 |
| Davenport, IA | Call Center | 10/15/99 - 10 |
| Troy, MI | Training Center | 12/12/98 - 12 |
| Chelmsford, England | European Headquarters | 11/01/00 - 11 |
| Cologne, Germany | Sales Office | 06/01/99 - 06 |

TechTeam believes that the facilities it occupies are well maintained and in good operating condition, and are adequate for its current needs. These facilities include general office space and computer-training classrooms. Because some TechTeam services are performed at client sites, the cost of maintaining multiple offices is minimized.

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ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S SECURITIES AND RELATED STOCKHOLDER MATTERS

The following table sets forth the reported high and low sales prices of the Company's common stock for the quarters indicated as reported by The Nasdaq Stock Market(R). The Company's common stock trades on The Nasdaq Stock Market(R) under the symbol "TEAM".

| YEAR AND QUARTER | | HIGH |
|----------------------|--|-------|
| 2000 | | |
| First Quarter..... | | 7.500 |
| Second Quarter..... | | 5.875 |
| Third Quarter..... | | 4.375 |
| Fourth Quarter..... | | 3.563 |
| 1999 | | |
| First Quarter..... | | 7.813 |
| Second Quarter..... | | 6.500 |
| Third Quarter..... | | 7.625 |
| Fourth Quarter | | 6.875 |

The Company has never paid any dividends on its common stock. Any future decision as to payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's earnings, financial position, capital requirements, and such other factors as the Board of Directors deems relevant.

TechTeam had 554 shareholders of record as of March 7, 2001. Management estimates there are an additional 4,000 beneficial owners of the Company's stock held in street name.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents information from the Company's consolidated financial statements for the five years ended December 31, 2000. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation," and the "Financial Statements and Supplementary Data."

| STATEMENT OF OPERATIONS DATA: | YEAR ENDED DECEMBER 31, | | | |
|---|----------------------------------|-----------|------------|------------|
| | 2000 | 1999 | 1998 | 1997 |
| | (In thousands, except per share) | | | |
| Revenues | | | | |
| Corporate Services | | | | |
| Corporate help desk services..... | \$ 45,706 | \$ 37,013 | \$ 30,672 | \$ 17,000 |
| Technical staffing..... | 17,305 | 21,763 | 25,716 | 25,000 |
| Systems integration..... | 14,161 | 21,358 | 14,436 | 12,000 |
| Training programs..... | 3,485 | 4,888 | 6,622 | 7,000 |
| Total Corporate Services..... | 80,657 | 85,022 | 77,446 | 62,000 |
| OEM Call Center Services..... | 16,150 | 27,306 | 25,376 | 19,000 |
| Leasing Operations..... | 27,349 | 20,477 | 14,099 | 10,000 |
| Total revenues..... | 124,156 | 132,805 | 116,921 | 81,000 |
| Cost of services delivered..... | 95,860 | 109,417 | 97,523 | 70,000 |
| Gross profit..... | 28,296 | 23,388 | 19,398 | 10,000 |
| Other expenses | | | | |
| Selling, general, and administrative..... | 21,969 | 19,349 | 20,805 | 15,000 |
| Class action litigation and related matters.. | -- | 92 | 3,439 | -- |
| Michigan Single Business Tax..... | 1,710 | 450 | 496 | -- |
| Total other expenses..... | 23,679 | 19,891 | 24,740 | 16,000 |
| Operating income (loss)..... | 4,617 | 3,497 | (5,342) | (5,000) |
| Gain on sale of GE Joint Venture..... | 322 | -- | -- | -- |
| Interest income..... | 887 | 644 | 1,845 | 3,000 |
| Interest expense..... | 1,435 | 914 | 1,484 | -- |
| Net interest expense (income)..... | 548 | 270 | (361) | (2,000) |
| Income (loss) before income taxes..... | 4,391 | 3,227 | (4,981) | (3,000) |
| Income tax expense (credit)..... | 2,245 | 1,717 | (1,233) | (1,000) |
| Net income (loss)..... | \$ 2,146 | \$ 1,510 | \$ (3,748) | \$ (1,000) |
| Basic earnings (loss) per share..... | \$ 0.17 | \$ 0.11 | \$ (0.24) | \$ (0.10) |

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| | ===== | ===== | ===== | ===== |
|--|---------|---------|-----------|-----------|
| Diluted earnings (loss) per share..... | \$ 0.17 | \$ 0.11 | \$ (0.24) | \$ (0.24) |
| | ===== | ===== | ===== | ===== |
| Weighted average number of common shares | | | | |
| Basic..... | 12,554 | 13,280 | 14,758 | 15,111 |
| Diluted..... | 12,554 | 13,303 | 14,758 | 15,111 |

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| | DECEMBER 31, | | | |
|---------------------------------------|--------------|-----------|----------------|-------|
| STATEMENT OF FINANCIAL POSITION DATA: | 2000 | 1999 | 1998 | |
| | ----- | ----- | ----- | ----- |
| | | | (In thousands) | |
| Current assets..... | \$ 40,985 | \$ 40,463 | \$ 52,606 | \$ |
| Current liabilities..... | 17,840 | 18,069 | 19,972 | |
| Total assets..... | 100,774 | 112,307 | 111,618 | |
| Long-term liabilities..... | 4,817 | 10,030 | 7,312 | |
| Total shareholders' equity..... | 78,117 | 84,208 | 84,334 | |

ITEM 7. 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. 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. Forward-looking statements may involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of National TechTeam to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Among the factors that could cause actual results to vary are those described in the subsection of this Item 7 entitled "Factors Affecting Future Results."

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

Revenues decreased 6.5% to \$124.2 million from \$132.8 million. The decrease resulted primarily from revenue decreases in OEM Call Center Services of \$11.2 million, System Integration Services of \$7.2 million, and Technical Staffing of \$4.5 million offset by increases in corporate help desk services of \$8.7 million and leasing operations of \$6.9 million. The decrease in OEM call center services is due to discontinuing business with several low margin original equipment manufacturers in the computer industry during 2000 through the GE Joint Venture.

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Systems integration revenues decreased due to non-recurring revenue related to year 2000 remediation services which were provided to a local government in 1999. Technical staffing revenues decreased due to non-recurring revenues related to the implementation of a quality system program for a major client which took place in 1999 combined with other various non-recurring staffing projects ending with the Company's two major customers. The increase in corporate help desk services is due mostly to a major customer expanding its help desk to other business units within its organization and in Europe as well as a new help desk project with the European Commission that provides information and assistance to European citizens. Leasing revenues increased due to new lease sales of telecom and computer equipment to existing customers.

Gross profit increased as a percentage of sales to 22.7% from 17.6%. The increase was primarily due to improved margins on existing corporate help desk projects through expansion, while concurrently containing any related incremental costs. Other contributing factors included the discontinuance of certain low margin projects within the GE Joint Venture as discussed above, along with the completion of non-recurring year 2000 remediation services provided in 1999 to a local government agency. The remediation services included an equipment replacement component which was provided at lower margins than those normally realized by the Company. Gross margins are positively impacted by a net gain from sales of equipment which came off lease of \$0.9 million in 2000 and \$1.1 million in 1999. There can be no assurance that similar gains will occur in future years.

Selling, General and Administration expenses increased to \$22.0 million from \$19.3 million. The increase resulted from costs related to the development of the Company's call center Support Portal technology, additional

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administration overhead costs required in at the Company's European offices, settlement costs related to a dispute with former employees of the Company's leasing operations and costs to retain investor relations consultants. The increased administrative costs were required in Europe to support revenue increases at the three European offices (Belgium, England and Germany) of approximately 60% in total from 1999 revenues.

The Michigan Single Business Tax increased because the Company did not qualify for certain credits that it previously expected.

Interest income increased to \$0.9 million from \$0.6 million. The increase resulted from having a higher average cash and cash equivalent balance during 2000. The increase in cash is explained in the Liquidity and Capital Resources section below.

Interest expense increased due to additional debt related to leasing operations.

