

TEAM INC
Form 10-Q
January 07, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2010

OR

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

For the transition period to

Commission file number 001-08604

TEAM, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: TEAM INC - Form 10-Q

Texas (State or other jurisdiction of incorporation or organization)	74-1765729 (I.R.S. Employer Identification Number)
200 Hermann Drive, Alvin, Texas (Address of principal executive offices)	77511 (Zip Code)
Registrant's telephone number, including area code (281) 331-6154	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

On January 5, 2011 there were 19,334,901 shares of the Registrant's common stock outstanding.

Table of Contents

INDEX

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	3
Item 1. <u>Consolidated Condensed Financial Statements</u>	3
<u>Consolidated Condensed Balance Sheets as of November 30, 2010 (Unaudited) and May 31, 2010</u>	3
<u>Unaudited Consolidated Condensed Statements of Income for the Three and Six Months Ended November 30, 2010 and 2009</u>	4
<u>Unaudited Consolidated Condensed Statements of Comprehensive Income for the Three and Six Months Ended November 30, 2010 and 2009</u>	5
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the Six Months Ended November 30, 2010 and 2009</u>	6
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	25
<u>PART II OTHER INFORMATION</u>	27
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales of Equity and Securities and Use of Proceeds</u>	27
Item 4. <u>(Reserved)</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	28
<u>SIGNATURES</u>	29
EXHIBITS	
31.1 Certification of CEO Pursuant to Section 302	
31.2 Certification of CFO Pursuant to Section 302	
32.1 Certification of CEO Pursuant to Section 906	
32.2 Certification of CFO Pursuant to Section 906	

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
TEAM, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands, except share and per share data)

	November 30, 2010 (unaudited)	May 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 14,311	\$ 12,610
Receivables, net of allowance of \$5,394 and \$4,934	113,310	109,368
Inventory	20,540	19,733
Deferred income taxes	2,829	2,646
Prepaid expenses and other current assets	5,398	5,988
Total Current Assets	156,388	150,345
Property, plant and equipment, net	56,387	55,229
Intangible assets, net of accumulated amortization of \$2,154 and \$2,010	1,351	1,498
Goodwill and unallocated purchase price	101,869	55,739
Other assets, net	2,637	2,081
Deferred income taxes	412	97
Total Assets	\$ 319,044	\$ 264,989
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 316	\$ 313
Accounts payable	18,306	19,010
Other accrued liabilities	25,821	21,781
Income tax payable	847	1,877
Deferred income taxes	48	21
Total Current Liabilities	45,338	43,002
Deferred income taxes	7,349	8,947
Long-term debt	77,373	47,848
Total Liabilities	130,060	99,797
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, 500,000 shares authorized, none issued		
Common stock, par value \$.30 per share, 30,000,000 shares authorized; 19,332,900 and 18,988,250 shares issued	5,799	5,696
Non-controlling interest	4,889	
Additional paid-in capital	75,470	69,380
Retained earnings	104,420	92,553
Accumulated other comprehensive loss	(250)	(2,437)

Edgar Filing: TEAM INC - Form 10-Q

Treasury stock at cost, 89,569 and 0 shares	(1,344)	
Total Stockholders Equity	188,984	165,192
Total Liabilities and Stockholders Equity	\$ 319,044	\$ 264,989

See notes to unaudited consolidated condensed financial statements.

Table of Contents**TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(in thousands, except per share data)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Revenues	\$ 133,131	\$ 123,292	\$ 237,642	\$ 224,229
Operating expenses	89,387	83,844	162,352	155,347
Gross margin	43,744	39,448	75,290	68,882
Selling, general and administrative expenses	30,240	29,403	55,353	56,432
Earnings from unconsolidated affiliates	327	232	635	491
Operating income	13,831	10,277	20,572	12,941
Interest expense, net	407	710	846	1,530
Foreign currency (gain) loss	30	(13)	(11)	(28)
Earnings before income taxes	13,394	9,580	19,737	11,439
Provision for income taxes	5,358	3,739	7,895	4,473
Net income	8,036	5,841	11,842	6,966
Less losses attributable to non-controlling interest	25		25	
Net income available to Team shareholders	\$ 8,061	\$ 5,841	\$ 11,867	\$ 6,966
Net income per share: Basic	\$ 0.42	\$ 0.31	\$ 0.62	\$ 0.37
Net income per share: Diluted	\$ 0.41	\$ 0.30	\$ 0.60	\$ 0.36

See notes to unaudited consolidated condensed financial statements.

Table of Contents**TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)**

	Three Months Ended November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Net income	\$ 8,036	\$ 5,841	\$ 11,842	\$ 6,966
Foreign currency translation adjustment	2,353	3,051	2,331	3,339
Interest rate swap		205		433
Foreign currency hedge	(409)	(790)	(935)	(1,068)
Tax provision	855	(563)	791	(518)
Comprehensive income	10,835	7,744	14,029	9,152
Less other comprehensive loss attributable to non-controlling interest	28		28	
Comprehensive income available to Team shareholders	\$ 10,863	\$ 7,744	\$ 14,057	\$ 9,152

See notes to unaudited consolidated condensed financial statements.

Table of Contents**TEAM, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

	Six Months Ended November 30,	
	2010	2009
Cash Flows From Operating Activities:		
Net income	\$ 11,842	\$ 6,966
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated affiliates	(635)	(491)
Less loss attributable to non-controlling interest	25	
Depreciation and amortization	6,445	5,963
Amortization of deferred loan costs	155	160
Foreign currency gain	(11)	(28)
Deferred income taxes	(1,297)	270
Non-cash compensation cost	2,690	2,642
(Increase) decrease:		
Receivables	2,640	(2,000)
Inventory	(747)	239
Prepaid expenses and other current assets	1,062	2,310
Increase (decrease):		
Accounts payable	(2,103)	(512)
Other accrued liabilities	1,323	(2,818)
Income taxes	(1,397)	1,270
Net cash provided by operating activities	19,992	13,971
Cash Flows From Investing Activities:		
Capital expenditures	(5,074)	(3,882)
Business acquisitions, net of cash acquired	(41,376)	
Increase in other assets, net	(82)	(986)
Net cash used in investing activities	(46,532)	(4,868)
Cash Flows From Financing Activities:		
Borrowings (payments) under revolving credit agreement, net	28,700	(10,667)
Payments related to term loans	(156)	(3,000)
Tax benefit of stock option exercises	781	518
Insurance note payments		(2,132)
Issuance of common stock	87	193
Purchase of treasury stock	(1,344)	
Net cash provided by (used in) financing activities	28,068	(15,088)
Effect of exchange rate changes on cash	173	282
Net increase in cash and cash equivalents	1,701	(5,703)
Cash and cash equivalents at beginning of period	12,610	12,632
Cash and cash equivalents at end of period	\$ 14,311	\$ 6,929

See notes to unaudited consolidated condensed financial statements.

