TECHTEAM GLOBAL INC
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2008
Commission File Number: 0-16284
TECHTEAM GLOBAL, INC.
(Exact name of registrant as specified in its charter)

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

27335 West 11 Mile Road, Southfield, MI 48033
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: **(248) 357-2866**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the registrant s common stock outstanding at November 1, 2008 was 10,884,023.

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PART 1 FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS
TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenue				
Commercial				
IT Outsourcing Services	$ 30,452	$ 25,918	$ 91,154	$ 75,271
IT Consulting and Systems Integration	6,338	6,746	21,283	20,580
Other Services	5,406	5,369	19,358	14,239
Total Commercial	42,196	38,033	131,795	110,090
Government Technology Services	21,988	21,118	66,230	47,798
Total revenue	64,184	59,151	198,025	157,888
Cost of revenue				
Commercial				
IT Outsourcing Services	22,834	19,111	68,477	56,007
IT Consulting and Systems Integration	4,988	5,211	16,702	15,869
Other Services	4,189	3,998	14,911	10,581
Total Commercial	32,011	28,320	100,090	82,457
Government Technology Services	16,014	15,189	48,247	34,604
Total cost of revenue	48,025	43,509	148,337	117,061
Gross profit				
Commercial	10,185	9,713	31,705	27,633
Government Technology Services	5,974	5,929	17,983	13,194
Total gross profit	16,159	15,642	49,688	40,827
Selling, general and administrative expense	12,373	11,916	39,839	33,739
Restructuring charges			3,884	
Operating income	3,786	3,726	5,965	7,088
Net interest expense	(425)	(413)	(1,291)	(183)
Foreign currency transaction loss	(277)	(20)	(46)	(18)
Income before income taxes	3,084	3,293	4,628	6,887
Income tax provision	1,175	1,218	2,866	2,396
Net income	$ 1,909	$ 2,075	$ 1,762	$ 4,491

Basic earnings per common share	$ 0.18	$ 0.20	$ 0.17	$ 0.43
Diluted earnings per common share	$ 0.18	$ 0.20	$ 0.17	$ 0.43
Weighted average number of common shares and common share equivalents outstanding				
Basic	10,566	10,363	10,514	10,331
Diluted	10,592	10,519	10,540	10,518

See accompanying notes.

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TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 15,871	$ 19,431
Accounts receivable (less allowance of $609 at September 30, 2008 and $611 at December 31, 2007)	56,443	69,627
Prepaid expenses and other current assets	4,986	5,290
Total current assets	77,300	94,348
Property, equipment and software, net	9,529	10,562
Goodwill and other intangible assets, net	79,287	76,686
Other assets	651	573
Total assets	$ 166,767	$ 182,169
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	$ 8,083	$ 5,850
Accounts payable	6,339	20,952
Accrued payroll and related taxes	12,792	14,237
Accrued expenses	5,646	8,317
Other current liabilities	1,658	1,819
Total current liabilities	34,518	51,175
Long-term liabilities		
Long-term debt, less current portion	29,762	31,167
Deferred income taxes	1,740	1,738
Other long-term liabilities	872	1,058
Total long-term liabilities	32,374	33,963
Shareholders equity		
Preferred stock, 5,000,000 shares authorized, no shares issued		
Common stock, $0.01 par value, 45,000,000 shares authorized, 10,849,023 and 10,693,488 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	108	107
Additional paid-in capital	77,371	75,364

Retained earnings		20,153		18,391
Accumulated other comprehensive income		2,243		3,169
Total shareholders equity		99,875		97,031
Total liabilities and shareholders equity	$	166,767	$	182,169

See accompanying notes.

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TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2008	**2007**
Operating activities		
Net income	$ 1,762	$ 4,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,813	4,974
Non-cash expense related to stock options and issuance of common stock and restricted common stock	1,663	1,024
Other	55	87
Changes in current assets and liabilities	(4,774)	(9,061)
Changes in long-term assets and liabilities	(699)	(419)
Net operating cash flow from discontinued operations		(3)
Net cash provided by operating activities	3,820	1,093
Investing activities		
Purchase of property, equipment and software	(2,101)	(2,417)
Cash paid for acquisitions, net of cash acquired	(5,958)	(46,946)
Net cash used in investing activities	(8,059)	(49,363)
Financing activities		
Proceeds from issuance of long-term debt	5,000	36,500
Proceeds from issuance of common stock	351	787
Tax (expense) benefit from stock options	(5)	102
Payments on long-term debt	(4,227)	(4,559)
Net cash provided by financing activities	1,119	32,830
Effect of exchange rate changes on cash and cash equivalents	(440)	412
Decrease in cash and cash equivalents	(3,560)	(15,028)
Cash and cash equivalents at beginning of period	19,431	30,082
Cash and cash equivalents at end of period	$ 15,871	$ 15,054

See accompanying notes.

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

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by TechTeam Global, Inc. (TechTeam or the Company) in accordance with United States generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Note 2 Comprehensive Income

Comprehensive income (loss) is defined as net income and all non-ownership changes in shareholders equity. For the Company, comprehensive income (loss) for the periods presented consists of net income, the foreign currency translation adjustment and net unrealized gain (loss) on derivative instruments. A summary of comprehensive income (loss) for the periods presented is as follows:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(In thousands)			
Comprehensive Income (Loss)				
Net income	$ 1,909	$ 2,075	$ 1,762	$ 4,491
Other comprehensive income (loss)				
Foreign currency translation adjustment	(2,235)	849	(1,031)	1,400
Unrealized gain (loss) on derivative instruments	119	(298)	105	(464)
Comprehensive income (loss)	$ (207)	$ 2,626	$ 836	$ 5,427

Note 3 Earnings Per Share

Earnings per share for common stock is computed using the weighted average number of common shares and common share equivalents outstanding. Common share equivalents consist of stock options, unvested restricted stock and shares held in escrow in connection with the Company s acquisition of RL Phillips, Inc.

The computation of diluted earnings per share for each period presented excludes various stock options because the exercise prices of the options were higher than the average market price of the Company s common stock for the respective period. Stock options excluded for the three months ended September 30, 2008 and 2007 totaled 1,740,700 and 400,400, respectively. Stock options excluded totaled 1,494,400 and 386,400 for the nine months ended September 30, 2008 and 2007, respectively.

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

Note 4 Restructuring

On May 28, 2008, the Company announced corporate-wide organizational realignment and restructuring actions to improve the Company s operating efficiency, achieve greater global consistency and drive improved financial performance. The restructuring and business improvement plan was approved by the Company s Board of Directors on May 21, 2008. During the second quarter of 2008, the Company recorded a $3,884,000 pre-tax charge associated with the restructuring plan, which was primarily related to separation costs for approximately 50 employees. No additional charges were recorded in the third quarter of 2008.