TechTeam recognized \$2.2 million of income tax in 2000, resulting in an effective tax rate of 51.1% compared to an effective tax rate of 53.2 % for 1999. The difference between the statutory tax rate of 34% and the effective tax rates in 2000 and 1999 is mainly due to the tax effect of amortization expense of purchased goodwill, which is not deductible for tax purposes

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999 COMPARED TO THE YEAR ENDED DECEMBER 31, 1998

Revenues increased 13.6% to \$132.8 million from \$116.9 million. The increase

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resulted primarily from revenue increases in corporate help desk services of \$6.3 million, systems integration services of \$6.9 million and leasing operations of \$6.4 million combined with a decrease in technical staffing of \$4.0 million. Corporate help desk revenues increased due to expanding global help desk services to a large client in the automotive industry. Systems integration revenues increased due to a large contract with a local government agency to replace workstations, upgrade internal networks and provide certain year 2000 remediation services. Leasing revenues increased mainly from sales to a new customer in the telecom industry.

Gross profit increased as a percentage of sales to 17.6% from 16.6%. The increase was primarily due to realizing better margins on existing corporate help desk revenues through expansion of ongoing projects while containing the related incremental costs.

Selling, General and Administrative expense decreased from \$20.8 million to \$19.3 million, due primarily to the Company's cost containment initiatives.

Interest income decreased to \$0.6 million from \$1.8 million. The decrease resulted from having a lower average cash and cash equivalent balance during 1999. The decrease in cash is explained in the Liquidity and Capital Resources section on the following page.

TechTeam recognized \$1.7 million of Federal income tax in 1999, resulting in an effective tax rate of 53.2% compared to an effective tax rate of 24.8 % for 1998. The difference between the statutory tax rate of 34% and the effective tax rates in 1999 and 1998 is mainly due to the tax effect amortization expense of purchased goodwill which is not deductible for tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Provided from Operations

Cash flow provided from operating activities was \$33.2 million for the year ended December 31, 2000. Cash flow provided was primarily due to earnings, combined with \$26.2 million of non-cash depreciation and amortization expense mainly related to the leasing operations, and \$4.9 million due to changes in operating assets and liabilities of which \$2.5 million was for net decreases of accounts receivable.

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Cash Flow Used by Investing Activities

Cash flow used by investing activities was \$16.3 million, principally to purchase equipment to be leased to customers for the leasing operations.

Cash Flow Used in Financing Activities

Cash flow used by financing activities was \$15.1 million. The Company reduced debt by \$6.0 million during 2000 and used \$9.1 million to repurchase Company stock in accordance with the stock repurchase program.

The Company's working capital position at December 31, 2000 was \$23.1 million compared to \$22.4 million at December 31, 1999.

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 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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FACTORS AFFECTING FUTURE RESULTS

The Company believes the following factors, among others, could have a significant impact on the Company's business and profitability.

IMPACT OF BUSINESS WITH MAJOR CLIENTS:

As set forth in Item 1, TechTeam depends upon major clients for a substantial portion of its revenues. The loss of any significant customer could have a material adverse impact on the Company.

RISKS INHERENT IN LEASING:

In leasing of computer equipment, it is often difficult to determine, at the time of the lease, the expected value of the equipment after the expiration of the lease. Accordingly, variation in the residual value of equipment leased to clients and the sale price of the equipment can lead to fluctuation in the performance of TechTeam Capital Group.

COMPETITION:

The Company faces intense competition for all of its services, including the help desk and call center markets. Some competitors have substantially greater resources, including more locations, greater financial resources, a larger client base, and more name recognition. As a result, the Company has experienced and continues to anticipate significant pricing pressure from its customers in order to remain a preferred vendor.

CONTRACT RISKS:

The great majority of the Company's contracts are terminable without cause on short notice, often upon 90 days notice. Terminations and non-renewals of major contracts can have a significant impact upon the Company's revenues and operating results.

RELIANCE ON SENIOR MANAGEMENT:

The success of the Company is highly dependent upon the efforts, direction, and guidance of its senior management. We do not have employment agreements with all members of our senior management. The loss of any of these senior executives or the Company's inability to attract, retain, or replace key management personnel in the future, could have a material adverse effect on it.

ATTRACTION AND RETENTION OF EMPLOYEES:

The Company's business involves the delivery of professional services and is labor intensive. The Company's success depends in large part upon its ability to attract, develop, motivate, and retain highly skilled technical, clerical, and administrative employees. Qualified personnel are in great demand and are likely to remain a limited resource for the foreseeable future. Accordingly, the Company expects to experience increased compensation costs that may not be

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offset through either increased productivity or higher pricing. TechTeam cannot assure that it will be able to attract and retain sufficient numbers of qualified employees in the future.

INTERRUPTION OF TELECOMMUNICATIONS SERVICES:

The Company's operations are dependent on its ability to protect its call centers against damage from fire, power loss, telecommunications failure or a similar event. The Company has taken precautions to protect itself from events that could interrupt its operations, but no assurance can be given that such precautions will be adequate, and operations may still be interrupted, even for extended periods. Any damage to call centers or any failure of the Company's telecommunication links that cause interruptions in the Company's operations could have a material adverse effect on the Company's business, operating results, or financial condition. The Company's property and business interruption insurance may not be adequate to compensate the Company for all losses that may occur.

GROWTH THROUGH ACQUISITIONS AND NEW PRODUCTS:

The Company's business strategy includes growth through acquisitions of businesses and technology sources complementary to the Company's business. Acquisitions may involve special risks such as diversion of management's attention, unanticipated events, legal liabilities, and amortization of intangibles, any of which could have an adverse effect on the Company's operations and earnings.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS:

Certain risks are inherent in the Company's business strategy which includes plans for the global expansion of its operations. Among other things, the Company may encounter difficulties in marketing, selling, and delivering its services due to differences in cultures, languages, labor and employment policies, and differing political and social systems. In addition, the Company may encounter significant effects on its operations and financial condition as a result of currency fluctuations and differing tax laws.

RAPID TECHNOLOGICAL CHANGES; DEPENDENCE ON NEW SOLUTIONS:

The Company's success will depend in part on its ability to develop IT solutions that keep pace with continuing changes in IT, evolving industry standards, and changing client preferences. There can be no assurance that the Company will be successful in adequately addressing these developments on a timely basis or that, if these developments are addressed, the Company will be successful in the marketplace.

INTELLECTUAL PROPERTY RIGHTS:

The Company relies upon a combination of nondisclosure and other contractual arrangements and trade secret, copyright, and trademark laws to protect its proprietary rights and the proprietary rights of third parties from whom the Company licenses intellectual property. The Company enters into confidentiality agreements with its employees and limits distribution of proprietary information. There can be no assurance that the steps taken by the Company in this regard will be adequate to deter misappropriation of proprietary information or that the Company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Although the Company believes that its services and/or software do not infringe on the intellectual property rights of others and that it has all rights necessary to utilize the intellectual property employed in its business, the Company is subject to the risk of litigation alleging infringement of third-party intellectual property rights. Any such claims could require the Company to spend significant sums in litigation, pay damages, develop non-infringing intellectual property, or acquire licenses of the intellectual property that is the subject of asserted infringement.

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VOLATILITY OF STOCK PRICE:

The market price of the Company's stock has fluctuated over a wide range during the past several years and may continue to do so in the future. (See "Market for Registrant's Common Stock and Related Stockholder Matters.") The market price of the common stock could be subject to significant fluctuations in response to various factors or events, including among other things, the depth and liquidity of the trading market of the common stock, quarterly variations and actual anticipated operating results, growth rates, changes in estimates by analysts, market conditions in the industry in which the Company competes, announcements by competitors, regulatory actions, litigation including class action litigation, and general economic conditions. In addition, the stock market has from time to time experienced significant price and volume fluctuations, which have particularly affected the market prices of the stocks of high technology companies. As a result of the foregoing, the Company's operating results and prospects from time to time may be below the expectations of public market analysts and investors. Any such event would likely result in a material adverse effect on the price of the common stock.