Table of Contents

TEAM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED

FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Introduction. Unless otherwise indicated, the terms Team, Inc., Team, the Company, we, our and us are used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Texas and our company website can be found at www.teamindustrialservices.com. Our corporate headquarters is located at 200 Hermann Drive, Alvin, Texas, 77511 and our telephone number is (281) 331-6154. Our stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol TISI and our fiscal year ends on May 31 of each calendar year.

We are a leading provider of specialty maintenance and construction services required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in heavy industries. We offer an array of complementary services including:

Inspection and Assessment,

Field Heat Treating,

Leak Repair,

Fugitive Emissions Control,

Hot Tapping,

Field Machining,

Technical Bolting, and

Field Valve Repair.

We offer these services in over 100 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (OEMs), distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Basis for Presentation. These interim financial statements are unaudited, but in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of results for such periods. The consolidated condensed balance sheet at May 31, 2010 is derived from the May 31, 2010 audited consolidated financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our annual report on Form 10-K for the fiscal year ended May 31, 2010.

Edgar Filing: TEAM INC - Form 10-Q

Consolidation. Our consolidated financial statements include the financial statements of Team, Inc. and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in operating entities where we have the ability to exert significant influence, but where we do not control their operating and financial policies, are accounted for using the equity method.

Use of Estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the U.S. (GAAP). Our most significant accounting policies are described below. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting

Table of Contents

our consolidated financial statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of tangible and intangible assets and subsequent assessments for possible impairment, (3) assessing future tax exposure and the realization of tax assets, (4) estimating various factors used to accrue liabilities for workers' compensation, auto, medical and general liability, (5) establishing an allowance for uncollectible accounts receivable, (6) estimating the useful lives of our assets and (7) the fair value of the non-controlling interest in subsidiaries that are not wholly-owned.

Fair Value of Financial Instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts payable and debt obligations. The carrying amount of cash, cash equivalents, trade accounts receivable and trade accounts payable are representative of their respective fair values due to the short-term maturity of these instruments. The fair value of our banking facility is representative of the carrying value based upon the variable terms and management's opinion that the current rates available to us with the same maturity and security structure are equivalent to that of the banking facility.

Cash and Cash Equivalents. Cash and cash equivalents consist of all demand deposits and funds invested in highly liquid short-term investments with original maturities of three months or less.

Inventory. Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory includes material, labor and certain fixed overhead costs.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of assets are computed by the straight-line method over the following estimated useful lives of the assets:

Classification	Useful Life
Buildings	20-40 years
Leasehold improvements	2-10 years
Machinery and equipment	2-10 years
Furniture and fixtures	2-10 years
Computers and computer software	2-5 years
Automobiles	2-5 years

Goodwill and Other Intangible Assets. Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles-Goodwill and Other* (ASC 350). Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with ASC 350.

Income Taxes. We follow the guidance in ASC 740, *Income Taxes* (ASC 740) which requires that we use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax payable and related tax expense together with assessing temporary differences resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that it is more likely than not (a likelihood of more than 50%) that some

Table of Contents

portion or all of the deferred tax assets will not be realized, we must establish a valuation allowance. We consider all available evidence, both positive and negative, to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes information about our current financial position and our results of operations for the current and preceding years, as well as all currently available information about future years, including our anticipated future performance, the reversal of deferred tax liabilities and tax planning strategies.

Allowance for Doubtful Accounts. In the ordinary course of business, a percentage of our accounts receivable are not collected due to billing disputes, customer bankruptcies, dissatisfaction with the services we performed and other various reasons. We establish an allowance to account for those accounts receivable that will eventually be deemed uncollectible. The allowance for doubtful accounts is based on a combination of our historical experience and management's review of long outstanding accounts receivable.

Workers' Compensation, Auto, Medical and General Liability Accruals. In accordance with ASC 450, *Contingencies* (ASC 450) we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation, automobile liability and general liability claims, our self-insured retention is currently \$500,000 per occurrence. Our historical claims occurring before June 1, 2009 had a lower self-insured retention, typically \$250,000. For medical claims, our self-insured retention is \$150,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is \$100,000 per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgment could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Revenue Recognition. We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB or the Securities and Exchange Commission (the SEC). Most of our projects are short-term in nature and we predominantly derive revenues by providing a variety of industrial services, on a time and material basis. For all of these services our revenues are recognized when services are rendered or when product is shipped and risk of ownership passes to the customer. However, due to various contractual terms with our customers, at the end of any reporting period, there may be earned but unbilled revenue that is accrued to properly match revenues with related costs. At November 30, 2010 and May 31, 2010, the amount of earned but unbilled revenue included in accounts receivable was \$10.7 million and \$8.6 million, respectively.

Concentration of Credit Risk. No single customer accounts for more than 10% of consolidated revenues.

Earnings Per Share. Basic earnings per share is computed by dividing net income available to Team shareholders by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing net income available to Team shareholders, less income or loss for the period attributable to the non-controlling interest, by the sum of, (1) the weighted-average number of shares of common stock outstanding during the period, (2) the dilutive effect of the assumed exercise of share-based compensation using the treasury stock method and (3) the dilutive effect of the assumed conversion of our non-controlling interest to our common stock (please see Note 2).

Table of Contents

Amounts used in basic and diluted earnings per share, for all periods presented, are as follows (in thousands):

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Six Months Ended November 30, 2010	Six Months Ended November 30, 2009
Net income attributable to Team	\$ 8,061	\$ 5,841	\$ 11,867	\$ 6,966
Loss attributable to non-controlling interest	25		25	
Net income used in computation of diluted earnings per share	\$ 8,036	\$ 5,841	\$ 11,842	\$ 6,966

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Six Months Ended November 30, 2010	Six Months Ended November 30, 2009
Weighted average number of shares outstanding	19,035	18,925	19,003	18,890
Assumed exercise of share based compensation	676	567	558	552
Assumed conversion of non-controlling interest	88		44	
Shares outstanding used in computation of diluted earnings per share	19,799	19,492	19,605	19,442

There were 810,000 and 841,000 options to purchase shares of common stock outstanding during the three month periods ended November 30, 2010 and November 30, 2009, excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the periods. There were 794,000 and 1,287,000 options to purchase shares of common stock outstanding during the six month periods ended November 30, 2010 and November 30, 2009, excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the periods.

Foreign Currency. For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive income in stockholders' equity. Foreign currency transaction gains and losses are included in our statement of other income. Effective December 1, 2009, we began to account for Venezuela as a highly-inflationary economy. Therefore, beginning on this date, the effect of all future currency fluctuations between the Bolivar and the U.S. Dollar are recorded in our statement of income.