The following table summarizes the accrued charges related to the restructuring:

	Accrued Restructuring Charges at December 31, 2007	Adjustments to Accrued Restructuring Charges	Cash Payments	Accrued Restructuring Charges at September 30, 2008
	(In thousands)			
Workforce reductions	$	$ 3,540	$ (3,280)	$ 260
Other		344	(134)	210
Total	$	$ 3,884	$ (3,414)	$ 470

The following table summarizes the restructuring charges by operating segment:

	Accrued Restructuring Charges at December 31, 2007	Adjustments to Accrued Restructuring Charges	Cash Payments	Accrued Restructuring Charges at September 30, 2008
	(In thousands)			
Restructuring charges				
Commercial				
IT Outsourcing Services	$	$ 791	$ (754)	$ 37
IT Consulting and Systems Integration		56	(56)	
Other Services		15	(15)	
Total Commercial		862	(825)	37
Government Technology Services		599	(412)	187
Selling, general and administrative expense		2,423	(2,177)	246
Total restructuring charges	$	$ 3,884	$ (3,414)	$ 470

Note 5 Property, Equipment and Software

Long-lived assets are evaluated for impairment when events occur or circumstances indicate that the remaining estimated useful lives may warrant revision or that the remaining balances may not be recoverable. When this occurs, an estimate of undiscounted cash flows is used to determine if the remaining balances are recoverable. The Company has attempted to implement certain software over the last two years that was not fully implemented due to problems with the functionality of the software. The Company determined that the software purchased does not provide the functionality promised and required. The vendor has agreed to replace the software with another product that will provide the necessary functionality without additional cost to the Company. Based upon this evaluation, the Company does not believe this asset is impaired.

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

Note 6 Long-Term Debt

In 2007, the Company entered into a five-year, secured credit agreement (Credit Agreement) with JPMorgan Chase Bank, N.A. (JPMorgan Chase) and LaSalle Bank Midwest, N.A. (now called Bank of America, N.A.) under which the Company may borrow up to $40,000,000 for the issuance of letters of credit and loans. On June 5, 2008, the Company and the banks amended the Credit Agreement to permit borrowings up to $55,000,000. In addition, the Applicable Margin on a LIBOR-based loan was modified from a range of 0.75%-1.5% to a range of 0.95%-1.45%, and the unused commitment fee increased from a range of 0.1%-0.25% to a range of 0.15%-0.25%. Borrowings under the Credit Agreement are currently secured by substantially all domestic assets of the Company and 65% of its interests in the majority of its foreign subsidiaries. The Credit Agreement terminates on May 31, 2012.

Note 7 Acquisitions

Onvaio LLC

On May 30, 2008, TechTeam Global, Inc. completed the acquisition of Onvaio LLC (Onvaio), a California limited liability company. Onvaio is a provider of technical support outsourcing services for clients globally through its wholly-owned subsidiary, Onvaio Asia Services, Inc., based in Manila, Philippines. The purchase price totaled $4,910,000 and included acquisition costs of $379,000. In addition to the initial purchase price, which was paid at closing, an additional $1,500,000 was placed into an escrow account and is payable in increments of $125,000 on the last day of each fiscal quarter provided that Onvaio is still providing services to its largest customer in substantially the same form and content as provided at closing. This additional amount is being recorded as goodwill as it is earned. The allocation of the purchase price to assets acquired and liabilities assumed is currently an estimate and may change in future periods when the final valuation of intangible assets is completed.

RL Phillips, Inc.

On August 31, 2007, TechTeam Global, Inc., through its wholly-owned subsidiary TechTeam Government Solutions, Inc., completed the acquisition of all the outstanding common stock of RL Phillips, Inc. (RL Phillips) for approximately $2,150,000. Of the total purchase price, $300,000 was paid in shares of TechTeam common stock, which was placed into escrow for a period of three years after closing to reimburse the Company for any claims for indemnity or breach of representation and warranties. Furthermore, $100,000 was held back and is scheduled to be paid in equal installments on the first and second anniversary of the date of acquisition. On August 31, 2008, $50,000 was paid to the selling shareholders.

NewVectors LLC

On May 31, 2007, TechTeam Global, Inc., through its wholly-owned subsidiary TechTeam Government Solutions, Inc., completed the acquisition of all of the outstanding membership interest in NewVectors LLC (NewVectors), for approximately $40,586,000. Of the total purchase price, $4,000,000 was placed into escrow for a period of one year after closing to reimburse the Company for any claims for indemnity or breach of representation and warranties. On May 31, 2008, the amount held in escrow was released in its entirety.

SQM Sverige AB

On February 9, 2007, TechTeam Global, Inc., through its wholly-owned subsidiary TechTeam Global AB, completed the acquisition of all of the outstanding stock of SQM Sverige AB (SQM) for approximately SEK 37,032,000. In connection with the acquisition, the selling shareholders had the potential to receive SEK 4,200,000 (equal to $600,000 at the acquisition date), subject to SQM s achievement of a defined revenue target for the 2007 calendar year. The selling shareholders received SEK 4,200,000 (equal to $660,000 on the date of payment) in April 2008 as a result of achieving the revenue target. The additional consideration was recorded as goodwill when it was earned in 2007.

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

Note 7 Acquisitions (continued)

Pro Forma Results of Operations

The unaudited pro forma condensed combined results of operations are presented below as though NewVectors had been acquired on January 1, 2007. The pro forma condensed combined results of operations for Onvaio, RL Phillips and SQM are not materially different than reported results and are not presented.

	Nine Months Ended September 30, 2007 (In thousands, except per share)
Revenue	
As reported	$ 157,888
Pro forma	$ 172,019
Net income	
As reported	$ 4,491
Pro forma	$ 4,956
Diluted earnings per common share	
As reported	$ 0.43
Pro forma	$ 0.47

Note 8 Stock-Based Compensation

The Company measures and recognizes compensation expense for all stock-based payment awards based on the estimated fair value of the award. Compensation expense is recognized over the period during which the recipient is required to provide service in exchange for the award. Stock-based compensation expense recognized in each period is based on the value of the portion of the share-based award that is ultimately expected to vest during the period. The Company s outstanding stock-based awards consist of stock options and restricted stock.

Stock Options

The Company recorded compensation expense totaling $296,000 and $146,000 related to outstanding options during the three months ended September 30, 2008 and 2007, respectively, and compensation expense totaling $843,000 and $614,000 during the nine months ended September 30, 2008 and 2007, respectively. At September 30, 2008 and 2007, there was approximately $3,243,000 and $1,390,000, respectively, of unrecognized compensation expense related to stock options. Unrecognized compensation expense at September 30, 2008, is expected to be recognized over a weighted-average period of approximately three years.

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

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

Note 8 Stock-Based Compensation (continued)

The following assumptions were used to estimate the fair value of options granted for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
	2008	**2007**
Expected dividend yield	0.0%	0.0%
Weighted average volatility	37%	35%
Risk free interest rate	1.8% 3.4%	4.5% 5.0%
Expected term (in years)	3.1	3.0

Restricted Common Stock

Compensation expense related to restricted stock under all plans is recorded on a straight-line basis over the vesting period. The Company recorded compensation expense of approximately $199,000 and $165,000 related to outstanding shares of restricted stock under all plans for the three months ended September 30, 2008 and 2007, respectively, and compensation expense of approximately $674,000 and $301,000 for the nine months ended September 30, 2008 and 2007, respectively.

The weighted average grant-date fair value of restricted stock granted under all plans was $9.44 and $12.00 for the three months ended September 30, 2008 and 2007, respectively. The weighted average grant-date fair value of restricted stock granted under all plans was $9.03 and $12.95 for the nine months ended September 30, 2008 and 2007, respectively. The fair value of restricted stock awards granted under all plans was determined based on the closing trading price of the Company s common stock on the date of grant.

At both September 30, 2008 and 2007, there was approximately $2,300,000 of total unrecognized compensation expense related to non-vested shares of restricted stock. Unrecognized compensation expense at September 30, 2008, is expected to be recognized over a weighted average period of approximately three years.