ITEM 7.A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no material market risk sensitive instruments nor material market risk exposures. Substantially all of the Company's operations are in the United States. The Company's debt obligations have fixed interest rates and relatively short lives. The Company is exposed to foreign currency exchange rate risk, inherent in its sales commitments, anticipated sales, and assets and liabilities denominated in currencies other than the U.S. dollar.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of National TechTeam, Inc. and Subsidiaries are included in Item 8:

Report of Ernst & Young LLP, Independent Auditors
 Consolidated Statements of Operations-- Years Ended December 31, 2000, 1999, and 1998
 Consolidated Statements of Comprehensive Income / (Loss)-- Years Ended December 31,
 2000, 1999, and 1998
 Consolidated Statements of Financial Position-- December 31, 2000 and December 31, 1999
 Consolidated Statements of Shareholders' Equity-- Years Ended December 31, 2000, 1999, and 1998 .

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Consolidated Statements of Cash Flows-- Years Ended December 31, 2000, 1999, and 1998
Notes to the Consolidated Financial Statements

The following financial statement schedules of National TechTeam, Inc. and Subsidiaries are included pursuant to the requirements of Item 14(d): None.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission and for which the information is not already included in the financial statements are not required under the related instructions or are not applicable and, therefore, have been omitted.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

BOARD OF DIRECTORS
NATIONAL TECHTEAM, INC.

We have audited the accompanying consolidated statements of financial position of National TechTeam, Inc. and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, comprehensive income/(loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of GE TechTeam LP (an entity in which the Company had a 49% interest) as of December 31, 1999 and for the two years in the period then ended, have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to data included for GE TechTeam LP, it is based solely on their report.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National TechTeam, Inc. and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Detroit, Michigan

/s/ Ernst & Young LLP

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February 23, 2001

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEAR ENDED DECEMBER | |
|--|-------------------------|-----------|
| | 2000 | 1999 |
| | (In thousands, except p | |
| REVENUES | | |
| Corporate Services | | |
| Corporate help desk services..... | \$ 45,706 | \$ 37,013 |
| Technical staffing..... | 17,305 | 21,763 |
| Systems integration..... | 14,161 | 21,358 |
| Training programs..... | 3,485 | 4,888 |
| Total Corporate Services..... | 80,657 | 85,022 |
| OEM Call Center Services..... | 16,150 | 27,306 |
| Leasing Operations..... | 27,349 | 20,477 |
| TOTAL REVENUES..... | 124,156 | 132,805 |
| COST OF SERVICES DELIVERED..... | 95,860 | 109,417 |
| GROSS PROFIT..... | 28,296 | 23,388 |
| OTHER EXPENSES | | |
| Selling, general, and administrative..... | 21,969 | 19,349 |
| Class action litigation and related matters..... | -- | 92 |
| Michigan Single Business Tax..... | 1,710 | 450 |
| TOTAL OTHER EXPENSES..... | 23,679 | 19,891 |
| OPERATING INCOME (LOSS)..... | 4,617 | 3,497 |
| GAIN ON SALE OF GE JOINT VENTURE..... | 322 | -- |
| INTEREST INCOME | 887 | 644 |
| INTEREST EXPENSE..... | 1,435 | 914 |
| NET INTEREST EXPENSE (INCOME) | 548 | 270 |
| INCOME (LOSS) BEFORE INCOME TAXES..... | 4,391 | 3,227 |
| INCOME TAX EXPENSE (CREDIT)..... | 2,245 | 1,717 |
| NET INCOME (LOSS)..... | \$ 2,146 | \$ 1,510 |
| BASIC AND DILUTED EARNINGS (LOSS) PER SHARE..... | \$ 0.17 | \$ 0.11 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING | | |

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| | | |
|---|--------|--------|
| Basic..... | 12,554 | 13,280 |
| Net effect of dilutive stock options..... | -- | 23 |
| | ----- | ----- |
| Diluted..... | 12,554 | 13,303 |
| | ===== | ===== |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

| | | |
|---|----------|----------|
| NET INCOME (LOSS), AS SET FORTH ABOVE..... | \$ 2,146 | \$ 1,510 |
| | ----- | ----- |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | | |
| Reclassification adjustment..... | -- | -- |
| Foreign currency translation adjustments..... | (69) | (105) |
| | ----- | ----- |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)..... | (69) | (105) |
| | ----- | ----- |
| COMPREHENSIVE INCOME (LOSS)..... | \$ 2,077 | \$ 1,405 |
| | ===== | ===== |

See accompanying notes.

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | |
|--|----|-------------------|
| | | DECEMBER 31, 2000 |
| | | ----- |
| ASSETS | | 2000 |
| | | ----- |
| | | (In thousands) |
| CURRENT ASSETS | | |
| Cash and cash equivalents..... | \$ | 15,995 |
| Securities available for sale..... | | 2,725 |
| Accounts receivable (less allowances of \$313,000 and \$225,000 at December 31, 2000 and 1999, respectively)..... | | 18,937 |
| Refundable taxes..... | | 859 |
| Inventories..... | | 238 |
| Prepaid expenses and other..... | | 1,883 |
| Deferred income tax | | 348 |
| | | ----- |
| | | 40,985 |
| | | ----- |

PROPERTY, EQUIPMENT AND PURCHASED SOFTWARE

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| | |
|--|------------|
| Computer equipment and office furniture..... | 16,528 |
| Purchased software..... | 8,035 |
| Leasehold improvements..... | 2,668 |
| Transportation equipment..... | 240 |
| | ----- |
| | 27,471 |
| Less-- Accumulated depreciation and amortization..... | 18,151 |
| | ----- |
| | 9,320 |
| | ----- |
| OTHER ASSETS | |
| Assets of leasing operations, net of amortization..... | 41,209 |
| Intangibles, net of amortization..... | 5,297 |
| Investment in GE Joint Venture..... | -- |
| Deferred income tax..... | 1,689 |
| Loans receivable..... | 1,008 |
| Other..... | 1,266 |
| | ----- |
| | 50,469 |
| | ----- |
| TOTAL ASSETS..... | \$ 100,774 |
| | ===== |

See accompanying notes.

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | |
|--|----------------|
| | DECEMBER |
| | ----- |
| LIABILITIES AND SHAREHOLDERS' EQUITY | 2000 |
| | ----- |
| | (In thousands) |
| CURRENT LIABILITIES | |
| Accounts payable..... | \$ 3,417 |
| Accrued payroll, related taxes, and withholdings..... | 3,217 |
| Deferred revenues and unapplied receipts..... | 264 |
| Accrued expenses and taxes..... | 681 |
| Current portion of notes payable..... | 9,790 |
| Other..... | 471 |
| | ----- |
| | 17,840 |
| | ----- |
| LONG TERM-DEBT..... | 4,817 |
| SHAREHOLDERS' EQUITY | |
| Preferred stock, par value \$.01, 5,000,000 shares authorized, none issued | |

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| | |
|--|------------|
| Common stock, par value \$.01, 45,000,000 shares authorized, issued, 16,723,000 and 16,717,400 shares at December 31, 2000 and 1999, respectively..... | 167 |
| Additional paid-in capital..... | 110,011 |
| Retained earnings..... | 4,417 |
| Accumulated other comprehensive income/(loss)-- foreign currency translation adjustment..... | (118) |
| Total..... | 114,477 |
| Less-- treasury stock (6,041,755 and 3,451,323 shares at December 31, 2000 and 1999, respectively)..... | 36,360 |
| Total shareholders' equity..... | 78,117 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY..... | \$ 100,774 |

See accompanying notes.