Newly Adopted Accounting Principles

ASC 810. In June 2009, the FASB issued an update to ASC 810, *Consolidations* (ASC 810) which amends the guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under ASC 810. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The adoption of this pronouncement did not have any impact on our results of operations, financial position or cash flows.

ASC 105. In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105). ASC 105 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. ASC 105 supersedes all previously existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this pronouncement did not have any effect on our results of operations, financial position or cash flows.

Table of Contents**2. ACQUISITIONS**

On November 3, 2010 we purchased Quest Integrity Group, LLC (Quest Integrity), a privately held advanced inspection services and engineering assessment company. We effectively purchased 95% of Quest Integrity for a total consideration paid to Quest Integrity shareholders of \$41.7 million, consisting of a cash payment of \$39.1 million and the issuance of our restricted common stock with a fair value of \$2.6 million (approximately 186,000 shares). Additionally, we also assumed debt of Quest Integrity, payable to a bank, with a value of \$2.3 million. We repaid the debt upon consummation of the purchase. In connection with this transaction, we borrowed \$41.4 million under our credit facility which was used to fund the cash portion of the purchase price. We expect to purchase the remaining 5% in fiscal year 2015 for a purchase consideration based upon the future financial performance of Quest Integrity as defined in the purchase agreement. Future consideration would be payable in unregistered shares of our common stock for an aggregate value of no less than \$2.4 million, provided the aggregate value of the consideration does not exceed 20% of our outstanding common stock. Our preliminary valuation of the remaining 5% equity of Quest Integrity at the date of acquisition is \$4.9 million, which is reflected in the equity section of the Consolidated Balance Sheet as Non-controlling interest .

Headquartered near Seattle, Washington, Quest Integrity has leading technical capabilities related to the measurement and assessment of facility and pipeline mechanical integrity. It has developed several proprietary tools for advanced tube and pipeline inspection and measurement. Supporting and augmenting these proprietary inspection tools, Quest Integrity has an advanced technical team that provides specialized engineering assessments of facility conditions and serviceability. The company maintains operations in Seattle, Boulder, and New Zealand, and has service locations in Houston, Calgary, Australia, The Netherlands, and the Middle East.

We are in the early stages of obtaining independent valuations of the non-controlling interest, tangible long-term assets, and intangible assets of Quest Integrity. The valuations of the tangible and intangible asset values, and the resulting residual goodwill, are still being developed, however we believe a significant portion of the purchase price is attributable to intangible assets. Accordingly, we have included \$0.2 million of amortization expense in our results of operations to reflect estimated accumulated amortization of intangible assets. We believe we will have finalized our valuations and purchase price allocation prior to our year ending May 31, 2011. Information regarding the preliminary allocation of the purchase price is set forth below (in thousands):

	(unaudited)
Receivables	\$ 5,687
Prepays and other current assets	505
Property, plant and equipment	1,831
Other assets	78
Assets acquired	8,101
Accounts payable	1,291
Other current liabilities	3,136
Liabilities acquired	4,427
Net assets acquired	\$ 3,674
Bank debt assumed	\$ 2,276
Cash paid to Quest Integrity shareholders	39,100
Restricted stock issued to Quest Integrity shareholders	2,635
Total purchase price	44,011
Estimated fair value of non-controlling interest	4,917
Fair value allocation	\$ 48,928
Estimated intangibles	\$ 22,627
Estimated goodwill	22,627

Unallocated purchase price

\$ 45,254

Table of Contents

Information regarding the change in carrying value of the non-controlling interest is set forth below:

Estimated fair value of non-controlling interest at November 3, 2010	\$ 4,917
Loss attributable to non-controlling interest	(25)
Other comprehensive loss attributable to non-controlling interest	(3)
Estimated fair value of non-controlling interest at November 30, 2010	\$ 4,889

3. RECEIVABLES

A summary of accounts receivable as of November 30, 2010 and May 31, 2010 is as follows (in thousands):

	November 30, 2010 (unaudited)	May 31, 2010
Trade accounts receivable	\$ 108,005	\$ 105,714
Unbilled revenues	10,699	8,588
Allowance for doubtful accounts	(5,394)	(4,934)
Total	\$ 113,310	\$ 109,368

4. INVENTORY

A summary of inventory as of November 30, 2010 and May 31, 2010 is as follows (in thousands):

	November 30, 2010 (unaudited)	May 31, 2010
Raw materials	\$ 3,370	\$ 2,988
Work in progress	502	528
Finished goods	16,668	16,217
Total	\$ 20,540	\$ 19,733

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of November 30, 2010 and May 31, 2010 is as follows (in thousands):

	November 30, 2010 (unaudited)	May 31, 2010
Land	\$ 973	\$ 964
Buildings and leasehold improvements	8,483	8,263
Machinery and equipment	97,940	91,091
Furniture and fixtures	1,628	1,357
Computers and computer software	6,691	5,987
Automobiles	2,609	2,404
Construction in progress	9,392	8,085

Edgar Filing: TEAM INC - Form 10-Q

Total	127,716	118,151
Accumulated depreciation and amortization	(71,329)	(62,922)
Property, plant and equipment, net	\$ 56,387	\$ 55,229

At November 30, 2010, there was \$0.4 million of capitalized interest included in property, plant and equipment attributable to 50 acres purchased in October 2007 to construct future facilities in Houston, Texas. At November 30, 2010, total capitalized cost of the project, inclusive of the capitalized interest, property purchase and related development cost was \$6.8 million. Due to the recent economic recession, we postponed construction

Table of Contents

of the future facilities until such time as economic conditions and our growth necessitate the addition of the new facilities. Starting in the third quarter of fiscal year 2009, we ceased to further capitalize interest until the project resumes.

6. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of November 30, 2010 and May 31, 2010 is as follows (in thousands):

	November 30, 2010 (unaudited)	May 31, 2010
Payroll and other compensation expenses	\$ 16,127	\$ 13,521
Insurance accruals	5,021	5,253
Property, sales and other non-income related taxes	1,451	841
Auto lease rebate	36	108
Other	3,186	2,058
 Total	 \$ 25,821	 \$ 21,781

7. LONG-TERM DEBT, DERIVATIVES AND LETTERS OF CREDIT

Our debt with our banking syndicate (our Credit Facility) provides us with a \$145 million revolving line of credit and allows us to borrow in Euros or U.S. dollars. Our Credit Facility bears interest based on a variable Eurodollar rate option (LIBOR plus 1.25% at November 30, 2010) and the margin is set based on our financial covenants as set forth in the Credit Facility. The Credit Facility matures in May 2012 and is secured by virtually all of our domestic assets and a majority of the stock of our foreign subsidiaries and has commitment fees of 0.25% that are applied to unused borrowing capacity. It also contains financial covenants and restrictions on the creation of liens on assets, the sale of subsidiaries and the incurrence of certain liabilities. At November 30, 2010, we were in compliance with all covenants of the Credit Facility.