Compensation expense for the nine months ended September 30, 2007, includes $366,000 of expense associated with 110,000 stock options that were granted to directors on June 23, 2006, and approved by shareholders on May 16, 2007. This award was accounted for as a liability award under a share-based payment arrangement, and therefore, the fair value of the award was remeasured at each reporting date until the date of settlement on May 16, 2007, when the final amount of compensation expense was measured. No compensation expense was recorded for this award during the nine months ended September 30, 2008. Compensation expense for the nine months ended September 30, 2008, includes $254,000 of expense related to the accelerated vesting of all non-vested restricted stock awards and modification of the exercise period of vested stock options granted to the Company s former President and Chief Executive Officer, William C. Brown, in accordance with Mr. Brown s amended Employment and Noncompetition Agreement.

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TECHTEAM GLOBAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 9 Income Taxes

At September 30, 2008 and December 31, 2007 the Company had an unrecognized tax benefit of approximately $45,000 and $52,000, respectively. The Company recognizes accrued interest related to unrecognized tax benefits as a component of interest expense and recognizes penalties as a component of selling, general and administrative expense. During the three and nine months ended September 30, 2008 and 2007, interest and penalties recognized in the financial statements were not material. The Company had no material accruals for the payment of interest and penalties at September 30, 2008 and December 31, 2007.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. The Internal Revenue Service (IRS) commenced an examination of the Company s 2004 U.S. federal income tax return in the first quarter of 2007, which was completed in the second quarter of 2008. The following table summarizes tax years that remain subject to examination by major tax jurisdictions:

Major Jurisdiction	**Open Years**
U.S. Federal income taxes	2004 through 2007
U.S. State income taxes	2003 through 2007
Foreign income taxes	2002 through 2007

For the three months ended September 30, 2008, the consolidated effective tax rate of 38.1% differs from the statutory tax rate of 34.0% primarily due to state income taxes, foreign operating losses for which a tax benefit is not recorded and nondeductible expenses. The Company recorded State of Michigan income tax expense of $128,000 for the third quarter of 2008. Prior to 2008, the State of Michigan had a value-added tax called the Single Business Tax that was not considered an income tax and was, therefore, included in SG&A expense. Single Business Tax included in SG&A expense totaled $162,000 in the third quarter of 2007. For the three months ended September 30, 2007, the consolidated effective tax rate of 37.0% differs from the statutory tax rate of 34.0% primarily due to state income taxes, foreign operating losses for which a tax benefit is not recorded and nondeductible expenses.

For the nine months ended September 30, 2008, the consolidated effective tax rate of 61.9% differs from the statutory tax rate of 34.0% primarily due to foreign operating losses for which a tax benefit is not recorded and non-deductible expenses. The level of foreign operating losses was made worse during the second quarter of 2008 because a significant portion of the Company s restructuring charge was incurred in countries with historical operating losses. The Company recorded State of Michigan income tax expense of $470,000 for the nine months ended September 30, 2008. Prior to 2008, the State of Michigan had a value-added tax called the Single Business Tax that was not considered an income tax and was, therefore, included in SG&A expense. Single Business Tax included in SG&A expense totaled $402,000 for the nine months ended September 30, 2007. For the nine months ended September 30, 2007, the consolidated effective tax rate of 34.8% differs from the statutory tax rate of 34.0% primarily due to state income taxes and nondeductible expenses, which are partially offset by the tax benefit of tax rates in certain foreign countries that are lower than 34%.

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

Note 10 Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company s chief operating decision-making group is the Executive Leadership Team, whose members include all executive officers of the Company. The Company evaluates segment performance primarily based on external revenue and segment gross profit.

The operating segments and their accounting policies are the same as those described in Note 1 to the Company s consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, and herein. The Company does not allocate assets to operating segments but allocates certain amounts of depreciation and amortization expense to operating segments. Financial information for the Company s operating segments is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Revenue				
Commercial				
IT Outsourcing Services	$ 30,452	$ 25,918	$ 91,154	$ 75,271
IT Consulting and Systems Integration	6,338	6,746	21,283	20,580
Other Services	5,406	5,369	19,358	14,239
Total Commercial	42,196	38,033	131,795	110,090
Government Technology Services	21,988	21,118	66,230	47,798
Total revenue	$ 64,184	$ 59,151	$ 198,025	$ 157,888
Gross Profit				
Commercial				
IT Outsourcing Services	$ 7,618	$ 6,807	$ 22,677	$ 19,264
IT Consulting and Systems Integration	1,350	1,535	4,581	4,711
Other Services	1,217	1,371	4,447	3,658
Total Commercial	10,185	9,713	31,705	27,633
Government Technology Services	5,974	5,929	17,983	13,194
Total gross profit	16,159	15,642	49,688	40,827
Selling, general and administrative expense	(12,373)	(11,916)	(39,839)	(33,739)
Restructuring charge			(3,884)	
Net interest expense	(425)	(413)	(1,291)	(183)
Foreign currency transaction loss	(277)	(20)	(46)	(18)
Income before income taxes	$ 3,084	$ 3,293	$ 4,628	$ 6,887

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

Note 10 Segment Reporting (continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
U.S. Federal Government	29.3%	32.2%	29.3%	26.3%
Ford Motor Company	15.7%	17.9%	16.1%	21.0%
Total	45.0%	50.1%	45.4%	47.3%

The Company conducts business under multiple contracts with various entities within the Ford Motor Company organization and with various agencies and departments of the U.S. Federal Government. For the three months ended September 30, 2008 and 2007, 18.3% and 20.6%, respectively, of our total revenue was derived from agencies within the U.S. Department of Defense in the aggregate. For the nine months ended September 30, 2008 and 2007, 18.6% and 14.2%, respectively, of our total revenue was derived from agencies within the U.S. Department of Defense in the aggregate.

The Company attributes revenue to different geographic areas on the basis of the location that has the contract with the customer, even though the services may be provided by a different geographic location. Revenue by geographic area is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Revenue				
United States	$ 39,254	$ 38,313	$ 120,193	$ 97,931
Europe:				
Belgium	11,157	10,816	33,156	32,232
Rest of Europe	13,773	10,022	44,676	27,725
Total Europe	24,930	20,838	77,832	59,957
Total revenue	$ 64,184	$ 59,151	$ 198,025	$ 157,888

Note 11 Contingencies

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

Note 12 Related Party Transactions

On May 22, 2008, the Company established service desk operations in Manila, Philippines through an agreement with Rainmaker Asia, Inc., a wholly-owned subsidiary of Rainmaker Systems, Inc. The Company s Chairman, Alok Mohan, is also an independent director and Chairman of Rainmaker Systems, Inc. The Company s Board of Directors and Audit Committee independently approved this transaction.

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

Note 13 Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements, on January 1, 2008, for its financial assets and liabilities. SFAS 157 defines fair value, establishes a new framework for measuring fair value and expands certain disclosures. SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The valuation techniques required by SFAS 157 are based on observable and unobservable inputs using the following hierarchy:

Level 1 Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 Unobservable inputs that reflect the reporting entity s own assumptions.

The following table summarizes the bases used to measure certain financial assets and financial liabilities at fair value on a recurring basis in the balance sheet:

		Basis of Fair Value Measurements		
	Balance at September 30, 2008	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Interest rate swap derivative financial instrument	$(650)	N/A	$(650)	N/A

The liability associated with the interest rate swap is included in other current liabilities and other long-term liabilities on the consolidated balance sheet in the amounts of $382,000 and $268,000, respectively. The fair value of these interest rate derivatives are based on quoted prices for similar instruments from a commercial bank and, therefore, the interest rate derivative is considered a level 2 item.