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS |
|--|--------------|-------------------------------|----------------------|
| | ----- | ----- | ----- |
| | | | (In thousands) |
| Balance at January 1, 1998..... | \$ 160 | \$ 105,586 | \$ 4,509 |
| Proceeds from issuance of 166,100 shares under stock option plans.... | 2 | 633 | -- |
| Shares issued to acquire Capricorn Capital Group, Inc..... | 5 | 4,870 | -- |
| Tax benefit from exercise of employee stock options and other..... | -- | 310 | -- |
| Contribution to 401(k) plan and other. | -- | 15 | -- |
| Purchase of common stock..... | -- | -- | -- |
| Net loss for 1998..... | -- | -- | (3,748) |
| Other comprehensive income for 1998... | -- | -- | -- |
| Balance at December 31, 1998..... | 167 | 111,414 | 761 |
| Proceeds from issuance of 13,600 shares under stock option plans.... | -- | 61 | -- |
| Tax benefit from exercise of employer stock options and other..... | -- | 44 | -- |
| Contribution to 401(k) plan and other. | -- | (427) | -- |
| Purchase of common stock..... | -- | -- | -- |
| Net income for 1999..... | -- | -- | 1,510 |
| Other comprehensive loss for 1999..... | -- | -- | -- |

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| | | | |
|--|--------|------------|----------|
| Balance at December 31, 1999..... | 167 | 111,092 | 2,271 |
| Proceeds from issuance of 5,600 shares under stock option plans.... | -- | 26 | -- |
| Tax benefit from exercise of employer stock options and other..... | -- | 33 | -- |
| Contribution to 401(k) plan and other. | -- | (1,140) | -- |
| Purchase of common stock..... | -- | -- | -- |
| Net income for 2000..... | -- | -- | 2,146 |
| Other comprehensive loss for 2000..... | -- | -- | -- |
| | ----- | ----- | ----- |
| Balance at December 31, 2000..... | \$ 167 | \$ 110,011 | \$ 4,417 |
| | ===== | ===== | ===== |

See accompanying notes.

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DE | |
|---|---------------|------|
| | 2000 | 1999 |
| | (In thous | |
| OPERATING ACTIVITIES | | |
| Net income (loss)..... | \$ 2,146 | \$ 1 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation..... | 22,091 | 17 |
| Amortization..... | 4,063 | 3 |
| Treasury stock contributed to 401(k) plan..... | 842 | |
| Sale and equity earnings of GE Joint Venture..... | (653) | |
| (Gain) Loss on sales of equipment and other..... | 500 | (1 |
| Provision for deferred income tax..... | (447) | |
| Provision for uncollectible accounts receivable..... | 280 | |
| Net undistributed (earnings) loss of affiliates..... | 100 | |
| Deferred Global Call Center license fees..... | -- | |
| Changes in current assets and liabilities: | | |
| Accounts receivable..... | 2,484 | |
| Inventories..... | 1,150 | |
| Prepaid expenses and other current assets..... | (67) | |
| Accounts payable..... | 975 | (1 |
| Accrued payroll, related taxes, and withholdings..... | (68) | |
| Federal income tax..... | 180 | 2 |
| Deferred revenues and unapplied receipts..... | (574) | (1 |
| Accrued expenses and taxes..... | (103) | |
| Other current liabilities..... | 319 | |

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| | | |
|---|-----------|-------|
| Net cash provided by operating activities..... | 33,218 | 20 |
| INVESTING ACTIVITIES | | |
| Purchase of leased equipment..... | (12,469) | (53) |
| Purchases of property, equipment, and software..... | (6,682) | (1) |
| Purchases of securities available-for-sale..... | (2,725) | (2) |
| Net change in investment in direct financing leases and residuals..... | 2,328 | |
| Proceeds from sale of GE Joint Venture and related assets..... | 1,750 | |
| Proceeds from sales of property and equipment..... | 480 | 23 |
| Proceeds from sales of securities available-for-sale..... | -- | 2 |
| Other-- net..... | 975 | |
| Net cash provided by (used in) investing activities..... | (16,343) | (31) |
| FINANCING ACTIVITIES | | |
| Payments on long-term borrowings..... | (12,167) | (11) |
| Purchase of Company common stock..... | (9,069) | (2) |
| Proceeds from long-term borrowings..... | 6,174 | 16 |
| Other-Net..... | (10) | |
| Net cash provided by (used in) financing activities..... | (15,072) | 2 |
| Increase (decrease) in cash and cash equivalents..... | 1,803 | (8) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 14,192 | 22 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 15,995 | \$ 14 |

See accompanying notes.

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NATIONAL TECHTEAM, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of National TechTeam, Inc. and its wholly-owned subsidiaries. Collectively, these companies are referred to as the "Company" or "TechTeam." Intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS:

Cash includes both interest bearing and non-interest bearing deposits which are available on demand. Cash equivalents include all liquid investments with a maturity of three months or less when purchased, including money market funds held at banks.

SECURITIES AVAILABLE-FOR-SALE:

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The Company's management determines the appropriate classification of securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities available-for-sale are stated at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income (loss). Securities available-for-sale were invested primarily in corporate and United States government agency debt securities.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of certain financial instruments such as cash and cash equivalents, securities available for sale, accounts receivable, accounts payable and notes payable approximate their fair values.

INVENTORIES:

Purchased inventories are stated at the lower of cost (determined by the first-in, first-out method) or market and consist principally of computer equipment and software. Certain inventories consist of equipment retained by the Company subsequent to the end of the lease term to be resold. Such off-lease equipment is valued at the lower of estimated market value at lease termination or current market value.

PROPERTY, EQUIPMENT AND PURCHASED SOFTWARE:

Property, equipment, and purchased software for internal use are stated at cost. Property and equipment are depreciated on the straight-line method over their estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized on a straight-line basis over the lesser of the lease term or the estimated useful lives of the improvements. Purchased software is amortized over 3 to 7 years.

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

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLES:

Intangibles include the following:

| DECEMBER 31, | |
|----------------|------|
| (In thousands) | |
| 2000 | 1999 |

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| | | | | |
|---------------------------------------|----|--------|----|--------|
| Intangible lease asset..... | \$ | 7,311 | \$ | 7,311 |
| Global Call Center -- see Note I..... | | 5,408 | | 5,408 |
| Goodwill..... | | 6,306 | | 6,233 |
| Other software tools..... | | 1,166 | | 1,166 |
| | | ----- | | ----- |
| | | 20,191 | | 20,118 |
| Less: Accumulated amortization..... | | 14,894 | | 10,831 |
| | | ----- | | ----- |
| | \$ | 5,297 | \$ | 9,287 |
| | | ===== | | ===== |

In the allocation of the purchase price of TechTeam Capital Group (see Note I), the Company evaluated the lease contracts of TechTeam Capital Group and the related equipment, including estimated residual values at the end of the contractual lease terms. The excess of the discounted cash flows from the lease contracts, including the estimated cash flows from estimated residual values, over the appraised fair value of the underlying equipment, was recorded by the Company as intangible lease asset in the purchase allocation and is being amortized over the related lease terms.

Goodwill represents the excess cost over the fair value of net assets acquired. The Company re-evaluates goodwill and other intangibles based on undiscounted operating cash flows whenever significant events or changes occur which might indicate impairment of recorded costs. If undiscounted cash flows are insufficient to recover recorded costs, the Company writes down recorded costs of the assets to fair value (based on discounted cash flows or market values). Goodwill was adjusted in the first quarter of 1999 to reflect the final purchase price allocation of TechTeam Capital Group. In the fourth quarter of 1998, \$710,000 of impairment expense was recorded to write off the unamortized portion of goodwill related to the acquisitions of WebCentric Communications, Inc. and Drake Technologies, Inc. These assets were deemed impaired due to the loss of certain employees, the loss of certain contracts and the inability of the Company to recognize the expected synergies from the acquisitions.

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

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION:

Revenues from Corporate Services and OEM Call Center Services are recognized as services are performed. Revenues from TechTeam Capital Group are recognized as described in "Lease Accounting Policies" below. Revenues from product sales are recognized when title is transferred. The Company has also licensed customers to use its Support Portal, which includes the Company's Global Call Center, a call tracking software product. Revenues from these licenses are recognized in one of two ways: on a usage basis, when the licenses are granted in connection with on-going services; or as lump sum fees when the client acquires the rights to use and is allowed access to the Global Call Center without any on-going service obligation by the Company.