Our Canadian subsidiary also has a line of credit with a bank in our banking syndicate (the Canadian Line of Credit). The Canadian Line of Credit allows our subsidiary to borrow up to \$7.5 million Canadian (approximately \$7.3 million U.S.). We have provided an unconditional guarantee of borrowings by our Canadian subsidiary, effectively making Team, Inc. liable to the bank as principal debtor. The Canadian Line of Credit also contains cross-default provisions with our Credit Facility. Borrowings under the Canadian Line of Credit are used for working capital and other general needs of our Canadian operations, bear interest at the prime interest rate interest rate (3.00% at November 30, 2010) and mature in May 2012.

A summary of long-term debt as of November 30, 2010 and May 31, 2010 is as follows (in thousands):

	November 30, 2010 (unaudited)	May 31, 2010
Revolving loan portion of the Credit Facility	\$ 77,270	\$ 47,636
Canadian Line of Credit		
Vendor Financing	370	525
Other	49	
	77,689	48,161
Current maturities	(316)	(313)
 Long-term debt, excluding current maturities	 \$ 77,373	 \$ 47,848

ASC 815, *Derivatives and Hedging* (ASC 815) established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for

Table of Contents

derivatives qualifying as fair value hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter party will not fulfill the terms of the contract. We considered counterparty credit risk to our derivative contracts when valuing our derivative instruments.

On May 31, 2007, we entered into an interest rate swap with our bank to hedge at a fixed pay rate of 4.97%, a portion of the variable cash flows associated with the variable Eurodollar interest expense on our Credit Facility. The portion of the Credit Facility hedged began with a notional value of \$30.0 million effective June 1, 2007 and decreased to \$16.3 million by March 1, 2010. On June 1, 2010, the interest rate swap expired. Changes in the cash flows of the interest rate swap were expected to be highly effective in offsetting the changes in cash flows attributable to fluctuations in the variable LIBOR rate on the notional amounts of the Credit Facility. The interest rate swap agreement was designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement was effective, recognized in other comprehensive income until the hedged interest expense was recognized in earnings.

The amounts recognized in other comprehensive income, and reclassified into income, for the three and six months ended November 30, 2010 and 2009, are as follows (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income Three Months Ended November 30,		Loss Reclassified from Other Comprehensive Income to Earnings Three Months Ended November 30,		Gain (Loss) Recognized in Other Comprehensive Income Six Months Ended November 30,		Loss Reclassified from Other Comprehensive Income to Earnings Six Months Ended November 30,	
	2010	2009	2010	2009	2010	2009	2010	2009
Economic hedge	\$ (409)	\$ (790)	\$	\$	\$ (935)	\$ (1,068)	\$	\$
Interest rate swap		205		223		433		462
	\$ (409)	\$ (585)	\$	\$ 223	\$ (935)	\$ (635)	\$	\$ 462

Our borrowing of \$12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Any ineffectiveness related to our hedges was not material for any of the periods presented.

The following table presents the fair value totals and balance sheet classification for derivatives designated as hedges under ASC 815 (in thousands):

	November 30, 2010			May 31, 2010		
	Classification	Balance Sheet Location	Fair Value	Classification	Balance Sheet Location	Fair Value
Economic hedge	Liability	Long-term debt	\$ 1,945	Liability	Long-term debt	\$ 2,880
Interest rate swap	Liability	Other liabilities		Liability	Other liabilities	
Total Derivatives			\$ 1,945			\$ 2,880

Table of Contents

In order to secure our insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. At November 30, 2010 and May 31, 2010, we were contingently liable for outstanding stand-by letters of credit totaling \$8.8 million at both dates. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

8. FAIR VALUE MEASUREMENTS

Effective June 1, 2008, we adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. ASC 820 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of November 30, 2010 and May 31, 2010, respectively. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	November 30, 2010			Total
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Liabilities:				
Euro denominated long-term debt	\$	\$ 1,945	\$	\$ 1,945
Interest rate swap				
Net Liabilities	\$	\$ 1,945	\$	\$ 1,945

	May 31, 2010			Total
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Liabilities:				
Euro denominated long-term debt	\$	\$ 2,880	\$	\$ 2,880
Interest rate swap				
Net Liability	\$	\$ 2,880	\$	\$ 2,880

Table of Contents**9. SHARE-BASED COMPENSATION**

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors (the Board) may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At November 30, 2010, there were approximately 2.5 million stock options, restricted stock units and performance awards outstanding to officers, directors and key employees. The exercise price, terms and other conditions applicable to each form of share-based compensation under our plans is generally determined by the Compensation Committee of our Board at the time of grant and may vary.

Our share-based payments consist primarily of stock options, stock units, common stock and performance awards. The governance of our share-based compensation does not directly limit the number of future awards so long as the total number of shares ultimately issued does not exceed the total number of shares cumulatively authorized which is 6,620,000 at November 30, 2010. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock. Compensation expense related to share-based compensation totaled \$2.7 million and \$2.6 million for the six months ended November 30, 2010 and 2009, respectively. Tax benefits related to share-based compensation were \$0.8 million and \$0.5 million for the six months ended November 30, 2010 and 2009, respectively. At November 30, 2010, \$9.1 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.6 years.

We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting cost of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specified vesting period for those options. Stock options generally have a ten year term. No stock options were granted during the six months ended November 30, 2010 and 2009. Transactions involving our stock options during the six months ended November 30, 2010 and 2009 are summarized below:

	Six Months Ended November 30, 2010		Six Months Ended November 30, 2009	
	No. of Options (in thousands)	Weighted Average Exercise Price	No. of Options (in thousands)	Weighted Average Exercise Price
Shares under option, beginning of period	2,213	\$ 16.50	2,354	\$ 16.24
Changes during the period:				
Granted		\$		\$
Exercised	(76)	\$ 7.35	(62)	\$ 4.92
Canceled	(10)	\$ 30.33	(23)	\$ 26.76
Expired	(15)	\$ 26.56		\$
Shares under option, end of period	2,112	\$ 16.69	2,269	\$ 16.44
Exercisable at end of period	1,953	\$ 15.57	1,780	\$ 14.07

Table of Contents

Options exercisable at November 30, 2010 had a weighted average remaining contractual life of 5.2 years. For total options outstanding at November 30, 2010, the range of exercise prices and remaining contractual lives are as follows:

Range of Prices	No. of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
\$0.00 to \$3.21	135	\$ 2.53	1.0
\$3.22 to \$6.41	86	\$ 4.18	2.2
\$6.42 to \$9.62	458	\$ 8.51	4.2
\$9.63 to \$12.82	189	\$ 11.24	5.2
\$12.83 to \$16.03	592	\$ 14.94	5.6
\$16.04 to \$32.05	652	\$ 30.17	6.9
	2,112	\$ 16.69	5.2