Note 14 Subsequent Event

Effective October 28, 2008, the Company completed the second amendment to its five-year, secured credit agreement (Credit Agreement) with JPMorgan Cash Bank, N.A. and LaSalle Bank Midwest, N.A. (now called Bank of America, N.A.). The Credit Agreement was amended in order to provide the Company the ability to enter into a stock repurchase program through 2011 (with an annual limitation of $3 million per year) and to increase the Company s ability to execute capital lease transactions from $1.0 million to $2.0 million.

On October 30, 2008, the Company announced that its Board of Directors authorized a stock repurchase program. Under the program, the Company is authorized to repurchase up to one million shares of its common stock in the open market as the Company deems appropriate. The stock repurchase program expires on December 31, 2011.

On October 31, 2008, the Company completed the sale of TechTeam A.N.E. NV (A.N.E.) which was included in the IT Consulting and Systems Integration operating segment and was originally purchased by the Company in 2004. This disposition was completed pursuant to the Company s determination that this business unit was not core to the Company s long-term growth strategy. Total gross proceeds from the sale were 1.1 million euro; the pre-tax net gain or loss on the disposition of A.N.E. is not expected to be material. For the nine months ended September 30, 2008, total revenue earned by A.N.E. was $6.5 million.

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FORWARD-LOOKING STATEMENTS

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

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

We are a global provider of information technology (IT), enterprise support and business process outsourcing services to Fortune 1000 corporations, government entities, multinational companies, product and service providers and small and medium-sized companies. Our business consists of two main components our Commercial business and our Government business. Together, our IT Outsourcing Services segment, IT Consulting and Systems Integration segment and Other Services segment comprise our Commercial business. Our Government Technology Services segment comprises our Government business. In addition to managing our business by service line, we also manage our business by geographic markets the Americas (defined as North America excluding our government-based subsidiaries), Europe and Government Solutions (defined as our government-based subsidiaries). Together, the Americas and Europe comprise our Commercial business.

Over the past nine months, we have been engaged in a thorough evaluation of all aspects of our business to bring about a transformation in the Company s focus and performance. The transformation began by enhancing our leadership team. With the addition of our new chief financial officer, Margaret M. Loebl, and our new president of TechTeam Government Solutions, Inc., David A. Kriegman, we now have a full leadership team that supplements pre-existing leaders with new executive-level talent that has deep experience, functional expertise and strong leadership qualities.

In the second quarter, we finished the optimization phase of our transformation, which resulted in a company-wide organizational change and restructuring plan. In the third quarter, we began to realize the benefits of these changes when the Company earned a record level operating income of $3.8 million. The Company reported earnings for the third quarter of 2008 of $1.9 million, or $0.18 per diluted share, as compared to net income of $.20 per diluted share for the same period in 2007.

In the third quarter, we launched a new strategic business plan that was conceived through a comprehensive analysis of our operations, the information technology outsourcing marketplace and the industry verticals in which we do business. We now have created a clear direction for our business, enabling us to achieve greater focus and global alignment to more effectively manage the growth and profitability of the business. We are focused on operationalizing the strategic plan and are taking decisive action to implement it.

In the fourth quarter, we have begun to announce these actions. Specifically, we have adopted a more focused approach to service offerings and targeted customers. In line with this effort, we have chosen to divest certain IT consulting and systems integration capabilities focused on small business customers in Belgium. This divestiture

also de-emphasizes low margin product sales, which were approximately 70% of TechTeam A.N.E. s business. Revenue increased 8.5% on a year-over-year basis for the third quarter of 2008 over 2007 to $64.2 million. We continue to see strong demand for our services in the Americas, and we are especially pleased with our new brand name customers and two new contracts under our USA Contact contract in our U.S. Government business with the Office of Personnel Management and the Public Building Service. However, in light of difficult global economic and financial market conditions, the Company anticipates that there may be a decline in revenue due to decreased volume from customers affected by the downturn, uncertain times in our key industry verticals such as the automotive industry, the strengthening of the U.S. dollar against the other currencies in which the Company conducts business, and transitions in customer contracts, including our contract with Canon Europa Nv, which they have chosen not to renew.

Results of Operations

Quarter Ended September 30, 2008 Compared to September 30, 2007

Revenue

	Quarter Ended September 30, 2008	2007	Increase (Decrease)	% Change
	(In thousands, except percentages)			
Revenue				
Commercial				
IT Outsourcing Services	$ 30,452	$ 25,918	$ 4,534	17.5%
IT Consulting and Systems Integration	6,338	6,746	(408)	(6.0)%
Other Services	5,406	5,369	37	0.7%
Total Commercial	42,196	38,033	4,163	10.9%
Government Technology Services	21,988	21,118	870	4.1%
Total revenue	$ 64,184	$ 59,151	$ 5,033	8.5%

Total Company revenue increased 8.5% to $64.2 million for the third quarter of 2008 through a combination of acquisitions completed in 2008 and 2007 and strong organic growth (growth without acquisitions) from IT Outsourcing Services. Excluding revenue from acquisitions that affect year-over-year comparability, revenue increased 6.8% to $63.1 million for the third quarter of 2008. If revenue generated in Europe was translated into U.S. dollars at the comparable average exchange rates for the third quarter of 2007, reported revenue would have decreased by approximately $1.4 million for the third quarter of 2008. We are unable to predict the effect fluctuations in international currencies will have on our revenue in 2008, but given the currently volatile market condition and the effect on the U.S. dollar, there could be significant revenue volatility.

IT Outsourcing Services

Revenue from IT Outsourcing Services increased 17.5% to $30.5 million for the third quarter of 2008, from $25.9 million for the same period in 2007, primarily as a result of over 31.7% revenue growth in Europe. Our solid revenue growth reflects our success at being able to grow existing accounts in our Commercial business by expanding the scope of our services and the geographies in which we deliver services. The majority of revenue growth in the third quarter occurred in existing accounts, including existing clients of the Americas to whom we have expanded our service delivery to include parts of Europe. This growth occurred despite a reduction in revenue from two projects comprising about 4% of IT Outsourcing Services revenue in the third quarter of 2007 that concluded and the related contracts were not renewed at the end of March 2008.

The Company has several IT Outsourcing contracts that expire in 2008 most notably the Ford Global SPOC Contract and several accounts in the Americas and Europe that together comprised 32% of the Company s total revenue in fiscal 2007. While we feel that we are well positioned to renew many of these contracts in 2008, it is not possible to predict the outcome of these renewals or the terms under which the renewals will occur.

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Ford is the Company s largest Commercial customer. IT Outsourcing Services revenue generated from Ford globally decreased to $8.5 million for the third quarter of 2008 from $8.6 million for the same quarter in 2007. Revenue from Ford declined 18.1% in the Americas as a result of a decline in seats supported from a reduction in Ford s workforce and the conclusion of a project that did not renew at the end of March 2008. Revenue in Europe increased from expansion of the SPOC Program resulting in aggregate growth in Europe of over 26.0%. Please refer to our discussion of Ford in the Significant Customers section of MD&A.

If IT Outsourcing revenue in Europe was translated into U.S. dollars at the comparable average exchange rates for the third quarter of 2007, reported revenue would have decreased by approximately $1.1 million for the third quarter of 2008. Since most of our international operating expenses are also incurred in the same foreign currencies in which the associated revenue is denominated, the net impact of exchange rate fluctuations on gross profit is considerably less than the estimated impact on revenue.