DEFERRED INCOME TAXES:

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

LEASE ACCOUNTING POLICIES:

As a lessor of equipment, the Company, through TechTeam Capital Group, accounts for leases under Statement of Financial Accounting Standards No. 13, "Accounting for Leases," principally as either direct financing or operating leases. Each of these types of leases, and its impact on the financial statements of TechTeam, is as follows:

Operating Leases

Equipment leased to others under operating leases is recorded at cost, less accumulated depreciation. In estimating depreciation, a residual amount is assumed. Residual is the estimated fair market value of the leased assets at the termination of the lease. In estimating residual, the Company relies largely on historical experience by equipment type and manufacturer, adjusted for known trends. The Company's estimates of residual are reviewed continuously to ensure realization; however, the amount the Company will ultimately realize could differ from these estimates.

Revenues from operating leases are recognized on a straight-line basis over the lease term.

Depreciation is recognized on a straight-line basis over the lease term.

Direct Financing Leases

Net investment in direct financing leases consists of the present value of the future minimum lease payments, the present value of the estimated residual, and initial direct costs.

Revenues consist of interest earned on the net investment. Revenues are recognized over the lease term as a constant percentage return on the net investment.

Initial direct financing costs are capitalized and amortized over the lease term.

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

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other

Additionally, the Company acts as a broker in arranging certain lease transactions and recognizes fees for such services as earned. In connection with certain transactions, the Company receives a share in the proceeds from the sale

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or re-lease of the equipment at lease termination. In certain of such cases, estimated residual values, referred to as "net investment in lease residuals," are recorded as revenue at discounted present values at the closing of the transaction. The excess of the actual residual value received by the Company over the discounted present value (unearned income) is recognized as revenue upon the sale or re-lease of the equipment at the termination of the lease.

STOCK OPTIONS:

TechTeam accounts for employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations.

USE OF ESTIMATES:

Preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates and assumptions made.

NEW ACCOUNTING STANDARDS

There are no recently issued accounting standards which have not been adopted by the Company and which are expected to have a significant effect on the Company.

NOTE B -- DESCRIPTION OF THE BUSINESS

The Company provides corporate services, call center services, and lease financing for high technology and capital equipment for major companies on an international scale. Revenues from clients which exceeded 10% of total revenues for any of the periods presented are summarized as follows.

| | YEAR ENDED DECEMBER | |
|-------------------------|---------------------|-----------|
| | (In thousands) | |
| | 2000 | 1999 |
| Ford Motor Company..... | \$ 40,062 | \$ 25,500 |
| DaimlerChrysler | 22,573 | 25,598 |
| GE TechTeam, L.P..... | 16,150 | 27,306 |

NOTE C -- ASSETS OF LEASING OPERATIONS

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The assets of the Company's leasing operations consist of:

| | DECEMBER 31, | |
|---|----------------|----------|
| | (In thousands) | |
| | 2000 | 1999 |
| Equipment leased to others under operating leases: | | |
| Cost..... | \$ 61,089 | \$ 56,12 |
| Less -- Accumulated depreciation..... | 25,514 | 14,60 |
| | \$ 35,575 | \$ 41,51 |
| Net investment in direct financing leases, consisting of: | | |
| Total minimum lease payments receivable..... | 3,952 | 6,20 |
| Estimated residual values of leased property | | |
| (unguaranteed)..... | 690 | 70 |
| Unearned income..... | (434) | (80 |
| Initial direct costs..... | 18 | 3 |
| | 4,226 | 6,13 |
| Net investment in lease residuals..... | 1,408 | 1,84 |
| Total | \$ 41,209 | \$ 49,50 |

Future lease revenues anticipated under noncancelable operating leases at December 31, 2000 are:

| YEAR | AMOUNT |
|------------|----------------|
| | (In thousands) |
| 2001..... | \$ 17,896 |
| 2002..... | 7,067 |
| 2003..... | 364 |
| 2004 | 64 |
| Total..... | \$ 25,391 |

Minimum lease payments receivable under direct financing leases at December 31, 2000 are:

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| YEAR | AMOUNT |
|------------|----------------|
| | (In thousands) |
| 2001..... | \$ 2,287 |
| 2002..... | 1,037 |
| 2003..... | 411 |
| 2004 | 206 |
| 2005 | 11 |
| Total..... | \$ 3,952 |

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

NOTE D -- LEASES

The Company leases its call center facilities, corporate and other offices and certain office equipment under noncancelable operating leases. These leases are renewable with various options and terms. Total rental expense was \$2,911,000 in 2000, \$2,829,000 in 1999 and \$2,842,000 in 1998. Minimum future payments under noncancelable operating leases with initial terms of one year or more at December 31, 2000 were:

| YEAR | AMOUNT |
|--------------------------|----------------|
| | (In thousands) |
| 2001..... | \$ 2,814 |
| 2002..... | 2,723 |
| 2003..... | 2,524 |
| 2004 | 2,128 |
| 2005 and thereafter..... | 2,345 |
| Total..... | \$ 12,534 |

NOTE E -- SHORT-TERM FINANCING ARRANGEMENTS

The Company has agreements with Bank One which provide for unsecured short-term borrowings of up to \$25,000,000 at the bank's prime rate. There were no borrowings under this line at December 31, 2000 or 1999.

NOTE F -- NOTES PAYABLE

Notes payable at December 31, consists of:

| | 2000 | 1999 |
|---|----------------|----------|
| | ----- | ----- |
| | (In thousands) | |
| Nonrecourse debt to financial institutions -- 6.0% - 12%..... | \$ 12,416 | \$ 17,80 |
| Nonrecourse debt to others -- 7.0% - 9.2%..... | 2,191 | 2,68 |
| Other..... | -- | 11 |
| Total | \$ 14,607 | \$ 20,59 |
| | ===== | ===== |

The Company finances a portion of its lease transactions by assigning the noncancelable rentals to various financial institutions and others on a nonrecourse basis. In the event of a default by the lessee under a lease which has been assigned on a nonrecourse basis, the holder has a first lien against the underlying equipment but has no further recourse against the Company.

At December 31, 2000 and 1999, the carrying value of the pledged assets was approximately \$19,000,000 and \$22,000,000, respectively.

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

NOTE F -- NOTES PAYABLE (continued)

Future minimum payments of notes payable are as follows:

| YEAR | AMOUNT |
|-------------|----------------|
| ----- | ----- |
| | (In thousands) |
| 2001 | \$ 9,790 |
| 2002 | 4,248 |
| 2003 | 363 |
| 2004 | 195 |
| 2005 | 11 |
| Total | \$ 14,607 |
| | ===== |

Interest paid on notes payable was \$1,429,000, \$880,000, and \$1,770,000 in 2000, 1999, and 1998 respectively.

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NOTE G -- EMPLOYEE RETIREMENT PLAN

The Company has a 401(k) Retirement Savings Plan which covers substantially all employees. Under the provisions of the Plan, the Company will match employee contributions in amounts up to 3% of gross compensation subject to statutory limitations; contributions were \$723,000 in 2000, \$718,000 in 1999, and \$697,000 in 1998. The Company's matching contributions are credited only to the National TechTeam Stock Fund for the benefit of each participant.