Performance awards are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each performance award based on the market price on the date of grant. Performance awards awarded to the Chairman of our Board vest over the longer of four years or the achievement of performance goals based upon our future results of operations. Transactions involving our performance awards during the six months ended November 30, 2010 are summarized below:

	Six Months Ended November 30, 2010	
	No. of Performance Awards (in thousands)	Weighted Average Fair Value
Performance Awards, beginning of period	51	\$ 20.84
Changes during the period:		
Granted	25	\$ 20.04
Vested and settled	(15)	\$ 21.61
Canceled		\$
Performance Awards, end of period	61	\$ 20.33

Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest over four years. We also grant common stock to our directors. Transactions involving our stock units and director stock grants during the six months ended November 30, 2010 are summarized below:

	Six Months Ended November 30, 2010	
	No. of Stock Units (in thousands)	Weighted Average Fair Value
Stock and stock units, beginning of period	247	\$ 20.53
Changes during the period:		
Granted	163	\$ 18.90

Edgar Filing: TEAM INC - Form 10-Q

Vested and settled	(93)	\$ 20.20
Canceled	(5)	\$ 21.04
Stock and stock units, end of period	312	\$ 19.77

Table of Contents**10. ENTITY WIDE DISCLOSURES**

ASC 280, *Segment Reporting* (ASC 280) requires we disclose certain information about our operating segments where 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 in deciding how to allocate resources and in assessing performance. We operate in only one segment industrial services. Within the industrial services segment, we are organized as two divisions. Our TCM division (inclusive of Quest Integrity) provides the services of inspection and assessment and field heat treating. Our TMS division provides the services of leak repair, hot tapping, fugitive emissions control, field machining, technical bolting and field valve repair. Each division has goodwill relating to past acquisitions and we assess goodwill for impairment at the lower TCM and TMS divisional level. Both divisions derive substantially all their revenues from providing specialized labor intensive industrial services and the market for their services is principally dictated by the population of process piping systems in industrial plants and facilities. Services provided by both the TCM and TMS divisions are predominantly provided through a network of field branch locations located in proximity to industrial plants. The structure of those branch locations is similar, with locations overseen by a branch/regional manager, one or more sales representatives and a cadre of technicians to service the business requirements of our customers. Both the TCM and TMS division field locations share the same chief operating decision maker and both divisions are supported by common and often centralized technical and commercial support staffs, quality assurance, training, finance, legal, human resources and health and safety departments.

Revenues and total assets in the U.S. and other countries are as follows (in thousands):

	Three Months Ended November 30, 2010 (unaudited)	Three Months Ended November 30, 2009 (unaudited)	Six Months Ended November 30, 2010 (unaudited)	Six Months Ended November 30, 2009 (unaudited)
Revenues				
United States	\$ 96,330	\$ 87,050	\$ 174,694	\$ 158,467
Canada	25,051	25,398	44,199	44,136
Europe	6,568	6,170	11,381	12,334
Other foreign countries	5,182	4,674	7,368	9,292
Total	\$ 133,131	\$ 123,292	\$ 237,642	\$ 224,229

	November 30, 2010 (unaudited)	May 31, 2010
Total Assets		
United States	\$ 236,536	\$ 188,280
Canada	46,643	44,015
Europe	26,399	24,142
Other foreign countries	9,466	8,552
Total	\$ 319,044	\$ 264,989

11. UNCONSOLIDATED SUBSIDIARIES

Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. The joint venture is an integral part of our operations in Alaska. Our investment in the net assets of the joint venture, accounted for using the equity method of accounting, was \$1.7 million and \$1.1 million as of November 30, 2010 and May 31, 2010, respectively. Revenues from the joint venture not reflected in our consolidated revenues were \$5.5 million and \$4.9 million for the six months ended November 30, 2010 and 2009, respectively.

Table of Contents

12. INTERNAL INVESTIGATION

During an internal management review of our TMS branch operations in Trinidad in the Spring of 2009, employees informed us of allegations of improper payments made by local employees of our wholly-owned Trinidad subsidiary to employees of certain customers, including foreign government owned enterprises. These improper payments may constitute violations of the U.S. Foreign Corrupt Practices Act (FCPA) or other applicable laws. Consequently, the Audit Committee of our Board of Directors (the Audit Committee) conducted an investigation of those allegations with the assistance of independent outside counsel. We voluntarily disclosed information relating to the initial allegations, the investigation and the findings to the U.S. Department of Justice (DOJ) and to the SEC.

The report of the independent investigator was delivered to the Audit Committee of our BOD in March 2010 and to the DOJ and SEC in May 2010. We have not been contacted by the SEC or DOJ since the May 2010 report of the independent investigator. The investigation concluded that improper payments of limited size were made to employees of foreign government owned enterprises in Trinidad, but determined that the improper payments were not made, or authorized by, employees outside the one TMS Trinidad branch. The investigation of our other foreign operations did not result in any findings of significance and management has remediated all matters identified in the investigation. Based upon the results of the investigation, we believe that the total of the improper payments to government owned enterprises over the past five years did not exceed \$50,000. The total annual revenues from the impacted TMS Trinidad branch represent less than one percent of our annual consolidated revenues for all years presented. While the DOJ and SEC have not concluded their review, our management continues to believe that any possible violations of the FCPA are limited in size and scope.

Since the commencement of the investigation in 2009, we have expended an aggregate of approximately \$3.2 million on legal and other professional services related to this investigation. The FCPA and related statutes and regulations provide for potential monetary penalties, disgorgement and interest, as well as criminal and civil sanctions in connection with violations of the FCPA and other applicable laws. It is possible that monetary penalties could be assessed against us or that we enter into a settlement with the U.S. government and other foreign governmental agencies in connection with this matter resulting in monetary payments. The nature, timing and amount of any monetary penalties depend on a number of factors which cannot reasonably be estimated at this time. As a result, we have not recorded any provision for monetary penalties or other costs related to potential criminal and civil sanctions.

13. VENEZUELA S HIGHLY INFLATIONARY ECONOMY

We operate a small service location in Punta Fijo, Venezuela, whose annual revenues have historically been less than one percent of our consolidated revenues for all periods presented. Because of the uncertain political environment in Venezuela, starting in the third quarter of fiscal year 2010, we began to account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. We initially used the parallel exchange rate for Bolivar denominated bonds to translate our Venezuelan operations into U.S. dollars. In May 2010, the Venezuelan government ceased to legalize the parallel exchange rate system, precluding its continued use. At the end of our fourth quarter of fiscal year 2010 and still continued at November 30, 2010, we used the Venezuelan central bank s official published rate (5.30 Bolivars per U.S. Dollar at May 31, 2010 and November 30, 2010) to translate Venezuelan assets into dollars as no other legal rate was readily available. Due to the uncertain economic and political environment in Venezuela, it is very difficult to repatriate cash flows of these operations. At November 30, 2010, our Venezuelan subsidiary had \$1.1 million of net assets, consisting primarily of Bolivar denominated cash equal to \$1.3 million.