IT Consulting and Systems Integration

Revenue from IT Consulting and Systems Integration decreased 6.0% to $6.3 million for the third quarter of 2008, from $6.7 million for the same period in 2007 driven mainly by a decline in revenue in Europe due to a decrease in project-based IT Consulting work and the Company s decision to exit certain application development projects for small, non-strategic customers in Europe as we continue to refine and focus our business.

Government Technology Services

Revenue from Government Technology Services increased 4.1% to $22.0 million for the third quarter of 2008, from $21.1 million for the same period in 2007, primarily due to the acquisition of RL Phillips in 2007. Excluding revenue from this acquisition, revenue increased 1.2% to $21.4 million for the third quarter of 2008 due to growth in existing customer programs and, to a lesser extent, new customer contracts. Please refer to our discussion of the U.S. Federal Government in the Significant Customers section of MD&A.

Gross Profit and Gross Margin

	Quarter Ended September 30, 2008		2007			
	Amount	Gross Margin %	Amount	Gross Margin %	Increase (Decrease)	% Change
	(In thousands, except percentages)					
Gross Profit						
Commercial						
IT Outsourcing Services	$ 7,618	25.0%	$ 6,807	26.3%	$ 811	11.9%
IT Consulting and Systems Integration	1,350	21.3%	1,535	22.8%	(185)	(12.1)%
Other Services	1,217	22.5%	1,371	25.5%	(154)	(11.2)%
Total Commercial	10,185	24.1%	9,713	25.5%	472	4.9%
Government Technology Services	5,974	27.2%	5,929	28.1%	45	0.8%
Total gross profit	$ 16,159	25.2%	$ 15,642	26.4%	$ 517	3.3%

Consistent with revenue, the increase in gross profit is attributable to a combination of acquisitions completed in 2008 and 2007 and organic growth from IT Outsourcing Services. Excluding gross profit contributed by acquisitions that affect year-over-year comparability, total gross profit increased less than 1% to $15.8 million for the third quarter of 2008, but gross margin (defined as gross profit as a percentage of revenue) decreased to 25.0% from 26.4%.

IT Outsourcing Services

Gross profit from IT Outsourcing Services increased 11.9% to $7.6 million for the third quarter of 2008, from $6.8 million for the same period in 2007, and gross margin decreased to 25.0% from 26.3%. In the Americas, gross margin declined primarily from a decrease in Ford due to a decline in seats supported from a reduction in Ford s workforce and the conclusion of the project noted earlier that did not renew at the end of March 2008. Please refer to our discussion of Ford in the Significant Customers section of MD&A.

In Europe, gross margin decreased as a result of several factors, including expanding our service delivery capabilities in Europe and increased labor and benefit-related costs. During the last four quarters, the Company has expanded its service delivery capabilities with the establishment of new locations in Dresden, Germany; Sibiu, Romania; and Stockholm, Sweden. Currently, these facilities have excess capacity, are underutilized and negatively impacted gross margin in 2008. Moreover, the competitive environment in Romania is making it more difficult to recruit and retain employees.

IT Consulting and Systems Integration

Gross profit from IT Consulting and Systems Integration decreased 12.1% to $1.4 million for the third quarter of 2008, from $1.5 million for the same period in 2007, and gross margin decreased to 21.3% from 22.8%. Gross margin increased in the Americas from new project-based work in the Company s hospitality business. Gross margin declined in Europe primarily due to challenges from the competitive environment in our application development business in Romania and a decision to exit certain application development projects for small, non-strategic customers in Europe as the Company continues to refine and focus our business.

Government Technology Services

Gross profit from our Government Technology Services segment increased 0.8% to $6.0 million for the third quarter of 2008, from $5.9 million for the same period in 2007, while gross margin decreased to 27.2% from 28.1%. The decrease in gross margin was due to various factors, most notably the increased requirement for subcontracted resources on several programs. Excluding gross profit contributed by acquisitions that affect year-over-year comparability, gross profit was $5.9 million and gross margin was 27.4% for the third quarter of 2008.

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Please refer to our discussion of the U.S. Federal Government in the Significant Customers section of MD&A.

Geographic Market Discussion

	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007	Increase (Decrease)	% Change
	(In thousands)			
Revenue				
Commercial				
Americas	$ 17,266	$ 17,195	$ 71	0.4%
Europe	24,930	20,838	4,092	19.6%
Total Commercial	42,196	38,033	4,163	10.9%
Government	21,988	21,118	870	4.1%
Total revenue	$ 64,184	$ 59,151	$ 5,033	8.5%
Gross Margin				
Commercial				
Americas	26.2%	26.0%		
Europe	22.7%	25.1%		
Total Commercial	24.1%	25.5%		
Government	27.2%	28.1%		
Total Gross Margin	25.2%	26.4%		

Americas

Revenue and gross margin generated in the Americas was flat compared to the same period in 2007. The combination of expanded business with existing customers and new business wins offset revenue declines from Ford, as noted previously, and from the exit of a non-strategic, low margin contract during the second quarter.

Europe

Revenue generated in Europe increased 19.6% to $24.9 million for the third quarter of 2008, from $20.8 million for the same period in 2007, due mainly to solid revenue growth in IT Outsourcing Services and the weakening of the U.S. dollar against the currencies in which the Company does business. If revenue in Europe was translated into U.S. dollars at the comparable average exchange rates for the third quarter of 2007, reported revenue would have decreased by approximately $1.4 million for the third quarter of 2008. Gross margin from Europe decreased to 22.7% for the third quarter of 2008, from 25.1% for the same period in 2007. The decrease was primarily due to expanding IT Outsourcing Services delivery capabilities with the establishment of new locations in Dresden, Germany; Sibiu, Romania; and Stockholm, Sweden. Currently, these facilities have excess capacity and are underutilized. Gross margin in the IT Consulting and Systems Integration Services also declined due to a decision to exit certain application development projects for small, non-strategic customers in Europe and challenges from the competitive environment in our application development business in Romania, which is making it more difficult to recruit and retain employees.

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Operating Expenses and Other

	Quarter Ended September 30, 2008	2007	Increase (Decrease)	% Change
	(In thousands, except percentages)			
Operating Expenses and Other				
Selling, general and administrative expense	$12,373	$11,916	$ 457	3.8%
Net interest expense	$ (425)	$ (413)	$ (12)	2.9%
Foreign currency transaction loss	$ (277)	$ (20)	$(257)	NM%
Income tax provision	$ 1,175	$ 1,218	$ (43)	(3.5)%

Selling, general, and administrative (SG&A) expense decreased to 19.3% of total revenue for the third quarter of 2008, from 20.1% of total revenue for the same period in 2007. As the Company s revenue has grown, we have achieved greater leverage in our SG&A spending. On a dollar basis, SG&A increased as a result of expansion of service delivery locations in Europe and investment in leadership talent. SG&A expense also increased due to the weakening of the U.S. dollar from the third quarter of 2007.

Net interest expense of $425,000 for the third quarter of 2008 was flat with interest expense of $413,000 for the same period in 2007. The net interest expense in both periods was primarily due to interest expense on long-term debt issued in connection with acquisitions.