NOTE H -- TAX PROVISIONS

The provision (benefit) for income taxes consists of the following:

| | YEAR ENDED DECEMBER | |
|---------------------------------------|---------------------|----------------|
| | 2000 | 1999 |
| | | (In thousands) |
| Current: | | |
| U.S. Federal..... | \$ 2,087 | \$ 1,319 |
| State..... | 226 | 121 |
| Foreign..... | 379 | 105 |
| | \$ 2,692 | \$ 1,545 |
| Deferred (credit) - U.S. Federal..... | (447) | 172 |
| Total provision/(credit)..... | \$ 2,245 | \$ 1,717 |
| Tax payments..... | \$ 2,586 | \$ 1,050 |

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

NOTE H -- TAX PROVISIONS (continued)

A reconciliation of the Federal income tax provision and the amount computed by applying the Federal statutory income tax rate to income before Federal income tax follows:

| | YEAR ENDED DECEMBER | |
|--|---------------------|----------------|
| | 2000 | 1999 |
| | | (In thousands) |

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| | | | | |
|---|----|-------|----|-------|
| Income tax (credit) at Federal statutory rate of 34%..... | \$ | 1,492 | \$ | 1,097 |
| Goodwill, intangibles, and other permanent differences..... | | 323 | | 498 |
| Foreign tax credit..... | | 140 | | -- |
| State taxes net of federal benefit..... | | 149 | | 80 |
| Other..... | | 141 | | 42 |
| | | ----- | | ----- |
| | \$ | 2,245 | \$ | 1,717 |
| | | ===== | | ===== |

The provision for income taxes was calculated based on the following components of earnings before income taxes:

| | YEAR ENDED DECEMBER | |
|---------------|---------------------|----------------|
| | 2000 | 1999 |
| | | (In thousands) |
| Domestic..... | \$ 3,020 | \$ 2,944 |
| Foreign..... | 1,371 | 283 |
| | ----- | ----- |
| | \$ 4,391 | \$ 3,227 |
| | ===== | ===== |

The principal components of deferred income tax balances are as follows:

| | DECEMBER 31, | | |
|---|----------------|-------------|---------|
| | 2000 | | |
| | ASSETS | LIABILITIES | ASSETS |
| | ----- | ----- | ----- |
| | (In thousands) | | |
| Net operating loss carryforward | \$ -- | \$ -- | \$ 74 |
| Alternative minimum tax credit carryforward | 2,341 | -- | 1,75 |
| Allowance for uncollectible accounts receivable.. | 80 | -- | 10 |
| Global Call Center software..... | 731 | -- | 26 |
| Leasing accounting..... | 6,688 | 1,060 | 5,07 |
| Prepaid expenses..... | 82 | 39 | 20 |
| Accelerated tax depreciation..... | -- | 6,540 | -- |
| Other..... | 122 | 368 | 61 |
| | ----- | ----- | ----- |
| | \$ 10,044 | \$ 8,007 | \$ 8,75 |
| | ===== | ===== | ===== |

At December 31, 2000, for federal income tax purposes, the Company had a \$2,341,000 alternative minimum tax credit carryforward which does not expire.

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

NOTE H -- TAX PROVISIONS (continued)

No provision was made with respect to approximately \$500,000 of undistributed earnings of foreign subsidiaries at December 31, 2000, since these earnings are considered by the Company to be permanently reinvested. Upon distribution of these earnings, the Company would be subject to United States income taxes and foreign withholding taxes. Determining the unrecognized deferred tax liability on the distribution of these earnings is not practicable as such liability, if any, is dependent on circumstances existing when remittance occurs.

NOTE I -- ACQUISITIONS

In January 1998, TechTeam acquired all of the capital stock of Capricorn Capital Group, Inc. (now TechTeam Capital Group, Inc.) in exchange for a base consideration consisting of 350,000 unrestricted and 150,000 restricted shares of TechTeam common stock plus a contingent payment based upon TechTeam Capital Group, Inc.'s earnings performance in the three-year period following the acquisition. The base consideration was valued at \$4,875,000. The transaction has been accounted for as a purchase. Goodwill of \$3,186,000 resulting from the transaction is being amortized using the straight-line method.

NOTE J -- RELATED PARTY TRANSACTIONS

TechTeam was involved in the following related party transactions:

- a) Paid \$93,000 in 2000 for broker fees to a securities brokerage firm that employs a director of the Company.
- b) Paid \$103,000 in 2000 for consulting fees to a director of the Company.
- c) Paid legal fees of \$45,000 in 2000 to a law firm whose members include a director of the Company.
- d) The Company leased space and certain property and equipment to the GE Joint Venture in 1998. Rental income from these operating leases were \$467,000 in 1998. Effective January 1, 1999 all lease agreements for property and equipment used by the GE Joint Venture were transferred to the joint venture.

NOTE K -- STOCK OPTIONS

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under

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APB 25, when the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company's 1990 Nonqualified Stock Option Plan has authorized the grant of options to management personnel and others for up to 3,800,000 shares of the Company's common stock. Generally, options granted have six year terms and vest and become exercisable ratably over the first five years of their term.

Pro forma information regarding net income/(loss) and earnings/(loss) per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998 through 2000: a range of risk-free interest rates of 5% to 7% based on the expected life of the options; a volatility factor of the expected market price of the Company's common stock of .464, .774, and .776 in 2000, 1999, and 1998, respectively; and a weighted average expected life of three years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options

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

NOTE K -- STOCK OPTIONS (continued)

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

| | 2000 | 1999 |
|-------------------------------------|----------|----------------|
| | ----- | ----- |
| | | (In thousands) |
| Pro forma net income/(loss)..... | \$ 1,031 | \$ 20 |
| Pro forma earnings/(loss) per share | | |
| Basic..... | \$ 0.08 | \$ 0.00 |
| Diluted..... | \$ 0.08 | \$ 0.00 |

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The pro forma effect on net income in 1999 and 1998 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to stock option grants made prior to 1995. Assuming similar grants in future years, the pro forma effect is fully reflected in 2000.

A summary of the Company's stock option activity, and related information, follows:

| | TOTAL SHARES | EMPLOYEES | | DIRECTORS | |
|------------------------|-----------------|-----------|------------------|-----------|------------------|
| | | SHARES | AVERAGE PRICE | SHARES | AVERAGE PRICE |
| Outstanding at | | | | | |
| January 1, 1998..... | 1,240,326 | 1,108,198 | \$ 14.44 | 129,275 | \$19.00 |
| Granted..... | 154,000 | 114,000 | 9.83 | 40,000 | 10.00 |
| Exercised..... | (166,100) | (156,100) | 4.95 | (10,000) | 4.00 |
| Canceled..... | (219,625) | (219,625) | 15.40 | -- | -- |
| Outstanding at | | | | | |
| December 31, 1998..... | 1,008,601 | 846,473 | \$ 10.39 | 159,275 | \$ 9.00 |
| Granted..... | 519,800 | 414,800 | 5.51 | 30,000 | 6.00 |
| Exercised..... | (13,600) | (13,600) | 4.50 | -- | -- |
| Canceled..... | (357,587) | (303,312) | 14.39 | (54,275) | 14.00 |
| Outstanding at | | | | | |
| December 31, 1999..... | 1,157,214 | 944,361 | \$ 11.09 | 135,000 | \$15.00 |
| Granted..... | 337,000 | 187,000 | 5.50 | 60,000 | 5.00 |
| Exercised..... | (5,600) | (5,600) | 4.63 | -- | -- |
| Canceled..... | (135,427) | (135,427) | 8.82 | -- | -- |
| Outstanding at | | | | | |
| December 31, 2000..... | 1,353,187 (1) | 990,334 | \$ 10.43 | 195,000 | \$12.00 |
| | ===== | ===== | | ===== | |

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

NOTE K -- STOCK OPTIONS (continued)

(1) The following table summarizes certain information about stock options outstanding at December 31, 2000:

| OPTIONS OUTSTANDING | | | | OPTION |
|--|-------------------------------------|---|--|-------------------------------------|
| RANGE OF PER SHARE EXERCISE PRICES | NUMBER OF OPTIONS OUTSTANDING | WEIGHTED - AVERAGE REMAINING EXERCISE PERIOD | WEIGHTED - AVERAGE PER SHARE EXERCISE PRICE | NUMBER OF OPTIONS EXERCISABLE |
| \$ 3.51 - \$ 7.71 | 797,508 | 3.2 | \$ 5.62 | 212,649 |
| 8.25 - 13.75 | 304,000 | 2.6 | 9.88 | 100,983 |
| 22.63 - 25.75 | 248,826 | 1.7 | 25.38 | 169,203 |
| 35.05 | 2,853 | 0.5 | 35.05 | 2,496 |

The Company granted options to purchase 90,000 and 75,000 shares of common stock to consultants in 2000 and 1999 respectively. The estimated fair value of such options was expensed over the contract benefit period.