Table of Contents

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

Overview

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this report, and the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended May 31, 2010.

We based our forward-looking statements on our current expectations, estimates and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual results may differ materially from the future performance that we have expressed or forecast in the forward-looking statements. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including those listed beginning on page 6 of our Annual Report on Form 10-K for the year ended May 31, 2010.

General Description of Business

We are a leading provider of specialty maintenance and construction services required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in heavy industries. We offer an array of complementary services including:

Inspection and Assessment,

Field Heat Treating,

Leak Repair,

Fugitive Emissions Control,

Hot Tapping,

Field Machining,

Technical Bolting, and

Field Valve Repair.

We offer these services in over 100 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world's largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Table of Contents**Three Months Ended November 30, 2010 Compared to Three Months Ended November 30, 2009**

The following table sets forth the components of revenue and operating income from our operations for the three months ended November 30, 2010 and November 30, 2009 (in thousands):

	Three Months ended		Increase/(decrease)	
	November 30, 2010 (unaudited)	November 30, 2009 (unaudited)	\$	%
Revenues:				
TCM division	\$ 73,164	\$ 71,322	\$ 1,842	3 %
TMS division	59,967	51,970	7,997	15 %
Total revenues	133,131	123,292	9,839	8 %
Gross Margin:				
TCM division	23,168	22,319	849	4 %
TMS division	20,576	17,129	3,447	20 %
Total gross margin	43,744	39,448	4,296	11 %
SG&A Expenses:				
Field operations	25,140	23,286	1,854	8 %
Corporate costs	5,100	6,117	(1,017)	(17)%
Total SG&A	30,240	29,403	837	3 %
Earnings from unconsolidated affiliates	327	232	95	41 %
Operating income	\$ 13,831	\$ 10,277	\$ 3,554	35 %

Revenues. Our revenues for the three months ended November 30, 2010 were \$133.1 million compared to \$123.3 million for the three months ended November 30, 2009, an increase of \$9.8 million or 8%. Increases in revenues were attributable to the acquisition of Quest Integrity and our TMS division. Revenues for our TCM division (inclusive of Quest Integrity) for the three months ended November 30, 2010 were \$73.2 million compared to \$71.3 million for the three months ended November 30, 2009, an increase of \$1.8 million or 3%. Quest Integrity had revenues for the 30 days ended November 30, 2010 of \$1.6 million. Revenues for our TMS division for the three months ended November 30, 2010 were \$60.0 million compared to \$52.0 million for the three months ended November 30, 2009, an increase of \$8.0 million or 15%. Growth in the current quarter was driven by expanded turnaround activity in the U.S. versus prior year activity levels. The U.S. fall 2010 turnaround season was the most robust since the fall season of 2008. Overall, organic growth in the U.S. was 10% as a result of these increased activity levels. Non-U.S. revenues declined 2% (organically) due to an absence in the current quarter of major projects.

Gross Margin. Our gross margin for the three months ended November 30, 2010 was \$43.7 million compared to \$39.4 million for the three months ended November 30, 2009, an increase of \$4.3 million or 11%. Gross margin as a percentage of revenue was 33% for the three months ended November 30, 2010 compared to 32% for the three months ended November 30, 2009. Gross margin improvements resulted from the realization of cost savings initiatives implemented in the prior fiscal year and increased utilization and leverage of indirect costs, which more than offset pricing pressures in the current competitive market conditions. Gross margin for our TCM division for the three months ended November 30, 2010 was \$23.2 million compared to \$22.3 million for the three months ended November 30, 2009, an increase of \$0.8 million or 4%. Gross margin as a percentage of revenue for the TCM division was 32% for the three months ended November 30, 2010 period compared to 31% in the three months ended November 30, 2009. Gross margin for our TMS division was \$20.6 million for the three months ended November 30, 2010 compared to \$17.1 million for the three months ended November 30, 2009, an increase of \$3.4 million or 20%. Gross margin as a percentage of revenue for the TMS division was 34% for the three months ended November 30, 2010 and 33% for the three months ended November 30, 2009.

Selling, General, and Administrative Expenses. Our SG&A for the three months ended November 30, 2010 was \$30.2 million compared to \$29.4 million for the three months ended November 30, 2009, an increase of \$0.8 million or 3%. The current period includes \$0.6 million of transaction costs associated with the Quest

Table of Contents

Integrity acquisition. The prior period includes \$1.2 million of professional fees associated with an FCPA investigation. Excluding these non-routine costs, SG&A as a percentage of revenue was 22% for the three months ended November 30, 2010 and 23% for the three months ended November 30, 2009.

Earnings From Unconsolidated Affiliates. Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. The joint venture is an integral part of our operations in Alaska. Revenues of unconsolidated affiliates for the three months ended November 30, 2010 and 2009 accounted for using the equity method and not included in our current period results, and attributable to our TCM division, were \$2.9 million and \$2.4 million, respectively.

Interest. Interest expense was \$0.4 million for the three months ended November 30, 2010 compared to \$0.7 million for the three months ended November 30, 2009. The reduction in interest expense is due to decreasing borrowing rates combined with decreased debt levels prior to the acquisition of Quest Integrity.

Taxes. The provision for income taxes was \$5.4 million on pretax income of \$13.4 million for the three months ended November 30, 2010. The provision for income taxes was \$3.7 million on pretax income of \$9.6 million for the three months ended November 30, 2009. The effective tax rate for the three months ended November 30, 2010 was 40% compared to 39% for the prior year. The rate differential is due to the mixture of non-deductible expenses in relation to taxable income and the mixture of state and foreign taxes to which the income is subject.