For the three months ended September 30, 2008, the consolidated effective tax rate of 38.1% differs from the statutory tax rate of 34.0% primarily due to state income taxes, foreign operating losses for which a tax benefit is not recorded and nondeductible expenses. The Company recorded State of Michigan income tax expense of $128,000 for the third quarter of 2008. Prior to 2008, the State of Michigan had a value-added tax called the Single Business Tax that was not considered an income tax and was, therefore, included in SG&A expense. Single Business Tax included in SG&A expense totaled $162,000 in the third quarter of 2007. For the three months ended September 30, 2007, the consolidated effective tax rate of 37.0% differs from the statutory tax rate of 34.0% primarily due to state income taxes, foreign operating losses for which a tax benefit is not recorded and non deductible expenses.

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Results of Operations
Nine Months Ended September 30, 2008 Compared to September 30, 2007
Revenue

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Increase (Decrease)	% Change
	(In thousands, except percentages)			
Revenue				
Commercial				
IT Outsourcing Services	$ 91,154	$ 75,271	$ 15,883	21.1%
IT Consulting and Systems Integration	21,283	20,580	703	3.4%
Other Services	19,358	14,239	5,119	36.0%
Total Commercial	131,795	110,090	21,705	19.7%
Government Technology Services	66,230	47,798	18,432	38.6%
Total revenue	$ 198,025	$ 157,888	$ 40,137	25.4%

Total Company revenue increased 25.4% to $198.0 million for the nine months ended September 30, 2008, through a combination of acquisitions completed in 2008 and 2007 and strong organic growth in all product lines. Excluding revenue from acquisitions that affect year-over-year comparability, revenue increased 14.6% to $181.0 million for the nine months ended September 30, 2008. If revenue generated in Europe was translated into U.S. dollars at the average exchange rates in effect for the nine months ended September 30, 2007, reported revenue would have decreased by approximately $6.6 million for the nine months ended September 30, 2008. We are unable to predict the effect fluctuations in international currencies will have on revenue in 2008, but given the uncertain economic times and the effect on the U.S. dollar, there could be significant revenue volatility.

IT Outsourcing Services

Revenue from IT Outsourcing Services increased 21.1% to $91.2 million for the nine months ended September 30, 2008, from $75.3 million for the same period in 2007, primarily as a result of over 35.9% revenue growth in Europe. Our solid revenue growth reflects our success at being able to grow existing accounts in our Commercial business by expanding the scope of our services and the geographies in which we deliver services. The majority of revenue growth occurred in existing accounts, including existing clients of the Americas to whom we have expanded our service delivery to include parts of Europe. This growth occurred despite a reduction in revenue from two projects, comprising about 4% of IT Outsourcing Services revenue for the nine months ended September 30, 2007, that concluded and the related contracts were not renewed at the end of March 2008.

IT Outsourcing Services revenue generated from Ford globally increased to $27.0 million for the nine months ended September 30, 2008 compared to $26.7 million from the same period in 2007. Revenue from Ford declined 17.4% in the Americas as a result of a decline in seats supported from a reduction in Ford s workforce, while revenue in Europe increased from expansion of the SPOC Program resulting in aggregate growth in Europe of 29.2%. Please refer to our discussion of Ford in the Significant Customers section of MD&A.

If IT Outsourcing revenue in Europe was translated into U.S. dollars at the average exchange rates in effect for the nine months ended September 30, 2007, reported revenue would have decreased by approximately $4.7 million for the nine months ended September 30, 2008. Since most of our international operating expenses are also incurred in the same foreign currencies in which the associated revenue is denominated, the net impact of exchange rate fluctuations on gross profit is considerably less than the estimated impact on revenue.

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IT Consulting and Systems Integration

Revenue from IT Consulting and Systems Integration increased 3.4% to $21.3 million for the nine months ended September 30, 2008, from $20.6 million for the same period in 2007, due primarily to revenue growth in the Americas. Revenue in the Americas increased from growth in the Company s hospitality business and a new project with an existing customer. This increase was partially offset by a decrease in business with Ford, which resulted from a reduction in Ford s workforce and also from the tendency of this business to fluctuate from period to period.

Government Technology Services

Revenue from Government Technology Services increased 38.6% to $66.2 million for the nine months ended September 30, 2008, from $47.8 million for the same period in 2007, primarily due to our acquisitions of NewVectors and RL Phillips in 2007. Excluding revenue from these acquisitions, revenue increased 6.6% to $51.0 million for the nine months ended September 30, 2008 due to growth in existing customer programs and, to a lesser extent, new customer contracts. Please refer to our discussion of the U.S. Federal Government in the Significant Customers section of MD&A.

Gross Profit and Gross Margin

	Nine Months Ended September 30, 2008		2007			
	Amount	Gross Margin %	Amount	Gross Margin %	Increase (Decrease)	% Change
	(In thousands, except percentages)					
Gross Profit						
Commercial						
IT Outsourcing Services	$ 22,677	24.9%	$ 19,264	25.6%	$ 3,413	17.7%
IT Consulting and Systems Integration	4,581	21.5%	4,711	22.9%	(130)	(2.8)%
Other Services	4,447	23.0%	3,658	25.7%	789	21.6%
Total Commercial	31,705	24.1%	27,633	25.1%	4,072	14.7%
Government Technology Services	17,983	27.2%	13,194	27.6%	4,789	36.3%
Total gross profit	$ 49,688	25.1%	$ 40,827	25.9%	$ 8,861	21.7%

Consistent with revenue, the increase in gross profit is attributable to a combination of acquisitions completed in 2008 and 2007 and organic growth from IT Outsourcing Services, Government Technology Services and Other Services. Excluding gross profit contributed by acquisitions that affect year-over-year comparability, total gross profit increased 9.8% to $44.8 million and gross margin decreased to 24.8% for the nine months ended September 30, 2008 from 25.9% for the same period in 2007.

IT Outsourcing Services

Gross profit from IT Outsourcing Services increased 17.7% to $22.7 million for the nine months ended September 30, 2008, from $19.3 million for the same period in 2007, and gross margin decreased to 24.9% from 25.6%. In the Americas, gross margin improved primarily due to margin improvements on certain existing accounts. In Europe, gross margin decreased as a result of several factors, including expanding our service delivery capabilities in Europe and increased labor and benefit-related costs. During the last four quarters, the Company has expanded its service delivery capability in Europe with the establishment of new locations in Dresden, Germany; Sibiu, Romania; and Stockholm, Sweden. Currently, these facilities have excess capacity, are underutilized and negatively impacted gross margin in 2008. Moreover, the competitive environment in Romania is making it more difficult to recruit and retain employees.