NOTE L -- STOCK REPURCHASE PROGRAMS

The company has acquired shares of its common stock in connection with stock repurchase programs. In 1998, the Company repurchased 3,142,000 shares for \$28,195,000. During 1999, the Company repurchased 402,100 shares for \$2,497,000.

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.

NOTE M -- 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. TechTeam's chief operating decision making group is the Policy Committee, which is comprised of the President and the lead executives of each of TechTeam's operating segments. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products.

The Company's reportable operating segments include Corporate Service (consisting of corporate help desk services, technical staffing, systems integration, and training programs), OEM Call Center Services and leasing operations . (See Item 1. Business Overview for a description of each business segment.)

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The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. TechTeam evaluates performance based on stand alone operating segment gross profit.

| CORPORATE SERVICES | | | | | | |
|-------------------------------------|------------------------------------|-----------------------|------------------------|----------------------|-----------|---------------------------|
| | CORPORATE HELP DESK SERVICES | TECHNICAL STAFFING | SYSTEMS INTEGRATION | TRAINING PROGRAMS | TOTAL | OEM CA CENTE SERVIC |
| (In thousands) | | | | | | |
| 2000 | | | | | | |
| Revenues..... | \$ 45,706 | \$ 17,305 | \$ 14,161 | \$ 3,485 | \$ 80,657 | \$ 16,1 |
| Gross profit..... | 14,227 | 2,629 | 4,194 | 400 | 21,450 | 1,7 |
| Depreciation and amortization... | 1,095 | 582 | 70 | 138 | 1,885 | 1 |
| Segment assets.... | 12,090 | 4,439 | 2,501 | 1,049 | 20,079 | 1,0 |
| Expenditures for property..... | 1,853 | 985 | 119 | 234 | 3,191 | |
| 1999 | | | | | | |
| Revenues..... | \$ 37,013 | \$ 21,763 | \$ 21,358 | \$ 4,888 | \$ 85,022 | \$ 27,3 |
| Gross profit..... | 7,909 | 4,598 | 3,720 | 201 | 16,428 | 2,0 |
| Depreciation and amortization... | 3,339 | 181 | 143 | 541 | 4,204 | |
| Segment assets.... | 9,023 | 4,735 | 6,142 | 948 | 20,848 | 4,8 |
| Expenditures for property..... | 251 | 137 | 13 | 60 | 461 | |
| 1998 | | | | | | |
| Revenues..... | \$ 30,672 | \$ 25,716 | \$ 14,436 | \$ 6,622 | \$ 77,446 | \$ 25, |
| Gross profit..... | 3,720 | 5,040 | 2,920 | 305 | 11,985 | 1, |
| Depreciation and amortization... | 3,013 | 467 | 175 | 594 | 4,249 | |
| Segment assets.... | 16,070 | 6,895 | 6,119 | 2,126 | 31,210 | 8, |
| Expenditures for property..... | 643 | 539 | 303 | 139 | 1,625 | |

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

NOTE M -- 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:

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| | 2000 | 1999 |
|---|------------|----------------|
| | ----- | ----- |
| | | (In thousands) |
| Depreciation and amortization | | |
| Total for reportable segments..... | \$ 22,358 | \$ 19,072 |
| Total of Corporate assets..... | 3,796 | 2,322 |
| | ----- | ----- |
| Total depreciation and amortization..... | \$ 26,154 | \$ 21,394 |
| Assets | | |
| Total assets for reportable segments..... | \$ 66,860 | \$ 84,632 |
| Corporate assets..... | 33,914 | 27,675 |
| | ----- | ----- |
| Total assets..... | \$ 100,774 | \$ 112,307 |
| | ===== | ===== |

Revenues in Europe were \$10,216,000, \$6,404,000 and \$3,053,000 in 2000, 1999, and 1998, respectively. At December 31, 2000 and 1999 assets located in Europe were \$4,705,000 and \$2,914,000 which includes long-lived assets of \$867,000 and \$372,000, respectively.

NOTE N -- SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly consolidated results of operations are summarized as follows:

| | QUARTER ENDED | | |
|----------------------------------|-----------------------------------|-----------|---------------|
| | MARCH 31, | JUNE 30, | SEPTEMBER 30, |
| | ----- | ----- | ----- |
| | (In thousands, except per share d | | |
| 2000 | | | |
| Revenues..... | \$ 31,977 | \$ 32,959 | \$ 30,000 |
| Gross profit..... | 6,233 | 7,955 | 6,890 |
| Income before tax provision..... | 638 | 2,072 | 1,120 |
| Net income..... | 341 | 1,111 | 600 |
| Earnings per share..... | 0.03 | 0.08 | 0.00 |
| 1999 | | | |
| Revenues..... | \$ 34,087 | \$ 34,268 | \$ 33,950 |
| Gross profit..... | 5,683 | 6,662 | 5,890 |
| Income before tax provision..... | 342 | 1,001 | 770 |
| Net income..... | 226 | 660 | 480 |
| Earnings per share..... | 0.02 | 0.05 | 0.00 |

Quarterly earnings per share may not add to annual earnings per share because of rounding and shares issued or repurchased during the year.

Changes in the effective tax rate had the effect of decreasing fourth quarter 1999 net income by approximately \$291,000.

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

NOTE O -- 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.

NOTE P -- PREFERRED SHARE PURCHASE RIGHTS

On April 29, 1997, the Company's Board of Directors authorized the distribution of one Preferred Share Purchase Right ("Right") for each outstanding share of Common Stock of the Company. The terms of the rights plan are described in the Rights Agreement between the Company and U.S. Stock Transfer Corporation, dated May 6, 1997, as amended August 24, 1999. Each Right entitles shareholders to buy one one-hundredth of a share of a new series of preferred stock at a price of \$80.

As distributed, the Rights trade together with the Common Stock of the Company and do not have any separate voting powers. They may be exercised or traded separately only after the earlier to occur of the following: (1) 10 days after any person or group of persons acquires 15% or more of the Company's Common Stock, (2) 10 business days after a person or group of persons announces an offer which, if completed, would result in its owning 15% or more of the Company's Common Stock, or (3) promptly after a declaration by the Board that a person who acquires 15% or more of the Company's Common Stock is an "Adverse Person" as defined by the Rights Agreement. Additionally, if the Company is acquired in a merger or other business combination, each Right will entitle its holder to purchase, at the Right's exercise price, shares of the acquiring Company's Common Stock (or stock of the Company if it is the surviving corporation) having a market value of twice the Right's exercise price.

The Rights may be redeemed at the option of the Board of Directors for \$.01 per Right at any time before a person or group of persons accumulates 15% or more of the Company's Common Stock. At any time after a person or group of persons acquires 15% but before the person or group of persons has acquired 50% of outstanding shares of Common Stock, the Board may exchange each Right for one share of Common Stock. The Board may amend the Rights at any time without shareholder approval. The Rights will expire by their terms on May 6, 2007.

NOTE Q -- SALE OF INTEREST IN GE TECHTEAM, L.P.

On August 22, 2000, the Company sold its 47% interest in the GE TechTeam, LP and its 49% membership interest in Support Central, LLC to the majority partner, GE Warranty Management, Inc. (GEWM). The Company recorded a pre-tax gain of \$322,000 on this transaction. The Company will no longer provide staffing services to GEWM. The Company has entered into an arrangement with GEWM to provide call center technology services, which include ongoing call center software maintenance, upgrades and customization.

Until the date of sale, TechTeam shared in profits and losses of the GE Joint Venture OEM call center services business based on its partnership interest. Such revenue sharing amounted to earnings of \$331,000 for the year ended December 31, 2000, losses of \$315,000 for the year ended December 31, 1999 and earnings of \$144,000 for the year ended December 31, 1998. In 1999, the GE Joint Venture changed its overhead allocation method, but such change was not agreed

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to by the Company. The change in 1999 resulted in an additional \$531,000 of costs to National TechTeam previously borne by GE Appliances. In the quarter ended September 30, 2000 the change in the allocation method was reversed. The effect of the reversal increased National TechTeam's share in partnership revenue by \$531,000.