Six Months Ended November 30, 2010 Compared to Six Months Ended November 30, 2009

The following table sets forth the components of revenue and operating income from our operations for the six months ended November 30, 2010 and November 30, 2009 (in thousands):

	Six Months ended November 30, 2010 (unaudited)	Six Months ended November 30, 2009 (unaudited)	Increase/(decrease)	
			\$	%
Revenues:				
TCM division	\$ 132,531	\$ 128,626	\$ 3,905	3 %
TMS division	105,111	95,603	9,508	10 %
Total revenues	237,642	224,229	13,413	6 %
Gross Margin:				
TCM division	40,730	38,800	1,930	5 %
TMS division	34,560	30,082	4,478	15 %
Total gross margin	75,290	68,882	6,408	9 %
SG&A Expenses:				
Field operations	45,750	44,393	1,357	3 %
Corporate costs	9,603	12,039	(2,436)	(20)%
Total SG&A	55,353	56,432	(1,079)	(2)%
Earnings from unconsolidated affiliates	635	491	144	29 %
Operating income	\$ 20,572	\$ 12,941	\$ 7,631	59 %

Revenues. Our revenues for the six months ended November 30, 2010 were \$237.6 million compared to \$224.2 million for the six months ended November 30, 2009, an increase of \$13.4 million or 6%. Increases in revenues were attributable to the acquisition of Quest Integrity and both divisions. Revenues for our TCM division (inclusive of Quest Integrity) for the six months ended November 30, 2010 were \$132.5 million compared to \$128.6 million for the six months ended November 30, 2009, an increase of \$3.9 million or 3%. Quest Integrity had revenues for the 30 days ended November 30, 2010 of \$1.6 million. Revenues for our TMS division for the six months ended November 30, 2010 were \$105.1 million compared to \$95.6 million for the six

Table of Contents

months ended November 30, 2009, an increase of \$9.5 million or 10%. Growth in the current period was driven by expanded turnaround activity in the U.S. versus prior year activity levels. The U.S. fall 2010 turnaround season was the most robust since the fall season of 2008. Overall, organic growth in the U.S. was 10% as a result of these increased activity levels. Non-U.S. revenues declined 6% (organically) due to an absence in the current period of major projects.

Gross Margin. Our gross margin for the six months ended November 30, 2010 was \$75.3 million compared to \$68.9 million for the six months ended November 30, 2009, an increase of \$6.4 million or 9%. Gross margin as a percentage of revenue was 32% for the six months ended November 30, 2010 compared to 31% for the six months ended November 30, 2009. Gross margin improvements resulted from the realization of cost savings initiatives implemented in the prior fiscal year and increased utilization and leverage of indirect costs, which more than offset pricing pressures in the current competitive market conditions. Gross margin for our TCM division for the six months ended November 30, 2010 was \$40.7 million compared to \$38.8 million for the six months ended November 30, 2009, an increase of \$1.9 million or 5%. Gross margin as a percentage of revenue for the TCM division was 31% for the six months ended November 30, 2010 period compared to 30% in the six months ended November 30, 2009. Gross margin for our TMS division was \$34.6 million for the six months ended November 30, 2010 compared to \$30.1 million for the six months ended November 30, 2009, an increase of \$4.5 million or 15%. Gross margin as a percentage of revenue for the TMS division was 33% for the six months ended November 30, 2010 and 31% for the six months ended November 30, 2009.

Selling, General, and Administrative Expenses. Our SG&A for the six months ended November 30, 2010 was \$55.4 million compared to \$56.4 million for the six months ended November 30, 2009, a decrease of \$1.1 million or 2%. The current period includes \$0.6 million of transaction costs associated with the Quest Integrity acquisition. The prior period includes \$2.3 million of professional fees associated with an FCPA investigation. Excluding these non-routine costs, SG&A as a percentage of revenue was 23% for the six months ended November 30, 2010 and 24% for the six months ended November 30, 2009.

Earnings From Unconsolidated Affiliates. Our earnings from unconsolidated affiliates consists entirely of our joint venture (50% ownership) formed in May 2008, to perform non-destructive testing and inspection services in Alaska. The joint venture is an integral part of our operations in Alaska. Revenues of unconsolidated affiliates for the six months ended November 30, 2010 and 2009 accounted for using the equity method and not included in our current period results, and attributable to our TCM division, were \$5.5 million and \$4.9 million, respectively.

Interest. Interest expense was \$0.8 million for the six months ended November 30, 2010 compared to \$1.5 million for the six months ended November 30, 2009. The reduction in interest expense is due to decreasing borrowing rates combined with decreased debt levels prior to the acquisition of Quest Integrity.

Taxes. The provision for income taxes was \$7.9 million on pretax income of \$19.7 million for the six months ended November 30, 2010. The provision for income taxes was \$4.5 million on pretax income of \$11.4 million for the six months ended November 30, 2009. The effective tax rate for the six months ended November 30, 2010 was 40% compared to 39% for the prior year. The rate differential is due to the mixture of non-deductible expenses in relation to taxable income and the mixture of state and foreign taxes to which the income is subject.

Liquidity and Capital Resources

Financing for our operations consists primarily of vendor financing and leasing arrangements, a bank facility and cash flows attributable to our operations, which we believe are sufficient to fund our business needs. At November 30, 2010 we had \$14.3 million of cash on hand and approximately \$66 million of available borrowing capacity through our banking syndicate.

On July 29, 2010, our Board authorized a stock repurchase program, targeting repurchases of up to \$15 million of our outstanding common stock from time to time in open market transactions at prevailing market

Table of Contents

prices. Through November 30, 2010, we repurchased a total of 89,569 shares under this program for an aggregate cost of \$1.3 million, or an average price of \$15.01 per share.

On November 3, 2010 we purchased Quest Integrity, a privately held advanced inspection services and engineering assessment company. We effectively purchased 95% of Quest Integrity for a total consideration of \$41.7 million, consisting of a cash payment of \$39.1 million and the issuance of restricted common stock with a fair value of \$2.6 million (approximately 186,000 shares). We expect to purchase the remaining 5% in 2015 for a purchase consideration based upon the future performance of Quest Integrity. Future consideration would be for a value of no less than \$2.4 million payable in our common stock so long as the number of shares issued for the remaining 5% does not exceed 20% of Team's outstanding common stock.

Cashflows Attributable to Our Operating Activities. For the six months ended November 30, 2010, cash provided by operating activities was \$20.0 million. Positive operating cash flow was primarily attributable to net income of \$11.8 million, depreciation and amortization of \$6.4 million, and non-cash compensation cost of \$2.7 million.

Cashflows Attributable to Our Investing Activities. For the six months ended November 30, 2010, cash used in investing activities was \$46.5 million, consisting primarily of \$5.1 million of capital expenditures and \$41.4 million related to the acquisition of Quest Integrity. Capital expenditures can vary depending upon specific customer needs that may arise unexpectedly. We anticipate capital expenditures for the fiscal year 2011 to be approximately \$8-10 million.

Cashflows Attributable to Our Financing Activities. For the six months ended November 30, 2010, cash provided by financing activities was \$28.1 million consisting primarily of \$28.7 million of cash provided by our credit facility offset by a \$1.3 million treasury stock repurchase.

Effect of Exchange Rate Changes On Cash. For the six months ended November 30, 2010, the effect of exchange rate changes on cash was a positive impact of \$0.2 million. We have significant operations in Europe and Canada, as well as operations in Venezuela which is considered a hyperinflationary economy, and the negative impact is primarily due to the currency volatility between the U.S. and these economies.