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IT Consulting and Systems Integration
Gross profit from IT Consulting and Systems Integration decreased slightly to $4.6 million for the nine months ended September 30, 2008, and gross margin decreased to 21.5% from 22.9%. Gross margin increased in the Americas from new project-based work in the Company s hospitality business, but gross margin declined in Europe primarily due to challenges from the competitive environment in our application development business in Romania and from less project-based IT Consulting work over the rest of Europe.
Government Technology Services
Gross profit from our Government Technology Services segment increased 36.3% to $18.0 million for the nine months ended September 30, 2008, from $13.2 million for the same period in 2007, and gross margin decreased slightly to 27.2% from 27.6%. The increase in gross profit was primarily due to our acquisition of NewVectors in 2007. Excluding gross profit contributed by acquisitions that affect year-over-year comparability, gross profit increased 4.6% to $13.8 million and gross margin declined to 27.1% for the nine months ended September 30, 2008. The decrease in gross margin was due to various factors, most notably the increased requirement for subcontracted resources on several programs. Please refer to our discussion of the U.S. Federal Government in the Significant Customers section of MD&A.
Geographic Market Discussion

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Increase (Decrease)	% Change
	(In thousands)			
Revenue				
Commercial				
Americas	$ 53,963	$ 50,133	$ 3,830	7.6%
Europe	77,832	59,957	17,875	29.8%
Total Commercial	131,795	110,090	21,705	19.7%
Government	66,230	47,798	18,432	38.6%
Total revenue	$ 198,025	$ 157,888	$ 40,137	25.4%
Gross Margin				
Commercial				
Americas	25.5%	24.3%		
Europe	23.1%	25.8%		
Total Commercial	24.1%	25.1%		
Government	27.2%	27.6%		
Total Gross Margin	25.1%	25.9%		

Americas
Revenue generated in the Americas increased 7.6% to $54.0 million for the nine months ended September 30, 2008, from $50.1 million for the same period in 2007 across all services lines, due primarily to new customers and projects. Revenue from IT Outsourcing Services experienced a significant increase in revenue growth from new customers and growth in existing customers that was offset by a decline in revenue from Ford. Gross margin from the Americas increased to 25.5% for the nine months ended September 30, 2008, from 24.3% for the same period in 2007, as a result of gross margin improvement across all service lines.

Europe

Revenue generated in Europe increased 29.8% to $77.8 million for the nine months ended September 30, 2008, from $60.0 million for the same period in 2007, due to solid revenue growth in IT Outsourcing Services and Other Services, the acquisition of SQM and the weakening of the U.S. dollar against the currencies in which the Company does business. If revenue in Europe was translated into U.S. dollars at the average exchange rates in effect for the nine months ended September 30, 2007, reported revenue would have decreased by approximately $6.6 million for the nine months ended September 30, 2008. Gross margin from Europe decreased to 23.1% for the nine months ended September 30, 2008, from 25.8% for the same period in 2007, primarily due to expanding IT Outsourcing Services delivery capabilities with the establishment of new locations in Dresden, Germany; Sibiu, Romania; and Stockholm, Sweden. Currently, these facilities have excess capacity and are underutilized. In addition, gross margin declined due to challenges from the competitive environment in Romania, which is making it more difficult to recruit and retain employees.

Operating Expenses and Other

	Nine Months Ended September 30, 2008	2007	Increase (Decrease)	% Change
	(In thousands, except percentages)			
Operating Expenses and Other				
Selling, general and administrative expense	$39,839	$33,739	$ 6,100	18.1%
Restructuring charge	$ 3,884	$	$ 3,884	NM%
Net interest expense	$ (1,291)	$ (183)	$(1,108)	NM%
Foreign currency transaction loss	$ (46)	$ (18)	$ (28)	156%
Income tax provision	$ 2,866	$ 2,396	$ 470	19.6%

Selling, general, and administrative (SG&A) expense decreased to 20.1% of total revenue for the nine months ended September 30, 2008, from 21.4% of total revenue for the same period in 2007. As the Company s revenue has grown, we have achieved greater leverage in our SG&A spending, yet we have incurred greater expenses related to expansion of service delivery locations in Europe, increased amortization expense in connection with acquisitions and marketing expenses and travel as we become a more global company. SG&A expense also increased due to the weakening of the U.S. dollar.

In connection with the decision between the Board of Directors and the Company s former President and Chief Executive Officer, William C. Brown, not to renew Mr. Brown s contract upon its completion in February 2009, Mr. Brown s Employment and Noncompetition Agreement was amended. Under the terms of the amendment, (1) the vesting of all outstanding, unvested stock-based awards were accelerated and became fully vested in February 2008, (2) Mr. Brown will have until February 15, 2010 to exercise outstanding stock options and (3) Mr. Brown will be paid a bonus for fiscal 2008 of not less than $75,000. The modification of the stock-based awards to accelerate vesting and extend the period in which stock options may be exercised resulted in additional compensation expense of $254,000 for the nine months ended September 30, 2008.

On May 28, 2008, the Company announced a corporate-wide organizational realignment and restructuring actions to improve the Company s operating efficiency, achieve greater global consistency and drive improved financial performance. The actions included reorganizing some of the Company s business functions from regional models to a global structure and eliminating approximately 50 employee positions. The Company recorded a $3.9 million pre-tax charge associated with the restructuring plan during the nine months ended September 30, 2008, which primarily related to personnel reductions. We do not anticipate recording any material expense in future periods related to this realignment and restructuring plan.

Net interest expense was $1.3 million for the nine months ended September 30, 2008, compared to net interest expense of $183,000 for the same period in 2007, as a result of interest expense on long-term debt issued in connection with acquisitions.

For the nine months ended September 30, 2008, the consolidated effective tax rate of 61.9% differs from the statutory tax rate of 34.0% primarily due to foreign operating losses for which a tax benefit is not recorded and nondeductible expenses. The level of foreign operating losses was increased during the second quarter of 2008 because a significant portion of the Company s restructuring charges was incurred in countries with historical operating losses. The Company recorded State of Michigan income tax expense of $470,000 for the nine months ended September 30, 2008. Prior to 2008, the State of Michigan had a value-added tax called the Single Business Tax that was not considered an income tax and was, therefore, included in SG&A expense. Single Business Tax included in SG&A expense totaled $402,000 for the nine months ended September 30, 2007. For the nine months ended September 30, 2007, the consolidated effective tax rate of 34.8% differs from the statutory tax rate of 34.0% primarily due to state income taxes and nondeductible expenses, which are partially offset by the tax benefit of tax rates in certain foreign countries that are lower than 34%.

Significant Customers

We conduct business under multiple contracts with various entities within the Ford organization and with various agencies and departments of the U.S. Federal Government. For the quarters ended September 30, 2008 and 2007, Ford accounted for 15.7% and 17.9%, respectively, of the Company s total revenue, and the U.S. Federal Government accounted for 29.3% and 32.2%, respectively. For the nine months ended September 30, 2008 and 2007, Ford accounted for 16.1% and 21.0%, respectively, of the Company s total revenue, and the U.S. Federal Government accounted for 29.3% and 26.3%, respectively, of the Company s total revenue. For the three months ended September 30, 2008 and 2007, respectively, 18.3% and 20.6% of our total revenue was derived from agencies within the U.S. Department of Defense, in the aggregate. For the nine months ended September 30, 2008 and 2007, respectively, 18.6% and 14.2% of our total revenue was derived from agencies within the U.S. Department of Defense, in the aggregate.

Ford Motor Company

Our business with Ford consists of service desk and desk side services, technical staffing, network management and a specific project installing personal computers subcontracted through Dell Inc. Revenue generated through our business with Ford decreased to $31.9 million for the nine months ended September 30, 2008 from $33.2 million for the same period in 2007.

Our largest contract with Ford is our Ford Global SPOC Program, which is currently scheduled to expire at the end of November 2008. We have reached directional agreement on the scope of service and pricing with Ford on a multi-year renewal of this contract. As a result of workforce adjustments and the changes to the service delivery model, we anticipate that revenue on this contract will decline by approximately ten percent during 2009. We are currently in the process of negotiating the formal contract, which we expect to execute before the end of November 2008. At this time, we do not anticipate a material change in the Company s gross profit margin as a result of the renewal. While there is revenue pressure from the decrease in the number of seats supported and from Ford s continued efforts to seek cost savings on its total cost of IT infrastructure support, we are working to offset the anticipated decrease in revenue through an expansion of the SPOC Program to parts of the Ford enterprise that are not currently a part of the SPOC Program and the expansion of the scope of our services. We believe we are well positioned to expand the SPOC program.