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ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

There were no changes in accountants, disagreements, or other events requiring reporting under this Item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required is set forth under the caption "Election of Directors and Management Information" in the Proxy Statement relating to the 2000 Annual Meeting of Shareholders to be held on May 9, 2001, which is incorporated herein by reference.

Information required pertaining to compliance with Section 16(a) of the Securities and Exchange Act of 1934 is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement relating to the 2000 Annual Meeting of Shareholders to be held on May 9, 2001, which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required is set forth under the caption "Compensation of Executive Officers" in the Proxy Statement relating to the 2000 Annual Meeting of Shareholders to be held on May 9, 2001, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required is set forth under the caption "Election of Directors and Management Information -- Security Ownership of Certain Beneficial Holders and Management" in the Proxy Statement relating to the 2000 Annual Meeting of Shareholders to be held on May 9, 2001, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required is set forth under the caption "Compensation of Executive Officers -- Certain Relationships and Related Transactions" in the Proxy Statement relating to the 2000 Annual Meeting of Shareholders to be held on May 9, 2001, which is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a) Certain documents filed as part of the Form 10-K.

See Item 8. Financial Statements and Supplementary Data and (d) below.

b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the last quarter of year ended December 31, 2000.

c) Exhibits required by Item 601 of Regulation S-K.

The response to this portion of Item 14 is submitted as a separate section of this Report under the caption, Index of Exhibits.

d) Financial statement schedules required by Regulation S-X.

The response to this portion of Item 14 is submitted as a separate section of this Report under the caption, Item 8. Financial Statements and Supplementary Data.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL TECHTEAM, INC.

Date: March 26, 2001

By: /s/M. Anthony Tam

M. Anthony Tam
President, Chief Executive
Officer and Chief Financial
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on March 26, 2001.

/s/M. Anthony Tam

M. Anthony Tam

Director, President, Chief
Executive Officer and Chief Financial
Officer

/s/Kim A. Cooper

Director

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Kim A. Cooper

/s/Peter T. Kross Director

Peter T. Kross

/s/Wallace D. Riley Director

Wallace D. Riley

/s/Richard G. Somerlott Director

Richard G. Somerlott

/s/Jerome B. York Director

Jerome B. York

/s/Ronald T. Wong Director

Ronald T. Wong

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INDEX OF EXHIBITS

All exhibits listed below that include a * indicate exhibits that are incorporated by reference. See the footnotes following the list of exhibits to locate those exhibits. All other exhibits are filed as part of this Form 10-K Report.

| EXHIBIT NUMBER | EXHIBIT |
|-------------------|---|
| 2.1 | Agreement and Plan of Merger dated January 19, 1998 by and between David M. Sachse, Capricorn Capital Group, Inc., BM Woodbridge Place 104, Inc. and National TechTeam Inc. |
| 2.1(a) | Sale of Certain Assets of TechTeam Capital Group, LLC to Newco Consultants, LLC, effective March 31, 2000 |
| 2.2 | Limited Partnership Agreement of GE TechTeam, L.P. (formerly Support Central, L.P.) dated as of October 1, 1997. |
| 2.2(a) | Amendment No. 1 to Limited Partnership Agreement of Support Central, L.P. |

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- 2.2(b) Global Agreement By and Among National TechTeam Inc., GE TechTeam, L.P., Support Central, L.L.C. , and GE Warranty Management, Inc. dated August 22, 2000.
- 3.1 Certification of Incorporation of National TechTeam, Inc. filed with the Delaware Secretary of State on September 14, 1987.
- 3.2 Certificate of Amendment dated November 27, 1987 to the Company's Certification Incorporation to change the par value from \$.001 to \$.01 per share.
- 3.3 Bylaws of National TechTeam, Inc. as Amended and Restated May 26, 1998.
- 4.1 Rights Agreement dated as of May 6, 1997, between National TechTeam, Inc. and U. Stock Transfer Corporation, as Rights Agent, which includes as Exhibit A thereto the Form of Certificate of Designations, as Exhibit B thereto the Form of Right Certificate, and as Exhibit C thereto the Summary of Rights to Purchase Preferred Stock.
- 10.1 Lease Agreement for office space in Southfield, Michigan known as the Cumberland Tech Center between the Company and Eleven Inkster Associates dated September 29, 1993.
- 10.2 Lease Amendment for office space in Southfield, Michigan known as the Cumberland Tech Center between the Company and Eleven Inkster Associates dated December 7, 1993.
- 10.3 Lease Amendment for office space in Southfield, Michigan known as the Cumberland Tech Center between the Company and Eleven Inkster Associates dated January 23, 1995.
- 10.4 Lease for office space in Troy, Michigan known as Troy Officenter B between the Company and WRC Properties, Inc. dated November 16, 1995.
- 10.5 Third Amendment Lease Agreement dated March 29, 1996 for office space in Southfield, Michigan between Eleven Inkster Associates and the Company.
- 10.6 Fourth Lease Amendment for office space in Southfield, Michigan between Eleven Inkster Associates and the Company dated March 13, 2000.

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INDEX OF EXHIBITS (continued)

All exhibits listed below that include a * indicate exhibits that are incorporated by reference. See the footnotes following the list of exhibits to locate those exhibits. All other exhibits are filed as part of this Form 10-K Report.

EXHIBIT
NUMBER

EXHIBIT

-
- 10.7 Sublease for office space in Southfield, Michigan known as the Cumberland Tech Center between Dura Operating Corporation and the Company dated August 13, 2000.
 - 10.9 Lease for office space in Dearborn, Michigan between the Company and Dearborn Associates Limited Partnership dated November 18, 1996.
 - 10.10 Lease Agreement for office space in Davenport, Iowa known as the 1010 Shopping Center between the Company and Partnership 1010, LLP dated August 28, 1999.
 - 10.11 Asset Purchase Agreement between General Electric Company and National TechTeam, dated March 31, 1998 relating to the sale and transfer by TechTeam of its OEM center contracts with Hewlett-Packard Corporation and 3Com Corporation.
 - 10.12 Credit Authorization Agreement in the principal amount of \$25,000,000 between the Company and NBD Bank dated May 29, 1998.
 - 10.13 Employment Agreement dated as of January 1, 1999 between National TechTeam, Inc. Harry A. Lewis.
 - 10.14 Employment Agreement dated as of January 1, 1999 between National TechTeam, Inc. William F. Coyro Jr.
 - 10.15 1990 Nonqualified Stock Option Plan.
 - 10.16 1996 Nonemployee Directors Stock Plan.
 - 10.17 Supplemental Retirement Plan dated October 1, 2000.
 - 10.18 Senior Management bonus Plan dated June 14, 2000.
 - 21 List of subsidiaries of National TechTeam, Inc.
 - 23.1 Consent of Ernst & Young LLP
-

INDEX OF EXHIBITS (continued)

- *1 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.
- *2 Incorporated by reference to the Company's Registration Statement on Form S-4 (Registration No. 33-26689), filed as Exhibit 3.2 thereto.
- *3 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, filed as Exhibit 4.14 thereto.
- *4 Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1993.

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- *5 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
- *6 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
- *7 Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-10687.)
- *8 Incorporated by reference to the Company's Annual Report on Form 10-K dated December 31, 1996.
- *9 Incorporated by reference to the Company's Registration Statement on Form 8-A dated May 9, 1997.
- *10 Incorporated by reference to the Company's Report on Form 8-K dated February 13, 1998.
- *11 Incorporated by reference to the Company's Annual Report on Form 10-K dated December 31, 1997.
- *12 Incorporated by reference to the Company's Report on Form 10-K dated March 31, 1998.
- *13 Incorporated by reference to the Company's Report on Form 10-K dated March 31, 1999.
- *14 Incorporated by reference to the Company's Report on Form 10-Q dated May 15, 2000.