Restrictions On Cash. Included in our cash and cash equivalents at November 30, 2010, is \$4.9 million of cash in Europe and \$1.3 million of cash in Venezuela. Any repatriation of cash from Europe, if deemed to be a dividend from our European subsidiary for tax purposes, would result in adverse tax consequences. While not legally restricted from repatriating this cash, we consider all earnings of our European subsidiary to be indefinitely reinvested and access to cash in Europe to be limited. Similarly, the uncertain economic and political environment in Venezuela makes it very difficult to repatriate cash flows of our Venezuelan subsidiary.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in foreign countries with a functional currency that is not the U.S. Dollar. We are exposed to market risk, primarily related to foreign currency fluctuations related to these operations. A significant part of these assets relate to our operations in Europe and Canada. During the six months ended November 30, 2010, the exchange rate with the Euro increased from \$1.23 per Euro to \$1.30 per Euro, an increase of 6%. During the same period, the exchange rate with the Canadian Dollar increased from \$0.96 per Canadian Dollar to \$0.97 per Canadian Dollar, an increase of 1%. For foreign subsidiaries whose functional currency is not the U.S. Dollar, such as our operations in Europe and Canada, assets and liabilities are translated at period ending rates of exchange. Translation adjustments for the assets and liability accounts are included as a separate component of accumulated other comprehensive income in stockholders' equity. Foreign currency translation gains in other comprehensive income were \$2.3 million for the six months ended November 30, 2010.

We carry Euro based debt to serve as a hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation

Table of Contents

gains or losses attributable to our investment in our European operations. We are exposed to market risk, primarily related to foreign currency fluctuations related to the unhedged portion of our investment in our European operations.

We carry Canadian Dollar based debt on our Canadian Line of Credit. The Canadian Line of Credit supports the operating and investing activities of our Canadian operations. We are exposed to market risk, primarily related to foreign currency fluctuations related to our Canadian Line of Credit and our investment in our Canadian operations.

At November 30, 2010, our Venezuelan subsidiary had \$1.1 million of net assets denominated in Venezuelan Bolivars and translated into U.S. dollars. Because of the uncertain political environment in Venezuela, starting in the third quarter of fiscal year 2010, we began to account for Venezuelan operations pursuant to accounting guidance for hyperinflationary economies. We initially used the parallel exchange rate for Bolivar denominated bonds (6.70 Bolivars per U.S. Dollar at February 28, 2010) to translate our Venezuelan operations into U.S. dollars. In May 2010, the Venezuelan government ceased to legalize the parallel exchange rate system, precluding its continued use. At the end of our fourth quarter of fiscal year 2010 and still continued at November 30, 2010, we used the Venezuelan central bank's official published rate (5.30 Bolivars per U.S. Dollar at November 30, 2010) to translate Venezuelan assets into dollars as no other legal rate was readily available. As a result, we recorded \$0.3 million of currency related gains in our fourth quarter of fiscal year 2010. A 10% change in the exchange rate used to value the net assets of our Venezuelan subsidiary would have an effect on pretax earnings of \$0.1 million.

We hold certain floating-rate obligations. We are exposed to market risk primarily related to potential increases in interest rates related to our debt.

From time to time we have utilized derivative financial instruments with respect to a portion of our interest rate risks to achieve a more predictable cash flow by reducing our exposure to interest rate fluctuations. These transactions generally are interest rate swap agreements and are entered into with major financial institutions. Derivative financial instruments related to our interest rate risks are intended to reduce our exposure to increases in the LIBOR based interest rates underlying our floating-rate Credit Facility. We do not enter into derivative financial instrument transactions for speculative purposes.

At May 31, 2007, we entered into an interest rate swap agreement with a fixed pay rate of 4.97% that has a notional value of \$30.0 million beginning on June 1, 2007 and decreasing to \$16.3 million by March 1, 2010. On June 1, 2010 the interest rate swap expired. The interest rate swap agreement was designated as a cash flow hedge, with the changes in fair value, to the extent the swap agreement was effective, recognized in other comprehensive income until the hedged interest expense was recognized in earnings.

ITEM 4. CONTROLS AND PROCEDURES

Limitations on Effectiveness of Control. Our management, including the principal executive and financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of our control system reflects the fact that there are resource constraints and the benefits of such controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control failures and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated

Table of Contents

goals under all potential future conditions. Projections of management's assessments of the current effectiveness of our disclosure controls and procedures and its internal control over financial reporting are subject to risks. However, our disclosure controls and procedures are designed to provide reasonable assurance that the objectives of our control system are met.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of 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 Securities Exchange Act). This evaluation included consideration of the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. This evaluation also considered the work completed relating to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which is further described below.

Based on this evaluation, our CEO and CFO concluded that, as of November 30, 2010, our disclosure controls and procedures were operating effectively to ensure that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-13(f) and 15d-15(f) of the Securities Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the second quarter of our fiscal year ending May 31, 2011.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison of New York (Con Ed) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of November 30, 2010, one hundred and five lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed s claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of \$250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the final resolution of these matters will have a material adverse effect on our business financial position, results of operations or cash flows.

We are involved in various other lawsuits and are subject to various claims and proceedings encountered in the normal conduct of business. In our opinion, any uninsured losses that might arise from these lawsuits and proceedings will not have a materially adverse effect on our consolidated financial statements.

ITEM 1A. RISK FACTORS

See page 6 of our Annual Report on Form 10-K for the year ended May 31, 2010 for a detailed discussion of our risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY AND SECURITIES AND USE OF PROCEEDS

On July 29, 2010, our Board authorized a stock repurchase program, targeting repurchases of up to \$15 million of our outstanding common stock from time to time in open market transactions at prevailing market prices. Through November 30, 2010, we repurchased a total of 89,569 shares under this program for an aggregate cost of \$1.3 million, or an average price of \$15.01 per share.

Repurchases during the first half of fiscal year 2011 were as follows:

Period	(a) Total number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Appropriate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plan or Program
June 1 - June 30, 2010				
July 1 - July 31, 2010				\$ 15,000,000
August 1 - November 30, 2010	89,569	\$ 15.01	89,569	\$ 13,655,840
Total	89,569	\$ 15.01	89,569	\$ 13,655,840

Edgar Filing: TEAM INC - Form 10-Q

- (1) Dollar amounts represented reflect \$15 million minus the total aggregate amount purchased in such month and all prior months during which the repurchase program was in effect and exclude commissions paid in connection therewith.

Table of Contents

ITEM 4. (RESERVED)

ITEM 5. OTHER INFORMATION
NONE

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification for Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification for Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification for Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification for Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

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 thereto duly authorized.

TEAM, INC.
(Registrant)

Date: January 7, 2011

/s/ PHILIP J. HAWK
Philip J. Hawk
Chairman and Chief Executive Officer

/s/ TED W. OWEN
Ted W. Owen, Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)