Under the existing contract, except for our support of Volvo Car Corporation, for whom we billed on a per-incident basis, we provide a set of infrastructure support services under specific service level metrics, and we invoice Ford based upon the number of seats we support. The number of seats supported is determined bi-annually on December 1 and June 1 of each year. If certain contractual conditions are met, Ford and TechTeam have the right during each six month period to request one out-of-cycle seat adjustment. Ford s recent US workforce reduction met contractual conditions requiring an out-of-cycle count adjustment during the third quarter.

At the end of September 2008, Ford owed the Company $2.8 million in the Americas and $3.6 million in Europe. Ford has recently amended its standard purchase order terms to increase its payment terms from 30 days to 60 days from receipt of the invoice, and, therefore, we anticipate that there will be an increase in the aggregate accounts receivable. We do not believe that Ford s financial condition will otherwise affect our business with Ford or the collectability of our accounts receivable from Ford; however, any failure to retain a significant amount of business

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with Ford, a bankruptcy filing or major restructuring by Ford, could have a material adverse effect on our operating results and liquidity.

U.S. Federal Government

We conduct business under multiple contracts with various agencies and departments of the U.S. Federal Government. Revenue generated through our business with the U.S. Federal Government increased to $58.0 million for the nine months ended September 30, 2008, from $41.6 million for the same period in 2007. Without the impact of acquisitions our government business grew approximately 6.6% during the nine months ended September 30, 2008 from the same period in 2007. Most of this organic growth came from existing customers.

The results of our Government business were negatively impacted by the difficult government contracting environment created by the budget constraints our customers faced as funds continue to be diverted to support the conflicts in Iraq and Afghanistan. As a result of this environment, many customers have delayed procurement actions. In turn, we have experienced delays in our expected new business development. With the NewVectors acquisition, the Company now derives a greater portion of its government revenue from short-term, project-based work. The uncertainty in government spending makes it more difficult to manage resources. Moreover, in 2008, our contracts with the Business Transformation Agency (BTA) of the Department of Defense are up for renewal. The work that we perform for the BTA is split into two contract awards. We have been informed that our proposal for a contract award that approximates a quarter of the work we currently perform for the BTA was not accepted. The direct impact of this loss is difficult to assess because we believe that we can continue to perform the same services for the BTA as a subcontractor. However, there can be no assurances in this regard. The second contract has not yet been awarded, and we continue to provide service on a contract extension. Revenue from the BTA totaled $7.2 million for the nine months ended September 30, 2008.

New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosure on (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company does expect that SFAS 161 will have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, and SFAS No. 160 Noncontrolling Interests in Financial Statements, an amendment of ARB No. 51. These pronouncements are required to be adopted concurrently and are effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited, thus the provisions of these pronouncements will be effective for the Company in fiscal 2009. The Company is evaluating the potential impact of SFAS 141R and SFAS 160 on the consolidated financial statements. SFAS 141R will have an impact on accounting for future business combinations once adopted, but the effect is dependent upon the terms of each acquisition at that time.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company adopted SFAS 157 on January 1, 2008, as required for financial assets and liabilities. The FASB deferred the effective date of SFAS 157 by one year for nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. The Company does not expect that the adoption of the deferred portion of SFAS 157 will have a material impact on the consolidated financial statements.

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Liquidity and Capital Resources

Cash and cash equivalents were $15.9 million at September 30, 2008, as compared to $19.4 million at December 31, 2007. Cash and cash equivalents decreased $3.6 million for the nine months ended September 30, 2008, as a result of $2.1 million in cash used for capital expenditures, $5.9 million in cash used for acquisitions and $4.2 million in cash used for the repayment of long-term debt, all of which were partially offset by $3.8 million in net cash provided by operating activities and $5.0 million in proceeds from issuances of long-term debt.

Net cash from operating activities for the nine months ended September 30, 2008 provided cash of $3.8 million compared to $1.1 million for the same period in 2007 primarily due to improvements in net working capital offset by lower net income.

Net cash used in investing activities was $8.1 million and $49.4 million for the nine months ended September 30, 2008 and 2007, respectively. Net cash used in investing activities during the first nine months of 2007 was driven by the acquisitions of SQM, NewVectors and RL Phillips, while net cash used in investing activities in the first nine months of 2008 was related to the Onvaio acquisition. Capital expenditures were comparable at $2.1 million and $2.4 million, respectively, for the nine months ended September 30, 2008 and 2007.

Net cash provided by financing activities for the nine months ended September 30, 2008 was $1.1 million compared to $32.8 million for the nine months ended September 30, 2007. The net cash provided by financing activities in the first nine months of 2007 was used primarily to fund the acquisition of NewVectors.

Long-term cash requirements, other than for normal operating expenses, are anticipated for the continued expansion in Europe, expansion into the Asia-Pacific region, enhancements of existing technologies, additional consideration that is or may become payable to the selling shareholders of previously acquired companies based on specific performance conditions and operating targets, repurchases of our common stock and the possible acquisition of businesses complementary to our existing businesses. We believe that positive cash flows from operations, together with existing cash balances, will continue to be sufficient to meet our ongoing operational requirements for the next twelve months and foreseeable future. We have historically not paid dividends, and we are restricted from doing so under the credit agreement with our banks.

Material Commitments

There have been no significant changes in our material commitments disclosed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2007.

Critical Accounting Policies and Estimates

There have been no changes in the selection and application of critical accounting policies and estimates disclosed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2007.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in reported market risks disclosed in Item 7A Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2008, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2008, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission s rules and forms.

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

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

From time to time we are involved in various litigation matters arising in the ordinary course of its business. None of these matters, individually or in the aggregate, currently is material.

ITEM 1A RISK FACTORS

There have been no changes in the risk factors disclosed in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of unregistered equity securities of the Company during the three months ended September 30, 2008.

The following table sets forth the information with respect to purchases made by the Company of shares of its common stock during the third quarter of 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs
July 1, 2008 to July 31, 2008	1,248 [a]	$9.87		
August 1, 2008 to August 31, 2008	1,099 [a]	$9.18		
September 1, 2008 to September 30, 2008	680 [a]	$8.14		

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

ITEM 5 OTHER INFORMATION

On September 12, 2008, the Company entered into a three-year agreement commencing January 1, 2009 with Ernst & Young US LLP (E&Y) to provide standard service desk support to E&Y s US employees, partners and others who are authorized to access the service desk. This agreement followed a procurement process conducted by E&Y for service desk services in which the Company and other companies participated. The Company and E&Y carefully evaluated the proposed procurement relationship and each separately concluded it is permissible under the applicable auditor independence rules as E&Y is the consumer of the services and the services and terms and conditions are in the ordinary course of business. The Company s Audit Committee similarly concluded there is no impact on E&Y s auditor independence.

ITEM 6 EXHIBITS

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

10.16 TechTeam Global, Inc. Executive Annual Incentive Plan.

10.17 TechTeam Global, Inc Long-Term Incentive Plan.

10.19 Employee Agreement Relating to Change of Control.

10.27 Second Amendment to Credit Agreement dated as of June 1, 2007.

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

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

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

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

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SIGNATURES

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

TechTeam Global, Inc.
(Registrant)

Date: November 10, 2008	By: /s/ Gary J. Cotshott	Gary J. Cotshott President and Chief Executive Officer (Principal Executive Officer)
	By: /s/ Margaret M. Loebl	Margaret M. Loebl Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)

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